Article summary

[Finance](), [Investment]()

ARTICLE SUMMARY India, which started its recent growth bonanza after China, is powering ahead, overtook the UK economy last year in terms of gross domestic product and racing up on Germany. In addition, India has a lot more younger people than China because of the latter country's one-child policy. And in India the benefits of wealth seem to be more widely shared. However, recent investments in the country in the past few years have been falling. The article states that investment in manufacturing fell 15. 16% to 5. 64 lakh core in 2011-12 from 6. 95 lakh core in the previous financial year. As a result, employment in manufacturing also fell by 5 million. However, analysts say the situation will likely improve as the government initiated reforms by opening multi-brand retail to up to 51% FDI, subject to state approvals, hiked FDI in single brand retail, raised diesel prices, and allayed investors' concern by accepting most of the Parthasarathi committee report on the General Anti-Avoidance Rule (GAAR). Investment by India Inc contracts in 2011-12 After the global crisis of 2008-09, investments by corporates, adjusted for inflation, again declined in 2011-12, albeit not as severe as at the time of financial meltdown. The Reserve Bank of India's tight monetary policy and policy inaction led a fall of 12. 79% in capital formation by corporates (private sector) at 7. 08 lakh crore from 8. 12 lakh crore in the previous year, the latest official data showed.

The contraction may be bit decelerated in 2012-13, but only moderately as the government efforts to revive investment came only in the middle of the year which will take time to yield results. Besides, RBI delayed its stance on cutting the repo rate due to heightened infaltion, economists said. | Meanwhile, public sector investment inched up 0. 93% at 4. 71 lakh crore in

2011-12 from 4. 67 lakh crore in the previous financial year, according to the GDP figures released by the Ministry of Statistics and Programme Implementation (MoSPI). Investment in manufacturing fell 15. 16% to 5. 64 lakh crore in 2011-12 from 6. 95 lakh crore in the previous financial year. The data came even as the government looks at the manufacturing sector to provide jobs to the youth in the long run. The government aims at huge employment generation through the manufacturing sector in over a decade by raising the share of factories production 25% in India's gross domestic product from the current 15-16%. According to the 12th five-year plan (2012-13 to 2016-17) document, employment in manufacturing reduced by 5 million during 2005-06 to 2009-10 after clocking a growth of almost 12 million jobs in the first five years of this century. The trend, the document said needs to be reversed since 183 million job seekers are expected to join the workforce over the next 15 years, it says. However, the trend seems to have hit the wall again, analysts said. Economists said the fall in investment rate by corporates was expected, as 2011-12 saw some tough times in the form of stubborn inflation, high interest rates and also the global headwinds. Soumya Kanti Ghosh, chief economist with the Federation of Indian Chambers of Commerce and Industry (Ficci) said in the beginning of 2011, commodity prices were at its peak. On the other hand, in the previous fiscal, 2010-11, “ the investment sentiment was good as the new government had come in some time back that had raised hopes for the corporates. " Anis Chakravarty, Director at Deloitte Haskins & Sell, said the high inflation and interest rates make it difficult to have re-investible surplus. " The small and medium companies were the ones that suffered the most, " he said. Ghosh said the current fiscal will see some positive developments on the back of the reform decisions taken by the government along with the Reserve bank reducing interest rates. “ The investments will certainly go up," Ghosh said. However, Chakravarty said the situation would begin to improve close to second or third quarter of the next financial year. The government initited reforms by opening multi-brand retail to up to 51% FDI, subject to state approvals, hiked FDI in singnle brand retail, raised diesel prices, allayed investors concern by accepting most of the Parthasarathi committee report on the General Anti-Avoidance Rule (GAAR). RBI, which had been very hawkish due to persistently high inflation, joined hands in pushing growth and reduced key policy rates for the second time this fiscal by 25 basis points. Earlier, the RBI had cut interest rates by 50 basis points in April 2012 prior to which it had refrained from lowering the rates for three years. Chakravarty further added that he expected the RBI to cut interest rates by another 25 bps by the end of this fiscal and by another 75 bps through the next fiscal.