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Journal of Accounting Research And Audit Practice

Aims and Scope

The Journal of Accounting Research & Audit Practice is a peer reviewed academic journal. The main focus of our journal is to encourage research from areas of social and environmental critique, exploration and innovation as well as from more traditional areas of accounting, finance, financial planning and banking research. The Journal of Accounting covers a wide variety of topics including:

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- Accounting Information Systems
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Dividend Policy and Its Significance in The Area of Financial Management

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ABSTRACT

Dividends refer to that portion of a firm's net earnings which are paid out to the shareholders. Our focus here is on dividends paid to the ordinary shareholders because holders of preference shares are entitled to a stipulated state of dividend. Moreover, this is relevant to widely held public limited companies as the dividend issue does not pose a major problem for closely-held private limited companies. Since dividend are distributed out of profits, the alternative to the payment of dividends is the retention of earnings/profits. The retained earnings of financing the investment requirements of firms. There is, thus, a type of inverse relationship between retained earnings and cash dividends, i.e. larger retention-lesser. Thus, the alternative uses of the net earnings-dividends and retained earnings-are competitive and conflicting. A major decision of financial management is the dividend decision in the sense that the firm has to choose between distributing the profits to the shareholders & ploughing them back into the business. The choice would obviously hinge on the effect of the decision. On the maximization of shareholders' wealth. Given the objective of financial management of maximizing present values, the firm should be guided by the consideration as to which alternative use is consistent with the goal of wealth maximization. That is, the firm would be well advised to use the net profits for paying dividends to the shareholders if the payment will lead to the maximization of wealth of the owners. If not, the firm should rather return them to finance investment programmes. The relationship between dividends & value of the firm should, therefore, be the decision criterion. There are, however, conflicting opinions regarding the impact of dividends on the valuation of a firm. According to one school of thought, dividends are irrelevant so that the amount of dividends paid has no effect on the valuation of a firm. On the other hand, certain theories consider the dividends decision as relevant to the value of the firm measured in terms of the market price of the shares. The term dividend refers to that part of the profits of a company which is distributed amongst its shareholders. It may, therefore, be defined as the return that a shareholder gets from the company, out of its profits, on his shareholdings.

Key Words: EPS, DPS, Cash Dividend, Capital Market, Long Term Financing Decision, Bonus Share.

INTRODUCTION

Dividends refer to that portion of a firm's net earnings which are paid out to the shareholders. Our focus here is on dividends paid to the ordinary shareholders because holders of preference shares are entitled to a stipulated state of dividend. Moreover, this is relevant to widely held public limited companies as the dividend issue does not pose a major problem for closely-held private limited companies. Since dividend are distributed out of profits, the alternative to the payment of dividends is the retention of earnings/profits. The retained earnings of financing the investment requirements of firms. There is, thus, a type of inverse relationship between retained earnings and cash dividends, i.e. larger retention-lesser. Thus, the alternative uses of the net earnings-dividends and retained earnings-are competitive and conflicting. The term dividend refers to that part of the profits of a company which is distributed amongst its shareholders. It may, therefore, be defined as the return that a shareholder gets from the company, out of its profits, on his shareholdings.

OBJECTIVES OF THE STUDY

The main objectives of the study are to understand the concept of dividend, the dividend policy, impact of dividend policy on the objective of wealth maximization of the firm and factor affecting dividend policy of the firm.

DIVIDEND POLICY

The term dividend policy refers to the policy concerning quantum of profits to be distributed as dividend. The concept of dividend policy implies that companies through their Board of Directors evolve a pattern of dividend payments which has a bearing on future action. Of course, in practice many companies do not have a dividend policy in this sense. They rather take each dividend decision independent of every other such decision. This is not a sound practice but the financial manager cannot do much about it since he works only in an advisory capacity and the power to recommend / declare dividends vests completely in the Board of Directors of the company.

A firm's dividend policy has the effect of dividing its net earnings into two parts: retained earnings and dividends. The retained earnings provide funds to finance the firm's long-term sources of financing of firm's investments. Dividends are generally paid in cash. Thus, the distribution of earnings uses the available cash of the firm. A firm which intends to pay dividends and also needs funds to finance its investment opportunities will have to use external sources of financing, such as the issue of debt or new common shares. Dividend policy of the firm, thus, has its effect on both the long-term financing and the wealth of shareholders. As a result, the firm's decision to pay dividends may be shaped by the following two possible viewpoints.

Long-term Financing Decision

When dividend decision is treated as a financing decision, the net earnings of the firm may be considered as a source of long-term funds. With this approach, dividends will be paid only when the firm does not have profitable investment opportunities. The firm grows at a faster rate when it accepts highly profitable investment projects. External equity could be raised to finance investments. But the retained earnings are preferable because, unlike external equity, they do not involve any floatation costs. The distribution of cash dividends causes a reduction in internal funds available to finance profitable investment opportunities and thus, either constrains growth or requests the firm to find other costly sources of financing. Thus earnings may remain undistributed as part of a long-term financing decision. The dividends paid to shareholder represent a distribution of earnings that cannot be profitably reinvested by the firm. With this approach, dividend decision is viewed merely as a residual decision

Wealth Maximization Decision

One may argue that capital markets are not perfect; therefore, shareholders are not indifferent between dividends and retained earnings. Because of the market imperfections and uncertainty, shareholder may give a higher value to the near dividends than the future dividends and capital gains. Thus the payment of dividends may significantly affect the market price of the share. Higher dividends increase the value of the shares and low dividends reduce the value. In order to maximize wealth under uncertainty, the firm must pay enough dividends to-satisfy investor The management of a firm, while evolving a dividend policy, must strike a proper balance between the above mentioned two approaches. When the firm increases the retained proportion of the net earnings, shareholders, dividends decrease and consequently the market price may be adversely affected. But the use of retained earnings to finance profitable investments will increase the future earnings per share. On the other hand, when dividends are increased, through there may be a favorable reaction in the stock markets but the firm may have to forego some investment opportunities for want of funds and consequently, the future earnings per share may decrease. Therefore, management should develop such a dividend policy which divides the net earnings into dividends and retained earnings in an optimum way to achieve the objective of maximizing the wealth of shareholders. The other possible aspects of the dividend policy relate to the stability of dividends, the constraints on paying dividends and the forms of dividends.

FACTORS AFFECTING DIVIDEND POLICY

The factors affecting the dividend policy are both external as well as internal.

EXTERNAL FACTORS

General state of economy

The general state of economy affects to a great extent the management is decision to retain or distribute earnings of the firm. In case of uncertain economic and business conditions, the management may like to retain the whole or a part of the firm's earnings to build-up reserves to absorb shock in the future. Similarly in period of depression, the management may also withhold dividends payment to retain a large part of its earnings to preserve the firm's liquidity position. In periods of prosperity the management may not be liberal in dividend payments though the earnings power of a company warrants it because of availabilities. On periods of inflation, the management may withhold dividend payments in order to retain larger proportion of earnings for replacement of worn-out assets.

Statement of capital market

In case a firm has an easy access to the capital market either because it is financially strong or because favorable conditions prevail in the capital market, it can follows a liberal dividend policy. However, if the firm has no easy access to capital market because either of weak financial position or because of unfavorable conditions in the capital market it is likely to adopt a more conservative dividend policy.

Legal restrictions

A firm may also be legally restricted from declaring and paying dividends. For example, in India, the companies Act, 1956 has put several restrictions regarding payments and declaration of dividends as ultra vires.

Contractual restriction

Lenders of the firm generally put restrictions on dividend payments to protect their interests in periods when the firm is experiencing liquidity or profitability problem. For example, it may be provided in a loan agreement that the firm shall not declare any dividend so long the liquidity ratio is less than 1:1 or the firm will not pay dividend of more than 2% so long the firm does not clear the loan.

Tax Policy

The tax policy followed by the government also affects the dividend policy: for example, the government may give tax incentives to companies retaining larger share of their earnings. In such a case the management may be inclined to retain a larger amount of the firm's earnings.

INTERNAL FACTORS

Desire of the Shareholders

Of course, the directions have considerable liberty regarding the disposal of the firm's earnings, but the shareholders are technically the owners of the company and therefore, their desire cannot be overlooked by the directors while deciding about the dividend policy. Shareholders of a firm, expect two forms of return from their investment in a firm.

Capital Gain

The shareholders expect an increase in the market value of the equity shares held by them over a period of time. Capital gain refers to the profit resulting from the sale of capital investment i.e. the equity share in case of shareholders. For example, if a shareholder purchases the share for Rs. 40 and later on sells it for Rs. 60 the amount of capital gain is some of Rs. 20.

Dividends

The shareholders also expect a regular return on his investment from the firm. It most cases the shareholders' desire to get dividends takes priority over the desire to earn capital gains because of the following reasons:

Financial Needs of the Company

The financial needs of the company are to be considered by the management while taking the dividend decision. Of course, the financial needs of the company may be in direct conflict with the desire of the shareholders to receive large dividends. However, a prudent management should give more weight age to the financial needs of the company rather than the desire of the shareholders. In order to maximize the shareholders' wealth it is advisable to return earnings in the business only when company has better profitable investment opportunities as compared to the shareholders. However, the directors must retain some earnings, whether or not profitable investment opportunity exists, to maintain the company as a sound and solvent enterprise.

Nature of Earnings

A firm having stable income can afford to have a higher dividend payout ratio as compared to a firm which does not have such stability in its earnings. For example, public utility companies which enjoy more or less monopoly ratios as compared to companies which work under highly competitive conditions.

Desire of Control

Dividend policy is also influenced by the desire of shareholders or the management to return control over the company. The issue of additional equity share for procuring founds dilutes control to the detriment of the existing equity shareholders who have a dominating voice in the company. At the same time, recourse to long-term loans may entail financial risks and may prove disastrous to the interests of the shareholders in times of financial difficulties. In case of a strong desire for control, the management may be reluctant to pay substantial dividends and prefer a smaller dividend payout ratio. This is particularly true in case of companies which need funds for financing profitable investment opportunities and on outside group is seeking to gain control over the company. However, where the management is strongly in control of the company either because of substantial widely held, the firm can afford to have a high dividend payout ratio.

Liquidity position

The payment of dividends results in cash outflow from the firm. A firm may have adequate earnings but it may not have sufficient cash to pay dividends. It is, therefore, important for the management to take into account the cash position and the overall liquidity position of the firm before and after payment of dividend while taking the dividend decision. A firm may not, therefore, be in a position to pay dividends in cash or at a higher rate because of insufficient cash resources. Such a problem is generally faced by growing firms which need constant funds for financing their expansion activities.

STABILITY OF DIVIDENDS

Stability or regularity of dividends is considered as a desirable policy by the management of most companies. Shareholders also generally favor this policy and value stable dividends higher than the fluctuating ones. All other things being the same, stable dividend may have a positive impact on the market price of the share. Stability of dividends sometimes means regularity in paying some dividend annually, even though the amount of dividend annually, even though the amount of dividend may fluctuate from year and may not be related with earnings. There are a number of companies which have records of paying dividend for a long unbroken period. More precisely, stability of dividends refers to the amounts paid out regularly. There are three distinct forms of such stability may be distinguished.

Constant dividend per share or dividend rate

A number of companies follow the policy of paying a fixed amount per**.** share or fixed rate on paid-up capital as dividend every year, irrespective of the fluctuations in the earnings. This policy does not imply that the dividend per share or dividend date will never be increased. When the company reaches new levels of earnings and expects to maintain it, the annual dividend per share may be increased. The earnings per share and the dividend per share relationship under this policy can be depicted as in the figured.

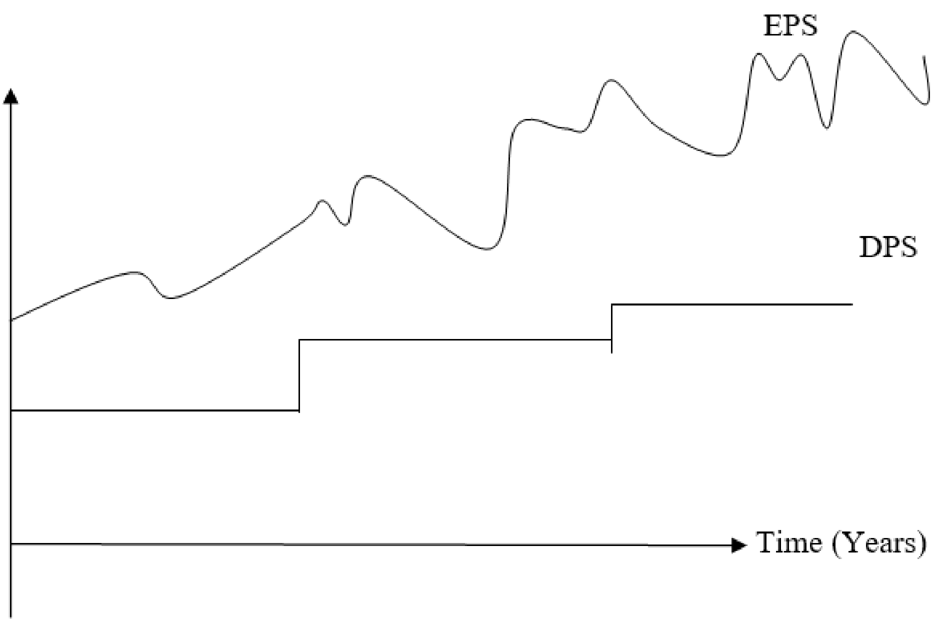

Fig. : Constant Dividend per share policy or Constant Dividend Rate.

It is easy to follow this policy when earnings are stable. If the earnings are stable. If the earnings pattern of a company shows wide fluctuations, it is difficult to maintain such a policy. With earnings fluctuating from year to year, it is essential for a company which wants to follow this policy to build up surpluses in years of higher than average earnings to maintain dividends in years of below average earnings. In practice, when a company retains earnings in good years for this purpose, it earmarks this surplus as reserve for dividend equalization. These funds are invested in current assets like marketable securities, so that they may easily be converted into cash at the time of paying dividends in bad years. The dividend policy of paying a constant amount of dividend per year treats ordinary shareholders somewhat like preference shareholders. Without taking into account the firm's or shareholders' investment opportunities.[1] those investors who have dividends as the only source of their income prefer the constant dividend policy. They are hardly concerned about the changes in share prices. In the long-run, such behavior helps to stabilize the market price of the share.

Constant Payout

The ratio of dividend to earnings is brown as payout ratio. Some companies may follow a policy of constant payout ratio i.e. paying a fixed percentage of net earnings every year. With this policy the amount of dividend will fluctuate in direct proportion to earnings. If a company adopts a 40% payout ratio, then 40% of every rupee of net earnings will be paid out. For example, if the company earns Rs. 2 per share, the dividend per share will be Rs. 0.80 and if it earns Rs. 1.50 per share the dividend per share will be Rs. 0.60. The relation between the earnings per share and the dividend per share under this policy can be exhibited as in figure 2.

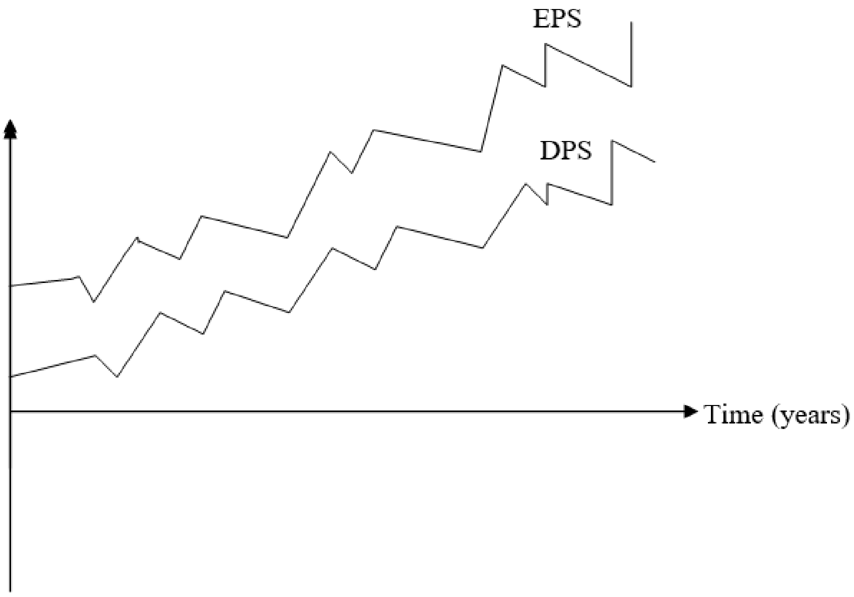

Fig. 2. Dividend Policy of constant Payout Ratio

This policy is related to a company's ability to pay dividends. If the company incurs losses no dividends shall be paid regardless of the desires of shareholders Internal financing with retained earnings is automatic when this policy is followed. At any given payout ratio, the amount of dividends and the additions to retained earnings there case with increasing earnings and decrease with decreasing earnings. This policy simplifies the dividend decision, and has the advantage of protecting a company against over or under payment of dividend. It ensures that dividend is paid when profits are earned and avoided when it incurs losses.

3. Small Constant Dividend Per Share Plus Extra Dividend

Under the constant dividend per share policy, the amount of dividend is set at a high level, and this policy is usually adopted by the companies with stable earnings. For companies, with fluctuating earnings, the policy to pay a minimum dividend per share with a step-up feature is desirable. The small amount of dividend is fixed to reduce the possibility of ever missing a dividend payment. By paying extra dividend (a number of companies pay an interim dividend followed by a regular final dividend) in periods of prosperity, an attempt is made to prevent investors from expecting that the dividend represents an increase in the established dividend amount. This type of a policy enables a company to pay constant amount of dividend regularly without a default and allows a great deal of flexibility for supplementing the income of shareholders only when the company's earnings are higher than the usual, without committing itself to make larger payments as a part of the future fixed dividend. Certain shareholders like this policy because of the certain cash flow in the form of regular dividend and the option of earning extra dividend occasionally.

FORMS OF DIVIDENDS

The usual practice is to pay dividends in cash other option is payment of the bonus shares or stock dividend. Stock split is not a form of dividend; but its effects are similar to the effect of the bonus its effects are similar to the effect of the bonus shares.

Cash Dividend

Most companies pay dividends in cash. Sometimes cash dividend may be supplemented by a bonus issue (stock dividend). A company should have enough cash in its bank account when cash dividends are declared. If the company does not have enough bank balance at the time of paying cash dividend, arrangement should be made to borrow funds. When the company follow a stable dividend policy, it should prepare a cash budget for the coming period to indicate the necessary funds which would be needed to meet the regular dividend payments of the company. It is relatively difficult to make cash planning in anticipation of dividend needs when an unstable policy is followed. The cash account and the reserves account of a company will be reduced when the cash dividend is paid. Thus, both the total assets and the net worth of the company are reduced when the cash dividend is distributed. The market price of the share drops in most cases by the amount of the cash dividend distributed.

Bonus Shares

An issue of bonus share represents a distribution of shares in addition to the cash dividend (known as stock dividend in the U.S.A.) to the existing shareholders. This has the effect of increasing the number of outstanding shares of the company. The shares are distributed proportionately. Thus, a shareholder retain his proportionate ownership of the company. For example, if a shareholder owns 100 share at the time when a 10 percent (i.e. 1:10) bonus issue is made, he will receive 10 additional shares. The declaration of the bonus shares will increase the paid-up share capital and reduce the reserves and surplus of the company. The total net worth is not affected by the bonus issue. In fact, a bonus issue represents a recapitalization of the owners' equity portion, i.e. the reserves and surplus. It is merely an accounting transfer from reserves and surplus to paid-up capital.

Share Splits

A share split is a method to increase the number of outstanding shares through a proportional reduction in the par value of the share. A share split affects only the par value and the number of outstanding shares, the shareholders' total fund remains unaltered.

A major decision of financial management is the dividend decision in the sense that the firm has to choose between distributing the profits to the shareholders & ploughing them back into the business. The choice would obviously hinge on the effect of the decision. On the maximization of shareholders' wealth. Given the objective of financial management of maximizing present values, the firm should be guided by the consideration as to which alternative use is consistent with the goal of wealth maximization. That is, the firm would be well advised to use the net profits for paying dividends to the shareholders if the payment will lead to the maximization of wealth of the owners. If not, the firm should rather return them to finance investment programmes. The relationship between dividends & value of the firm should, therefore, be the decision criterion. There are, however, conflicting opinions regarding the impact of dividends on the valuation of a firm. According to one school of thought, dividends are irrelevant so that the amount of dividends paid has no effect on the valuation of a firm. On the other hand, certain theories consider the dividends decision as relevant to the value of the firm measured in terms of the market price of the shares.

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Working Capital Management and Its Significance In The Area of Financial Management

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A B S T R A C T

Liquidity functions of a firm are related to the working capital management. Working capital management is concerned with the problems that arise in attempting to manage the current assets, the current liabilities and the interrelationship, that exists between them. The term current assets refer to those assets which in the ordinary course of business can be, or will be, converted into cash within one year without undergoing a elimination in value and without disrupting the operations of the firm. The major current assets are cash, marketable securities, accounts receivable and inventory. Current liabilities are those liabilities which are intended, at their inception, to be paid in the ordinary course of business, within a year, out of the current assets or earning of the concern. The basic current liabilities are accounts payable, bills payable, bank overdraft and outstanding expenses. The goal of working capital management is to manage the firm's current assets and liabilities in such a way that a satisfactory level of working capital is maintained. This is so because if the firm cannot maintain a satisfactory level of working capital, it is likely to become insolvent and may even be forced into bankruptcy. Each of the current assets must be managed efficiently in order to maintain the liquidity of the firm while not keeping too high a level of any one of them. Each of the short-term sources of financing must be continuously managed to ensure that they are obtained and used in the best possible way. The interaction between current assets and current liabilities is, therefore, the main theme of the theory of the working capital management.

Key-Words: Working-Capital, debtors, inventory creditors, bills payables,

INTRODUCTION

Financial management is an integral part of the overall management. In the early years of its evolution it was treated synonymously with the raising of the funds only. But in the modern age financial management has given more importance and has a very broader scope so as to include, in addition to procurement of funds, efficient use of resources is universally ecognized. The objectives of the financial management are also characterized by a change over the years. Now it is recognized as a separate subject of study. Financial management is that managerial activity which is concerned with the planning and controlling of the firm's financial resources. The function of the financial management is to review and control decisions to commit or recommit the funds to new and ongoing uses. Thus, in addition to raising funds, financial management is directly concerned with production, marketing and other functions, within an enterprise whenever decisions are made about the acquisition or distribution of assets.

Financial management is a goal oriented activity. The efficient allocation of the capital is the most important function, in the modern time, of the management. It involves the decisions to commit the firm's funds to the assets. Such decisions are of considerable importance to the firm since they tend to determine, its value and size by influencing its growth, profitability and risk. The investment decisions of the firm are generally known as capital budgeting, or capital expenditure decisions. Capital budgeting decisions pertain to fixed or long term assets which by definition refers to assets which are in operation, and yield a return, over a period of time, usually, exceeding one year. They therefore, involve a current outlay or series of outlays of cash resources in return for an anticipated flow of future benefits. In other words, the system of Liquidity functions of a firm is related to the working capital management. Working capital management is concerned with the problems that arise in attempting to manage the current assets, the current liabilities and the interrelationship, that exists between them. The term current assets refer to those assets which in the ordinary course of business can be, or will be, converted into cash within one year without undergoing a elimination in value and without disrupting the operations of the firm. The major current assets are cash, marketable securities, accounts receivable and inventory. Current liabilities are those liabilities which are intended, at their inception, to be paid in the ordinary course of business, within a year, out of the current assets or earning of the concern. The basic current liabilities are accounts payable, bills payable, bank overdraft and outstanding expenses.

OBJECTIVES OF THE STUDY

The objectives of the present study are to understand the concept of working capital and its importance for business organizations.

The goal of working capital management is to manage the firm's current assets and liabilities in such a way that a satisfactory level of working capital is maintained. This is so because if the firm cannot maintain a satisfactory level of working capital, it is likely to become insolvent and may even be forced into bankruptcy. Each of the current assets must be managed efficiently in order to maintain the liquidity of the firm while not keeping too high a level of any one of them. Each of the short-term sources of financing must be continuously managed to ensure that they are obtained and used in the best possible way. The interaction between current assets and current liabilities is, therefore, the main theme of the theory of the working capital management.

There are two concepts of working capital:-

GROSS WORKING CAPITAL

It is simply called as working capital, which refers to the firm's investment in the current assets. Current assets are the assets which can be converted into cash within an accounting year (or operating cycle) and include cash, short-term securities, debtors, bills receivables and stock (inventory)

NET WORKING CAPITAL

It refers to the difference between current assets and current liabilities. Current liabilities are those claims of outsiders which are expected to mature for payment with in an accounting year and include creditors, bills payable and outstanding expenses. Net positive net working capital will arise when current assets exceed current liabilities. A negative net working capital occurs when current liabilities are in excess of current assets.

The two concepts of working capital-gross and net are not exclusive; rather they have equal significance from management viewpoint. The gross working capital concept focuses attention on two aspects of current assets management:-

a) Optimum investment in current assets and
b) Financing of current assets.

The consideration of the level of investment in current assets should avoid two danger points

1. excessive
2. Inadequate investment in current assets.

Investment in current assets should be just adequate, not more nor less, to the needs of the business firm. Excessive investment in current assets should be avoided because it impairs firm's profitability, as idle investment earns nothing. On the other hand, in adequate amount of working capital can threaten solvency of the firm because of its inability to meet its current obligations. It should be realized that the working capital needs of the firm may be fluctuating with changing business activity. This may cause excess or shortage of working capital frequently. The management should be too prompt to initiate on action and correct in balances.

Another aspect of the gross working capital points to the need of arranging funds to finance current assets. Whenever a need for working capital funds a rises due to the increasing level of business activity or for any other reason, arrangement should be made quickly. Similarly, if suddenly some surplus funds arise, they should not be allowed to remain idle, but should be invested in short-term securities. Thus, the financial manager should have knowledge of the sources of working capital funds as well as investment avenues where idle funds may be temporarily invested.

Net working capital, being the difference between current assets and current liabilities is a qualitative concept. It indicates the liquidity position of the firm and suggests the extent to which working capital needs may be financed by permanent sources of funds.

Literature may be emphasized that both gross and net concepts of working capital are equally important for the efficient management of working capital. There is no precise way to determine the exact amount of gross, or net, working capital for any firm. The data and problems of each company should be analyzed to determine the amount of working capital. There is no specific rule as to how current assets should be financed. It is not feasible in practice to finance current assets by short-term sources only. Keeping in view the constraints of the individual company, a judicious mix of long-term finances should be invested in current assets. Since current assets involve cost of funds, they should be put to productive use.

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FDI's in Telecommunication Sector in Developing Countries

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A B S T R A C T

Since the introduction of `Manmohanomics' during PV Narasimha Rao's government in 1991, Foreign Direct Investment (FDI) has been looked upon as a tool to transform under developed countries into advanced nations. Since then every government has encouraged the expansion of FDI. When the Indian government opened up cellular telephony to private industry, several foreign investors were ready to enter India's telecom sector. However beating other manufacturing and services sectors, Indian telecom had attracted major inflow of FDI since August 1991. According to the numbers published by Invest India telecom (an online agency which tracks developments in the Indian telecom sector), Indian telecom has grossed actual FDI worth Rs 9576.40 crore during the period starting from late 1991 to early 2003. Of the total FDI inflow in Indian telecom sector, the major share has gone towards investment in holding companies followed by cellular network and manufacturing and consultancy.

This paper will study current international investment regime and their relation with telecommunications as an influence in developing countries. Assessing these vital issues, this paper is to find a new position for telecommunications in a forming integrated global market.

Key words: - FDI, Telecommunication Industry, Global Market & Economic Benefit.

INTRODUCTION

Telecommunications sector plays a twofold role in economic activities, not only itself a separate circle in economic system but also a supplying mean for other sectors. Telecommunications relates to many other economic and industrial sectors like entertainment, manufacture, and communication sectors. Foreign investment has been one of the most significant driving forces in the exploration of natural resources and improvement in economic conditions of underdeveloped and developing countries for years. Recently, foreign investment has not only increased swiftly but also covered a wide spectrum of industries around the world. The role of foreign investment has played a very significant role in the world's economy. In general, foreign investment money will encourage economic growth and create a better living standard in the newly invested countries.

From an economic point of view, international investment mutually benefits both, the investing and invested countries; however, there is still not an international investment rule or detailed international agreement that fairly addresses both sides. Although foreign investment brings plentiful funds and advanced technology, many developing countries fear that by opening up their markets to competition without any restriction, they will be forfeiting economic guiding power and lose control of strategic industries.

Among foreign investments, telecommunications is one of the most strategic industries of national economic control. Even though foreign investments on telecommunications will bring advanced technological skills, abundant funds, as well as market competition and will benefit national telecommunications development, many countries guide policy and legal requirements to control foreign investment to match to their economic and developmental demands. Telecommunications have a considerable and important influence on national security, social stability and economic development, as well as many industrial sectors. Due to its particular character, telecommunication industries are often state-operated and monopolized in many countries. Therefore, the balance between economic gains from foreign investment and national telecommunications sovereignty presents a challenging task. This paper will examine international investment regime and its relation with telecommunications as an influence in the global economic market. From the point of view of foreign investment, this paper tries to find a new place for telecommunications in a forming integrated global market.

While Hutchison Whampoa has a 49 per cent stake in Hutchison telecom, Vodafone has 21 per cent in RPG cellular and Verizon has ten percent stake in Reliance telecom. Other foreign companies with similar stake in Indian companies include AT&T Wireless, Cellnet and First Pacific.

Though the investment is mainly confined to cellular telephony, sources opine that basic telephony too will start attracting foreign capital in a big way. But quite often one questions – Is FDI a solution for the pitfalls in the Indian economy? While some critics doubt the benefit of such an investment, some defenders view that India must permit FDI even in industries where it isn't beneficial.

As per the recent recommendation by a committee headed by Planning Commission member NK Singh, FDI can be hiked upto 100 percent in many sectors and upto 74 per cent in telecom, which is otherwise limited to 49 per cent. Though it might ring positive vibes for Indian telecom, this recommendation to hike the FDI inflow has raised mixed reactions from all quarters in the industry circles. However the issue of 74 percent Foreign Direct Investment (FDI) in telecom has been a topic of debate since 2001 when the country's security agencies warned that allowing foreign investors to hold a majority in Indian telecom companies could lead to control by foreign powers over communications in the country.

Service area-wise Rural and Urban performance of Telecom Sector as on 31.10.2012

Sr. No.	Service area	Total telephones (Psu +Pvt.)		
		Rural	Urban	Total
1	Andhra Pradesh	25976638	43848199	**69824837**
2	Assam	8024715	6829027	**14853742**
3	Bihar (incl. Jharkhand)	30121983	31851321	**61973304**
4	Gujarat	19167703	35606233	**54773936**
5	Haryana	9892908	11342832	**21235740**
6	Himachal Pradesh	4568716	2797932	**7366648**
7	Jammu & Kashmir	3080413	3931205	**7011618**
8	Karnataka	16917755	41832311	**58750066**
9	Kerala	16755210	19727739	**36482949**
10	Madhya Pradesh (incl. Chhattisgarh)	21715438	33151354	**54866792**
11	Maharashtra (excl. Mumbai)	32136355	39187775	**71324130**
12	North East	4126712	5036507	**9163219**
13	Orissa	13324975	12903464	**26228439**
14	Punjab	11554476	19978613	**31533089**
15	Rajasthan	23752498	26767326	**50519824**
16	Tamil Nadu (Incl. Chennai)	17438710	63141278	**80579988**
17	Uttar Pradesh (East)	34479134	40331865	**74810999**
18	Uttar Pradesh (West) (incl. Uttarakhand)	20613135	31102751	**51715886**
19	W.B. (excl. Kolkata & incl. A&N & Sikkim)	27406026	18984275	**46390301**
20	Kolkata #	754117	24505721	**25259838**
21	Delhi #	2686145	41801825	**44487970**
22	Mumbai #	0	36024963	**36024963**
	All- India	**344493762**	**590684516**	**935178278**

Note:

1# Rural-urban break up of population for Kolkata, Delhi and Mumbai service areas is not available.

2 TATA Teleservices Limited, Quadrant Televentures Limitted and Reliance have submitted the figures of wireless hones (WLL plus GSM) and not separatly technology-wise.

ECONOMIC BENEFITS OF FDI

Over the past few years, FDI become the most important driving forces for the world's economic growth. According to the US Department of Commerce, FDI is a direct investment which “implies that a person in one country has a lasting interest in and a degree of influence over the management of, a business enterprise in another country.” The US Commerce Department defines FDI as “ownership or control by a foreign person of 10 percent or more of an enterprise's voting securities or the equivalent,” The US Commerce Department defines FDI as “ownership or control by a foreign person of 10 percent or more of an enterprise's voting securities or the equivalent,” which is deemed enough to influence management decisions. At a Global Investment Forum hosted by the United Nations Conference on Trade and Development (UNCTAD), it was reported that “there was a strong feeling among ministers from some developing countries that more research and analysis was needed about the critical issues at stake in a multilateral framework on investment...and many speakers stressed the complexity of the issues related to the effects of economic policy liberalization on the quantity, quality and distribution of FDI, and its impact on development.”

Requiring adequate economic information and rich funds, foreign investment is always come with high risks. With such risks, foreign investment also comes with the possibility of much greater returns. Generally, foreign investment has been very closely related either with trade or with an international development agency. Most recent foreign investment thus has either been the result of someone taking a huge risk or the result of an international organization such as the World Bank underwriting that risk. Meanwhile, international developmental agencies often pursue the more progressive goal of helping countries develop properly rather than seeking the greatest return.

The benefits of foreign investment include promoting economic growth, technology transfer and job-creation in the local economies. It is assumed that exports would increase since a large part of exports is comprised of shipments from domestic companies to their foreign affiliates. Transfer of technology from foreign investment projects will improve the efficiency of local firms as well. These things are become the main attractions for developing and underdeveloped countries seeking foreign investment. FDI also serve to integrate domestic markets into the global economic system. The benefits from FDI will be enhanced in an open investment environment with a democratic trade and investment regime, active competition policies, macroeconomic stability and privatization and deregulation. Under such conditions, FDI can play a vital role in improving the capacity of a country to correspond to global economic integration and future national developmental strategies. In practice, the greater the openness and freedom toward FDI, the more economic reforms and potential benefits that receiving countries will reap.

Despite the fact that FDI brings large economic benefits and potentially attracts various business opportunities, many countries are only partially open to foreign investment or even refuse business with foreign enterprises. Those countries believe they will be losing the control power over the local economy by inviting foreign investment. They frequently use performance requirements such as exporting requirements or technology transfer agreements to control the categories and sizes of FDI.

For many countries, performance requirements on foreign investment were considered essential and desirable to make sure that the activities of foreign capitals are consonant with local countries' developmental strategies. The same decline in effectiveness can be seen in terms of policies designed to maximize the potential benefits from inward investment. However, since it has been recognized that FDI can encourage economic growth and national development, there remains a tremendous diversity in countries' approaches on their policies towards FDI. Countries can also monitor incoming investment and retain control on foreign participation in particular sectors. Those measures are designed to certify local government can still retain the final decision on economic policies and ensure foreign investment will not cause negative effects on national development.

ARGUMENTS IN RELATION TO FDI IN THE GLOBAL ECONOMY

Underdeveloped and developing countries are different economic problems from those of developed countries and require different measures and policies. Since the 1950s, it was recognized that "late industrialization countries" required even greater protection and state intervention than even the most developed countries had relied upon during their early development (Gerschenkron, 1966). For underdeveloped or developing countries, FDI would undermine many of their development strategies and developmental processes. For example, in Mexico, most people seemed to be economically better off under a more authoritarian regime (Maddison, 1995). Prior to international trade and investment liberalization, Mexican economic growth was fairly rapid, at a real per capita rate of 3.9% in the 1960s and 3.2% in the 1970s. Since the 1980s, after liberalization began, per capita income has stagnated and real wages have actually fallen. Economists have pointed out that the instability of international financial markets was a major cause of the previous 1994 financial crisis in Mexico (Calvo & Mendoza, 1995). The effect of such disinvestments with Mexico, therefore, should be questioned whether or not the deregulation of international capital flows is in the best interest of "emerging market" economies (Weisbrot, 1998).

Similarly, in South Korea, various economic regulations that were prohibited by the national treatment provisions were essential to economic growth and development. The Korean government used measures like subsidized credits, tax and tariff exemptions and export subsidies to intervene against foreign investment. They targeted industries such as cement, fertilizer, steel, chemicals, and consumer goods, etc. FDI was restricted and played a minimal role in South Korea's industrialization and economic development (Westphal, 1990). After Asia's financial crisis in 1997, the IMF required the Korean government to take measures for internationalization and deregulation, including the removal of a number of restrictions on foreign ownership of domestic stocks and bonds, residents' ownership of domestic stocks and bonds, residents' ownership of foreign assets, and overseas borrowing by domestic financial and non-financial institutions (Chang, Park & Yoo, 1998). The sharp reduction in government planning and industrial policy has caused problems such as overcapacity in the petrochemical industry, over-investment, and corporate failures in industries (Chang, Park & Yoo, 1998). Meanwhile, the 1997 Asia Financial Crisis, one of the world's worst economic crises since the Great Depression. The crisis engulfed much of Asia including South Korea, Thailand, and Indonesia caused by the set-off of hot money prior to August 1997, and then a true panic when the Thai baht began to fall. The liberalization of international investment was struck by the Asian financial crisis and economists pointed out that the liberalization of international borrowing and investing in those countries over the last decades created the instability from which the crisis was born. One economist has noted, "The Asian crisis cannot be separated from the excessive borrowings of foreign short-term capital as Asian economies loosened up their capital account controls and enabled their banks and firms to borrow abroad. It has become apparent that crises attendant on capital mobility cannot be ignored (Bhagwati, 1998)." The reversal of capital flows amounting to eleven percent of the regional GDP was a result of foreign and domestic investors stampeding for the exits for fear of being caught with greatly depreciated local currency and assets (Weisbrot, 1998). Economists who supported increasing deregulation of international investment have recently begun to concede that a large number of workers have indeed been hurt by such a process. On the other hand, foreign investors take into account all relevant information affecting asset returns when deciding their market positions and would be hard pressed to explain future dis investments from these countries (Weisbrot, 1998). The OECD has just issued a report intended to make the case for international investment liberalization where they contend that such negative impacts are "at most, modest."

PERFORMANCE OF TELECOM EQUIPMENT MANUFACTURING SECTOR

As a result of Government policy, progress has been achieved in the manufacturing of telecom equipment in the country. There is a significant telecom equipment-manufacturing base in the country and there has been steady growth of the manufacturing sector during the past few years. The figures for production and export of telecom equipment are shown in table given below:

(Rs. in crore)

Year	Production	Export
2002-03	14400	402
2003-04	14000	250
2004-05	16090	400
2005-06	17833	1500
2006-07	23656	1898
2007-08	41270	8131
2008-09	48800	11000
2009-10	50000 (Projected @ 18%)	13500 (Projected @ 25%)

Rising demand for a wide range of telecom equipment, particularly in the area of mobile telecommunication, has provided excellent opportunities to domestic and foreign investors in the manufacturing sector. The last two years saw many renowned telecom companies setting up their manufacturing base in India. Ericsson set up GSM Radio Base Station Manufacturing facility in Jaipur. Elcoteq set up handset manufacturing facilities in Bangalore. Nokia and Nokia Siemens Networks have set up their manufacturing plant in Chennai. LG Electronics set up plant of manufacturing GSM mobile phones near Pune. Ericsson launched their R&D Centre in Chennai. Flextronics set up an SEZ in Chennai. Other major companies like Foxconn, Aspcom, Solectron etc have decided to set up their manufacturing bases in India.

The Government has already set up Telecom Equipment and Services Export Promotion Council and Telecom Testing and Security Certification Centre (TETC). A large number of companies like Alcatel, Cisco have also shown interest in setting up their R&D centers in India. With above initiatives India is expected to be a manufacturing hub for the telecom equipment.

SIGNIFICANCE OF FDI IN TELECOMMUNICATIONS

FDI on telecommunications contain the ability to establish a commercial presence in a foreign territory, or the purchase of telephone companies by foreign investors or joint ventures between local and foreign partners to establish new telecommunication service companies. The opportunities for foreign investment in the telecommunication services sector have been limited by the fact that most countries had state-owned monopoly telecommunication carriers.

For example since 1984, forty-four Public Telecommunication Operators (PTOs) have been privatized raising 159 billion US dollars with about one-third of this investment coming from outside the home countries. Observably, fueling the operation of old PTOs, foreign investment has gradually played a more vital role in either domestic or international telecommunication market. For increasing the proportion of foreign investment on telecommunication sectors, foreign capital now has raised either through a share offering or the sale of a minority share of a PTO to foreign partners. Under the process of privatization of telecommunication industries, there are increasing numbers of opportunities for foreign investors to establish foreign subsidiaries or to combine with others in joint ventures.

As telecommunications covers many other industrial sectors including the sectors of manufacture, entertainment, and communication, it has a dual role as both a traded product and service, and as a facilitator of trade in other products and services. Foreign investment on telecommunications will promote economic gains including new and improved telecommunication products and services with lower prices and additional investment on other industrial sectors. Opening foreign investment on the telecommunication services sector should result in more competition, lowering prices for most businesses and for many consumers and providing both with a choice of different service providers. FDI brings not only new technology and developmental funds to telecommunications industries; it also brings innovation and competition for telecommunications providers. These positive effects promote the capacity of telecommunication in underdeveloped and developing countries and benefit the formation of “world village.”

Foreign investment on telecommunications is not merely a provider for improvement of local telecommunication equipments but also a driving force for telecommunication market competition and transformation for most of the developing and developed countries.

Considering the huge benefits from foreign investment in telecommunications, a large portion of the world hopes to attract foreign investment to pursue a schedule of projects to improve the basic telecommunications infrastructure.

Firstly, to attract foreign investment and making market competition, developing countries privatized their public telecommunication operators at the start of the 1990s. By deregulating domestic telecommunication regimes, it is expected that local telecommunication markets will be more efficient and attractive for foreign firms.

Second, to attract more foreign investment and to operate toward an integrated global economy, countries have to make more available high-speed data networks, cellular radio, mobile satellite services, Internet access and facsimile for foreign firms. By deregulating domestic telecommunication regimes and improvement in the level of telecommunication methods, these countries expect that FDI would have more willingness to choose them as a base for future global telecommunications competition. In developed countries, they have concentrated more on recognizing telecommunications trends and have tried to satisfy the complex requirements of multinational enterprises. Both developed and developing countries face the same pressure to upgrade and diversify the telecommunications sector, but developing countries typically have less financial, technical and operational resources to do so, particularly in light of an incomplete basic infrastructure. The best way to resolve this dilemma and to attract foreign investment for business and basic telecommunication infrastructure will be through upgrading the technology skill of the labor force and the privatization of public telecommunication regimes.

In the Asia-Pacific region, telecommunications market reform has continued apace with developing countries such as the Philippines, Taiwan and Thailand, and has opened up their markets to foreign investment. In Latin America, several countries that first privatized their domestic operators at the beginning of the decade are now preparing for a second round of market-openings. Even Africa, which has long been the last bastion of telecommunication monopolies, is leading the way by attracting foreign partners investing in their telecommunication sectors. Foreign private investment has entered the developing markets through joint ventures with local telecommunication operators, the award of licenses to foreign companies, or the sale of equity stakes in state-owned telecommunication entities to private foreign investors. Private investment was initially permitted mostly in value-added services, but increasingly, it is entering the basic services as well.

In Latin America and Africa, privatizations have been conducted through the sale of an equity interest in the company to foreign strategic investors such as France Telecom, Telekom Malaysia and SBC of USA. Privatization and increased foreign investment in telecommunication markets has resulted in substantial progress in meeting developing countries' basic telephony upgrading goals. It is also expected that market competition as the provision of international and domestic telecommunication services will bring a significant reduction in prices and more parity between domestic and international telephone services. Where markets have been liberalized, the level of investment, particularly foreign investment, has generally increased and telephony and network development has proceeded more rapidly. This combination of competitive markets, private ownership and foreign investment has created an appropriate environment for next generation global telecommunications development.

FDI IN TELECOMMUNICATIONS AND INTERNATIONAL ORGANIZATIONS

The telecommunications sector is presently undergoing a conversion from a global market system for telecommunication services that has been based on multilateral arrangements. This should promote a suitable international environment where investment and entrepreneurship can flourish, including the development of new forms of electronic commerce. For FDI in the Telecommunications sector, the WTO and ITU are two of the most important international organizations. The WTO agreement hopes to promote foreign and domestic investment in the telecommunication sector and, as a result, the development of each country's telecommunication infrastructure and services. Under the WTO, GATS on Telecommunication which was concluded on February 1997 and which entered into force on February 1998, commits 72 countries to a program of progressive opening of their basic telecommunication service markets to competition and increased foreign investment. Those agreeing countries made commitments to liberalize their telecommunication market and to open up to foreign investment in basic telecommunication services. That is, the provision of voice telephone, telex, telegraph, data transmission and privately leased circuits.

In contrast, the ITU provides great benefits in terms of telecommunication infrastructure construction and the development of information processing industries. The ITU allocates a global spectrum to particular services and manages scarce communications resources among countries that benefit trade liberalization and the prevention of discrimination between domestic and foreign suppliers. The ITU also promotes global telecommunication development and plays the role of providing the information to let developing countries understand the benefits that liberalization and trade in telecommunications can bring, as well as the measures necessary to protect national interests.

Both WTO and ITU encourage the development of global telecommunication infrastructure and the formation of an integrated global telecommunication market. Global telecommunication development tends to strengthen the leadership role of the private sector in the development of a diverse, affordable, and accessible information infrastructure around the world. Under this trend, it also hopes to encourage the involvement of developing countries in the building and utilization of a truly global and open information infrastructure and facilitate activities and identify policy options that foster the effective global application of telecommunications, broadcasting, and information technologies and services.

ECONOMIC GROWTH AND FDI IN TELECOMMUNICATIONS

Investment in telecommunications is a requirement for broad based economic development. The role of telecommunications as both a traded service and a vehicle for trade in other service sectors means that price reductions, improvements in the level of investment and the development of infrastructure and services brought about by liberalization should also have an impact on other sectors of the economy. In addition, efficient, low-cost telecommunication networks will provide the necessary platform for the growth of electronic commerce. The implementation of liberalized telecommunication investment should produce considerable benefits not only within the country's telecommunication sector but also for the national economy as a whole. The opening of telecommunication markets has facilitated the entry of domestic and foreign private capital and technological skills that have in turn accelerated network build-out, the provision of new services and improvements in the quality of service. Market liberalization also has a profound effect in promoting development in other sectors such as information technology and computing, which depend heavily on good, reliable and low-cost telecommunications.

Many countries controlled the economic development in these sectors because of the lack of sufficient telecommunication infrastructure to service them. Inadequate telecommunication also reduce efficiency all over the economy, diminishes the effectiveness of investments and development programs, causes a comparative disadvantage in attracting investment, and lowers the quality of living standard as well as personal access to communication. The evidence leaves no doubt that there was indeed a correlation between economic development and investment on telecommunications. Throughout economic developmental history, telecommunication infrastructure has played a significant role in supporting the economic development of counties. There are many documented examples about the direct relationship between investment in telecommunication infrastructure and economic growth. The growth of global telecommunication development will bring rapid development of new and advanced information services, attract more domestic and foreign investments, and improve economic development and global competitiveness, as well as a better living standard of health care and education.

CONCLUSION

Over the past few years, foreign investment has swiftly increased among countries and has improved global economic growth. The evidence shows us that there was indeed a connection between economic development and investment in telecommunications. FDI brings the promotion of economic growth, technology transfer and the creation of employment. Although FDI brings enormous economic benefits, many countries are still only moderately open to foreign investment. Developing countries apprehend that by opening up markets to competition and foreign investment without any restrictions, they will lose control of their strategic industries. They have used performance requirements to control the categories and sizes of FDI, such as exporting requirements or technology transfer agreements. Balancing economic gains from FDI with the power to control national economic sovereignty is a dilemma with substantial history.

The main point is that a more open foreign investment environment does not always violate national economic sovereignty. Even though developing countries need stronger control to guide their developmental directions and industrial strategies, such countries often lack necessary capital and technological skills to achieve their industrialization goals. Foreign investment brings plentiful capital, advanced technologies and giant economic profits, which can easily resolve economic problems of the developing countries. However, a stable, transparent and non-discriminatory regulatory system is the best way to attract more foreign investment. As the global economic competition increased, more and more developing countries already relax control over foreign investment and provide a favorable investment environment and accompanying laws to foreign investors.

Foreign investment in telecommunications should bring technology transfer, huge capital, and increased market competition, which should help national telecommunications development. With the introduction of foreign investment in developing countries, a workable local telecommunication infrastructure and worldwide access can be more easily reached. Increase in foreign investment and privatization in telecommunication sector will result in sizeable progress in meeting the basic telecommunications requirements of the developing countries. Though telecommunications have a very substantial and essential influence but, the opportunities for foreign investment in this sector historically have been limited and most developing countries have monopolistic and state-owned telecommunication carriers. An efficient trade and investment system for telecommunication cooperation will have to recognize these two factors for a successful agreement between developing and developed countries.

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Financial Inclusion: Savings, Credit, Insurance, Advice and Economic Growth

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ABSTRACT

Limited access to affordable financial services such as savings, loan, remittance and insurance services by the vast majority of the population in the rural and urban areas is believed to be the constraint to the enlargement of the livelihood opportunities and empowerment of the section. Hence, financial inclusion is concluded to be the critical factor for inclusive growth and ultimately ensuring sustainable overall growth in the country. A well-developed, inclusive financial sector is like a good transport system. It is basic infrastructure that everyone in a country—from individuals to governments to businesses of all sizes—depends upon. Attention to the need for inclusive financial sectors has increased in the past several years, as the benefits have become better understood, and because innovative solutions are overcoming long-standing barriers. New technologies such as mobile phones, smart cards, ATMs and bank agents, coupled with strong banking institutions hold promise of dramatically expanding access by reducing costs for providers and clients alike. Financial inclusion is a win win proposition. Financial inclusion is universal access at a reasonable cost to a wide range of financial services for everyone needing them, provided by a diversity of sound and sustainable institutions. Savings accounts, loans, insurance, payments and more help people generate income, manage cash flow, take advantage of opportunities and strengthen resilience to setbacks. The link to social economic welfare, especially poverty reduction, education, health and women's empowerment, is self-evident and supported by recent academic studies. Financial tools help entrepreneurs start and expand small businesses, which are a source of local job creation, growth and poverty reduction.

INTRODUCTION

What is financial inclusion?

Financial inclusion can be defined as the ability of individuals to access appropriate financial products and services. This definition clearly raises as many questions as it answers. It hinges on an understanding of “appropriate” products and services. As will be seen, financial inclusion has fairly different meanings in the context of banking and in the context of a more diverse market such as the credit market. In seeking to understand the challenge of financial inclusion and the measures needed to promote it, we have sought to concentrate not on finding a final definition of the term, but on understanding what is involved in being financially excluded, what can be done to tackle such exclusion, what forms financial inclusion can take and what benefits flow from financial inclusion.

The nature of financial exclusion

The United Kingdom has one of the most innovative and diverse financial services sectors in the world. Despite this, many individuals struggle to gain access to basic financial products such as bank accounts, credit, insurance and financial advice. Financial exclusion or lack of access to appropriate financial products and services can arise for a variety of often inter-linked reasons. Witnesses suggested a variety of causes including:

a) Exclusion due to inappropriate or excessively high charges: interest rates for doorstep lenders and other alternative credit products may be high and lead to a long-term cycle of over-indebtedness.

b) Exclusion due to religious beliefs or other cultural barriers: financial services may not comply with Islamic law, which forbids the charging of interest, for example.

c) Exclusion due to disability: disabled people might find it difficult to access premises, or find it difficult to read marketing material.

d) Exclusion due to being on lower incomes or being long-term recipients of benefits, which impacts most on the disabled, ethnic minority groups, the elderly and those excluded from the labour market.

e) Locational exclusion: lack of access in the person's locality to appropriate financial services.

f) Regulatory requirements: regulations imposed by the Government or the FSA play a valuable role in enhancing consumer protection, but, where regulations are excessive or are implemented in a way which does not take account of particular circumstances faced by individuals, they might accentuate financial exclusion.

g) Self-exclusion: where an individual feels that there is little point in applying for financial products because he/she expects to be refused, or is unwilling to engage with the financial services industry as a result of previous experiences.

h) Information problems: an individual may have difficulty obtaining the information he or she needs, either due to the requirements of the providers (who may be unwilling to lend to people without a credit history), or to the challenge to the individual as consumer, who may not be able to access marketing information or may have particular difficulty choosing between complex products.

WHY FINANCIAL INCLUSION MATTERS

1. Most people take access to financial services for granted. They obtain credit, operate bank accounts and make investment decisions. They make choices in a competitive market. They see the benefits of the trend towards a "cashless society". However, for a significant minority of people in the United Kingdom, such financial services seem inaccessible. Such people face higher charges for loans and other financial services. They face barriers in undertaking even simple transactions. They often do not know who to turn to for advice and support. They suffer from the drawbacks of the trend towards a "cashless society"

2. Financial exclusion can blight the lives of those affected by it. It can limit opportunities for employment and enterprise, impose a premium on the costs of basic services and reinforce social exclusion. Financial exclusion imposes costs on society and the State, making it harder to tackle unfairness and more expensive to distribute benefits. Financial exclusion also has detrimental effects on the financial services industry itself, limiting the chances for companies and other providers to broaden their customer base.

Benefits of financial inclusion

While financial inclusion alone cannot prevent poverty, it can help ameliorate some of its worst effects and help provide routes into work and enterprise. Ms Claire Whyley, Director of Policy at the National Consumer Council (NCC), noted that "at a basic level, financial inclusion can reduce the costs of poverty for people on low-incomes".39 The NCC believed that unless being financially included makes a positive difference to the lives of those who are excluded, it will not be inclusion in any meaningful sense … Meaningful financial inclusion can only be achieved if financial products and services are designed and delivered to meet the particular needs of people on the lowest incomes, ensuring that they are not only accessible, but also attractive, appropriate and available.

Financial inclusion can help towards the achievement of the Government's objective to increase the rates of asset-ownership amongst lower-income households.41 Promoting financial inclusion can also help in the regeneration of local areas if money saved by increased access to financial services can be re-invested in the community. Poor people end up paying proportionally more for their money. Promoting financial inclusion is crucial to the fight against poverty. An effective Government strategy to combat financial exclusion has a crucial role to play in enabling those on low incomes and others who are financially excluded to take their own steps away from poverty.

How do we get there?

Increasing access

The needs and opportunities are clear. What must be done?

First, financial service providers should increase access to all types of financial services. People need savings, insurance, health insurance, payments and credit. This means breaking down silos between micro- and enterprise finance and creating a continuum of access. In reality, the borders between micro-, small- and medium sized enterprises are blurry. Most entrepreneurs begin as micro-businesses and grow from there. The success of any enterprise depends on those larger and smaller around it. We need to think about what is available to individuals and SMEs to help them better along the whole value chain. Some may be served by banks reaching down; others by micro-finance institutions beginning to grow with their best clients; and still others by diverse private sector providers. Some examples include health insurance companies partnering with micro-finance institutions to increase availability of health insurance for poor individuals, and with local clinics to expand the availability of treatment facilities. In several countries in Africa, national beer producers provide essential finance to small and medium farmers for seeds, fertilizer and other crop inputs— sometimes because no other appropriate financial services are available. Mobile phone companies are partnering with banks and government agencies to provide convenient payments and increasingly other financial services. All of these elements must be part of the financial sector framework. The right products must be delivered at the right prices in the right places. A credit facility for a rural farmer will be different from one for an urban merchant. Sometimes a savings product will be more suitable than a credit product. Sometimes a commitment savings scheme will have more impact than a regular saving product. There is great opportunity for the private sector to sharpen its focus on needed and affordable products. Better regulation Second, regulatory frameworks must allow the right partnerships to flourish and encourage innovation to expand financial inclusion, while protecting consumers. Brazil's regulatory structure, for example, enables financial institutions to partner with retail chains through branchless banking rules. This greatly reduces costs of delivering services and expands access throughout the country. In Peru and Malaysia, policies have promoted the sustainable growth of the financial system, while protecting consumers. There is no one-size-fits-all solution. However, one common element is a flexible approach that bases regulation on the experience from pilot projects. Another is a focus on critical infrastructure, such as a national e-payment systems and credit bureaus. Dialogue and coordination are other common elements of success. It is important to bring together disparate parts of the public sector and to create platforms for public-private sector collaboration. Bolstering capacity The third step is bolstering consumers' understanding of choices, products and rights—in other words, consumer capability.

This includes, but goes beyond, financial literacy. Consumers need to grasp the principles of financial products such as interest rates, principal, terms and fees. They also need to develop healthy financial behavior, such as budgeting, saving, and comparing offers. Consumer capability and financial literacy are best achieved when service providers and governments facilitate them, and when clients and consumer advocacy groups actively pursue them. Improving data Finally, we need more and better data for policymaking, public and private investments, and business management.

Attention to data and measurement has also grown at the national level. For example, the Mexican banking and securities regulator (Comisiion Nacional Bancaria y de Valores) published two major reports in 2010 on financial supply, demand and gaps. These reports helped to clarify the strategies of state-owned banks, inform the distribution decisions of some private sector groups and identify what more is needed for accurate measurement.

These developments are promising; but often data remains limited and uneven, especially the disaggregated, sub-national type that is useful to decision makers. For all that we have learned about micro-financial services for the poor, we still know little about how enterprises finance themselves and what is available to them. As importantly, we need to increase our understanding about enterprise demand for services and the impact of specific products on individuals and enterprises. While respecting consumer privacy and commercial confidentiality, we must take advantage of the large volume of diverse data, often electronic, gathered by private firms. Nearly a third of the world does not have access to the basic kinds of banking and financial services that so many of us enjoy every day. It does not have to be this way. As with a good system of roads and public transport, financial inclusion enables people, businesses and communities to thrive. Financial inclusion helps people achieve what is most important to them, and builds dignity and empowerment. We already know many of the solutions to this challenge. Some of those solutions, including mobile phone banking, are new and not fully realized. Others, such as appropriate policies for providing small-scale savings products or ensuring consumer protection and adequate resource, are known, but need to be more widely adopted. All these goals are within our grasp. The time is ripe. There is a role for each of us to play.

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Macro Economic Variables: Impact on the Economic Development of the Country

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A B S T R A C T

As the process of economic growth is a continuous process, it needs to create chain reactions of such forces which may set in motion the process of income generating in the economy. This gigantic task of economic development, therefore, can be influenced by a groups of factors-economic, social, political, technological and administrative etc. In recent years underdeveloped countries have made concerted attempts to develop with the objective of narrowing down the gap that presently exists between them and the developed countries. Having detailed the serious impediments in the path of economic development and factors for the constant poverty of under developed countries, one logical question arises automatically as to what are the factors governing economic development of a country? In simple words, the answer to this very question implies that stupendous efforts should be made to remove the bottlenecks of underdevelopment or strongly defeat the forces of stagnation. In this research paper an analysis has been made to understand the various macro economic variables and their impact on the economic development of the country.

Keywords:- Macro Economic Variables, Economic Development, Indian Economy

INTRODUCTION

The economic development in India followed socialist-inspired policies for most of its independent history, including state-ownership of many sectors; extensive regulation and red tape known as "Licence Raj"; and isolation from the world economy. India's per capita income increased at only around 1% annualized rate in the three decades after Independence.[1] Since the mid-1980s, India has slowly opened up its markets through economic liberalization. After more fundamental reforms since 1991 and their renewal in the 2000s, India has progressed towards a free market economy. In the late 2000s, India's growth has reached 7.5%, which will double the average income in a decade. Analysts say that if India pushed more fundamental market reforms, it could sustain the rate and even reach the government's 2011 target of 10%.[1] States have large responsibilities over their economies. The annualized 1999–2008 growth rates for Gujarat (9.6%), Haryana (9.1%), or Delhi (8.9%) were significantly higher than for Bihar (5.1%), Uttar Pradesh (4.4%), or Madhya Pradesh (6.5%).

India is the ninth-largest economy in the world and the fourth largest by purchasing power parity adjusted exchange rates (PPP). On per capita basis, it ranks 128th in the world or 118th by PPP. The economic growth has been driven by the expansion of services that have been growing consistently faster than other sectors. It is argued that the pattern of Indian development has been a specific one and that the country may be able to skip the intermediate industrialization-led phase in the transformation of its economic structure. Serious concerns have been raised about the jobless nature of the economic growth. Favourable macroeconomic performance has been a necessary but not sufficient condition for the significant reduction of poverty among the Indian population. The rate of poverty decline has not been higher in the post-reform period (since 1991). The improvements in some other non-economic dimensions of social development have been even less favourable. The most pronounced example is an exceptionally high and persistent level of child malnutrition (46% in 2005–6).The progress of economic reforms in India is followed closely. The World Bank suggests that the most important priorities are public sector reform, infrastructure, agricultural and rural development, removal of labour regulations, reforms in lagging states, and HIV/AIDS. For 2010, India ranked 133rd in Ease of Doing Business Index, which is setback as compared with China 89th and Brazil 129th. According to Index of Economic Freedom World Ranking an annual survey on economic freedom of the nations, India ranks 124th as compared with China and Russia which ranks 140th and 143rd respectively in 2010.

Current Scenario of Growth

India's economy grew by just 7.8 per cent in the fourth quarter ending March this year, mainly due to poor performance of the manufacturing sector, as against 9.4 per cent in the same three-month period of the previous fiscal. However, economic growth, as measured by the Gross Domestic Product, improved to 8.5 per cent in 2010-11 from 8 per cent in 2009-10 due to better farm output and construction activities and financial services performance.

Meanwhile, the GDP growth figures for the first and third quarters of FY'11 have been revised upward. While the GDP growth figure for Quarter 1 has been pegged at 9.3 per cent -- as against the earlier estimate of 8.9 per cent -- the Q3 GDP growth has been revised upward to 8.3 per cent from 8.2 per cent. During the quarter ending March 31 this year, growth in the manufacturing sector slowed down to 5.5 per cent from 15.2 per cent in the same quarter of 2009-10. In addition, the mining and quarrying sector grew by only 1.7 per cent during the quarter under review, as against 8.9 per cent in the fourth quarter of the previous fiscal. Furthermore, the trade, hotels, transport and communications segment grew by 9.3 per cent in the March quarter this year, as against 13.7 per cent expansion in the same the period of 2010. JP Morgan said that GDP numbers were below expectations and global growth will slowdown in next few quarters.

However, services including banking and insurance grew by 9 per cent in the March quarter this year, compared to 6.3 per cent in the corresponding period last year. Farm output showed tremendous improvement, growing at 7.5 per cent during the quarter under review, compared to a meagre 1.1 per cent in the same three-month period last year. Though economic expansion slowed down in the fourth quarter, overall GDP growth touched the 8.5 per cent mark in 2010-11, as against 8 per cent in 2009-10, due the smart recovery in farm output. The agriculture and allied sectors grew by 6.6 per cent during the fiscal, as against a meagre 0.4 per cent in the previous year. The growth of services, including banking and insurance, improved to 9.9 per cent in 2010-11 from 9.2 per cent in the previous fiscal. The trade, hotels, transport and communication segment grew by 10.3 per cent in FY'11, as against 9.7 per cent last fiscal, while growth of the construction sector stood at 8.1 per cent, as against 7 per cent in the previous financial year.

However manufacturing sector growth slowed down to 8.3 per cent in the 2010-11 financial year from 8.8 per cent in 2009-10. Growth of the mining and quarrying sector also slowed to 5.8 per cent in 2010-11 from 6.9 per cent in 2009-10. The electricity, gas and water supply segment grew by 5.7 per cent last fiscal, compared to 6.4 per cent in 2009-10. India's economy is still clocking robust growth, second only to neighbouring China among major economies, as domestic demand continues to grow on the back of rising income. Economists and government officials have recently revised downward their expectations for the current financial year, citing rising crude oil and other commodity prices and doubts about economic recovery in developed nations. Prime Minister Manmohan Singh said at the weekend he was confident that India would achieve 8.5 percent growth this year, helped by expectations of a normal monsoon which is crucial to economic expansion. Referring to agriculture situation and its impact on inflation, PM said, "Whatever evidence we have, we expect a normal monsoon. And if the monsoon is normal, it will strengthen our ability to control food inflation". The headline inflation was 8.66 per cent in April, much higher than the Reserve Bank's comfort level of 5-6 per cent. Industrial output grew an annual 7.3 per cent in March, smashing forecasts on the back of a revival in capital goods production. Services sector gained momentum in April, with strong growth in new business orders, a HSBC survey showed early this month. Manufacturing sector maintained its strong rate of expansion in April, helped by higher output and employment, the latest purchasing managers' index (PMI) data showed. On oil prices, PM said, "There are problems with regards to the burden of oil subsidies. They have to be tackled and all these issues will be claiming our attention in weeks and months to come".

Although the oil marketing companies have raised the petrol rates in view of spiraling prices in the international market, the government is yet to take a view on diesel prices. A decision on raising diesel price is likely to be taken by the Empowered Group of Minister (EGOM) headed by Finance Minister Pranab Mukherjee in the second week of June. India imports about 75 per cent of its total crude oil requirement.

Macroeconomic Performance in Post 1991 Years

Year	Real GDP Growth	Inflation Rate	Interest Rate	Unemployment No. in Millions	Money Supply Billions of Rs
1991	1.0	8.9	17.9	36.3	1046.1
1992	2.3	13.7	18.9	36.8	1120.9
1993	1.5	10.1	16.3	36.3	1330.2
1994	5.9	8.4	14.8	36.7	1695.0
1995	7.3	10.9	15.5	36.7	1883.5
1996	7.3	7.7	16.0	37.4	2148.9
1997	7.8	6.4	13.8	39.1	2419.3
1998	6.5	4.8	13.5	40.0	2703.5
1999	6.5	6.9	12.5	40.4	3161.2
2000	6.1	3.3	12.3	40.3	3495.9
2001	4.0	7.1	12.1	42.0	3846.0
2002	6.2	4.7	11.9	42.4	4318.6
2003	5.5	5.1	11.5	43.1	4822.3
2004	8.0	4.5	10.6	42.5	5402.3

Source:- International Financial Statistics Yearbook,

In 1994 while the real GDP increased by 5.9%, the inflation rate declined from 13.7% in 1992 to 8.4%. While the interest was still very high, it had some downward pressure. The official unemployment number was very high (36.69 million) but it remained steady, a mild achievement in an increasing population. But as it is evident for several years, the Indian unemployment is beyond the reported figures of unemployed labor. It consists of heavy under-employment, it is marred by extreme poverty partly due to illiteracy. The so called "full-time employment" in India is concentrated mainly in urban sector with very limited industrialization in rural or semi-rural areas of extreme backwardness. Added to those problems are the imperfections of labor market, the complications in collecting the data, the Indian labor employment (or unemployment) is as hard to report as its population survey results. But these imperfections notwithstanding, the economic growth in 1990s looks impressive, it does not matter how one calculates it. It appeared that policy makers by 1995 were convinced that globalization is what is needed for faster economic growth. Success sometimes breeds upon itself, and policy makers usually are fast learners especially when political benefits are high. However the growth of 1994-19917 was not perfectly matched by accelerated growth in 1997-2000 period. As Chitre (2003) points out, this sluggishness was due to the slow growth in agricultural sector, not because of industrial slowdown. The international trade as witnessed in Table 3 did not perform poorly either.

Better monsoons of years 2000 to 2004 helped not only the agricultural sector grow faster but also the manufacturing, trade and services sectors moved admirably. In 2004 it became official that Indian economy was second fastest growing in the world, second only to the Chinese economy. In fact, the Chinese economy's growth is also primarily explained by her newly found affection for openness. The Indian economy, much like the world economy, went through technological change. While the computer mega cities such as Bangalore (that now has 1500 foreign company offices), Hyderabad and Pune grew at a unprecedented rates, the repercussions of this industrial growth was felt in many of the adjacent rural areas. In fact in April 2005, it was confirmed that India officially achieved 8 percent growth in 2004 (Times of India, April 28, 2005)

Indian Economy 2010 Overview: Development in the Global Economy

It's almost a decade since we entered into the 2000s. Economic growth in these years wasn't so impressive for the western economies. It proves to be one of the worst economic periods for those economies. Indeed, the so-called fastest growing economies (such as India, Brazil, China, Mexico, Russia, and Indonesia) have seen an unprecedented economic expansion because, the eastern economies were the producers and the western economies were the consumer and the same trend would likely to continue as the companies, nowadays, are more conscious about the cost. Rising input cost (or raw material) are forcing the corporations in the industrialized economies to shift their focus on the cost-effective region to keep up the pricing competitiveness in the specific industry, they are in. Change in consumer trend is also major concern for the companies to invest more in the process of innovation, research and development (R&D).

As the economic pace is picking up, global commodity prices have staged a comeback from lows and global trade has also seen a decent growth over the last two years. Unprecedented Government intervention and exceptionally large interest rate cuts by the central bank in advanced and emerging economies have contributed a lot to pull the global economy up from the deepest recession since the World War II. Several Governments around the world launched the stimulus packages to prop up the economic growth, generate employment opportunities and the overall economic growth with the aim to reduce uncertainty in the economy and increased confidence.

Economic Prospect for Year 2010 -

Global economy is seems to be expanding after a recent shock. Indian Economy, however just felt the blow of the global economic recession and the real economic growth have seen a sharp fall followed by the lower exports, capital outflow and corporate restructuring. It is expected that the global economies continue to stay strong in the short-term as the effect of stimulus is still strong and the tax cuts are working. Due to strong position of liquidity in the market, large corporations now have access to capital in corporate credit markets.

	India's Economic Outlook Projection				
Year		2007	2008	2009	2010
GDP Growth		9.40%	7.30%	7.60%	8.30%
CPI		6.40%	9.30%	5.50%	4.90%

Source: VMW Analytic Services

Year 2009 has started on the gloomy note, however the trend reversed from the first quarter of the year, financial markets posted strong gains fueled by huge amount of capital inflows which was set-aside during the economic downturn in search of a higher yield. Number of companies jumped into the equity markets to raise funds to de-leverage themselves, corporate risk have declined. Before the beginning of the economic recession, several companies betted on the better economic future and blindly raised funds thru various options (largely in a way of debt). Real Estate was the hardest hit industry during the recession. Many companies even offloaded their huge amount of stake, in order to meet the deadline to pay-off the short-term debt. Not only the realty companies which has faced that situation, actually many Small & Medium Enterprises (SMEs) have opted that option to expand themselves aggressively and routed out of the business. As the new year begins, the new wave of optimism has surrounded the economies to expand further from the recent shock, with the expectations of fresh stimulus package, shrink in unemployment rate, expectations of the high inflation, higher interest rates in the emerging economies. Over the next few months, inflation would be a worrisome for the economies. According to the estimates, inflation would likely to reach up to 10%, resulted, the expectations of the monetary policy tightening from the Reserve Bank of India in the second quarter review of monetary policy. Asian economies – Chinese economy in particular, along with India are in the strongest place for a sustained recovery. There are increasing signs of a recovery in a private domestic demand.

Inflation Direction -

Since the global economies are emerging from the lows, in a short run, inflation is expected to rise due to bounce back in demand for commodities. Although, the underlying inflation are still on the downside. Higher unemployment rate in the west will lead to low wage growth and pricing power would be limited for a long time as demand will be very vulnerable to price rises. But, India would buck the trend in inflation due to ample amount of liquidity in the system and rising demand.

India Economy 2010 Overview -

In order to keep the economic growth during the time of worst recession, Federal authorities in India has announced the stimulus packages to prop-up the economic growth. To finance the stimulus packages, Indian Government has raised over $100 billion over the last four quarters in a way to finance the stimulus package. Country's Public debt, according to the latest data has zoomed to over 50% of the total GDP and India's Central bank, Reserve Bank of India has started printing new currency notes.

Central Government Debt			
in Rs. Crores (10 Million)	**Q3 2008**	**Q3 2009**	**% of GDP**
Public Debt (Sum of 1 and 2)	20,99,286.23	25,05,450.74	50.71%
1. External Debt	2,37,351.77	2,94,941.67	
2. Internal Debt	18,61,934.46	22,10,509.07	

Source: VMW Analytic Services

Going forward, India will see sharp rise in supply side inflation, after the effect of large government borrowings, printing of new currency notes, rise in food prices due to huge gap in demand-supply. Interest rates will also expected to rise awkward, as the central bank will take precautionary measure to contain inflation rate and expanding money supply.

Important highlights of Economic Outlook 2011-12

India's GDP growth rate for 2011-12 at 8.2% as compared to 8.5% registered last year. Given the current adverse global circumstances and high Inflation to boot, expected growth rate of 8.2% looks quite good!

- Agriculture grew at 6.6% in 2010-11. This year's monsoon is projected to be in the range of 90 to 96 per cent, based on which Agriculture sector is pegged to grow at 3.0% in 2011-12!
- Industry grew at 7.9% in 2010-11. Projected to grow at 7.1% in 2011-12
- Services grew at 9.4% in 2009-10. Projected to grow at 10.0% in 2011-12
- Investment rate projected at 36.4% in 2010-11 and 36.7% in 2011-12
- Domestic savings rate as ratio of GDP projected at 33.8% in 2010-11 & 34.0% in 2011-12
- Current Account deficit is $44.3 billion (2.6% of GDP) in 2010-11 and projected at $54.0 billion (2.7% of GDP) in 2011-12
- Merchandise trade deficit is $ 130.5 billion or 7.59% of the GDP in 2010-11 and projected at $154.0 billion or 7.7% of GDP in 2011-12

- Invisibles trade surplus is $ 86.2 billion or 5.0% of the GDP in 2010-11 and projected at $100.0 billion or 5.0% in 2011-12
- Capital flows at $61.9 billion in 2010-11 and projected at $72.0 billion in 2011-12
- FDI inflows projected at $35 billion in 2011/12 against the level of $23.4 billion in 2010-11
- FII inflows projected to be $14 billion which is less than half that of the last year i.e $30.3 billion
- Accretion to reserves was $15.2 billion in 2010-11. Projected at $18.0 billion in 2011-12
- Inflation rate would continue to be at 9 per cent in the month of July-October 2011. There will be some relief starting from November and will decline to 6.5% in March 2012.

India's GDP growth rate for 2011-12

		Year-on-year rates of growth in per cent						
	ANNUAL RATES	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
						QE	*Rev*	*Proj.*
1	Agriculture & allied activities	5.1	4.2	5.8	-0.1	0.4	6.6	3.0
2	Mining & Quarrying	1.3	7.5	3.7	1.3	6.9	5.8	6.0
3	Manufacturing	10.1	14.3	10.3	4.2	8.8	8.3	7.0
4	Electricity, Gas & Water Supply	7.1	9.3	8.3	4.9	6.4	5.7	7.0
5	Construction	12.8	10.3	10.7	5.4	7.0	8.1	7.5
6	Trade, Hotels, Transport, Storage & Communication	12.2	11.6	11.0	7.5	9.7	10.3	10.8
7	Finance, insurance, real estate & business services	12.7	14.0	11.9	12.5	9.2	9.9	9.8
8	Community & personal services	7.0	2.9	6.9	12.7	11.8	7.0	8.5
9	**Gross Domestic Product (factor cost)**	**9.5**	**9.6**	**9.3**	**6.8**	**8.0**	**8.5**	**8.2**
10	Industry (2 + 3 + 4 + 5)	9.7	12.2	9.7	4.4	8.0	7.9	7.1
11	Services (6 + 7 + 8)	11.0	10.1	10.3	10.1	10.1	9.4	10.0
12	Non-agriculture (9 - 1)	10.5	10.8	10.1	8.2	9.4	8.9	9.0
14	**GDP (factor cost) per capita**	**7.8**	**7.8**	**7.6**	**5.0**	**6.2**	**6.8**	**6.4**
		Some Magnitudes						
15	GDP at factor cost - 2004/05 prices in Rs lakh crore (or Trillion)	32.5	35.7	39.0	41.6	44.9	48.8	52.8
16	GDP market & current prices in Rs lakh crore (or Trillion)	36.9	42.9	49.9	55.8	65.5	78.8	89.8
17	GDP market & current prices in US$ Billion	834	949	1,241	1,223	1,385	1,732	1,994
18	Population in Million	1,108	1,126	1,145	1,164	1,183	1,202	1,222
19	GDP market prices per capita current prices	33,317	38,117	43,554	47,975	55,384	65,517	73,460
20	GDP market prices per capita in current US$	753	842	1,084	1,051	1,171	1,441	1,632

Source: Economic Outlook 2011-12

Conclusion

Main finding of this paper is that India's economic growth has received a strong impetus in post 1991 era. This increased economic growth is mainly and directly is a result of country's better monsoons and the free trade movement that started in that year. All of us have seen an unprecedented government intervention during the economic recession by way of announcing huge amount of stimulus package for the economy to prop-up domestic demand. With many recovery tools were used during the crisis, government deficits are in deep red and central bank rates are almost zero in certain countries and the prospect of zero rates over a longer period and deflationary concerns will probably gain the upper hand and send bond yields lower. Hence, there is a low scope of further announcement.

As far as the Indian economy is concerned, is suffering from huge debt to GDP ratio, moreover India is the largest net importer of commodities like Oil, Food, metal in relation to the GDP. Sharp decline in oil prices, could cut the subsidy burden and those savings would be use for the fiscal stimulus. Increased and better expenditure with greater focus on improved outcomes in social and physical infrastructure, and safety nets will speed up the recovery consistent with the long-term growth.

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