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India: Lessons Learnt and Current Challenges after Global Financial Crisis

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1. INTRODUCTION

The Indian economy rebounded strongly in 2009-10 and 20010-11 from the adverse impact of global financial crisis. There are many lessons from the crisis for India from this crisis. There are several macro-economic other challenges (domestic and external) for the Indian economy in the short and medium terms.

In this context, this paper addresses the following issues.
(a) Impact of the crisis on Indian economy
(b)What are the lessons learnt from the crisis?
(c)What are the reasons for resilience? The roles of monetary, fiscal, prudential financial regulations and capital flows management.
(d) What are the current Challenges?
(e) Inflation trends and policy measures for containing inflation.
(f) Growth vs. Inflation
(g)What is the impact of slowdown in US?
(h) What are the medium term challenges?

2. IMPACT OF THE CRISIS

Compared to the East Asian crisis period, India is more integrated with the world during
the recent crisis. India's two way trade (merchandise exports plus imports) as a proportion of GDP more than doubled. It increased from 19.6% in 1998-99, the year of Asian crisis to 40.7% in 2008-09. If India's trade integration is deep its financial integration was even deeper. Ratio of external transactions (gross current account flows plus gross capital account flows) to GDP had more than doubled from 44% in 1998-99 to 112% in 2008-09 (Subbarao, 2009).

During the East Asian crisis, India's GDP growth rate fell from 8% in 1996-97 to 4.3% in 1997-98 and quickly recovered to 6.7% in 1998-99. This quick recovery was possible because of stability-oriented macroeconomic policies and supportive international environment (Herd et al, 2011).

The recent financial crisis originated in the US being transmitted to other countries through three principal channels. First, it has directly affected the financial institutions all over the world due to investments in mortgage-backed securities and their derivatives, which turned toxic following large-scale defaults in the US housing markets. Second, the financial crisis has created a liquidity problem. The US firms which needed liquid resources withdrew their funds from stocks and bonds in other

countries. Decline in the prices of stocks and bonds had impact on local investors who pulled back from the market. This led to choking of credit all over the world. The third source of transmission is the impact on real sector. The financial crisis led to recession in the US. This led to decline in demand of goods from other countries in the US. As the contagion spread and job losses rose in the advanced industrial economies, confidence was eroded further and general consumer demand in both the US and other developed nations dropped. In consequence, emerging economies saw export markets contract. This has affected the exports and business confidence in developing countries.

While India has largely escaped the first transmission, it has not been able to avoid the other two channels. While the direct exposure of Indian banking system to the sub-prime market abroad is almost absent (thanks to the RBI's pragmatic policies), there may be very limited investment by a few Indian banks in the collaterized debt obligations which had underlying entities with sub-prime exposures. The Government ownership of banks has proved to be a big advantage in these troubled times. However, the indirect impact of the crisis, transmitted through capital flows, financial markets and trade (real sector) have affected India. The foreign exchange reserves have declined in India and created a liquidity problem due to global crisis as well as earlier tightening of monetary policy earlier. It had adverse impact on exports. India is also affected through low confidence channel (Subbarao, 2009).

Impact on Real Economy

Due to slowdown in external and domestic demand, the GDP growth in India declined from 9.0 per cent in 2007-08 to 6.8 per cent in 2008-09. The credit crisis and decline in demand has adverse impact on several industries. Flow of funds to the corporate sector has declined by nearly Rs.94,000 crores in 2008-09 upto early January as all foreign sources of funding dried up. Despite expansion in bank credit, there has been a perception of non-availability. The RBI attributes this to reduced flow of funds from non-banking sources, mainly the stock market and external commercial borrowings. The external commercial borrowing (ECB) and short-term credit from abroad, which met more than 20 per cent of India's INC's credit needs in the 2007-08 have contributed only 8.2% of the financing needs. Increase in the bank credit has not been enough to plug the gap left by other sources.

Since the business confidence was low, inspite of monetary and fiscal measures, the banks could not able to deliver credit because of two reasons. First one is that credit demand is low. Second one is that the banks are also averse to lend at a time economic growth is definitely slackening. The chances of even existing loans, leave alone new ones, turning bad are perceived to be high. As a result, the growth of manufacturing sector declined from 8.2 per cent in 2007-08 to 2.4 per cent in 2008-09.

Although there was no direct impact of global crisis on Indian banking, i had adverse impact on exports, remittances and external capital flows. The Indian economy was affected primarily through two channels: the trade account and capital account. Merchandise exports growth declined from 29% in 2007-08 to 5% in 2008-09. Trade balance as per cent of GDP increased from-7.8% to -10% during the same period. Growth in software&BPO income and private remittances declined. As a result, the negative current account

balance as per cent of GDP increased from -1.40% in 2007-08 to -2.60% in 2008-09. There were large capital outflows by portfolio investors which had impact on foreign exchange market. Portfolio capital decelerated from US$ 29 billion in 2007-08 to (-) US$ 14 billion in 2008-09. The capital account balance which was US$ 108 billion in 2007-08 declined to US$ 9 billion in 2008-09. Substantial net capital outflows along with widening trade account and current account deficits resulted in the decline of foreign exchange reserves of about US$ 60 billion. It declined from US$ 316 billion in May 2008 to about US$255 billion in September 2009.

Exports which grew at 25% during 2005-08 decelerated to 13.6% in 2008-09 and showed negative growth of -3.5 2009-10. Capital outflows have put pressure on exchange rate. The exchange rate depreciated from Rs.39.4 per dollar in Jan2008 to Rs.51.2 per dollar in March 2009.

3. RESPONSE TO THE CRISIS

The policy measures adopted in India relate to fiscal stimulus and easy monetary policy. To consider the negative fallout of the global slowdown of the Indian economy, the Government responded by providing a substantial fiscal stimulus in the form of tax relief to boost demand and increased expenditure on public projects to create employment and public assets. It may be noted that India's fiscal stimulus is to counteract moderation in high growth rather than recession. Inspite of global recession, India has maintained GDP growth of 6 to 7%. The pronouncements were aimed at enhancing consumption demand, investment demand as also domestic savings through appropriate combination of allocations of expenditure and tax concessions.

It may be noted India's counter-cyclical fiscal stimulus began much before the dramatic deterioration of the global financial markets. In fact, it started in February 2008, six months before the start of the crisis. These included the payout of a part of the arrears to government employees, following the Sixth Pay Commission Report and the debt relief (farm loan waiver) package to alleviate the debt burden of the distressed farmers. The vote on account budget has not announced further fiscal stimulus but increased expenditure on National rural employment Guarantee scheme (NREGS). Indian economy was much less adversely affected as it is mostly driven by domestic demand. This is partly due to rural demand component. Even now rural demand continues to remain robust, especially for automobiles, two wheelers, tractors and fast moving consumer goods. NREGS, loan waiver scheme, rural road construction programmes, financial inclusion in the form of spread of banking and financial services rural areas, increase in minimum support prices for farmers, ICTs helped in generating rural demand.

Regarding monetary policy, RBI's action comprised monetary accommodation and counter cyclical regulatory measures. It includes both conventional and unconventional measures. RBI reduced the policy interest rates aggressively, reduced the quantum of bank reserves with the Central Bank and liberalized the refinance facilities for export credit. RBI's successive policy announcements reduced repo and reverse repo rates. Repo rate declined from 9% in July 2008 to 4.75% in April 2009. Cash Reserve ratio declined from 9 to 5%.The measures taken by the

RBI on unconventional side are: “a rupee-dollar swap facility for Indian Banks to give them comfort in managing their short-term foreign funding requirements, an exclusive refinance window as also a special purpose vehicle for supporting non-banking financial companies, and expanding the lendable resources available to apex financial institutions for refinancing credit extended to small industries, housing and exports” (Subbarao, 2009).

Government also announced specific measures to address the impact of global slowdown on exports. These include the extension of export credit for labour-intensive exports, improving the pre- and post-shipment credit availability, additional allocation for refund of terminal excise duty/CST and export-incentive schemes, removal of export duty and export ban on certain items (GOI, 2009). Government did not intervene in foreign exchange market.

4. MAIN FACTORS RESPONSIBLE FOR RESILIENCE IN INDIAN ECONOMY AND LESSONS

Indian economy recovered quickly after 2008-09 crisis period. One expected much more adverse impact on India during the present crisis as compared to the late 1990s East Asian crisis. India’s growth rate increased significantly from 6.8% in 2008-09 to 8% in 2009-10. Exports growth in 2010-11 was 37.5%.

What are the reasons for a quick rebound and resilience of Indian economy?
Inspite of global integration, the GDP growth in India largely depends on domestic economy (on domestic consumption). It gives some resilience to external factors although one does not subscribe to decoupling theory.

Monetary policy, fiscal policy, export policies and some of structural advantages including calibrated approach to capital convertibility etc. helped for quick recovery and resilience. The details of monetary policy indicate that RBI targeted three objectives: (a) to maintain comfortable rupee liquidity (b) augment foreign exchange liquidity; (c) a policy that would keep credit delivery on track. Like any central bank, RBI used both conventional and unconventional measures.

Taken together, the measures put in place since mid-September 2008 have ensured that the Indian financial markets continue to function in an orderly manner. Liquidity injection is about 7% of GDP.

There are also several structural factors that have come to India’s aid. (Subba Rao, 2009)

First, Inspite of adverse shocks, India’s financial markets have shown admirable resilience. This is in large part due to India’s sound and healthy banking system well capitalized and prudently regulated.

Second, our comfortable reserve position provided confidence to overseas investors.

Third, majority of Indians do not participate in equity and asset markets, the negative impact of wealth loss effect is muted. Consumption demand not affe.

Fouth, because of India's mandatory priority sector lending, institutional credit for agriculture has remained unaffected.

Fifth, India has many safety net programmes including the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS). Thus, India has unique version automatic stabilizers which have also protected the poor from the extreme impact of the global crisis.

Lessons for India and other Emerging Economies: Subbarao(2011) provides the following eight lessons from global financial crisis.

a.In a globalizing world, decoupling does not work
b. Global imbalances need to be redressed for the sake of global stability
c. Global problems require global co-ordination
d. Price stability and macro economic stability do not guarantee financial stability
e.Microprudential regulation and supervision need to be supplemented by macroprudential oversight.
f. Capital controls are not unavoidable but advisable in certain circumstances
g. Economics is not Physics
h. Having a sense of economic history is important to prevent and resolve financial crisis

5. CURRENT CHALLENGES

Inflation

Inflation is major source of concern in India. Headline inflation increased from negative levels in mid-2009 to double digits during March-July 2010. It averaged 9.6% in 2010-11. (Table 1). Inflation for food articles was 15.3% and 15.6% respectively in 2009-10 and 2010-11. In the second half of 2010-11, high consumption demand, it spread to manufactured products. Domestic supply problem, increase in demand and increase in crude oil prices are responsible. India responded with tightening of monetary policy: RBI increased ten times from 4.75% in April 2009 to 8.00% in July 2011. Protein inflation as consumption patterns changed. There are supply problems in agriculture. As shown in Table 2, prices of pulses, fruits, vegetables, milk, meat and fish have increased.

What are the factors for higher food inflation in India in the last two and half years? Both global factors and domestic factors are responsible for the rise in food prices. But, the domestic factors like supply shortages play major role than global factors. The food inflation does not seem to be transitory phenomenon and it seems to be a structural problem now. Particularly, the protein (pulses, milk, eggs, meat and fish) inflation seems to be more due to structural problems than transitory factors (Gokarn, 2011)). There is a need to have agricultural policies to improve the supply of protein rich foods and other diversified diet.

Table 1. Inflation in For Commodity groups

Commodities	2006-07	2007-08	2008-09	2009-10	2010-11

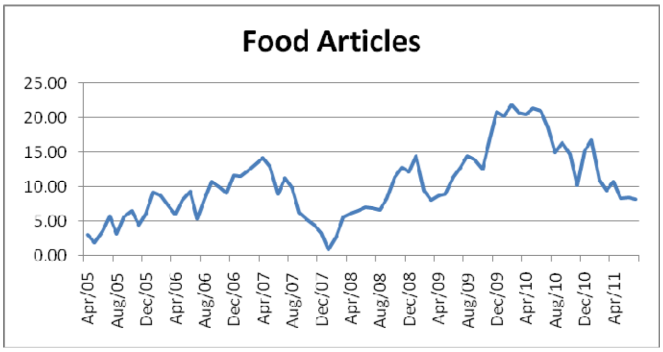
All	5.42	4.66	8.1	3.8	9.6
Primary	7.85	7.61	11.0	12.7	17.7
Food Articles	7.78	7.78	9.1	15.3	15.6
Fuel and power	5.61	0.93	11.6	-2.1	12.3
Manufacture	4.43	4.97	6.2	2.2	5.7
--Food products	3.22	4.27	8.7	13.5	3.7

Source: Ministry of Finance, Government of India

Table2. Food Inflation for Major Groups and Sub-Groups: 2007-08 to 1st Quarter of 2011-12 (Year on Year changes)

	2007-08	2008-09	2009-10	2010-11	2011-12 (Average of April-July
Primary articles	8.3	11.0	12.7	17.7	12.9
Food articles	7.0	9.1	15.3	15.6	8.9
Foodgrains	6.9	11.0	14.5	4.8	2.3
Cereals	9.5	11.9	12.6	5.3	5.0
Rice	11.02	14.8	12.3	5.9	2.6
Wheat	7.3	9.9	12.8	3.0	0.4
Maize	6.3	6.8	10.2	10.1	1.9
Pulses	-2.8	7.5	22.4	3.2	-8.18
Urad	-16.5	0.0	43.0	19.0	-9.23
Arhar	16.4	14.4	48.8	-4.5	-16.3
Moong	-11.9	6.1	55.4	19.9	-21.4
Fruits&Vegetables	11.5	8.2	9.7	16.4	16.0
Milk	5.1	7.6	18.8	20.1	8.0
Eggs, Meet &Fish	3.2	7.7	20.8	25.5	9.1

Source: Ministry of Finance, Government of India



Inflation and Growth

There is a debate in India on the instruments needed for controlling inflation. According to some, monetary policy may not be the right one to contain inflation. Fiscal policy and supply side are also important.

Due to monetary tightening, investment demand got affected although consumption demand is less affected. It has adverse impact on growth. The first quarter GDP growth2011-12 is 7.7% compared to 8.8% last year same quarter. Rising interest rates, high inflation and global uncertainty has affected growth. Inspite of high agricultural growth, overall growth was around 8.5% in 2010-11 and is likely to decline further in 2011-12 (Table 3). But, RBI's view is that in short term there would

be trade-off between growth and inflation. In the medium term, there would be low inflation with high growth.

Table 3: Economic Growth: Past Performance and Projections (%)

Sectors	2006-07	2007-08	2008-09	2009-10 (QE)	2010-11 (Rev)	2011-12 (projections)
GDP at factor cost	9.6	9.3	6.8	8.0	8.5	8.2
Agriculture& Allied	4.2	5.8	-0.1	0.4	6.6	3.0
Industry	12.2	9.7	4.4	8.0	7.9	7.1
Manufacturing	14.3	10.3	4.2	8.8	8.3	7.0
Services	10.1	10.3	10.1	10.1	9.4	10.0

Source: Rearranged from Economic Outlook for2011-12, Economic Advisory Council to the Prime Minister, July 2011, Government of India

The growth rates in index of industrial production (IIP) for manufacturing shows that the impact of financial crisis was quite adverse as the index declined significantly in 2008-09 and 2009-10 (Table 4). It revived to around 9% in 2010-11. However, in recent months, there was significant decline in the growth rate of IIP.

Table 4: Growth Rates in Index of Industrial Production (New Data Series with base 2004-05) (%)

Years	Manufacturing Index	Basic Goods	Capital Goods	Intermediate Goods	All Consumer Goods	Durable Consumer Goods	New Durable Consumer goods
2006-07	15.0	8.9	23.3	11.5	16.1	25.3	12.3
2007-08	18.4	8.9	48.5	7.3	17.6	33.1	10.2
2008-09	2.5	1.7	11.3	0.0	0.9	11.1	-5.0
2009-10	4.8	4.7	1.0	6.0	7.7	17.0	1.4
2010-11	8.9	6.0	14.9	7.3	8.4	14.1	4.1

Source: Rearranged from Economic Outlook for2011-12, Economic Advisory Council to the Prime Minister, July 2011, Government of India

Balance of Payments

The current account deficit in India was a concern in recent years. But, it improved to 2.6% in 2010-11 from 2.8 in 2009-10 (see Table 5). This improvement came about by cyclical upswing in global trade and turn around in invisibles. Export growth was 37.4% in 2010-11 and 46% in the first quarter of 2011-12 (Fig 2). Diversification of trade in terms of composition as well as destination helped in achieving strong export performance. The share of exports to US and Europe declined over time (Table 6). FDI flows are also reasonably good for India. In this fiscal, they are expected to be higher than portfolio investment. Capital account balance is positive 3.6% of GDP

Table 5 : Balance of Payments (in US Billion dollars)

Items	2006-07	2007-08	2008-09	2009-10	2010/11	2011/12
Merchandise exports	128.9	166.2	189.0	182.2	250.5	330.2
Merchandise imports	190.7	257.6	307.7	300.6	380.9	484.2
Merchandise Trade balnce	-61.8	-91.5	-118.7	-118.4	-130.5	-154.0
Trade balance as % GDP	-6.5%	-7.4	-9.7	-8.5	-7.5	-7.7
Net invisibles	52.2	75.7	89.9	80.0	86.2	100.0
o/w software &BPO	27.7	37.2	44.5	41.0	53.0	66.5
Private Remittances	29.8	41.7	44.6	53.5	53.4	55.5
Investment income	-6.8	-4.4	-4.0	-5.5	-13.9	-16.0

Current Account Balance	-9.6	-15.7	-28.7	-38.4	-44.3	-54.0
Current Account Balance as % GDP	-1.0	-1.3	-2.3	-2.8	-2.6	-2.7
Foreign Investment	14.8	45.0	3.5	51.2	37.4	32.0
o/w FDI (net)	7.7	15.4	17.5	18.8	7.1	18.0
Inbound FDI	22.7	34.2	35.0	33.1	23.4	35.0
Outbound FDI	15.0	18.8	17.5	14.4	16.2	17.0
Portfolio capital	7.1	29.6	-14.0	32.4	30.3	14.0
Loans	24.5	41.9	4.1	13.3	29.4	35.2
Banking Capital	1.9	11.8	-3.2	1.5	5.9	6.3
Other Capital	4.2	9.5	4.5	-13.0	-10.4	-1.5
Capital Account Balance	45.2	108.0	8.7	53.4	61.9	72.0
Capital Account Balance as % of GDP	4.8	8.7	0.7	3.9	3.6	3.6
Accretion & Reserves	36.6	92.2	-18.9	13.4	15.2	18.0

Note: Error & omissions is not included here
Source: Rearranged from Economic Outlook for2011-12, Economic Advisory Council to the Prime Minister, July 2011, Government of India

Fig 2.

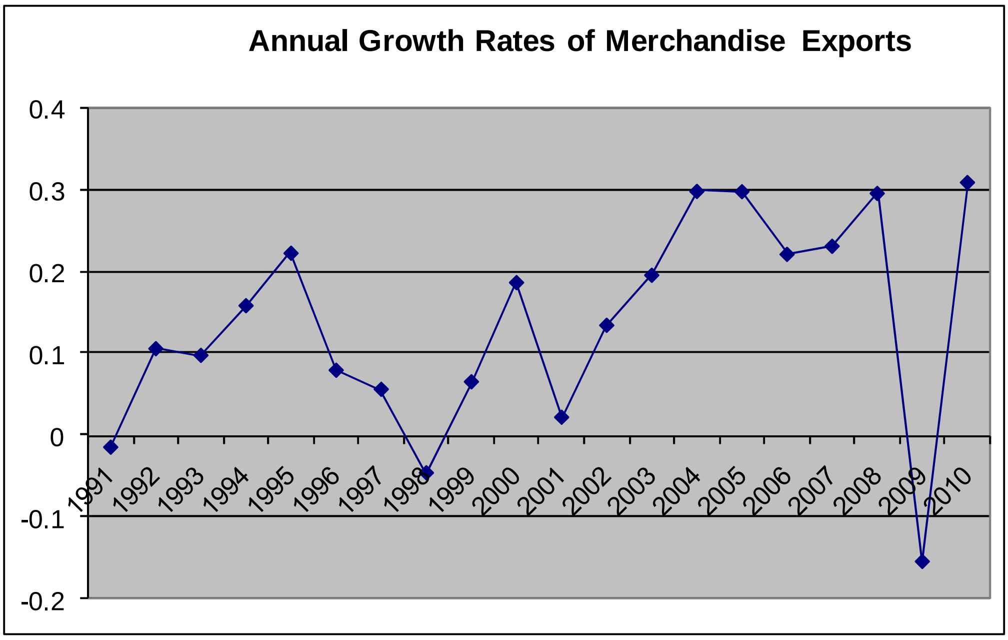


Table 6. Geographical Destination of India's Merchandise Exports (Percentage Shares)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11 (Apr-Dec)
Middle East	14%	16%	17%	16%	18%	19%	23%	23%	22%
EU Countries	23%	23%	22%	23%	21%	21%	22%	21%	19%

NE Asia	15%	15%	16%	16%	15%	16%	14%	17%	17%
North America	22%	19%	18%	18%	16%	14%	12%	12%	11%
ASEAN	9%	9%	10%	10%	10%	10%	11%	10%	11%
South Asia	5%	7%	6%	5%	5%	6%	5%	5%	5%
Latin America	2%	2%	3%	3%	3%	3%	3%	4%	4%
Western Africa	1%	1%	2%	2%	2%	2%	2%	2%	3%
Central & East Af4ica	1%	2%	2%	2%	2%	3%	3%	2%	2%
Southern Africa	2%	2%	2%	2%	2%	2%	2%	2%	2%
Other WE and East Europe Countries	2%	2%	2%	2%	2%	2%	2%	1%	2%
Other CIS Countries	2%	1%	1%	1%	1%	1%	1%	1%	1%
East Asia	1%	1%	1%	1%	1%	1%	1%	1%	1%
CARs Countries	0%	0%	0%	0%	0%	0%	0%	0%	0%

Source: Export-Import Databank, Ministry of Commerce

What is the impact of downgrading of the US economy on India?

More than downgrade, what is important is the slow pace of recovery in the US and Europe. It will have implications for trade and capital flows. India’s growth rate is predicated more on domestic strengths (domestic demand and consumption). There could be some impact on exports if slowdown in global growth is sharp. Regarding capital flows, the impact is more difficult to predict. It depends on the degree of risk aversion among several other factors. On the other hand, capital flows to India could still increase in spell as relative returns in EMEs could be high.

Fiscal Situation

The Centre’s fiscal deficit which was 2.6% in 2007-08 increased to 6% in 2008-09 and to 6.4% in 2009-10 and declined to 5.1% in 2010-11. The combined (centre+states) in 2010-11 was 7.7%. On current assessment, the fiscal deficit in 2011-12 is likely to overshoot the budget projections of 4.6% for the Centre. Fiscal space to support any counter-cyclical policies is limited. More enduring fiscal consolidation strategy is required by restraining subsidies, implementation of Direct Tax Code(DTC) and Goods and Services Tax (GST) need to be put in place.

There is a need for medium term fiscal framework by undertaking reforms in revenue side and expenditure front. Disinvestment of public sector units can get revenues for the government. On the tax front, move towards goods and services tax (GST) will help in revenue mobilization. On the expenditure front, reforming subsidies is one of the priority issues before the government. It may be noted that part of fiscal consolidation was due to high growth of 8 to 9% per annum. It is also important to remember that we must focus on quality of fiscal adjustment rather than having only numerical targets. For example, spending more on infrastructure is one of the quality factors in fiscal adjustment.

Table Fiscal Deficit and Outstanding Liabilities

Year	Gross Fiscal Deficit			Outstanding Liabilities		
	Centre	State	Combined	Centre	State	Combined
2007-08	2.6	1.5	4.1	56.9	26.6	71.4
2008-09	6.0	2.4	8.5	56.6	26.3	72.1
2009-10	6.4	2.9	9.3	53.7	25.0	69.2
2010-11 (revised)	5.1	2.6	7.7	49.9	23.0	64.3
2011-12	4.8	2.2	6.8	48.5	22.4	63.0

Source: RBI Annual Report 2010-11, Government of India

6. MEDIUM TERM CHALLENGES

The goal of the 12th Five Year Plan according to draft approach paper is faster, sustainable and more inclusive growth. The approach paper indicates that "to achieve rapid growth, the economy will have to overcome constraints posed by limited energy supplies, increase in water scarcity, shortages in infrastructure, problems of land acquisition for industrial development and infrastructure, and the complex problem of managing the urban transition associated with rapid growth. Greater efforts also need to be made in agriculture, health and education to ensure inclusion of the most excluded and sometimes invisible parts of our population" (GOI, 2011).

The approach paper for 12th Five Year Plan also recognizes the external challenges arising from the fact that the global economic environment is much less favourable than it was at the start of the Eleventh Plan. "These challenges call for renewed efforts on multiple fronts learning from the experience gained, and keeping in mind global developments" (GOI, 2011). In the short term, India has keep in mind the global commodity prices particularly oil prices in mind while framing policies. "**Taking a longer view, however, the changes taking place in the world economy, with a shift in economic strength towards emerging markets and especially in Asia, are inherently favourable for India (GOI, 2011).** The projections show that the advanced economies' share in global GDP is projected to fall from 65 per cent in 2011 to 51 percent by 2025, while the share of emerging economies is projected to increase from 35 per cent to about 49 percent over the same period.

RBI (2011) provides Reserve Bank's perspective on the medium term challenges for the Indian economy. The sustainability of medium term growth depends on addressing the structural bottlenecks of the economy. According to RBI, the following six factors are central for enhancing the potential level of growth in Indian economy.

(a) *Lowering Inflation and Inflation Level Expectations*: From Central Bank's point of view monetary policy is important to contain inflation. But, other complementary policies like the supply improvements in agriculture and allied activities, information regarding global trends in commodities, energy security etc. are also important

(b) *Harnessing technology for agriculture productivity investment:* For enhancing growth in agriculture from 3% to 4%, there is a need to have judicious use of

technology, institutional reforms and water management. Increasing minimum support prices is not the solution. Non-price factors are important and benefit small and marginal farmers.

(c) *Maintaining right balance between consumption and investment*: India is having the right balance between investment and consumption. After the global financial crisis, rebalance took place from government consumption to private corporate consumption in 2010-11. In the second half of 2010-11, investment declined sharply. There is a rebalancing needed from consumption to investment. For this, there is a need increase savings in private corporate, public sector and household level.

(d) *Facilitating Energy Security:* India has huge deficit on energy front. The estimates show that India may need to import 40% of its energy requirements by the end of 12th Plan. The gap between demand and supply in coal and crude oil could be large. There could be pressure on energy and balance of payments. In other words, India has to increase its domestic energy production.

(e) *Facilitating Infrastructure Finance*: Infrastructure constraint is one of the biggest problems for India economy. According to 12th Plan estimates, India may need over $1 trillion for infrastructure needs. It has to be funded by both public and private sector. Inspite of increase in private investment, public sector investment also has to be raised.

(g) *Promoting Financial Inclusion and inclusive growth*: The sustainability of growth depends on achieving inclusive growth. Financial inclusion is one of the important necessary conditions for achieving inclusive growth. RBI has been trying to promote financial inclusion in a big way in recent years. The components of inclusive growth are: agriculture, employment generation, reducing regional disparities, social sector development and reducing environmental degradation. Demographic dividend will also pose problems of employment generation. If people are educated and skills are improved, India can achieve demographic dividend.

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