ABSTRACT

The Euro area sovereign debt problem is continuing to weigh on global recovery. Although slowing global growth has dampened commodity prices, heightened risk aversion and the resultant slowing of capital flows are likely to adversely impact emerging and developing economies (EDEs). On the domestic front, while growth has clearly decelerated, inflation risks remain. Notwithstanding the moderation in core inflation, the persistence of overall inflation, in the face of significant growth slowdown, points to serious supply bottlenecks and sticky inflation expectations. The increase in current account deficit (CAD), despite the slowdown in growth, is symptomatic of demandsupply imbalances and a pointer to the need to resolve the supply bottlenecks. A widening CAD in the face of worsening global economic and financial conditions and muted capital flows has exerted downward pressure on the rupee. Prospects for increasing capital inflows depend on both global conditions, particularly a credible resolution of the Euro area situation, and an improvement in the domestic investment climate. Thus, key risks to domestic macroeconomic environment seem to arise from global sovereign debt problem and risk aversion domestic fiscal position, widening CAD and structural aspects of food inflation. The present study attempts to analyse the current economic situation in India in terms of various parameters.

Key words: Macroeconomic environment, Financial Stability, Risk aversion