

Study of Recent Trends in Indian Economy system

¹Dr.Vinay Kant ²Ms.Himani Goswami

1. Prof. Department of Management studies SUNRISE UNIVERSITY ALWAR

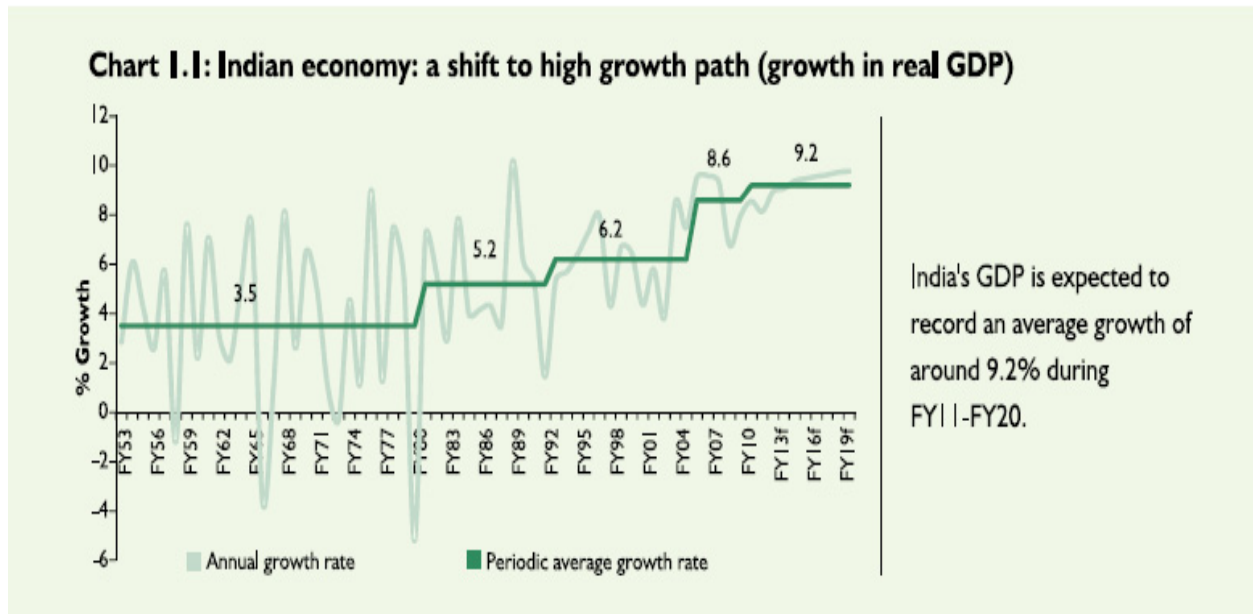
2. Research Scholar SUNRISE UNIVERSITY ALWAR

Abstract:

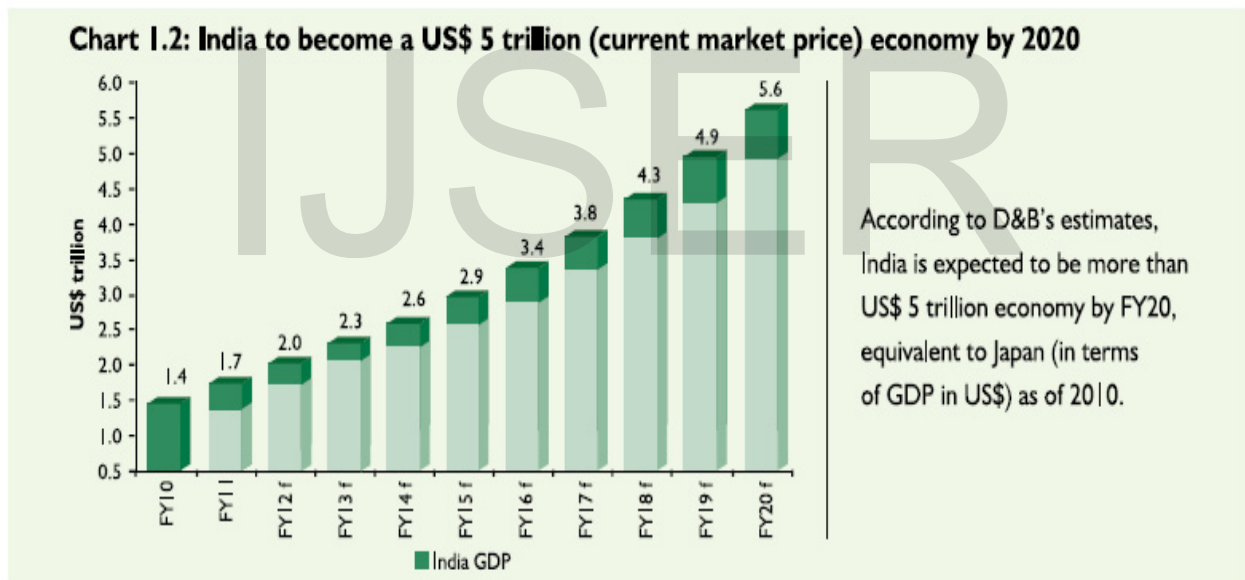
India has been increasingly looked at as an engine that will drive global growth in future. This is reason enough to look at the economic prospects of India over the current decade. Our forecasts indicate that the likelihood of India sustaining 9.0% growth during the current decade is very high. According to D&B's estimate, in the journey during the current decade as India traverses a high growth path, it would eventually surpass Japan's GDP level (as in 2010 at current US\$) by FY20. The concomitant rise in income levels coupled with increasing young working-age population will work towards increasing the share of discretionary spending in private final consumption expenditure and raising the savings rate. Growth of urban population will be one of the most important demographic shifts that we will witness during the current decade.

Introduction:

The current decade will be rich with profound changes, that will present us with both challenges and opportunities. Our forecasts for the current decade can help us to prepare for future challenges and seize opportunities. Economic growth during the current decade will bring with it challenges in terms of meeting rising energy needs in ways that are cost-efficient, sustainable and environmentally compatible. Pressures on natural resources will exacerbate during the current decade. Increased demand and environmental concerns will make innovation imperative. The solution will need to lie in technology that meets rising energy demand that are cost-efficient, sustainable and environmentally compatible and reduces reliance on natural resources.



Note: Data from FY12-FY20 are D&B forecasts; GDP at FC Constant Prices (2004-2005 series)
Source: CSO, D&B India



Note: GDP figures are at MP Current Prices; GDP figures from FY12 are D&B forecasts
Source: CSO, RBI and D&B India

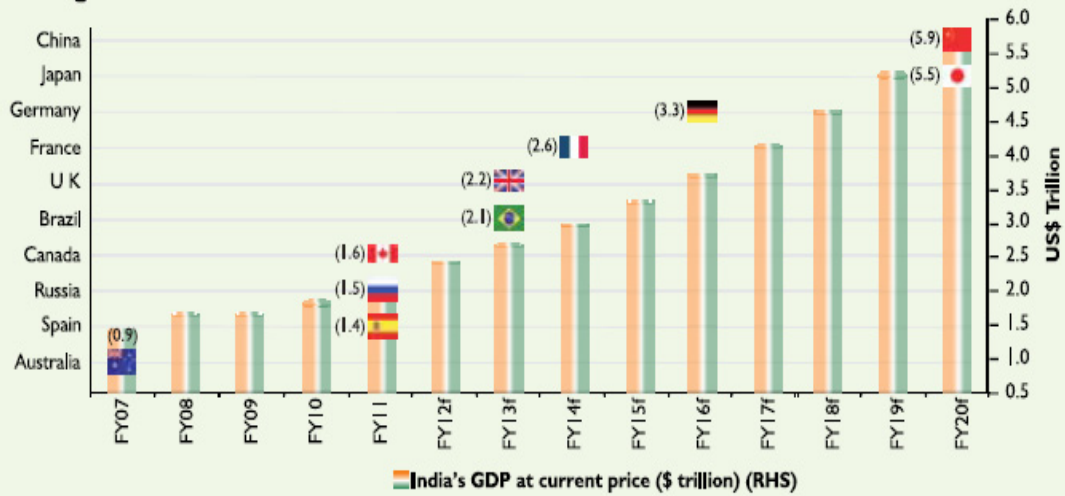
India's growth to be driven by a rapidly expanding services sector

Despite reduction in net sown area due to growing urbanisation and industrialisation, the agriculture sector is expected to record an average growth of 4.3% (the growth forecast for agriculture sector is underscored by an assumption of normal monsoon)during FY11-FY20

owing to increase in investment in agricultural infrastructure such as irrigation facilities, warehousing and cold storage.

We expect the industrial component of GDP to grow at an average of 9.5% during FY11-FY20, backed by robust private consumption demand, increase in India's exports, growth in domestic investments and government's thrust on infrastructure development. Among industries, sectors such as 'basic, metal & alloy industries', 'metal products & parts' and 'machinery & equipment' other than transport equipment are likely to see sustained growth during the current decade owing to strong investment demand and increased expenditure on infrastructure development. Moreover, rising income levels and increasing of the middle class working-age population are expected to result in higher demand for consumer durables. India's Real GDP is expected to register an average growth of around 9.2% during FY11-FY20, on the back of robust private consumption demand, increased infrastructure spending, substantial growth in investment activity and strong growth in services sector. Strong GDP growth is expected to result in considerable increase in real per capita income, which in turn would lead to significant reduction in the percentage of people living below the poverty line. With rising income levels, India is expected to move from a low-income country to a middle-income or upper-middle income country by 2020.

Chart I.3: India to cross the GDP (as of 2010 in current US\$) of major developed countries during the current decade

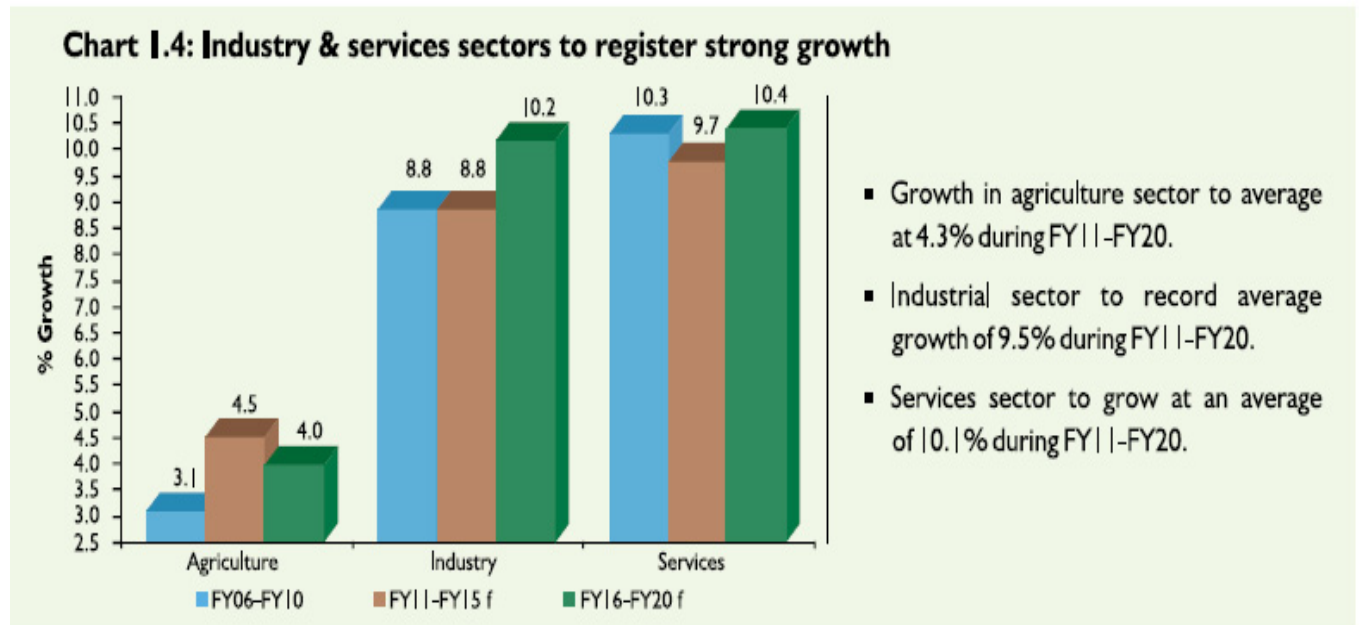


According to D&B's estimates, in the journey during the current decade as India traverses its high growth path it would eventually achieve and surpass the GDP levels (in 2010 at current international \$) of some of the major developed countries in the world.

- India has already crossed Australia's GDP (in 2010 at current US\$) in FY07 and Spain, Russia and Canada in FY11.
- It is likely to cross Brazil and UK in FY13 and Germany in FY16.
- It is expected to cross Japan by FY20. India will be close to China in FY20.

Note: Figures in the parentheses are GDP of respective countries in current US\$ trillion
 Value of GDP of all the countries, except India, taken as of 2010
 For Australia, GDP is for 2009 (at current US\$)
 Source: World Bank, CSO, D&B India





All figures are at factor cost constant prices
f: D&B forecasts
Source: CSO, D&B India

According to D&B's estimates, substantial growth is expected in the services component of GDP during the current decade. Growth in services sector is expected to average at 10.1% during FY11-FY20, largely driven by robust growth in hotels, transport, communication and financial services.

The analysis of sectoral GDP data reveals the pattern generally exhibited by economies in the phase of rapid growth. Despite around 4% growth in the agriculture sector, its share in aggregate GDP is expected to decline further from 14.6% in FY10 to 9.2% in FY20. This can largely be attributed to increased traction in services. While the share of services sector is expected to surge from 57.3% in FY10 to 62.0% in FY20, the industrial sector's share in aggregate GDP is expected to increase marginally from 28.1% in FY10 to 28.8% in FY20.

Rising proportion of working-age population

The total population of India is projected to rise to 1.3 bn (according to Population projection for India and states 2001 - 2026; Report of the Technical group of Population; Projections constituted by the National Commission on Population May 2006) in 2020 from 1.2 bn in 2011, as per Census of India estimates. The crude birth rate is projected to

decline to 18.0 during 2016-20, as against 21.3 in 2006-10, due to falling levels of total fertility. On the other hand, the crude death rate is expected to decline marginally to 7.1 during 2016-20, compared with 7.3 during 2006-10, owing to increase in expectation of life at birth and increased access to medical care.

Further, with declining fertility, the proportion of population aged less than 15 years is projected to decline from 35.4% in 2001 to 25.1% in 2021. The proportion of the middle (15-59 years) and older age (60+) population, on the other hand, is expected to increase substantially by 2020. In fact, the proportion of population in the working age group (15-59 years) is expected to rise from 57.7% in 2001 to 64.2% in 2021. Substantial rise in the working age population or a reduction in dependency ratio augurs well for growth momentum of the Indian economy going forward, as it will result in ample supply of labour for productive purposes and in turn lead to rising income levels.

Further, with rapid industrialisation and development of Tier II and Tier III cities, the urban population in the country, which was 28.0% in 2001, is expected to increase to 32.1% in 2020.

The Indian economy is expected to grow at 7 to 7.5 percent in 2016, World Bank chief economist Kaushik Basu said. "Roughly it is in a ballpark of the kind of figure. We (World Bank) have given over 7 percent or somewhere between 7 and 7.5 percent which no matter whether the top-end of it or bottom end of it. India will still be the leader among major economies. Not only in 2015 but we expect India to lead that chart in 2016 as well," Basu told reporters on the sidelines of a programme here. Until October, the World Bank retained India's growth forecast at 7.5 percent for 2015-16 and expected it to be 7.8 percent in 2016-17 and 7.9 percent in 2017-18. He said the World Bank would review the growth projections of countries on January 7 or 8. "Every six months the World Bank takes stock of the whole global situation and puts out forecast. We review regularly and we are going to do on 7th or 8th of January. I don't know which way it will go (for India)," he said when asked whether there is any revision of growth predictions for India. On the impact of the rate hike by the US Fed on investment scenario in the country, the former chief economic advisor said though there could be some outflow of investments, the impact is minimal. On the exports front, Basu said India needs to focus more on manufacturing-based exports as wages are rising situation in China is on the rising

path. "I think India has great potential in exports and in particular in the manufacturing sector. In manufacturing historically India has done well. The opportunity in the manufacturing sector is very high especially since wages are rising in China.

But it is true that that over last 12 months if you look at the trend in exports we have not done well," he said. He, however, said the ease of doing business is improving when compared to last year and the trend may contribute for higher exports in the long run.

While the Mid-Year Review points towards lower inflation, robust external balances and better managed public finances as positives, it also flagged concerns about the economic condition. Additionally, weak corporate sector and investment scene also pose a threat to economic recovery, the report said. Further, the Mid-Year Review strongly advocated the need for monetary and fiscal stimulus, with the Chief Economic Advisor (CEA) Arvind Subramanian raising a very 'controversial' point — should Finance Minister Arun Jaitley stick to his 3.5 percent (2016-17) fiscal deficit target when nominal GDP growth is weak? The Mid-Year Review proposes to maintain fiscal deficit at 3.9 percent, rather than lower it to 3.5 percent. But according to the government, India is one of the fastest-growing major economies. Hence, the question: Why the need to deviate from the targeted fiscal deficit roadmap? Does a nation growing at 7-7.5 percent merit a fiscal stimulus? According to a Mint report, the only scenario in which a fiscal stimulus is warranted is if the Indian economy is not growing at 7-7.5 percent. "... if we are not really the fastest growing big economy, if growth is actually much less than the official data shows and if the economy is really in dire straits. But the government needs to say that upfront," the Mint report states. In a Business Standard column, TN Ninan says, post the Mid-Year Review, economists have warned of a slowdown in the economy. "Their growth forecasts for next year (2016-17) ranged between 5-6 percent, using different assumptions and analytical points — from the state of the world economy to the limitations of the government's track record and capability, from broad institutional constraints on the system to the state of the banking and corporate sectors, and veering also into the technical area of how GDP numbers are put together and how they could be impacted by changes in the different price indices," Ninan says. Soon after the Mid-Year Review, the Reserve Bank in its Financial Stability Report pointed to banks' stressed assets as a big worry — especially in light of the fact that large borrowers' contribution to bad loans rose to 87 percent. RBI further pointed to risks arising from erratic climatic conditions, corporate performance, limited policy space and low investment growth. The

BS report in fact says the economy may be worse off at the end of 2015 than at the start. "It is worth recalling the government's upbeat assessment in its Economic Survey last February.

The state of the economy

Performance during 2013–14 and 2014–15

- In January 2015, the government revised base year from 2004-05 to 2011–12. Also, changes were made in Gross Domestic Product (GDP) reporting, GDP at factor cost will henceforth be presented as Gross Value Added (GVA) at basic prices for industry-wise estimates, while 'GDP at market prices' will henceforth be referred to as 'GDP'.
- The Indian economy in 2014–15 has emerged as one of the largest economies with a promising economic outlook on the back of controlled inflation, rise in domestic demand, increase in investments, decline in oil prices and reforms among others.

GDP indicators	2013–14	2014–15
GDP (constant prices) (INR crore)	9,921,106	10,656,925
Growth (in %)	6.9	7.4
GVA at basic prices (2011-12 prices) (INR crore)	9,169,787	9,857,672
Growth (in %)	6.6	7.5

GDP performance in 2014–15 from the demand side (comprising consumption, investment and net exports)

- On the demand side, growth of private final consumption increased to 7.6 per cent in 2014–15, from 6.5 per cent in 2013–14 as per advanced estimates.
- The fixed capital formation in the economy has picked up growth but lost share in aggregate demand. Gross fixed capital formation increased from 3.0 per cent in 2013–14 to 4.1 per cent in 2014–15.
- Exports in 2014–15 recorded a growth of just 0.9 per cent as compared to 7.3 per cent in 2013–14. Imports, on the other hand, increased from -8.4 percent in 2013–14 to -0.5 per cent in 2014–15, primarily due to the sharp decline in international oil prices in the current year that compressed the oil import bill.

Inflation and monetary policy

- The average Wholesale Price Index (WPI) inflation declined in 2014–15 to 3.4 per cent

(April-December), vis-à-vis 8.9 per cent in 2013–14, as fuel has witnessed a sharp decline in prices. Food price inflation also moderated to 4.8 per cent during April-December 2014 as compared to 9.4 per cent in 2013–14.

- Average retail inflation, measured by Consumer Price Index (CPI), moderated to 6.3 per cent in 2014–15 (April-December) from 9.5 per cent in 2013–14.
- The Reserve Bank of India (RBI) had tightened the monetary policy last year which helped contain demand pressures, creating a buffer against any external shock and keeping volatility in the value of the rupee under check. During the last one year, the rupee remained relatively stable vis-à-vis the currency of peer emerging countries, which too had a sobering influence on inflation.
- With the easing of inflationary conditions, the RBI signalled softening of the monetary policy stance by cutting policy repo rates by 25 basis points (bps) to 7.75 percent in January 2015. Subsequently, the RBI also reduced the statutory liquidity ratio (SLR) by 50 bps from 22.0 per cent of net demand and time liabilities (NDTL) to 21.5 per cent.

GDP outlook for 2015–16

- The macroeconomic situation in India has improved significantly during the current year. Also, acceleration in services and manufacturing growth in the face of subdued global demand conditions point to the strengthening of domestic demand.
- However, concerns surrounding the construction and mining activities in the country still exist. Agriculture also suffered due to poor monsoon, but there are no indications of its spill over to the next year.
- In the light of the government's commitment to reforms, the outlook for domestic macroeconomic parameters is generally optimistic and a growth of around 8.5 per cent is in the realm of possibility in 2015-16.

Public finance

- The Budget for 2014–15 indicated that while containing the fiscal deficit at 4.1 per cent of GDP was a challenge given the then macroeconomic conjecture, it bounded to the importance of adherence to fiscal consolidation.

Trends in revenue forgone/tax expenditure (INR crore)

Tax Head	2012–13	2013–14 (Projected)
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Corporate tax	68,720	76,116
Personal income-tax	33,536	40,414
Excise duty	2,09,940	1,95,679
Customs duty	2,54,039	2,60,714

Provisional outcome for 2014–15 (Till December 2014)

Particulars	Absolute number (INR crore)		Per cent change over previous year	
	2013–14	2014–15	2013–14	2014–15
Revenue receipts	6,33,933	6,93,773	11.1	9.4
Gross tax revenue	7,43,709	7,95,686	9.2	7.0
Capital receipts	5,29,858	5,42,615	26.0	2.4
Total receipts	11,63,791	12,36,388	17.4	6.2
Revenue deficit	3,71,242	4,01,775	24.6	8.2
Fiscal deficit	5,16,390	5,32,381	27.6	3.1
Primary deficit	2,67,926	2,57,161	32.2	-4.0

- Some of the measures to boost revenue included increases in excise duty on petrol and diesel, during a dip in global oil prices. The government also announced stake sales in four public sector companies.
- The total outstanding liabilities of the central government were INR55.9 lakh crore, accounting for 49.2 per cent of GDP, comprising 39.0 per cent public debt and 10.2 per cent other liabilities at the end of March 2014.
- The gross receipts of the Department of Posts in 2013–14 were placed at INR10,730 crore. The gross traffic receipts of the Railways for 2013–14 stood at INR1.4 lakh crore as against INR1.2 lakh crore in 2012–13.
- Fiscal consolidation has become a necessity but the quality of consolidation is imperative to make it sustainable. To meet the 2014–15 fiscal deficit target, the government is expected to consider some expenditure cut. The declining global oil prices, along with the diesel-price deregulation and direct transfer of domestic LPG subsidies to bank accounts are expected to help lower the fuel subsidy bill.

Sector-wise performance of GDP

Agriculture and food management

- India has emerged as a significant agricultural exporter in a few commodities such as cotton, rice, meat, oil meals, pepper and, sugar. As per the World Trade Organization's Trade Statistics, the shares of India's agricultural exports and imports in world trade in 2013–14 were 2.7 per cent and 1.3 per cent, respectively.
- In 2013–14, the share of agriculture in total GDP was 18.0 per cent. As against the target of 4.0 per cent growth for the agriculture and allied sectors, the growth registered was 3.7 in 2013–14 per cent and 1.1 per cent in 2014–15.
- As per the second Advance Estimates for 2014–15, total food grains production in India is estimated at 257.1 million tonnes. Despite deficiency of 12.0 per cent in monsoon rainfall during 2014–15, the loss in production was contained at ~3.0 per cent over the previous year (2013–14) and has exceeded the average production during the last five years by 8.2 million tonnes.
- Agricultural credit flow target for 2013–14 was fixed at INR7,00,000 crore and achievement was INR7,30,765 crore (Provisional), as against INR6,07,375 crore in 2012–13. Agricultural credit flow target for 2014–15 has been fixed at INR8,00,000 crore against which achievement has been INR3,70,828.6 crore (Provisional) up to 30 September 2014.
- The government has approved continuation of the RKVY (Rahtriya Krishi Vikas Yojana) whereby, funding will be routed into three components: production growth, infrastructure and assets, and sub-schemes and flexi-fund. The proposed allocation for the same during 2015-16 is INR18,000 crore.

Outlook and challenges

Outlook:

- Oil prices are expected to remain low in short-term on account of weak global demand and increased supplies.
- Global commodity prices have been declining and are expected to remain weak in 2015 owing to low international demand and comfortable supply.
- Food inflation is well within limits due to slowdown in the growth of driving factors such as high rural wages, higher level of minimum support prices and, rise in input costs.

Challenges:

- There is a need for increased investment in agriculture and food sector in various areas such as research, education, extension, irrigation, fertilisers, and laboratories to test soil, water and commodities, are housing and cold storage.

- There are wide gaps persisting in the yields within states. Various top producer states have comparatively much lower yield in different crops when compared to the rest of the world. There is a need to bridge the yield-gap to the extent feasible within the climatic zone.
- There is a need to bring states on board for creating national common market for agricultural commodities.

Industrial, corporate and infrastructure performance

- The industrial growth in 2012–13 and 2013–14 stood at 2.4 per cent and 4.5 per cent, respectively. Also, there was a growth of 1.4 per cent in gross capital formation in the industry during 2013–14.
- The Index of Industrial Production (IIP) suggests that the industrial sector is recovering slowly with a 2.1 per cent growth in 2014–15 (April-December) over the 0.1 per cent increase in the same period last year. The recovery is led by infrastructure sectors: electricity, coal and cement.

Sectors	2013–14 (Apr-Dec) (%)	2014–15 (Apr-Dec) (%)
Mining	-1.5	1.7
Manufacturing	-0.4	1.2
Electricity	5.6	10.0

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