ECONSPEAK: A Journal of Advances in Management IT & Social Sciences,
Vol. 12, Issue 7, July 2022 Impact Factor 8.059 ISSN: (2231-4571)
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THOMSON REUTERS

A STUDY ON INDIAN ECONOMY AND IT'S PRESENT CHALLENGES

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ABSTRACT

India is one of the fastest transforming economies in the world. This has become possible because of the globalization of Indian economy on the one hand and on world economy integrating itself. This paper reveals that, due its consistent growth, India's gross domestic product has crossed the trillion figures and exports have touched upon three digit figures. According to recent HSBC's Emerging Market Index, India's economy expands more than China's. The composite index for India stood at 54.8, whereas for China it is 51.4. India has to concentrate on its driving sectors of growth. The paper presents the emerging trends, issues and challenges which Indian economy has to face in forthcoming years. 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. 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.

KEY WORDS:--Challenges, Problems, Risk, Globlization, Economy, Developments etc.

Introduction:

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 costefficient, sustainable and environmentally compatible and reduces reliance on natural resources. India's growth to be driven by a rapidly expanding services sector Despite reduction in net sown area due to growing urbanization and industrialization, the agriculture sector is expected to record an average growth

of 4.3% . We expect the industrial component of GDP to grow at an average of 9.5% during FY11- FY20, backed by robust private utilization demand, increase in India's exports, growth in domestic investments and government's thrust on infrastructure development. Among industry 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.Since 1991, the Indian economy has pursued free market liberalization, greater open nation trade and increase investment in infrastructure. This helped the Indian economy to achieve a rapid rate of economic growth and economic development. However, the economy still faces various problems and challenges at present, which are:------

1.INFLATION

Fuelled by rising wages, property prices andfood pricesinflation in India is an increasing problem. " Inflation is currently at 6.75% (August 2014) " This inflation has been a problem despiteperiods of economics lowdown.

2.POOR EDUCATIONSTANDARDS

Although India has benefited from high % of English speakers. (important for call centre industry) there is still high levels of illiteracy amongst the population. " It is worse in rural areas and amongst women. " Over 50% of Indian women are illiterate. " This limits economic development and a more skilled workforce.

3.POOR INFRASTRUCTURE

India is plagued by inadequate infrastructure. " Many Indians lack basic amenities lack accessto running water. " Over 40% of Indian fruit rots before it reaches the market;this is one example ofthe supply constraints and inefficiency s facing the Indian economy.

4.BALANCE OF PAYMENT SDETERIORATION

Although India has built up large amounts of foreign currency reserves the high rates of economic growth have been at the cost of a persistent current account deficit. " The Indian economy has seen imports growth faster than exports. " This means India needs to attract capital flows to finance the deficit.

5.HIGH LEVEL OF PRIVATE DEBT

Buoyed by a property boom the amountof lending in India has grown by 30% in the past year. " If inflation increases further it may force the RBI to increase interest rates. " If interest ratesrise substantially it will leave those indebted facing rising interest payments and potentially reducing consumer spending in the future

6.INEQUALITY HAS RISEN RATHER THAN DECREASED

It is hoped that economic growth would help drag the Indian poor above the poverty line. " However so far economic growth has been highly uneven benefiting the skilled and wealthy disproportionately. " Many of India srural poor are yet to receive any tangible benefit from the India s economic growth.

7.LARGE BUDGET DEFICIT

India has one of the largest budget deficits in the developing world. " Excluding subsidiesit amounts to nearly 8% of GDP. " Although it is fallen a little in the past year. " It still allows little scopefor increasing investment in public services like health and education.

8.RIGID LABOUR LAWS

As an example Firm semploying more than100 people cannot fire worker switch out government permission. " The effect of this is to discourage firms from expanding to over 100 people. " Trades Unions have an important political power base and governments often shy away from tackling potentially politically sensitive labour laws.

9.INEFFICIENT AGRICULTURE

Agriculture produces 17.4% of economic output but, over 51% of work forceareemployedin agriculture. " This is the most inefficient sector of the economy and reform has proved slow.

10.SLOWDOWN IN GROWTH

2013/14 has seen a slow down in the rate of economic growth to 4-5%. " Real GDP per capita grow this even lower. " This is a cause for concern as India needs a high growth rate to see rising living standards, lower unemployment and encouraging investment. " India has fallen behind China, which is a comparable developing economy.

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.

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 impending 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 particularly 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 business sector and investment scene also pose a threat to economic recovery, the report said. 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.

A 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.

- 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) 9,169,787 9,857,672 (INR crore) 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 signaled 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.
- 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 tones. 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 INR 6,07,375 crore in 2012–13. Agricultural credit flow target for 2014–15 has been fixed at INR 8,00,000 core 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.

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