Indian Economy : A Macroeconomic Turnaround

Background

The movement of India's macroeconomic indicators in the past years points to a macroeconomic turnaround. After the independence of India, there was a sluggish growth in the economy. Even after a lot of effort, the economy could not attain higher GDP growth rate. In the 1980's efforts were taken to modernize the economy, which resulted in technology / capital imports. Thereafter, there was a gulf war, crisis in USSR and political instability in India. These factors resulted in deterioration of economic condition further and India met with a payment crisis. Economic reforms were triggered by the payment crisis of 1991. Economic reforms were taken up to improve Indian economy as a whole and were popularly known as a Liberalization, Privatization and Globalization (LPG) policy of the government. There were positive implications of policy of 1991 on Indian economy in terms of GDP growth, Literacy, stabilized inflation, betterment in health care facilities, improvement of productivity of the workforce, rise in income level etc. Private sector was highly motivated by the policy. There was a boost in the IT/ITES industry. International community and Indian Diaspora abroad gained faith in Indian Economy which resulted in an economic boom in the coming years.

The major macroeconomic indicators used to evaluate an economy are

- **Nominal GDP**: An assessment of economic production in an economy but includes the current prices of goods and services in its calculation
- **Annual GDP Growth**: rate at which a nation's Gross Domestic product (**GDP**) changes/grows from one year to another
- **GDP Per Capita**:a metric that breaks down a country's economic output **per person** and is calculated by dividing the **GDP** of a country by its population.
- **Current Account Deficit**: The current account measures the flow of goods, services and investments into and out of the country. We run into a deficit if the value of the goods and services we import exceeds the value of those we export. The current account includes net income, including interest and dividends, and transfers, like foreign aid.
- **Fiscal Deficit and Prudence -** The gross fiscal deficit (GFD) is the excess of total expenditure including loans net of recovery over revenue receipts (including external grants) and non-debt capital receipts. The net fiscal deficit is the gross fiscal deficit less net lending of the Central government.
  A deficit is usually financed through borrowing from either the central bank of the country or raising money from capital markets by issuing different instruments like treasury bills and bonds.

- **Stock Levels: Equity Market:** Sensex comprises the 30 largest and most actively traded stocks on BSE, providing a gauge of India's economy. The Sensex is one of the oldest stock indexes in India. Sensex is used to observe the overall growth, development of particular industries, ups and downs of the Indian economy by the investors. Sensex truly reflects the Indian stock market movement. If the Sensex value increases it means that there is a general increase in the prices of shares whereas, if the Sensex decreases it means there is a general decrease in the price of shares.
- **Broad Money(%in GDP):** While a higher ratio of broad money to GDP is generally associated with greater financial liquidity and depth, the ratio may decline rather than rise as a financial system develops because people have more opportunities to invest in longer-term or less liquid financial instruments.
- **Currency to GDP & Currency in Circulation:** The ratio of currency in circulation to GDP takes into account the size of the Indian economy. As any economy grows, the total amount of currency being used in it also grows in absolute terms. Hence, it is important to take the size of the economy into account.
- **Stalling %:** Investment is determined by Stalling Percentage as if there was a higher stalling to implemented projects, the private sector is losing confidence and reluctant to invest money in the market.The investment is a determinant for the rate of growth according to the Harrod-Domar Model.Thus it effects the ICOR hence rate of growth.
- **Foreign Direct Investment:** Foreign direct investment (FDI) and trade are often seen as important catalysts for economic growth in the developing countries.
- **Foreign Trade:** Exchange of capital, goods, and services across international borders or territories because there is a need or want of goods or services.
- **Oil Prices:** includes crude oil (including lease condensate), natural gas plant liquids, other liquids and refinery gains.

Growth Indicators

1) Nominal GDP

- Nominal GDP has grown exponentially from 1990 to 2015.
- It grew from $280.8 billion in 1990-91 to $2,251 billion in 2015-16-a 702% increase over the 25 year period.
- India ranked **7th** in 2015-16 in terms of nominal GDP.

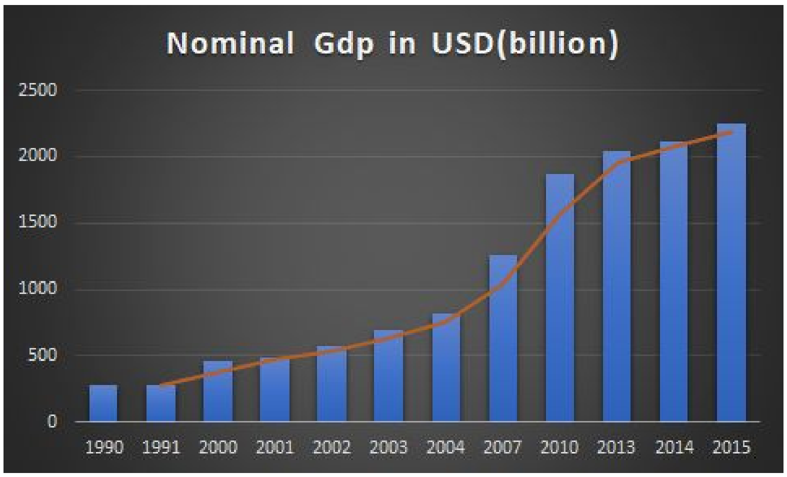
2) Annual GDP Growth Rate

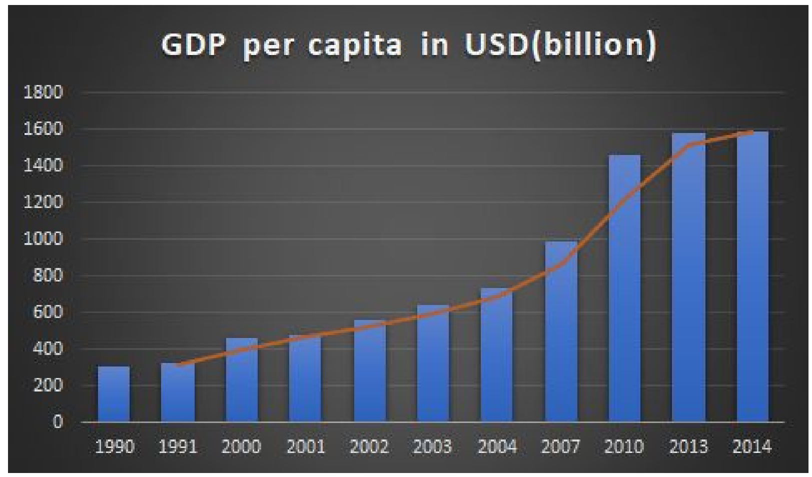
- Grew steadily from 5.3% in 1990, achieved **peak value of 9.3%** in 2007, and then declined to 6.4% in 2017.
- India was ranked **second** only after China during 2005-2008 in terms of Annual GDP growth rate.

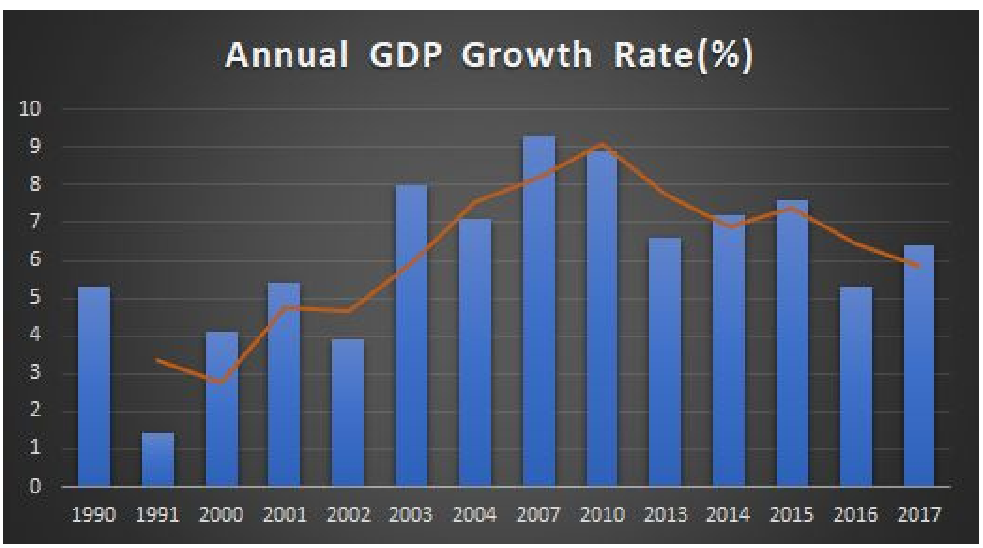
- India was the **fastest** growing nation during 2015-16 in terms of Annual GDP growth rate, with a growth rate of 7.6%. This happened because of the slowdown of Chinese economy, and due to the introduction of a new GDP series by India in 2015.

3) GDP Per Capita

- Rose by 417%- from $309 in 1991 to $1598 in 2015.
- India couldn't be smug with such development in per capita GDP.





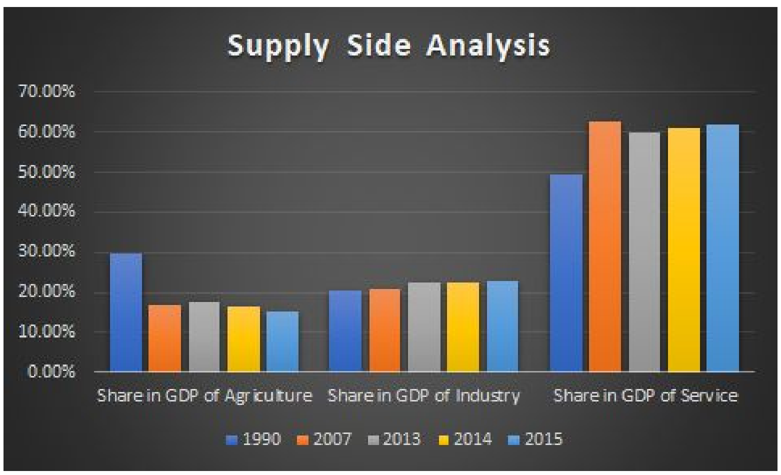


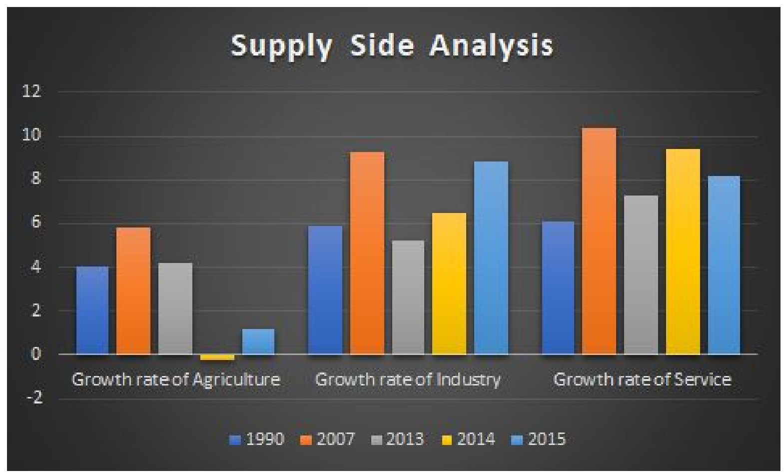
Supply Side Analysis

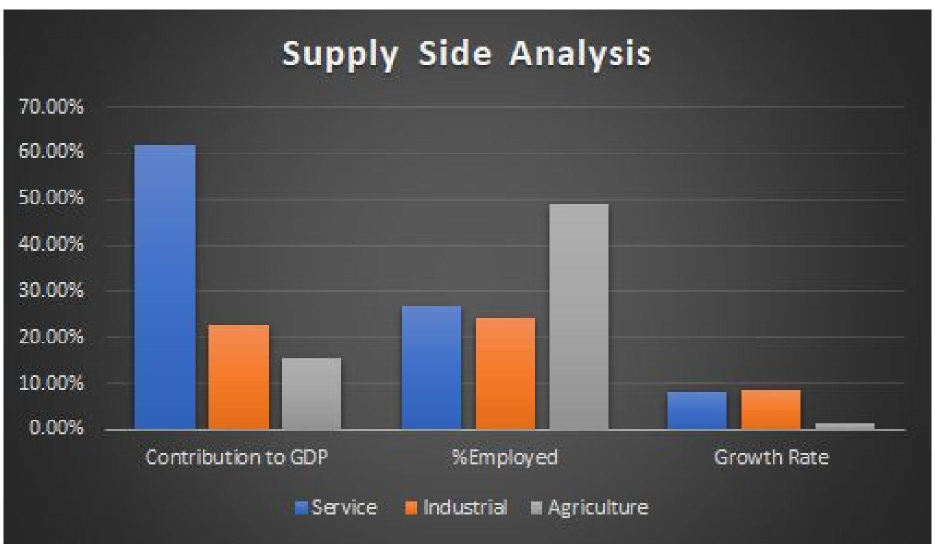
%Share of GDP by Agriculture, Industry, and Service sectors have almost been the same over the years, with an average of 17%,23%, and 60% respectively.

However, the growth rate of the agriculture sector has declined over the years, and it also reached a negative value of 0.2% in the year 2014. The growth rates of the remaining two sectors have fluctuated over the years. Growth rate of the industrial sector has grown to 8.8% in 2015 from 5.88% in 1990, and the service sector has grown to 8.2% in 2015 from 6.08% in 1990.

A major problem here is that 48.9% of the employed people belonged to the agricultural sector in 2015, and the contribution of the agricultural sector to GDP was merely 15.4% in that year. The main reason for this is that the majority of indian agriculture depends on the monsoon.

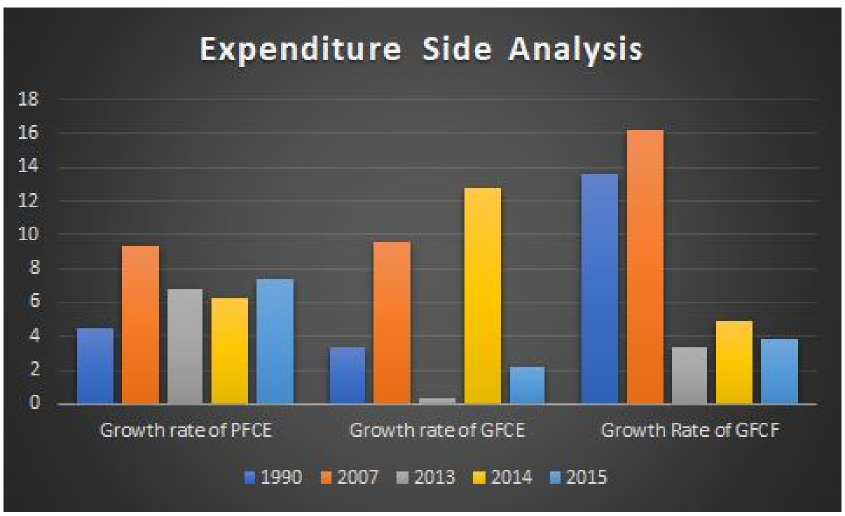


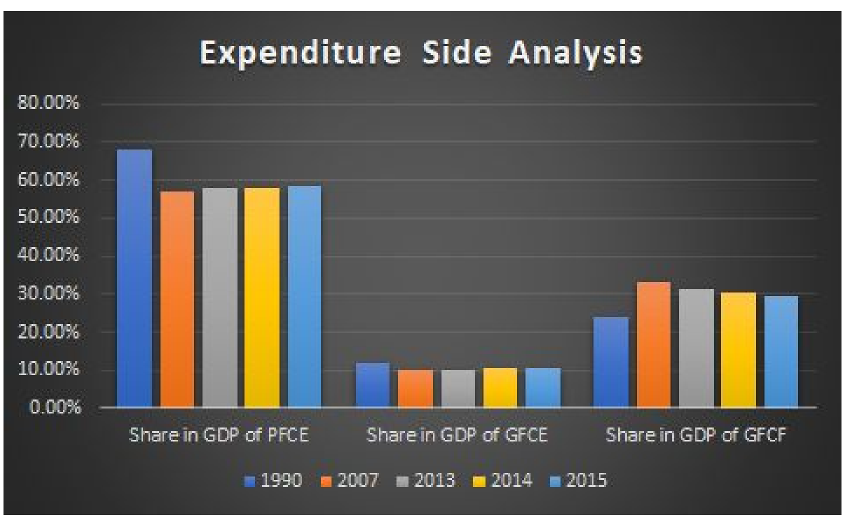




Expenditure Side Analysis

On the expenditure side, with a private final consumption expenditure-to-GDP ratio of 58.43% in 2015/16, India continued to be largely a **consumption-driven economy**.A few sectors like telecommunication and automobile picked up from the rising thriving of the working class and its ensuing quickened utilization.The share of gross fixed capital formation—a major component of the investment expenditure in the country33—increased from 23.82% of GDP to 29.48 per cent of GDP over the 25-year period.Nonetheless, the pace of development of gross fixed capital formation, which dramatically increased from a yearly normal of 7.2 percent during the 1990s to 15.7 percent in the high-development period of 2004–2008, dropped to 4.07 percent from 2013/14 to 2015/16.Government final consumption expenditure showed a moderate decrease from 11.86 percent of GDP to 10.4 percent of GDP over the 25-year time frame.

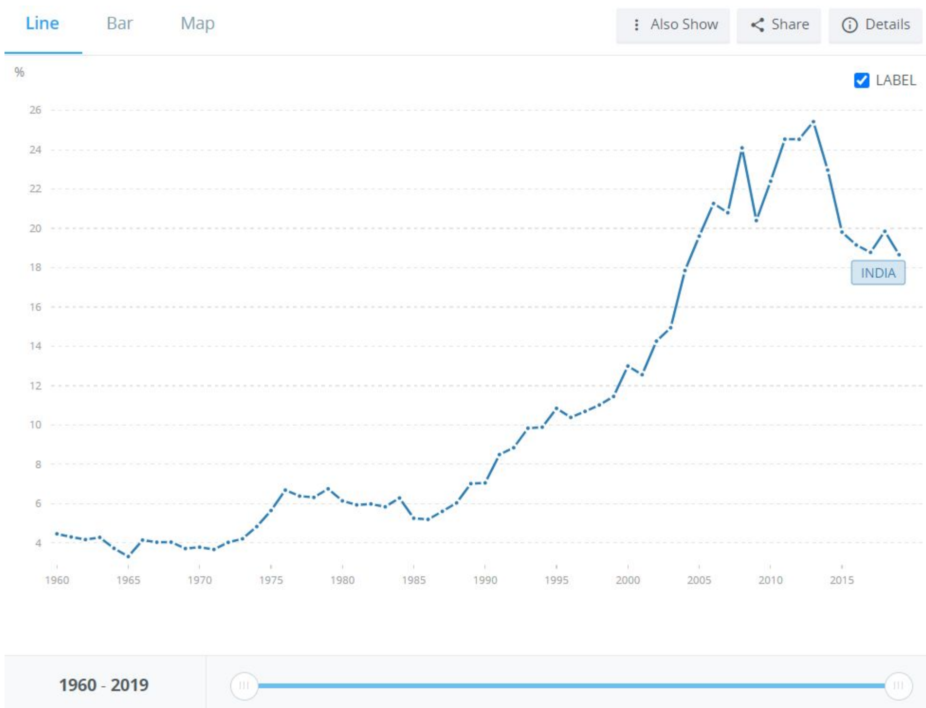




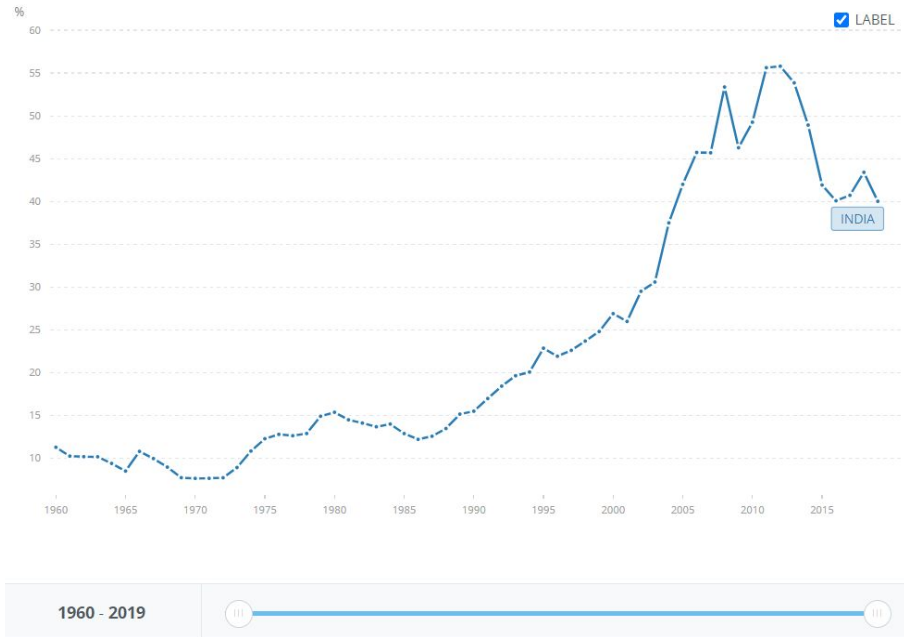
External Sector

The **external sector** of any country points to the portion of a country's economy that interacts with the economies of other countries. In the goods market, the external sector involves exports and imports. In the financial market it involves capital flows.(Source- Wikipedia).

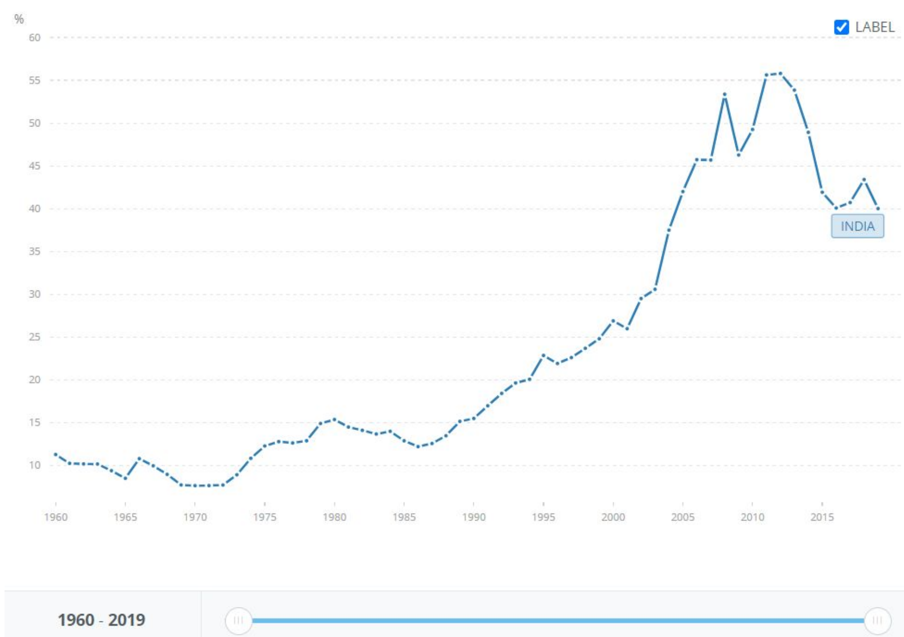
Exports of goods and services (% of GDP) - India(7.53% in 1990 to 18.662% in 2019) Source-The world bank.



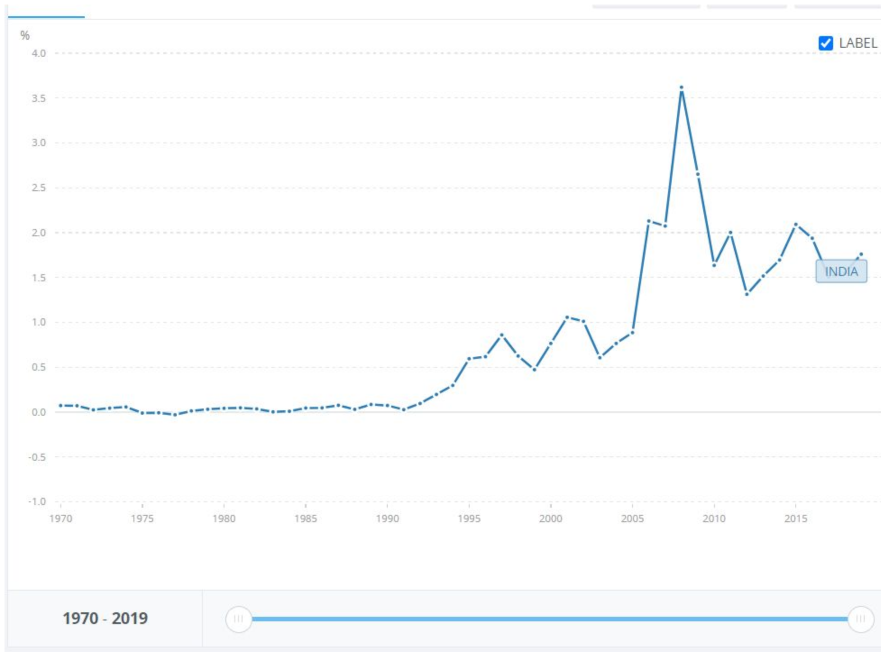
Imports of goods and services (% of GDP) - India(8.453% in 1990 to 21.357% in 2019) Source-The world bank.
Trade (% of GDP) - India (15.506% in 1990 to 40.019% in 2019) Source-The world bank.



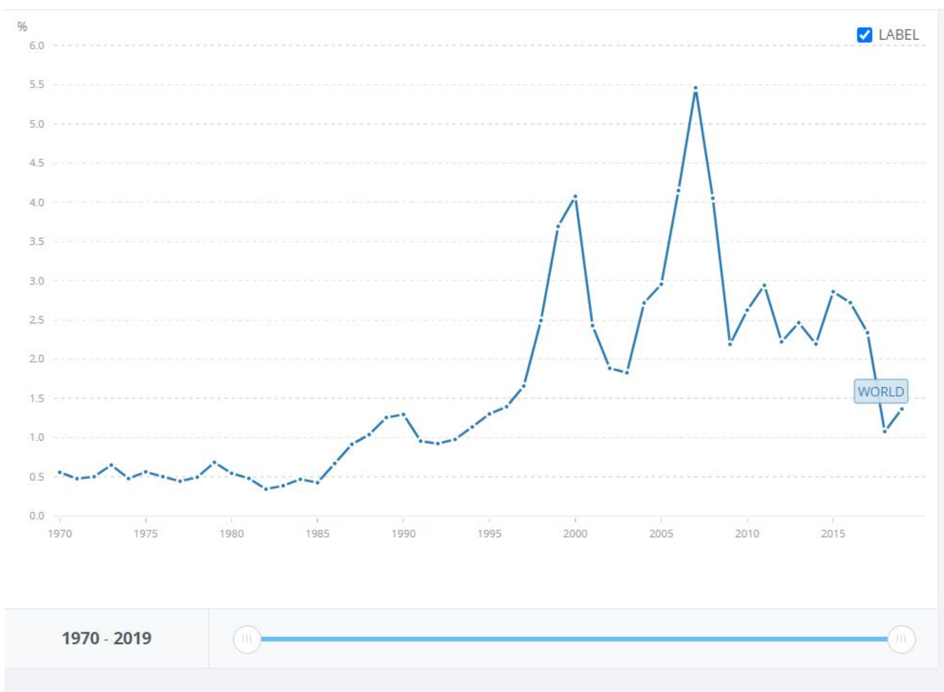
Trade (% of GDP) - India (15.506% in 1990 to 40.019% in 2019) Source-The world bank.



Foreign direct investment, net inflows (% of GDP) - India (.074 in 1990 to 1.76% in 2019)



Foreign direct investment, net outflows (% of GDP) - India (0.002 in 1990 to .421% in 2019)



Current account balance (% of GDP) - India(deficit decreased)

Crude oil is the largest energy source, accounting for around 39 percent of fossil energy.
Oil price fluctuations are inevitable. In the past; multiple factors contributed to fluctuations beyond expectations of the producers, investors, and analysts. Some of the important factors which contributed to significant variation in oil prices include demand-supply dynamics, geo-political events, and OPEC policy interventions.
Large price fluctuations severely impact oil trading nations. Surge in price negatively impacts oil importing nations and helps exporting nations to strengthen their economic development.
On the contrary decline in oil prices favorably supports economic prosperity of importing nations and adversely impacts economic development of oil exporting nations.
India imports nearly 80% of its oil. So the decline in oil's price is causing its import bill to come down which works in its favour.

All these indicators do show that India has progressed in great measures in its external sectors.
The impact of economic reforms on the external sector during the post reform period was extremely successful in meeting the balance of payments crisis of the 1990s. Current account deficit decreased .The LPG policy of the government of India has improved global growth of the country .The recovery in world trade aided the strengthening of Indian exports.Contribution to the GDP by this sector rose significantly. The reform was also helpful in firming up domestic economic activity, especially in the manufacturing sector, providing a supporting base for strong sector-specific exports.

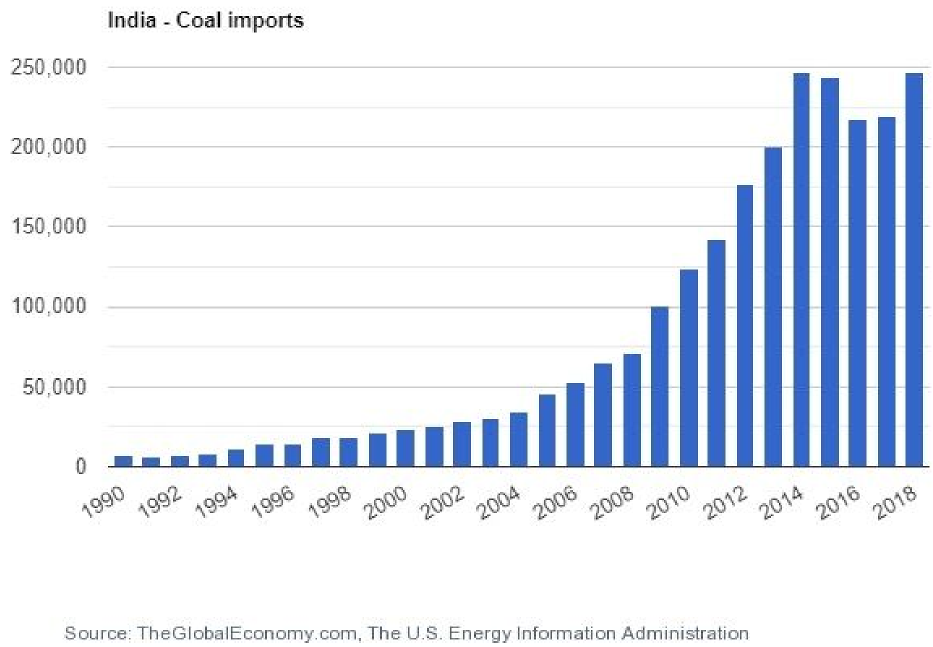
<https://economictimes.indiatimes.com/news/economy/policy/external-sector/articleshow/1032936.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

India remains vulnerable in its external position, but this does not pose any concern about the country's macro stability and is quite manageable, says a report by UBS.India's external debt increased USD 86 billion between financial year 2012-13 and September 2017 quarter, while forex reserves rose USD 108 billion during the same period, indicating that external buffers are being created.The UBS' forecast assumes average global crude oil prices (Brent) at USD 63/bbl in 2018-19, and gold imports at USD 32-35 billion on positive real deposit rates available to households. According to data released by the Reserve Bank, CAD rose to 2 per cent at USD 13.5 billion in the December quarter, up from USD 8 billion or 1.4 per cent in the year-ago period, on the back of higher trade deficit. On a cumulative basis, CAD (Current Account Deficit) more than doubled to 1.9 per cent of GDP in April-December 2017.

Link:
https://economictimes.indiatimes.com/news/economy/indicators/indias-external-vulnerability-indicators-remain-stretched-ubs/articleshow/63378884.cms

Problem and Solution:

India's imports will ascend as the economy becomes quicker. Yet, there are a few items which have demonstrated an uncommon increment and they should be viewed. There has been a consistent increment in the import of **oil based goods**. On account of the decrease in oil value, this might be less of a zone of concern . In any case, the decrease in oil cost may not be perpetual. In a couple of years from now, gracefully and request will locate another harmony and there can be an expansion in cost. The phenomenal increment in the gold imports has just been alluded to. The longing for gold is important for the mind of the Indian culture. It requires some investment to achieve attitudinal changes. Notwithstanding, the abrupt increment in the import of gold is additionally owing to high swelling in India and insufficient profit for money related resources as contrasted and gold holding. The other two products in relation to which one sees a very rapid increase in imports are **coal and electronic goods**. The value of coal imports has steadily increased from an extremely low level of 6664k tonnes to 246820.28 k in 2018. The domestic production of coal over the last several years has not kept pace with the increase in demand. A serious effort is needed to ensure that domestic coal production keeps increasing at an appropriate level. With the extensive use of electronic goods including mobile phones, the imports of electronic goods also have increased significantly . **A strong domestic base for the production of electronic goods needs to be created because the demand for such goods will increase as income increases.**



Fiscal Deficit and Prudence -

What does a high fiscal deficit mean for the economy :
When a nation's fiscal deficit goes up, it finances the additional expenses by borrowing in the markets. A direct consequence of this is crowding out of private investments and the rise in Government bond yields. Another major consequence is lower public spending- the govt sector employees get affected as their pay scales are revised downwards. Since the government is desperately trying to cover up the deficit, Oil prices shoot up and benefits from macroeconomic events aren't transmitted to the public. To save itself from the rising cost of debt, Govts often resort to printing money, but in the Indian context, if money printing is set in motion, foreign investors will leave Indian markets and as they leave Indian markets, value of rupee depreciates which in itself has far reaching consequences.

Fiscal prudence is characterised by monitoring not just fiscal deficit but also to the quality of financing required. Over the course of 25 years viz 1990/91 to 2015/16 the fiscal deficit has been brought under bay through the implementation of the Fiscal Responsibility and Budget management(FBRM) Act of 2003. The implementation of the act has brought about improvements in the States and Centre's fiscal performances. In fact, the States have achieved their targets much ahead of the timeline.

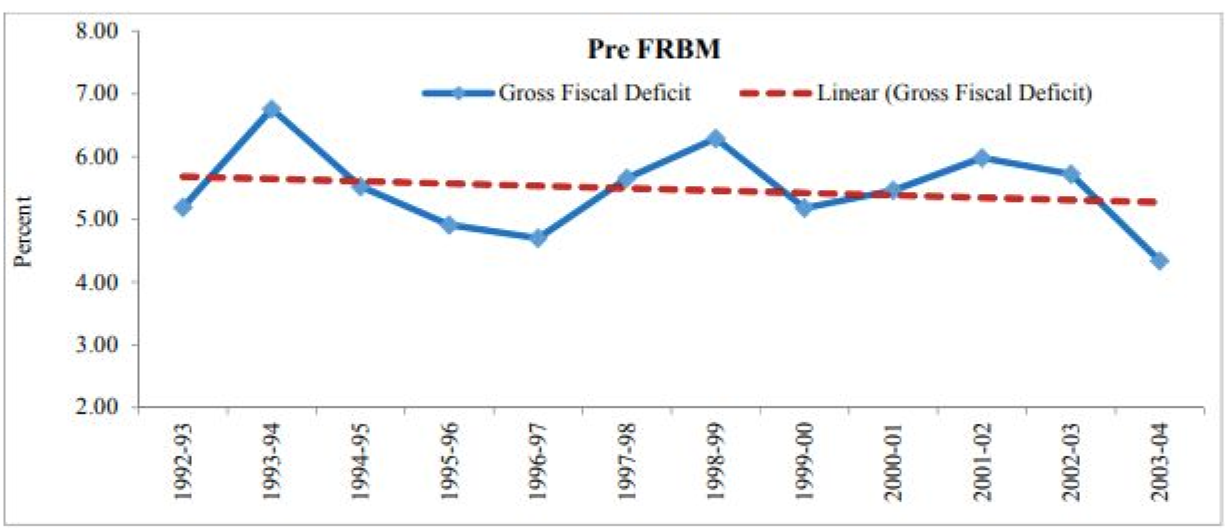
This year's performance-
Coming to this year's numbers, the government had planned a Fiscal deficit target of 3.5% GDP. However due to the pandemic 83.2% of this planned 3.5% FD has been completed. Revenues have fallen consistently in these ways- Corporate Tax(23.3%) , Net GST (52.9%), Private Income Tax (35.9%). The trend of slowdown from 2017-18 had set the way for it

The current projections for Fiscal Deficit now stand at a 7.5 median value(RBI Survey of Professional Forecasters 65th Round)

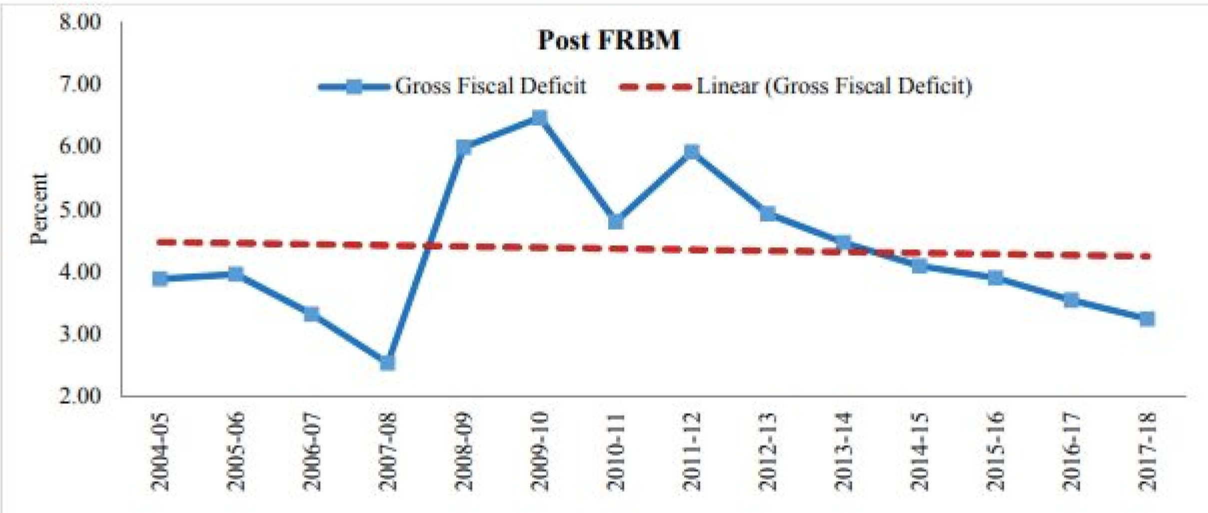
The Act was brought into effect from July 5 2004. The key objectives were to reduce fiscal deficit by 2008-09 to a target of not more than 3 % GDP. However global recession halted the stride it had picked up in the pre subprime period. The Budget for 2012-13 sought amendments to the act including a medium term fiscal adjustment roadmap. The concept of efficient revenue deficit was introduced - grants for capital assets were excluded. This medium term rolling framework provided greater certainty with respect to targets.

The rationale of FRBM was to serve as a deficit management tool as fiscal deficits lead to fiscal indiscipline, debt mis-management, inflation. The government has been trying to raise resources through disinvestment.

Despite the positive effects of FRBM, many have noted that off budget liabilities and using national small savings funds to finance deficits leads to discrepancy of the funds. To address these discrepancies the 14th Finance Commission recommended a debt ceiling and FRL at both Centre and State



By 2008, key deficit indicators had improved owing to improved revenues from a growth path. However, pending the 2008 financial crisis, the targets were suspended and the then Finance Minister announced that the Government would only return to the targets set by FRBM after the negative effects of the crisis had receded. India has missed it's fiscal targets continually and when it has edged forward, it has not been at the expense of putting expenditure.



Review-

Monetary and Fiscal Policy are the pillars of a macroeconomic framework. The Monetary Policy being RBI's jurisdiction, it gets constant review; however, the fiscal pillar needs scrutiny. In the context of new dynamics- Goods and Service tax, Demonetisation, 7th Pay commission and the lowering of corporate Tax warrants suitable revision in the FRBM Act. The revision of FRBM leads to better alignment along the axes of transparency, credibility and discipline.

However, the experience has been indecisive- Manipulation of impact of rules, dissimilar interpretations of "unforeseen circumstances",pauses on the fiscal stride and alternate versions raises discrepancies in implementation. The Golden Rule of fiscal discipline implies no revenue deficit and all borrowing to be channelised towards asset formation. The issue of effective revenue deficit has also been criticised as it is not a globally recognised process, the 14th Finance Commission recommended removing it.

Trends in Fiscal Indicators-

GFD has declined post FRBM period as compared to pre FRBM, though revenue deficit and primary deficit has declined marginally. Interest payments have as the ratio of revenues have declined however, Revenue Deficit per GDP has increased in the post/pre FRBM era -

indicating revenue expenditure rose more rapidly than capital expenditure. Overall the quality of expenditure wasn't good as the post FRBM period recorded 1.9 % compared to 3.2 in pre FRBM period.

India's Tax to GDP Ratio is very low compared to other countries. In advanced countries, tax to GDP Ratios are above the 30% mark.

Year	(As percentage to GDP)						
	Gross Fiscal Deficit	Primary Deficit	Revenue Deficit	RD as the ratio of GFD (RD/GFD)	PD as the ratio of GFD (PD/GFD)	Interest Payments as the ratio of Revenue Receipts	Interest Payments as the ratio of Revenue Expenditure
Pre-FRBM 1992-93 to 2003-04	5.5	1.2	3.3	0.6	0.2	0.5	0.4
Post-FRBM 2004-05 to 2017-18	4.4	1.0	30	0.7	0.2	0.4	0.3

Problem - India has higher outstanding debt, and higher fiscal deficit, compared to the average of Emerging Markets (EM) peers with similar ratings (Table 1). While small reductions in debt will not move India into a higher rating category, a progressive reduction in debt may be needed even to keep its current rating.

Solution - In the past despite observing adherence to FRBM, the fiscal deficit numbers have spiked owing to increased spending before elections, viz- the 6th Pay Commission, Expansion of MNREGA. The current policy of having a fiscal deficit itself as a medium term anchor should be discarded and debt should be taken up as the anchor.

Cross country evidence has shown that debt anchoring along with a robust fiscal policy has proved quite effective and they are not mutually exclusive, as per common notion. Increasingly countries are implementing debt ceilings.

India's debt majorly constitutes domestic debt, the perception that domestic debt can be inflated away doesn't hold true as inflating the debt can lead to rupee depreciation, inflation; consequently the govt. yields fall down and the credibility is questioned. India's debt/GDP has been on a decline, however that can be attributed to a negative interest growth differential, which is in no way sustainable

References - IIM-B Working Paper 550 <https://www.iimb.ac.in/sites/default/files/2018-06/WP%20No.%20550.pdf >
FRMB Review Committee Report Volume 1
<https://dea.gov.in/sites/default/files/Volume%201%20FRBM%20Review%20Committee%20Report.pdf >

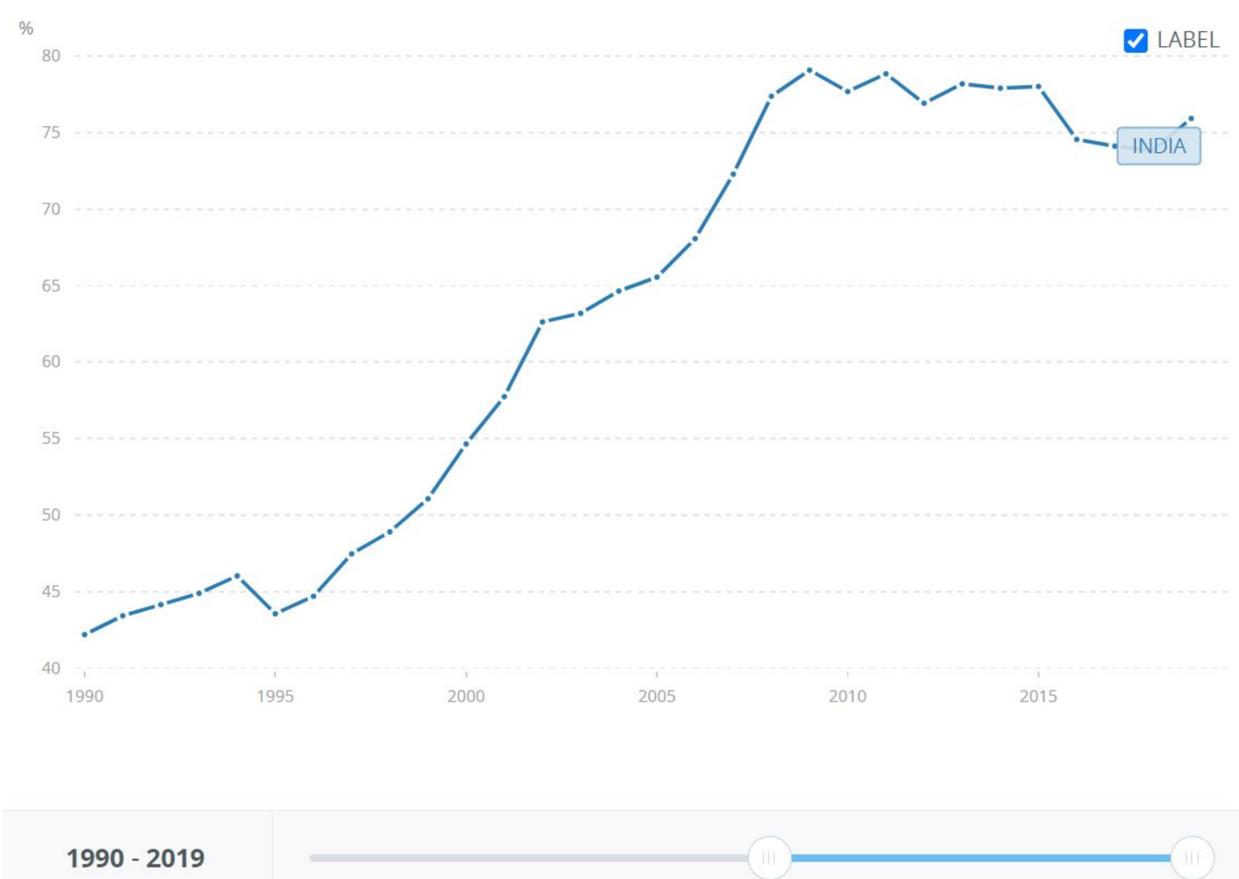
Financial Sector

The 30 Share BSE Sensex was at around 1000 Level Mark in 1991, preceding the 4000 Level Mark in 1992. The 1992 Scam anyway brought a decline.After reaching a high point of 15644 before the finish of 2008/09. Sensex fell by 38% in the year 2008/09 because of the Great Recession. From that point forward Sensex has risen consistently to 25341.86. Before the finish of FY20 had reached the value of 41,325.34. In the FY21 the impact of Covid out break has additionally been pervasive as should be obvious the consistent decrease in the market close and it had arrived at a closing valueof 26095.53 on 23 March. After that anyway there was a ton of progress and the ongoing figure is that the Sensex shut at a value of 38988.54 on 18 September.

Effect of Covid 19 Outbreak

Link: https://www.bseindia.com/sensex/code/16/
Link: https://www.moneycontrol.com/indian-indices/sensex-4.html
Link: https://in.tradingview.com/chart/?symbol=BSE%3ASENSEX

The Indian economy has seen money deepening. One measure of such development was the expansion in the proportion of Broad Money(M3) to GDP from 43.48% in 1990/91 to 75.92% in 2018/19.



Source Link: https://data.worldbank.org/indicator/FM.LBL.BMNY.GD.ZS?end=2019&locations=IN&start=1990

Cash has stayed a significant method of payment in the Indian economy, particularly in provincial India. The ratio of Currency to GDP at current market prices which is the marker of the part of currency in financial movement has expanded from 10.30% to 12.2% in 2011/12. Anyway this worth has diminished in the ongoing years and arrived at a value of 10.9 in 2017-18. The currency-to-GDP ratio tells us that it continues to grow in the aftermath of demonetization towards the long-term Indian average of around 12% of gross domestic product. Considering the presence of a huge informal sector in the Indian economy, a higher currency-to-GDP ratio suggests that economic transactions in the informal sector are picking up pace again, even though they are still not back to the pre-demonetization levels. This is clearly good news for the Indian economy.The value of currency in circulation was 14.6 before the finish of FY16. This worth had indicated ludicrousness because of demonitization and haden taken the number - 19.7. The Indian economy has also grown since then. The currency in circulation value was 37 for FY18.

Money and Credit									
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17^	2017-18
Reserve Money (RM)	17.0	19.1	3.6	6.2	14.4	11.3	13.1	-12.9	27.3
Currency in Circulation	15.7	18.8	12.4	11.6	9.2	11.3	14.9	-19.7	37.0
Bankers' Deposits with RBI	21.0	20.2	-15.9	-10.0	34.0	8.3	7.8	8.4	3.9
Currency-GDP Ratio$	12.3	12.2	12.2	12.0	11.6	11.6	12.1	8.8	10.9
Narrow Money (M1)	18.2	10.0	6.0	9.2	8.5	11.3	13.5	-3.9	21.8
Broad Money (M3)	16.9	16.1	13.5	13.6	13.4	10.9	10.1	6.9	9.2
Currency-Deposit Ratio	15.9	16.3	16.1	15.7	15.1	15.2	16.0	11.0	14.4
Money Multiplier (Ratio)##	4.8	4.7	5.2	5.5	5.5	5.5	5.3	6.7	5.8
GDP-M3 Ratio$##	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Scheduled Commercial Banks									
Aggregate Deposits	17.2	15.9	13.5	14.2	14.1	10.7	9.3	11.3	6.2
Bank Credit	16.9	21.5	17.0	14.1	13.9	9.0	10.9	4.5	10.0
Non-food Credit	17.1	21.3	16.8	14.0	14.2	9.3	10.9	5.2	10.2
Credit-Deposit Ratio	72.2	75.7	78.0	77.9	77.8	76.6	77.7	72.9	75.5
Credit-GDP Ratio$	50.1	50.6	52.8	52.9	53.4	52.4	52.7	51.4	51.4

The changes in the Money and Credit indicators due to Demonitization

Link: https://www.rbi.org.in/scripts/AnnualReportPublications.aspx?Id=1244

Problems:

The financial sector is confronting significant difficulties, and economic growth has recently slowed down. High non-performing resources (NPAs) and moderate deleveraging and fix of corporate balance sheets are testing the resilience of the banking system, and holding back investment and growth.

The last FSSA for India was done in 2011. Directed together by a group of the IMF and the World Bank, the Financial Sector Assessment Programme targets having an extensive and in-depth view perspective of the financial system in nations with enormous financial frameworks. Stress tests show that while biggest banks are adequately promoted and productive to withstand a deterioration in economic conditions, a gathering of public sector banks (PSBs) are highly vulnerable against further decreases in asset quality and higher provisioning needs, the IMF warned.

Reasons:

The assortment of reasons are different — worldwide economic decline, some contraction in India, contraction in China just as structural bottlenecks which basically alluded to which are especially significant for the infrastructure sector, delays in acquiring environmental permits and land acquisition that didn't fall through.So these loans negatively affected the corporates, projects were not finished and this transformed into credits that were not being repaid.

Solutions:

Marina Moretti, IMF Assistant Director at Monetary and Capital Markets Department who led the FASP team says: “We do believe that it is important that those resolution pools are put in place because if private banking is becoming more prominent then there is a need for the authorities to have tools to deal with banking problems and does not force them to bail those banks out. The bailout concept applies to private banks. For state-owned banks, they are the owners, they have the responsibility to recapitalise,”

The IMF said the Indian authorities have been pursuing policies to accelerate the process of NPA resolution. The 2016 Insolvency and Bankruptcy Code introduced a modern framework that aims at reorganisation and insolvency resolution in a time-bound manner.This approach shows promise to deliver progress in NPA resolution, particularly if accompanied by sufficient upfront provisioning and capital buffers in the PSBs; broader restructuring of the PSB sector, The authorities recently announced a recapitalisation plan for the PSBs amounting to approximately 1.3 percent of GDP, as well as the establishment of a mechanism to seek consolidation across these banks.

Link:
https://www.financialexpress.com/economy/indias-financial-sector-facing-considerable-challenges-imf/984898/#:~:text=Noting%20that%20the%20country's%20financial,of%20which%20reflect%20banks'%20assets

Progressive changes in the course of recent years, has gained noteworthy ground in making interest and exchange rates generally market decided.Extensive rivalry has been presented in the banking sector through new private sector banks yet public sector banks keep on having a prevailing share in the market. Contractual savings systems have been improved yet provident and pension funds in India are still in their earliest stages. Likewise, notwithstanding the presentation of new private sector insurance companies, inclusion of insurance can extend a lot further, which would likewise give more prominent profundity to the financial markets.The degree of improvement along all the portions of the financial market has not been uniform. While the equity market is very evolved, exercises in the private debt market are transcendently restricted to private placement form and kept on being restricted to the blue-chip organizations. Going ahead, the future zones for advancement in the Indian financial division would remember further decrease of public ownership for banks and insurance agencies, extension of the authoritative investment funds framework through the more quick development of the insurance and pension systems, more noteworthy spread of mutual funds, and improvement of institutional financial specialists or investors.
Link : https://kingcenter.stanford.edu/sites/default/files/publications/580wp_0.pdf

Saving & Investment

Prerequisite knowledge:

Harrod-Domar Model

The Harrod–Domar model is a Keynesian model of economic growth. It is used in development economics to explain an economy's growth rate in terms of the level of **National Saving** (S) and **Incremental capital-output ratio** (ICOR).

ICOR = 1/c
= I/△Y (If depreciation rate is negligible wrt to Investment)
c: Marginal productivity of capital (dY/dK)

$$\frac{\dot{Y}}{Y} = sc - \delta$$

Low saving Rate represents Higher Current Account Deficit (CAD), which is a proxy to the External saving.

Land acquisition act, 2013:

After consideration of the Land acquisition act, for a private dare to get set up it required the assent from 80% of the landowners. Because of the deferred cycle, financial specialists keep their hand out of it. Along these lines, private investment diminishes pointedly.

As indicated by the report of RBI, this Act had a more startling effect on the economy instead of that of contractionary monetary policy.

https://housing.com/news/all-about-the-land-acquisition-act/

Trends Analysis:

Timespan between 1990-2016 is seen by three significant episodes

1. **Economic Reform 1991**
2. **2008 Economic Crisis**
3. **Land Acquisition Act 2013**

1991-2008

The Period Between 1991-2008 was blasting, Saving and Investment rates both are growing simultaneously due to Liberalism and Globalisation, *having S-I gap lower hence a steady economy was there and near good-market equilibrium*.
ICOR was low when contrasted with that of 1990 (5%), it was about 3.7% in 2004-08, and the economy was in a high development stage.

2008-2013

After the economic crisis of 2008, the development stage out of the blue went down and subsequent to achieving its top in 2007-08, the saving and investment rates started falling.
Market losing conviction. Private and Public are getting stalled and ICOR starts increasing which is undermined with the pace of development.

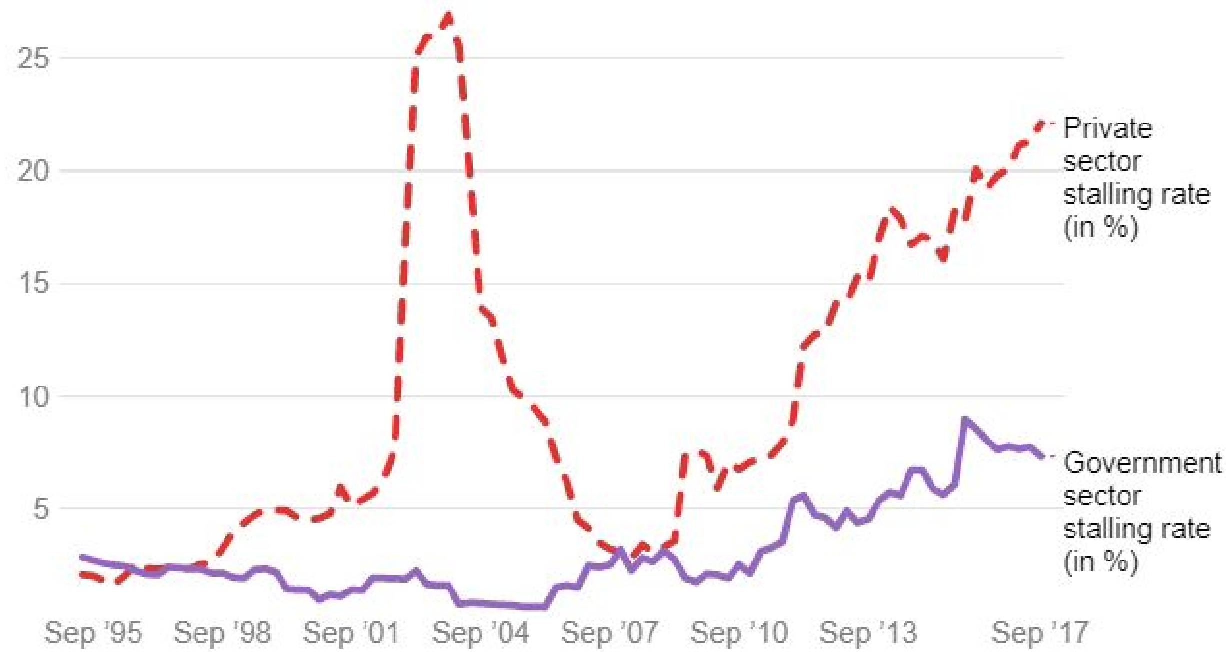
2013-2016

The Period from 2011-13 was seeing the augmentation of the proportion of stalled ventures to Implementing ventures, which is deteriorating step by step. It was Expected in 2013 that this stalling rate would contact the 12.5% imprint in 2016 and in Q1 2016 it effectively met our forecasts with 13.89%.

Problems:

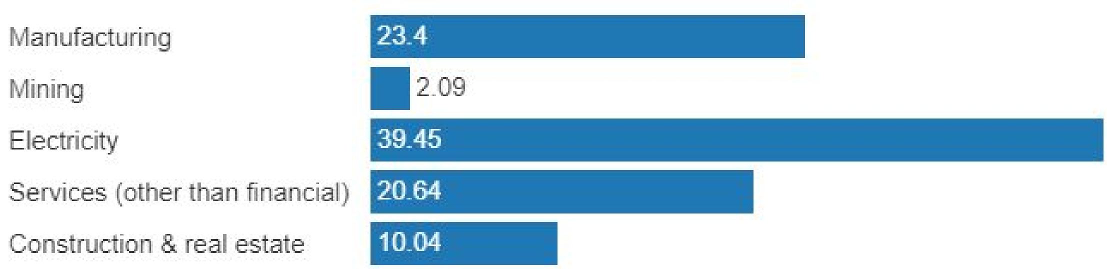
Increasing Stalling rate and Land Acquisition Amendments which prompts the falling of private venture, the stalling increments in check which influenced the private speculation harshly, in spite of the fact that administration venture diminishes also, however he magnitude of change in Private investment is significantly more than that of Government spending.

The private sector accounts for more than two-thirds of the value of these stalled infrastructure projects.



Impact of stalled projects on Sectors:

1. Because of the ceaselessly increasing stalling rate and amendments in the Land Acquisition Act, it has gotten difficult for a financial specialist & investors to get the land and set up a plant. In this way the **Manufacturing and Power sector** went through the greatest fall and the Stalling rate was the greater part of the absolute in these two segments.



2. New projects declarations have fallen and it has found in the last Quarter of 2016 that private undertakings was practically 50% of the administration ventures.

https://www.livemint.com/Politics/eJsGqshJCG4VPGvthnDUVN/Value-of-stalled-projects-reaches-yet-another-high.html

As a foreign investor, would you be confident about India's economic situation in 2016?

1. **External Factors:** Factors like Land Acquisition Act, 2013, Environment Clearance policy has a huge impact on the investment. Difficult to Set-up Plant/Firm.
2. **High Stalling%:** Decline of demand for new projects, private sector contraction.
3. **Fall in Business confidence:** External factors influence level of business confidence as growth declines.
4. **Fiscal deficit -** High fiscal deficits with lower capital expenditure discourage investors and raise credibility concerns about the government.
5. **Contractionary monetary policies:** Higher Interest Rate results in less money demand.

Conclusion

When a nation's fiscal deficit goes up, it finances the additional expenses by borrowing in the markets. A direct consequence of this is crowding out of private investments and the rise in Government bond yields. Another major consequence is lower public spending- the govt sector employees get affected as their pay scales are revised downwards. Since the government is desperately trying to cover up the deficit, Oil prices shoot up and benefits from macroeconomic events aren't transmitted to the public. To save itself from the rising cost of debt, Govts often resort to printing money, raising taxes and reducing subsidies. These hurt businesses, many of which attract foreign investments. In the Indian context, if money printing is set in motion, foreign investors will leave Indian markets and as they leave Indian markets, the value of rupee depreciates which in itself has far reaching consequences.

Foreign currency effects are gains or losses on foreign investments due to changes in the relative value of assets denominated in a foreign currency. A rising domestic currency means foreign investments will have lower returns when converted back to the local currency. On the other hand, a declining home country currency will increase the domestic currency returns of foreign investments.

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