Indian Economy: A Macroeconomic Turnaround

Overview

- Post Independence, growth efforts were taken, but were quite sluggish.
- 80s saw modernization of capital with heavy imports.
- Subsequent Gulf war, Political Instability, USSR Crisis triggered a payment crisis.
- 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.

Macroeconomic Indicators

- Nominal GDP,Annual GDP Growth,GDP Per Capita
- Fiscal Deficit and Prudence
- Current Account Deficit
- Stock Levels: Equity Market
- Broad Money(%in GDP)
- Currency to GDP
- Currency in Circulation
- Stalling %
- Foreign Trade
- Oil Prices

GDP growth and Demand Supply

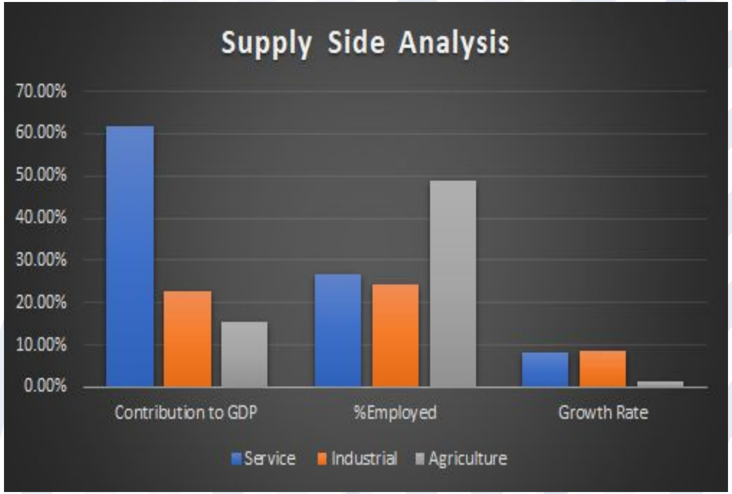
- The key parameters used to indicate growth are nominal GDP, Annual GDP Growth Rate and per capita GDP.
- India’s nominal GDP and per capita GDP have exponentially increased over the years from 1990 to 2018.However, Annual GDP Growth Rate has fluctuated between 1as low as **1.2%** to as high as **9.3%**. The current growth rate is **6.7%**(2017).
- India aims to maintain a growth rate of **8%**.

Is an 8 percent growth rate sustainable for India?

- India was the **fastest** growing nation in 2015-16 with a growth rate of **7.6%.** However, the growth rate has declined to **6.4%** in 2017-18.
- With increasing investment in service and industrial sectors in India, government is aiming to increase and maintain growth rate between 7 to 8%.
- New initiatives like **“Make in India”, “ATMA-NIRBHAR BHARAT”**, which promote making and investing in India, might help in increasing the growth rate.

Challenges to growth on the supply-side

- All the sectors are not equally contributing to the growth.Moreover, agricultural sector, which contributes the least to GDP among industrial,service and agricultural sectors, has the highest employment.
- Agriculture sector depends mainly on monsoon for its productivity.
- There has been no major improvements in agriculture sector, and the difference between sectors has not been reduced over the 25 years.



Challenges to growth on the demand-side

- Whenever government reduces taxes,the gains in profit have been used more for repaying debt.
- Challenge is to ensure that government spendings are invested at desired manners.
- The government is the only entity which is in a position to spend and is able to borrow at a lower cost and also absorb surplus liquidity with the banking system.

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 flow.
- 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.

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- Current account deficit decreased,global growth of the country improved, recovery in world trade aided the strengthening of Indian exports,contribution to the GDP by this sector rose significantly,domestic economic activity was firmed up, especially in the manufacturing sector, providing a supporting base for strong sector-specific exports.

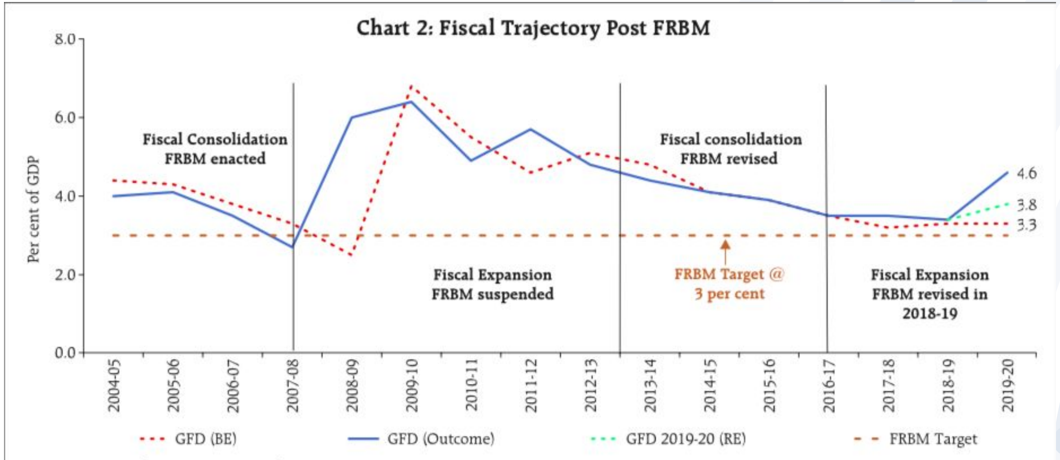
- India still remains vulnerable in its external position. One of the major reason is high dependence on oil price fo import bill calculation.

- Consistent increment in the import of **oil based goods, coal and electronics goods** are some of the problems causing danger to Indian Economy.

Fiscal Deficit

The FRBM Act has been beneficial in maintaining a declining Fiscal Deficit apart from deviations when it suspended it's targets in 2008 crisis, yet India has maintained one of the highest debt ratio among emerging markets.

To further enhance credibility, It needs to have a debt ceiling framework.



Source: Union Budget Documents and CGA.

Stock Market Capitalization

- Stock Market capitalization is a measure to reflect the conditions of an economy.
- Efficient medium for raising long term resources for business
- Help raise savings from the general public by the way of issue of equity debt capital
- Attract foreign currency
- Exercise discipline on companies and make them profitable

Eg: Recent effect of the Covid Outbreak on the economy is well captured in the BSE Sensex Levels

Savings

Depend on Inflation and consumption behaviour, if domestic savings rate goes down then to compensate it with the Investment. There needed External savings in the form of Current Account Deficit.

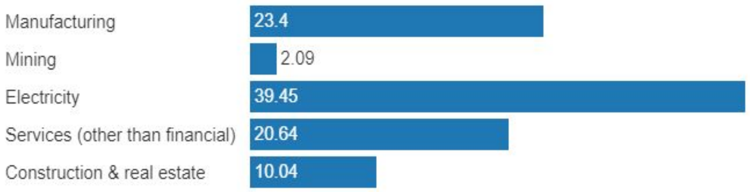
Physical and Financial Saving is the key determinant of gross domestic saving or savings rate.

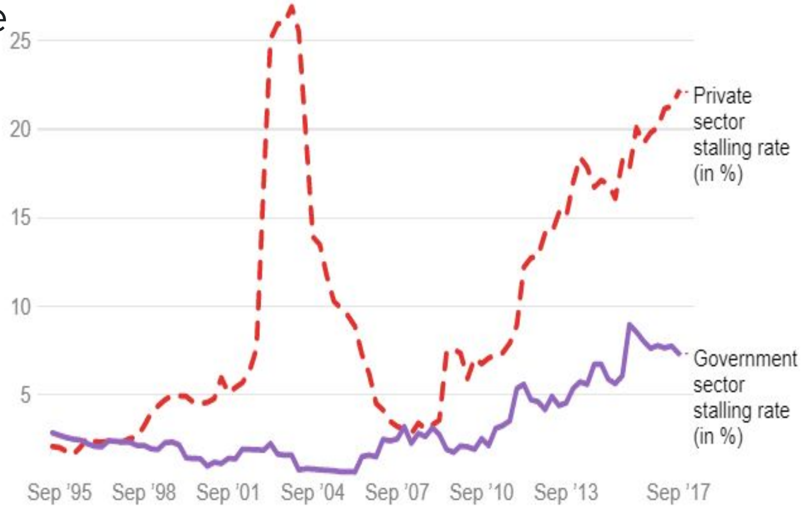
Savings Rates and Incremental Capital-Output Ratio (ICOR) are the factors affecting the rate of growth of output, which is also known as **Harrod-Domar Model**.

Rate of Output Growth = F(Savings, ICOR)

Investment

- **Stalling % :** Ratio of Stalling-Implemented Projects is an important factor of the Private/Foreign Investment.
- **Monetary Policy:** As the speculation is the function of Interest rate, contractionary policies leads to the decline in investment rate.





Investors’ Perspective for Market 2016

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

Thank You

Avani Haritima: 18HS20004
Kush Verma: 18HS20020
Shashank Shrivastava: 18HS20032
Siddhant Vishwakarma: 18HS20036
Suman Kumari 18HS20039