Current Economic Growth and Forecasting Future Economy in India

2020

124th Economic Ranking

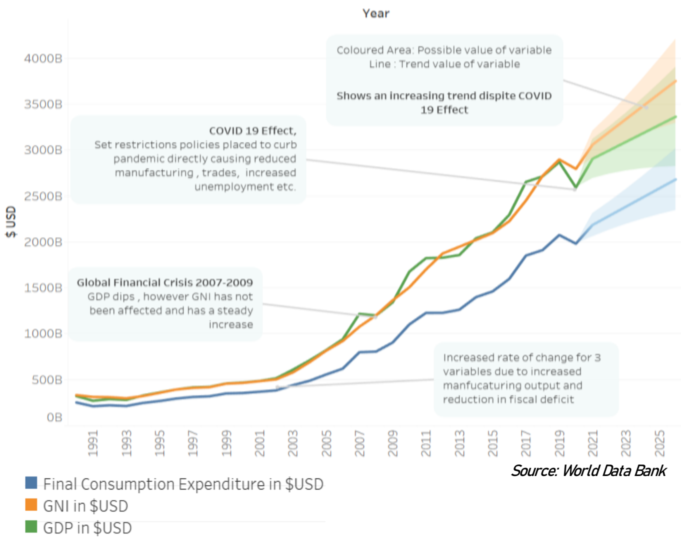
142nd Nominal GDP Ranking

31.8% of Population working

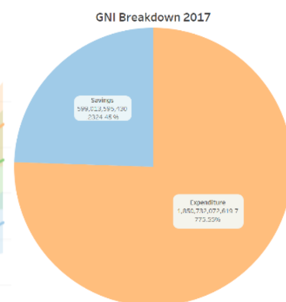
Basic Research Objective:

Looking at Key Factors and policies the Government of India should consider in order to strive towards greater economic growth. To what extent the policies in global financial crisis have a positive impact in today's economy which is affected by covid 19.

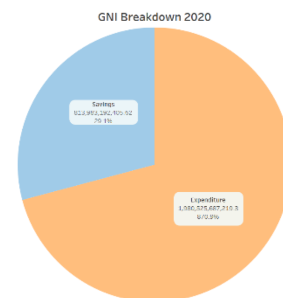
GDP, GNI, Final Consumption Expenditure



Source: World Data Bank



When comparing the two pie charts, it is evident that people have been more skeptical on the future economic outlook from 2020 onwards therefore tending to save more then spending.

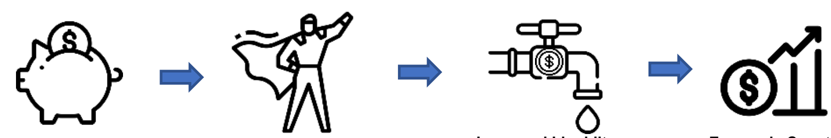


This trend was also seen during the global financial crisis where, saving was seen to increase up to 35%. In order to curb the probable increase and to keep the economy stimulated, the government would need to implement fiscal policies.

Based on previous exponential smoothing forecast GDP is forecasted to increase between CAGR 1.60% - 9.31% while the GNI is forecasted to increase between CAGR 3.62% - 10.06%. Final consumption expenditure is forecasted to increase between CAGR 3.23% - 10.29%

These increases will only be achieved through implementation of a fiscal policy. One of the policies that can be implemented is the subsidies of essential goods and services.

Implementable Policy Process



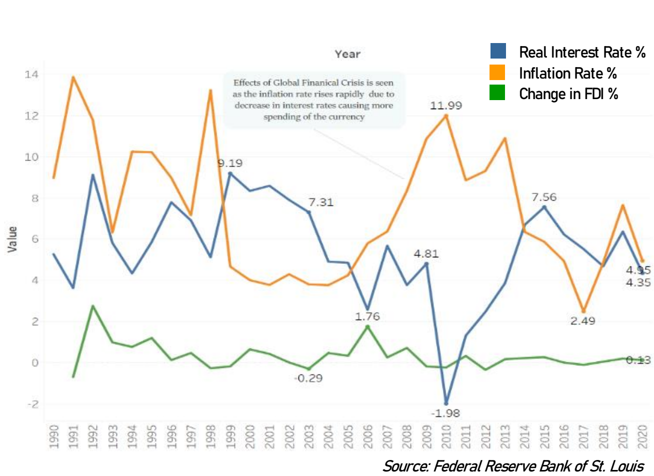
Increased Savings
People tend to save more during an economic downturn, which overall has a negative impact.

Boosting Consumer Confidence
Subsiding essential will boost consumer confidence due to increased perception of cheaper access to goods and services

Increased Liquidity
Boost in consumer confidence will lead to increased spending which improves overall cashflow in the economy

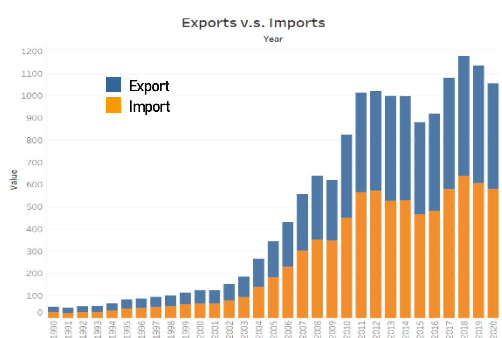
Economic Growth
Increased circulation of money will ensure smooth running of economy thus leading to economic growth

FDI, Interest Rate, Inflation Rate

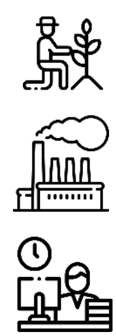


Source: Federal Reserve Bank of St. Louis

From the graph we can see that interest rate and inflation rate have an inverse relationship. India has performed well by bringing their inflation rate down to the optimal level of ~4% through the control of their interest rates. While this achievement is good it is also needed to be sustainable in the future to experience positive economic growth. FDI is also impacted by the interest rate levels in the country, hence interest rates play a vital role in determining the future performance of the economy.



Source: Federal Reserve Bank of St. Louis



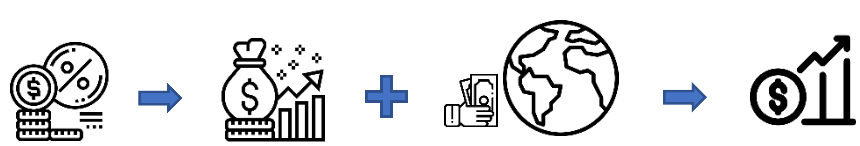
48.9%

20.0%

31.1%

The stacked bar chart indicates that India is a net import country, hence it is crucial to maintain a higher exchange rate to increase its purchasing power. While this is true for primary and secondary sectors, its heavy reliance on the tertiary sector means that an ideal balance in the exchange rate needs to be maintained in order for a balanced economic growth

Implementable Policy Process



Maintain Interest Rates
The Government needs to ensures interest rates are constantly tracked and adjusted

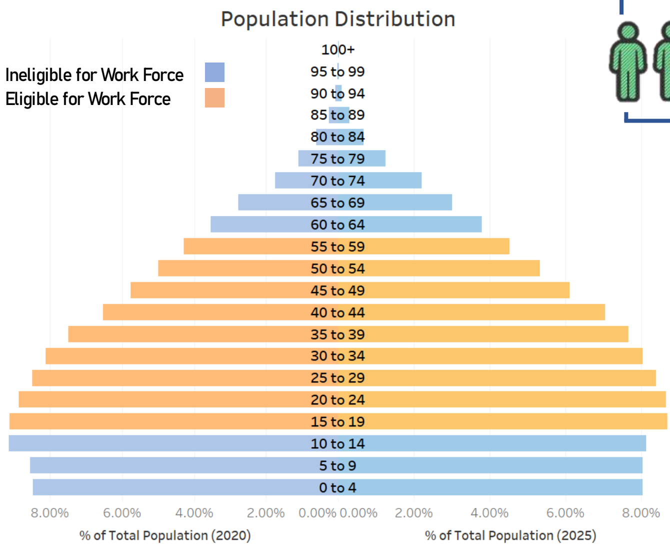
Controlled Inflation Rates
By constantly adjusting interest rates, the optimal level of ~4% inflation year on year can be attained

FDI
Lower interest rates will incentivize FDIs and vice versa, hence an ideal level of interest rates in conjunction with other economic factors need to maintained to encourage FDI

Economic Growth
These relations show how maintaining and constantly adjusting interest rates can substantially aid in positive economic growth

Labor Force

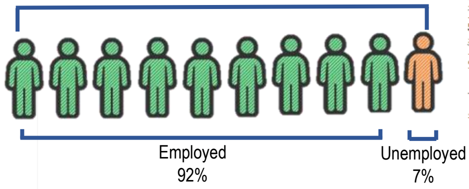
India's working population is set to increase in the next 5 years which can potentially lead to higher GDP

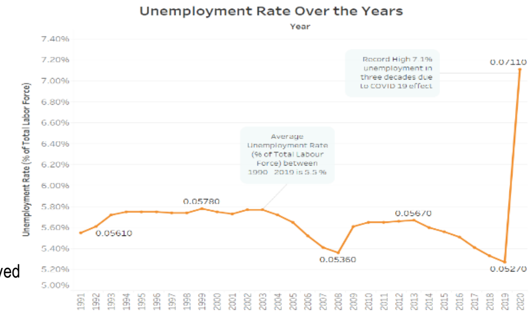


Source: United Nations: Population Division

Based on the butterfly chart, India's working force is set to increase by ~ 1%. An increase in work force would suggest increased output of goods and services. Based on the forecast this would lead to CAGR (Compounded Annual Growth Rate) of 10% increase in GDP per Capita. This indicates positive economic growth.

2020 Total Work Force: 471,689,092



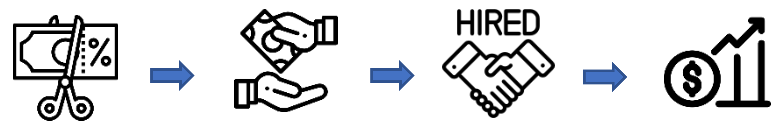


Source: World Data Bank

Out of the Eligible Population, 92% of the work force were employed and 7% record high unemployment in past 3 decade was seen in 2020 due to lockdown placement to curb COVID 19.

Implementable Policy Process

To achieve CAGR of 10% GDP per Capita, unemployment rates should be decreased to pre-pandemic levels (~ 5%).



Government Tax Cut leads to people having higher disposable income for spending

Increased Spending Will lead to boom in overall business in the country

Job Creation Business boom will lead to positive outlook in the future leading to increased employment

Economic Growth Lower unemployment level will lead to increased output in the economy thus increasing prospects of economic growth

To reduce unemployment from 7% to 5% the government can use the support of fiscal policies. A viable fiscal policy is tax cut which will boost consumer spending leading increased job creation

Conclusion:

In general, the economy is extremely complex system with various factors influencing overall movements. With India being one of the largest economy it is crucial to take into consideration all possible factors that play a role in determining economic growth. Based on the current state of the Indian economy implementing fiscal policies such Subsidies and Tax cuts and monetary policies such as monitoring and adjusting Interest Rates can lead to greater economic growth realized in the next five years. However, these policies can prove to be ineffective due to various other factors that have not been addressed in the research. In order to attain this improved economic growth, a more comprehensive and in depth analysis of each of economic factors need to be conducted.

Data Source: United Nations: Population Division | Federal Reserve Bank of St. Louis | World Data Bank