HS201 : 2021-2022

ECONOMICS ASSIGNMENT

The trends in Nation Income in India
during the period 2010 – 2019
and its present movement after the covid-19 pandemic

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INDIAN ECONOMY

Gross domestic product (GDP) is a monetary measure of the market value of all the final goods and services produced in a specific period of time.

Nominal GDP is an assessment of economic production in an economy but includes the current prices of goods and services in its calculation.

Purchasing power parity(PPP) is the price relatives that show the ratio of the prices in national currencies of the same good or service in different countries.

- The economy of India is a developing mixed economy. India has one of the fastest growing service sectors in the world.
- It is the world' sixth largest economy by nominal GDP and the third-largest by purchasing power parity(PPP).India ranked 144th by GDP (nominal) (per capita $ 2,342) and 128th by GDP(PPP)(per capita $ 8,353).
- Nearly 70% of India's GDP is driven by domestic private consumption. India's GDP is also driven by government spending , investment, and exports.
- Pandemic has affected trade and India was the world's 14th-largest importer and the 21st-largest exporter.

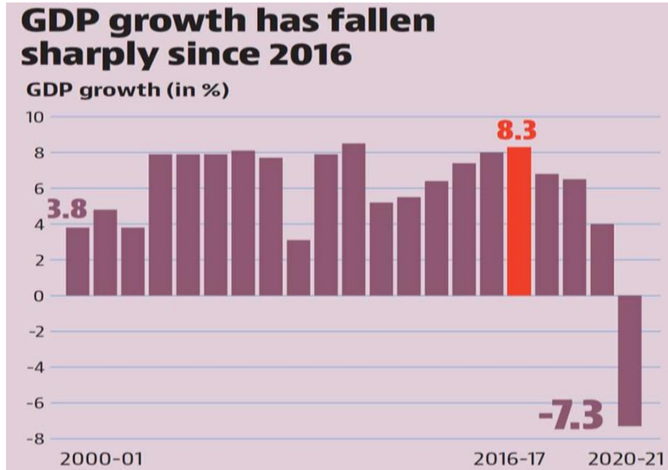
IMPACT OF DEMONITISATION ON INDIAN ECONOMY

(November 8, 2016)

Describing demonetisation as a nudge towards digital payments, which is how the policy is justified by many people today, was an after-thought although the original policy announcement did talk about reducing the amount of cash in circulation in the Indian economy.

While digital payments have increased significantly since demonetization. Currency in circulation was 12.1% of India’s nominal GDP in 2015-16, the year before demonetisation. It plummeted to 8.7% in 2016-17 as the banking system was struggling to put cash back into the system after demonetisation. Since then, this ratio has climbed steadily and it reached 12% in 2019-20. A restoration of currency in circulation to nominal GDP ratio shows that there was no significant impact of demonetisation until 2019-20.

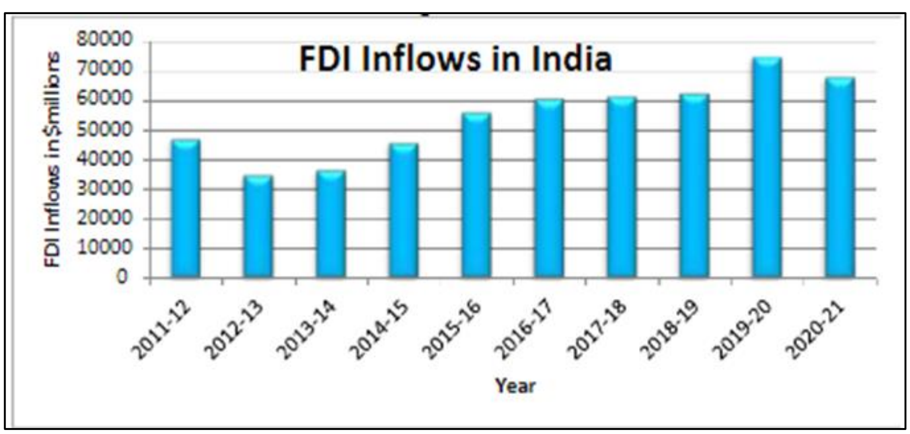
Did demonetisation lead to a tax-windfall for the state?



An even bigger question about the long-term gains of demonetisation for the economy comes from the fact that GDP growth rate started declining sharply in the post-demonetisation years. India's GDP growth rate increased consistently from 5.2% in 2011-12 to 8.3% in 2016-17. This trend reserved itself and the economy started losing growth momentum with the GDP growth reaching just 4% in 2019-20. With the pandemic year witnessing the highest ever GDP contraction of 7.3% in 2020-21 and a strong base effect in GDP numbers for 2021-22 and perhaps even 2022-23, the waters are now far too muddied to make any scientific assessment about demonetisation's impact.

FOREIGN DIRECT INVESTMENT (FDI)

- A *foreign direct investment* is an investment by a foreign entity in the form of controlling ownership in a firm in another nation.
  A sense of direct control distinguishes it from a foreign portfolio investment.
- Foreign direct investment in India is a major monetary source for economic development in India. On April 2020, India changed its foreign direct investment (FDI) policy to protect Indian companies from "opportunistic takeovers of Indian companies due to the COVID-19 pandemic.

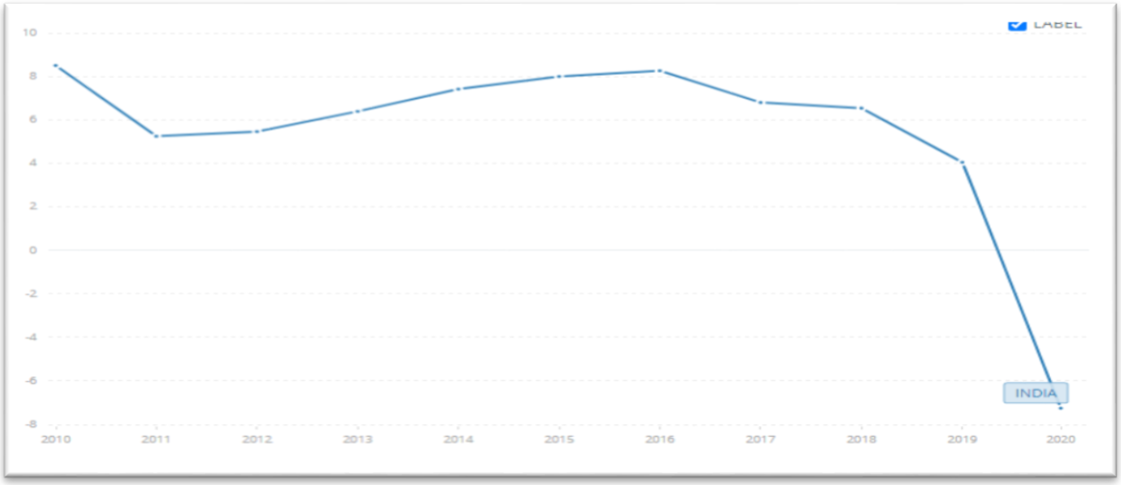


DATA

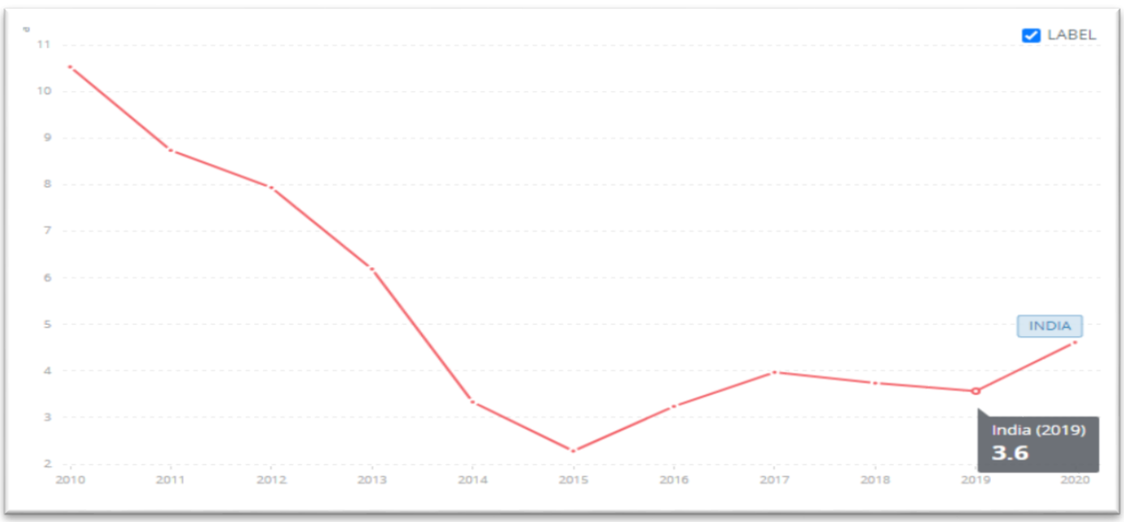
- Economic indicator 2010-2020

YEAR	GDP (Bil. US$PPP)	GDP per capita (US$ PPP)	GDP growth (Real)	Inflation rate (Percent)	Government debt (% of GDP)
2010	▲*5,160.8*	▲*4,181.2*	▲*10.3%*	▼*10.5%*	▲*66.0%*
2011	▲*5,618.4*	▲*4,493.7*	▲*6.6%*	▼*9.5%*	▼*68.3%*
2012	▲*6,153.2*	▲*4,861.1*	▲*5.5%*	▼*10.0%*	▲*67.7%*
2013	▲*6,477.5*	▲*5,057.2*	▲*6.4%*	▼*9.4%*	▲*67.4%*
2014	▲*6,781.0*	▲*5,233.9*	▲*7.4%*	▼*5.8%*	▲*66.8%*
2015	▲*7,159.8*	▲*5,464.9*	▲*8.0%*	▲*4.9%*	▼*68.8%*
2016	▲*7,735.0*	▲*5,839.9*	▲*8.3%*	▲*4.5%*	▲*68.7%*
2017	▲*8,276.9*	▲*6,183.0*	▲*6.8%*	▲*3.6%*	▼*69.5%*
2018	▲*9,029.4*	▲*6,675.5*	▲*6.5%*	▲*3.4%*	▼*70.2%*
2019	▲*9,562.0*	▲*6,991.8*	▲*4.0%*	▲*4.8%*	▼*73.9%*
2020	▼*8,907.1*	▼*6,461.0*	▼*-8.0%*	▼*6.2%*	▼*89.6%*

- *GDP growth (annual%)*



- *GDP deflator, Inflation (annual%)*

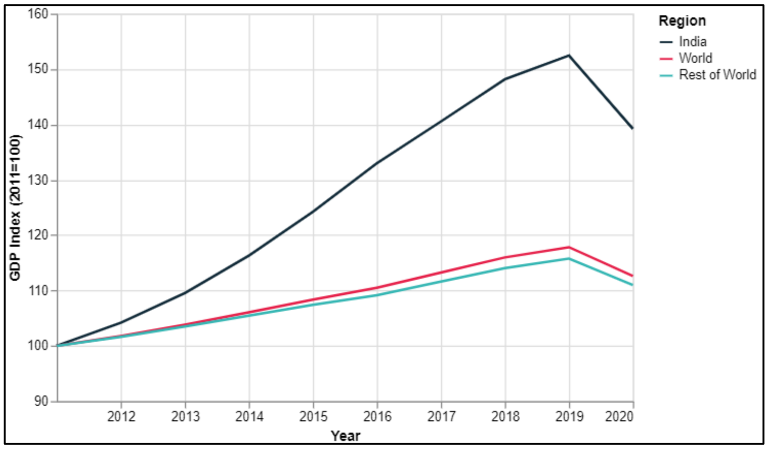


<u>PANDEMIC IMPACT ON NATIONAL INCOME IN INDIA</u>

Since the 2000s, India has made remarkable progress in reducing absolute poverty. Between 2011 and 2015, more than 90 million people were lifted out of extreme poverty.

In the post-Independence period, India's national income has declined only four times before 2020 – in 1958, 1966, 1973 and 1980 – with the largest drop being in 1980 (5.2%). This means that 2020-'21 is the worst year in terms of economic contraction in the country's history and much worse than the overall contraction in the world.

The economic impact of the COVID-19 pandemic in India has been largely disruptive. India's growth in the fourth quarter of the fiscal year 2020 went down to 3.1% according to the Ministry of Statistics. The Chief Economic Adviser to the Government of India said that this drop is mainly due to the coronavirus pandemic effect on the Indian economy.



Economic contraction in India during covid-19

India had also been witnessing a pre-pandemic slowdown, and according to the World Bank, the current pandemic has "magnified pre-existing risks to India's economic outlook".

In India up to 53% of businesses have specified a certain amount of impact of shutdowns caused due to coronavirus on operations. More than 45% households across the nation reported an income drop as compared to the previous year. Government revenue has been severely affected with tax collection going down, and as a result the government has been trying to find ways of reducing its own costs.

The pandemic has brought severe economic hardship, especially to young individuals who are over-represented in informal work. India has a large share of young people in its workforce and the pandemic has put them at heightened risk of long-term unemployment. This has negative impacts on lifelong earnings and employment prospects.

How have different sectors been affected due to Covid-19?

Hospitality Sector:

As many states have imposed localised lockdowns, the hospitality sector is facing a repeat of 2020. The hospitality sector includes many businesses like restaurants, beds and breakfast, pubs, bars, nightclubs and more. The sector that has contributed to a large portion of India’s annual GDP has been hit hard by restrictions and curfews imposed by the states.

Real Estate and Construction sector:

The real estate and construction activities have started facing a disruption during the second wave as a large number of migrant workers have left the urban areas. The situation has not been grave as of 2020 for this sector.

Impact on the Students and Employment

The virus has adversely impacted over 290 million students across 22 countries, and 32 crore students in India. It is even worth noting that there are students who work with families to run their homes during this crisis, where government support is minimal.

It adversely impacts the mental health of the students. In one survey documented that 0.9% of the respondent's students have experienced severe anxiety, whereas 2.7% and 21.3% of the respondent's students have experienced moderate and mild anxiety due to this crisis

The pandemic has been found to adversely impact finance education. The temporary closure of schools and educational institutions has become the cause of stock market instability and income uncertainty for investors. It results in a loss of income, which in turn, is likely to give rise to scams and fraud.

To build back better, it will be essential for India to stay focused on reducing inequality, even as it implements growth-oriented reforms to get the economy back on track.

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