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# INDIAN MACRO ECONOMY: AN OVERVIEW OF EMERGING ISSUES

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**Dr. Vishnupriya Temani**

Assistant Professor, Department of ABST  
Kanoria P.G. Mahila Mahavidyalaya

**Ms. Shweta Bansal**

Assistant Professor, Department of ABST  
Kanoria P.G. Mahila Mahavidyalaya

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## INTRODUCTION

India has been clocking some fast-paced growth over the past few years. As the world's fastest-growing major economy, it is poised to displace Germany as the world's fourth-largest economy by 2022, according to the International Monetary Fund. By 2032, its economy is expected to grow to \$10 trillion from the present \$2.3 trillion.

As the economy of India is a developing mixed economy, India has emerged as the fastest growing major economy in the world and is expected to be one of the top three economic powers of the world over the next 10-15 years, backed by its strong democracy and partnerships.

## EMERGING TRENDS IN INDIAN MACRO ECONOMY

The Indian economy has finally arrived on the world stage. Global conversations surrounding Indian have notably increased in the last few years, mostly as a result of over 109 new initiatives taken by the Government, many of which are directed towards the vision of a new well connected digital India. India's GDP is estimated to have increased 6.6 per cent in 2017-18 and is expected to grow 7.3 per cent in 2018-19. During the first half of 2018-19, GDP (at constant 2011-12 prices) grew by 7.6 per cent. Following are the key emerging trends that are strengthen the economy of India.

### 1 EASE OF DOING BUSINESS

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As per the World Bank "Ease Of Doing Business 2018 Rankings ", India has jumped 30 points and has successfully reached the top 100 club. India has retained its position as the third largest startup base in the world with over 4,750 technology startups, with about 1,400 new start-ups being founded in 2016, according to a report by NASSCOM.



Table 1

*India's Ease of Doing Business Ranking*

Parameters	2016 ranking	2017 ranking	2018 Ranking
overall	130	100	77
Starting of business	155	156	137
Constructing permit	185	181	52
Getting electricity	25	29	24
Registering property	138	154	166
Getting credit	144	29	22
Protecting minority investors	13	4	7
Paying taxes	172	119	121
Trading across borders	143	146	80
Enforcing contracts	172	164	163
Resolving insolvency	136	103	108

Source: World Bank, Economic times article dtd. 2nd Nov 2018; DIPP Department of Industrial Policy and Promotion

**ANALYSIS**

As we can see from the table1 that the overall ranking of India has improved to 77 in 2018 as compare to 100 in 2017 and 130 in 2016. This shows a remarkable improvement in the ease of doing business .

The key reforms which had made it possible are

- Faster and less expensive to obtain a construction permit.
- Strengthening legal rights and access to credit by amending insolvency law
- Replacement of majority of state and central sales taxes with one nationwide Goods & Services Tax (GST)
- Reduction in the time and cost to export and import
- Up gradation of port infrastructure
- Electronic submission of documents
- Reduction in procedures / documentations and time for starting new business



**2 KEY REFORMS / INITIATIVES TAKEN OVER PAST 4 YEARS THAT CREATED A FAVORABLE ECONOMIC ENVIRONMENT**

India's labour force is expected to touch 160-170 million by 2020, based on rate of population growth, increased labour force participation, and higher education enrolment, among other factors, according to a study by ASSOCHAM and Thought Arbitrage Research Institute.

India's foreign exchange reserves were US\$ 393.29 billion in the week up to December 21, 2018, according to data from the RBI.

*Table 2*

*Steady Economic Growth, Stable Macro Economic Parameters*

Improving Macros	FY13	FY14	FY15	FY16	FY17	FY18	FY19E
Real GDP at market price(%YoY)	5.5	6.4	7.5	8	7.1	6.7	7.1
Centre's fiscal deficit (% GDP)	4.8	4.4	4.1	3.9	3.7	3.5	3.5
Current Account Deficit (CAD) (%GDP)	4.7	1.7	1.3	1.1	0.7	1.9	2.7
Balance of Payment	0.2	0.8	3	0.9	0.9	1.7	-0.8
Net FDI (% of GDP)	1.1	1.2	1.5	1.7	1.6	1.2	1.2
Consumer Price Inflation (CPI) (Average)	9.9	9.4	6	4.9	4.5	3.6	3.6
Foreign Exchange Reserves (USD bn)	292.6	303.7	341.4	359.8	370	424.4	393.3

Source: CEIC, Kotak Institutional Equities; Economic Survey, E-Estimates, ^ as of 21st Dec'18

**ANALYSIS**

Over the last 6 financial years the real GDP at market price has increased from 5.5 in FY13 to 6.7 in FY18 and is expected to be 7.1 in financial year 2019. The centre's fiscal deficit and current account deficit and balance of payment has shown a decline trend over the last 6 years on the other side Net FDI and CPI has shown a fluctuating trend. The foreign exchange reserves have increased from 292.6 in FY13 to 424.4 in financial year 18.

For the steady economic growth of India various initiatives have been taken by the over past 4 years which have created a favorable economic environment like

- Introduction of Goods & Services Tax (GST)
- Introduction of Indian Bankruptcy Code (IBC)
- RERA and Housing for all
- Liberalisation of FDI in various sectors including railways, defense, coal mining, construction, aviation, pharmaetc.
- Direct Benefit Transfer (DBT), UJJAWALA –LPG for poor households
- Power -Focus on Transmission and Distribution, Target 24\*7 electricity, Saubhagyascheme



- Make in India -Focus on domestic manufacturing and design
- Transparent auctioning of natural resources

### 3 GOVERNMENT INITIATIVES

The Union Budget for 2018-19 was announced by Mr Arun Jaitley, Union Minister for Finance, Government of India, in Parliament on February 1, 2018. This year's budget will focus on uplifting the rural economy and strengthening of the agriculture sector, healthcare for the economically less privileged, infrastructure creation and improvement in the quality of education of the country.

Numerous foreign companies are setting up their facilities in India on account of various government initiatives like Make in India and Digital India. Mr. Narendra Modi, Prime Minister of India, has launched the Make in India initiative with an aim to boost the manufacturing sector of Indian economy, to increase the purchasing power of an average Indian consumer, which would further boost demand, and hence spur development, in addition to benefiting investors. Taking a cue from countries such as South Korea, Japan, Singapore, and China, NITI Aayog has also advised to aggressively push for domestic manufacturing under its Make in India initiative to create well-paid jobs for low- and semi-skilled labourers. The Government of India, under the Make in India initiative, is trying to give boost to the contribution made by the manufacturing sector and aims to take it up to 25 per cent of the GDP from the current 17 per cent. Besides, the Government has also come up with Digital India initiative, which focuses on three core components: creation of digital infrastructure, delivering services digitally and to increase the digital literacy.

Some of the recent initiatives and developments undertaken by the government are listed below:

- National Institute for Transforming India (NITI) Aayog released a strategic document titled 'Strategy for New India @75' to help India become a US\$ 4 trillion economy by FY23.
- The Government of India is going to increase public health spending to 2.5 per cent of GDP by 2025.
- The Government of India released the maiden Agriculture Export Policy, 2018 which seeks to double agricultural exports from the country to US\$ 60 billion by 2022.
- Around 1.29 million houses have been constructed up to December 24, 2018, under Government of India's housing scheme named Pradhan Mantri Awas Yojana (Urban).
- Village electrification in India was completed in April 2018.
- Around 22.43 million households have been electrified up to December 17, 2018 under the Pradhan Mantri Sahaj Bijli Har Ghar Yojana (SAUBHAGYA). Moreover, 100 per cent household electrification has already been achieved in 25 states, as of December 2018.
- Prime Minister's Employment Generation Programme (PMEGP) will be continued with an outlay of Rs 5,500 crore (US\$ 755.36 million) for three years from 2017-18 to 2019-20, according to the Cabinet Committee on Economic Affairs (CCEA).
- The target of an Open Defecation Free (ODF) India will be achieved by October 2, 2019 as adequate funding is available to the Swachh Bharat Mission (Gramin), according to Ms Uma Bharti, Minister of Drinking Water and Sanitation, Government of India.



- The Government of India has decided to invest Rs 2.11 trillion (US\$ 32.9 billion) to recapitalise public sector banks over the next two years and Rs 7 trillion (US\$ 109.31 billion) for construction of new roads and highways over the next five years. As of November 2018, Rs 82,000 crore (US\$ 11.75 billion) has already been infused and the government is planning to infuse Rs 42,000 crore (US\$ 6.02 billion) more by March 2019.
- The mid-term review of India's Foreign Trade Policy (FTP) 2015-20 has been released by Ministry of Commerce & Industry, Government of India, under which annual incentives for labour intensive MSME sectors have been increased by 2 per cent.

## CHALLENGES FOR SUSTAINABLE GROWTH OF INDIAN ECONOMY

Since 1991, the Indian economy has pursued free market liberalization, greater openness in 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 such as

- Unemployment
- Poor educational standards
- Poor Infrastructure
- Balance of Payments deterioration.
- High levels of private debt
- Inequality has risen rather than decreased.
- Large Budget Deficit
- Rigid labour Laws
- Inefficient agriculture
- Poor tax collection rates.
- Business difficulties
- Inequality within regions

## FINDINGS

With the improvement in the economic scenario, there have been various investments in various sectors of the economy. The M&A activity in India increased 53.3 per cent to US\$ 77.6 billion in 2017 while private equity (PE) deals reached US\$ 24.4 billion. Some of the important recent findings in Indian economy are as follows:

- Exports from India increased 15.48 per cent year-on-year to US\$ 351.99 billion in April-November 2018.



- Mergers and Acquisitions (M&A) activity in the country has reached US\$ 82.1 billion in 2018 (up to November).
- Income tax collection in the country reached Rs 2.50 lakh crore (US\$ 35.88 billion) between April-November 2018.
- Companies in India have raised around US\$ 5.52 billion through Initial Public Offers (IPO) in 2018 (up to November).
- India's Foreign Direct Investment (FDI) equity inflows reached US\$ 389.60 billion between April 2000 and June 2018, with maximum contribution from services, computer software and hardware, telecommunications, construction, trading and automobiles.
- India's Index of Industrial Production (IIP) rose 5.6 per cent year-on-year in April-October 2018.
- Consumer Price Index (CPI) inflation rose moderated to 2.33 per cent in November 2018 from 3.38 per cent in October 2018.
- Around 10.8 million jobs were created in India in 2017 which has played a very important role in removing unemployment.
- India has improved its ranking in the World Bank's Doing Business Report by 23 spots over its 2017 ranking and is ranked 77 among 190 countries in 2019 edition of the report.
- India is expected to have 100,000 startups by 2025, which will create employment for 3.25 million people and US\$ 500 billion in value, as per Mr. T V Mohan Das Pai, Chairman, Manipal Global Education.
- The World Bank has stated that private investments in India is expected to grow by 8.8 per cent in FY 2018-19 to overtake private consumption growth of 7.4 per cent, and thereby drive the growth in India's gross domestic product (GDP) in FY 2018-19.
- India is expected to retain its position as the world's leading recipient of remittances in 2018, with total remittances touching US\$ 80 billion, according to World Bank's Migration and Development Brief.

## ROAD AHEAD

India's gross domestic product (GDP) is expected to reach US\$ 6 trillion by FY27 and achieve upper-middle income status on the back of digitisation, globalisation, favorable demographics, and reforms.

India's revenue receipts are estimated to touch Rs 28-30 trillion (US\$ 385-412 billion) by 2019, owing to Government of India's measures to strengthen infrastructure and reforms like demonetisation and Goods and Services Tax (GST).

India is also focusing on renewable sources to generate energy. It is planning to achieve 40 per cent of its energy from non-fossil sources by 2030 which is currently 30 per cent and also have plans to increase its renewable energy capacity from to 175 GW by 2022.



India is expected to be the third largest consumer economy as its consumption may triple to US\$ 4 trillion by 2025, owing to shift in consumer behavior and expenditure pattern, according to a Boston Consulting Group (BCG) report; and is estimated to surpass USA to become the second largest economy in terms of purchasing power parity (PPP) by the year 2040, according to a report by PricewaterhouseCoopers.

## CONCLUSION

India has a mixed economy. Half of the India's workers rely on agriculture, the signature of a traditional economy. One third of its workers are employed by the services industry, which contributes two third of India's output. Since the 1990's India has deregulated several industries. It has privatized many state-owned enterprises and opened doors for foreign direct investments. The government has taken innumerable steps to enhance digital adoption in India. From digital India to network infrastructure, Aadhar enablement and digital lockers, there has been considerable progress on the technology side.

India has the potential to achieve its rightful place as an influential global leader. With lower production costs, easy ways to procure raw materials, a young workforce and progressive yet flexible atmosphere, we are on the right path and ease of doing business that is well within our reach-we just need to concentrate on the bigger picture.

## REFERENCE:

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