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# PRESENT SCENARIO OF INDIAN ECONOMY

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## Abstract

For a steady and long-term growth of an economy we generally have four planks:

- A vision or long run perspective.
- A road map and associated milestones.
- Institutions which are entrusted with the task of formulating plans/ projects and implementing the same.
- An integrated approach for inter-sectoral development based on input-output coefficient.

Ironically, these planks have been obliviated in our economic policies, resulting in a lopsided growth of Indian Economy, notwithstanding a high growth of GDP.

**Keywords:** Indian Economy Growth, Non Performing Assets

## The Growth Scenario of Indian Economy

In recent years, GDP of India has demonstrated a miraculous trend. Over the past four or five years, the growth rate has been around seven percent which is highest in the world. Presently India is the fifth largest economy in GDP terms, while in terms of Purchasing Power Parity (PPP), the country is second in the world, next only to China.

However, over the past five years mean growth rate in agriculture has been 2 percent while industry has registered a growth rate of 1.2 percent during this period-albeit the IIP over the past two years, growth rate has remained close to 1.0 percent.

It, therefore, follows that a relatively very high growth rate has been achieved in the tertiary or service sector whose contribution to GDP has now reached 60 percent. Incidently, agriculture in India contributes only 12 percent to GDP, while it employs 50 percent of the total labour force.

## The Fallacy of India becoming the Fifth Biggest Power

With a total GDP of $ 2.3 trillion, India is presently the world's fifth biggest power, even ahead of France. But if one looks at per capita (nominal) income, it is only $2134 and our global rank (as per 2018 data) is reduced to 139th. In brief, to call India the fifth biggest world power is fallacious.

## Ease of Doing Business

Even though India attained 77th rank in Ease of Doing Business Report (2019) of the World Bank - which is a miraculous shift from 2016 (when the rank was 130th), on the fronts of starting business, resolving insolvency, trading across the frontier, and enforcement of contracts the country continues to face numerous road-blocks.

There are indications that in the form of GST and filing of income tax returns, India has made a favourable shift in fiscal policy, albeit even today, only 1.3 percent people are actually paying income

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tax.

**Serious Challenges Confronting Indian Economy**

**1. Mounting Current Account Deficit (CAD)**

During 2016-17, India's CAD was less than 1.4 percent of GDP, it rose to 2.1 percent in 2017-18 and further to 2.5 percent in 2018-19. During the early months of the current fiscal, it has surged to 2.9 percent of GDP.

Following factors determine the level of CAD (i) imports, (ii) capital flows from abroad, (iii) exports, (iv) economic growth, (v) saving rate, (vi) productivity levels/ competiveness, (vii) exchange rate, and (viii) inflation.

**2. Lameduck Planning**

As a consequence of abolition of Planning Commission (and also of planning boards in all states) the vision of growth of our economy has also been done away with. Unfortunately, the NITI Ayog has not been able to assume the task of preparing or approving the strategies being adopted by various departments of central government and states. Nor there is presently any formal body to evaluate or appraise the annual plans being formulated by state governments. Ipso-facto the approach to follow an effective input-out approach has also been lost, thus making our plans a mockery devoid of any vision or road-map.

**3. Suspected Outflow of Funds**

Recently international agencies have decided to stop weighing the equities of Indian companies (15 percent of which are fake entities). Such measure is suspected to result in outflow of about $700 million of foreign investment. In short, foreign capital invested in India is volatile to external pressures.

**4. Ailing Banking Sector**

Not only banking sector in India is over-burdened with non-performing assets (NPA) (with about 9.6 percent of NPAs) but it also suffers from low levels of efficiency and poor governance. Banks in both public and private sectors also face numerous government mandates and RBI dictates. In an article, the former Governor of RBI has complained that public sector banks in India not only suffer from mounting NPAs, but also lack professional acumen.

**5. Adhocism in Policies**

Largely due to absence of integrated approach, but also due to lack of vision or long run perspective, policies pronounced by the government remain ineffective and adhoc. Often projects implemented by the government are not appraised professionaly i.e. on the basis of parameters related to B-C approach, IRR etc.

**6. No Room for Dissent**

Formulation of plans and projects warrants that a multi-disciplinary approach is adopted in which experts may obviously have different opinions out of which a consensus emerges and project is approved. Incidently, over the past few years no room is left for dissent. We all know that successively three RBI Governors and two chief economic advisers were forced to quit for expressing their dissents against the decisions taken by Government of India.

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### 7. Widening Urban-Rural Divide

A deeper look at the Socio-Economic Census (2011) reveals that in rural India 74.5 percent of households had a monthly income below Rs. 5000, over 56 percent households in villages had no land, while 51 percent households depended on manual casual labour.

Further, with respect to possession of assets, a recent report prepared by the NSSO reports glaring differences in the distribution between rural and urban households refer **Table 1**.

**Table 1 : Distribution of Assets in Rural and Urban Households**

| S.No. | Group | Average Value of Assets | |
|---|---|---|---|
| | | Rural | Urban |
| 1. | Richest 10 percent | 56.9 | 146 |
| 2. | 11-20 percent | 15.5 | 35 |
| 3. | 21-30 percent | 9.0 | 20 |
| 4. | 31-40 percent | 6.0 | 12.5 |

Obviously, the average income of different strata among rural and urban households would also be significantly different. Levels of literacy in the two strata have also been different.

### 8. Decision making process is bumpy and time consuming

Generally, decision process especially in the public sector projects, is time-consuming which generally results in cost over-run. It is estimated that delay in approval of projects by one month generally causes an increase of 5 percent in project cost, implying that a delay by 15 months would result in a 100 percent increase in the project cost.

**9.** All the efforts made so far to reduce our balance of trade seem to have failed. The share of India in global exports was first 1.7 percent in 2018, while the corresponding share of China was 13.8 percent.

### 10. Foreign Direct Investment (FDI) in India : The Reality

Rank of India in FDI is $10^{th}$ in the world. In view of falling share of private investment, FDI has lately become a major source of capital required for accelerating growth. Over the past few years, inflow of FDI has surged largely due to liberal policy of the government. During 2017-18, India received about $36 billion worth of FDI from various countries.

However, 37 percent of FDI received in 2017-18 came from Mauritious, while 26 percent came from Singapore. Thus, 63 percent of FDI came from tax haven countries. That implies that there are all probabilities of black money being transferred to these countries through hawala and receiving the same as FDI from them.

### 11. Growing Inequalities

Thomas Pikettee, a French economist has recently analysed the growth-inequality paradigm in respect of nearly 280 countries, including India. For India, Pikettee feels that “India is today is more unequal than what it was few decades ago.” Further, he found that just 1.0 percent people in India command almost 54 percent of total wealth. Implicitly, therefore, while we insist on accelerating our growth rate, we obliviate the issue of inequality in distribution of income and wealth. This phenomenon is common in developing and emerging economies.

### 12. Who will benefit from increased MSP?

In view of rising pressure of farm protagonists to accept M.S. Swaminathan Commission's recommendations, recently Government of India announced 50 percent increase in almost minimum support prices for farm products. It is being claimed that this would help in doubling farm incomes within next five years.

Yet, an anlaysis of the Indian farms would reveal that 85 percent farmers in India have less than 2 hectares of land holding and, as such, virtually have not marketable surplus. Implicitly, only medium and large farmers are likely to benefit from a hike in MSP. Further, the village trader who collects small quantum of farm produce would also benefit. In short, 85 percent of farm households would not benefit from higher levels of support prices. At the same time, subsistence farmers who are forced to buy foodgrains from the market to feed their families, would be forced to pay higher prices at fair price shops in view of higher procurement prices.

### 13. Pathetic Performance in Human Development

India does not have an impressive record on human development front. In case of health parameters (like IMR, MMR, nutrition levels, expectancy of life etc.) our rank is lower than even countries of South Asia (Bangladesh, Sri Lanka) as also emerging countries such as South Korea, Malaysia etc. It appears, while pursuing the goal of high growth rate we have obliviated the coveted goal of improving quality of life. **Table 2** shows that our rank in most cases happens to be extremely low.

**Table 2 : Rank of India in Human Development Parameters (2017)**

| | | |
|---|---|---|
| 1. | Global Hunger Index | 103/119 |
| 2. | Health Expenditure Index | 140/180 |
| 3. | Literacy Rate | 168/234 |
| 4. | Human Capital | 103/130 |
| 5. | Education Index | 145/190 |
| 6. | World Happines Index | 133/155 |
| 7. | Gender Inequality Index | 76/188 |
| 8. | Number of Billionnares Index | 3/71 |
| 9. | Per Capita Income Index | 140/187 |
| 10. | Tax Revenue Index | 109/180 |
| 11. | Human Development Index | 130/189 |

Source : https://en.wikipedia.org

(Denominators show number of countries)

### 14. Dismal Employment Scenario

In 2018, total labour force in India was 473.6 million. It is a well known fact that every year about 12 million new job seekers join our labour force. According to a study undertaken by CMIE, in 2017-18, unemployment rate in rural areas was 3.6 percent, but in urban areas, it was about 7.0 percent.

Obviously as Panagariya has argued, creation of well paid jobs for the vast labour force is a formidable task. He argues, however, that all job seekers cannot be absorbed in government jobs. Yet it is now time to contemplate adoption of employment friendly policies so as to check the number

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of un-employed youth both in rural as well as urban areas.

## Conclusion

The analysis presented here shows that Indian economy does not figure very well on various parameters listed above. It is high time that our policy makers spare some time and study thoroughly our real ailments. They must first diagnose various social and economic issues confronting our people, and with an open mind, formulate strategies not only to resolve various issues but also evolve long term strategies for economic development and social change.

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