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Indian Economy in 2014-2024 and the Transformation of India

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Abstract:
The Indian Economy is a curious study matter for experts all around the world. The cause is the resilience it has shown in spite of the Global slowdown post the Corona Virus epidemic. This research is an attempt to showcase the growth of the Indian economy in the decade spanning 2014 – 2024, and also how the forecast holds for India.
The economy has grown by 6.4% in the past year (2024) and continues to hold steady at around 6-7% and around. This is in contrast with big economies like China where there has been a slowdown and the economy is growing at 3%. There has been an upgrade of infrastructure in the past decade along with some key challenges like Foreign Investment. The current regime has also successfully done away with a lot of red-tapes in Government transfers by taking the digital way. The research will focus on positive outcomes and how the growth will take India forward.

Keywords: Indian Economy, GDP, Policy, Balance of Payment, Liberalization

INTRODUCTION

The Future, Present and the Past

The past decade especially the past 5 to 6 years have seen a lot of downturn globally. First the Covid-19 pandemic brought the whole world to a standstill, and then the war between Russia and Ukraine. Presently the Israel – Hamas conflict is going on. All these events have contributed to the global slowdown.
When India became independent from colonial growth it was way behind the world with just **3.8** percent of the Global Economy. This has shrunk from the **1700s** when India was contributing close to **1/5** of the World Economy. The government under Pt. Jawaharlal Nehru took the strategy of Economic sufficiency which was driven by the Socialist thought process. The strategy gave rise to rapid industrialization and also the building of resources for the future. In the first decade the growth was 3.9% which took India forward.
The next decade saw Wars in which India was involved which include the India-China War in **1961** and India –Pakistan War in **1965**. This was followed by severe drought in **1966**. All these factors challenged the growth which was expected to be **6%.** However during the **1951 – 1960** the growth rate was a meager **4.1%(** (Alfaro, 2009)**).**
In the **1970s** came the devaluation of Indian rupee, Political instability and the Emergency rule in **1975**. All these factors brought the Economy down to a paltry **2.9%.** This was the decade of depression in the Indian Economy and it took brave policies to bring the depression to a halt in the next decade.
The **1980s** saw fair liberalization and lots of Government spending, bringing the Economic growth to a

fair 5.7%.
But the 1990s was marred by the Gulf war which led to imbalances in the Current account, which led to huge deficit in Balance of Payment. This impending disaster required some bold policies to fight it. The reforms that were then brought were drastic to the earlier policies. There was an end of the License Raj, more participation of the Private sector. The policies were popularly known as LPG – Liberalization, Privatizations and Globalization. This gave a fillip to the economy and in spite of the East Asian Financial crisis the economy grew at 5.8% (Bhagwati, 2011).
The effect of PLG was evident in the rapid growth in 2000s. With enhanced corporate performance, better investment policies and Global liquidity the economy took a spring board. A few of the Government schemes played a major role in the growth. Few of them were Sarva Shiksha Abhiyan, National Rural Health Mission and the Rural Employment guarantee scheme (MNREGA). This resulted in a 6.3% economic growth during 2000 -2009.
However the Global Financial crisis hit in 2008 which saw the NPA and bad debt hitting double digits. This resulted in crashing of growth which was below 5% in this decade. The huge devaluation of the INR was also a contributing factor in this.
Going through 65 years of experiences the Government took the route of learning from the past. There were huge challenges in the form of high inflation, low growth of industries. The very worrying factor was 12% food inflation which hit the middle and lower income group hard.

The key Factors of India's Economic growth till 2014

Some key factors that were related to Indian Economy growth were inherited by the government and the country in 2014.

1. The Economy had transitioned from a Socialist closed economy to an open economy characterized by Liberalization and influx of FDI (Foreign Direct Investment).
2. There was a stark transition from a public sector driven economy to the co-existence of Public and Private Sector. This was followed by the dominance of the Private enterprises post 2009.
3. Replacing the capital and labor as main factor of growth was a new factor "Technology. This was the driving force of the economy post 2000.

The situation of economy was not really Great, and this was due to the following factors:

1. Lack of quick decision making in projects leading to inflated costs and delays that created bottlenecks.
2. Subsidies which were draining the public funds, and actually not reaching the beneficiary.
3. Slowdown in manufacturing especially of Capital Goods resulting in no or less value addition.
4. Informal sector where labor was mostly absorbed, and lack of labor in formal sector.
5. Low agricultural productivity magnified by lack of storage and transportation being expensive.

Transformation and Growth during 2014 -2024

The new government which took over in 2014, had a strong focus on Macroeconomic factors. New policies were made regarding reforms and resulted in India becoming the fastest growing economy in the G 20.
The year 2022-2023 saw a Year on Year Growth of 7.2% which was built on rapid infrastructure growth, which includes expansion of rail, road and air transport. The turnaround after the Global Pandemic has been really remarkable. The quick response to the crisis brought about rapid building of health systems which had a positive impact on the overall growth (IMF,2021).

Also the response to the War in Ukraine has been really noteworthy, as there has been steady supply of crude. The government has managed the supply by diversification of buying resulting in stable fuel prices. The states have also been given the driver for growth in the form of 1 Lakh crore interest free loan for 50 years, which has helped the local growth all over India. Some marquee Plans like "Ghar Ghar Jal", "Sukanya Samridhi" have been huge success stories, as the benefit of the scheme is actually reaching the beneficiary in full.

The key Drivers for Economy in 2012 - 2024

The focus of the government in the last decade has been the following:

- Getting the Finance Sector on track with policy changes and strict actions against erring entities. Amalgamation of Banks, reforms in the Share market and tougher laws in Insurance have been some of the changes that have yielded positive results.
- There also has been ease of business for New and Old businesses, so that the GDP growth is spurred on by the increased Economic Activity.
- Making the digital and physical infrastructure robust so that connectivity is enhanced, which in turn has had a huge positive impact on the Economy. This includes digital banking, focus on online settlements and also use of Artificial Intelligence to make things transparent and easier for the diaspora.
- The Import and Export of Goods and Services by India has an impetuous impact on the Global trade and there has been an emphasis by the Government on Make in India. This has given a boost to the Exports which has resulted in reduction of Balance of trade for the country.

The Indian Economy - Challenges

While putting reforms in place the Indian Economy has to face many challenges in the ever changing dynamics. Some of the main challenges faced are:

- The Global Economy is moving towards integration at a very fast pace. Hence India has to not only concentrate on Domestic performance but also take care of the developments all over the Globe. This includes international trade, relations, offshoring and on shoring etc.
- Energy is a key driver for all economies and the recent transformation to cleaner energy has been a major challenge, since India's energy is still majorly based on the traditional coal and oil driven.
- The next big challenge is the emergence of Artificial Intelligence, which is having a huge impact on the service sector. This puts forward the risk of unemployment in a sector that has been the main employment engine in the developing economies.
- Skilling up the youth has been a major challenge faced by India for many years now. However with technology growing at break-neck speed this challenge has grown exponentially.

The Reasons for The Resilience of the Indian Economy

The Indian Economy has long been able to face the economic crisis, but it is becoming more and more difficult due to Globalization. However, the various long term measures taken by the administration and the government has been playing a key role in the economy being strong and steady. Here we will try to highlight two major monetary policies that have kept the Indian Economy in good stead.

1. The consolidation of Public Sector Banks

This has led to an increase in deposits in the public sector banking which has driven the economy.

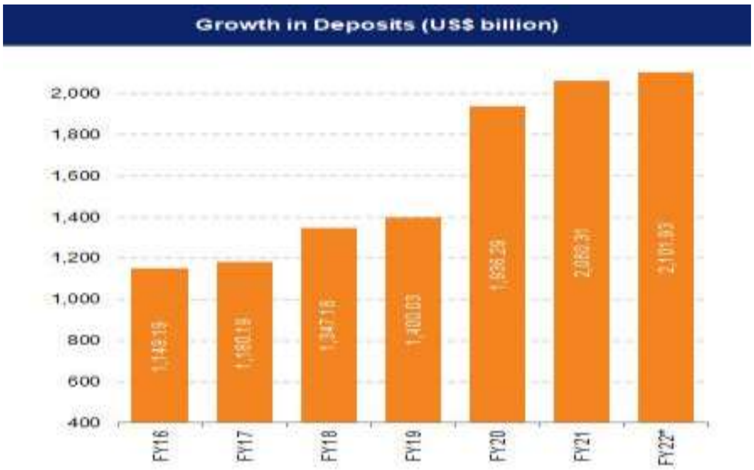


Illustration 1 Source: (https://www.ibef.org/assets/images/banking_growth_in_deposits.jpg)

Another factor which has been affected by the consolidation has been the Non performing Assets. In India the portfolio of NPA is varied. The public Sector banks are the highest in NPA which is growing at a rapid rate. The private sector NPA rate is also high but growing at a slow pace, while the lowest NPA is of foreign banks and that is due to their careful credit policy. The way the NPA goe on is displayed below in the bar chart.

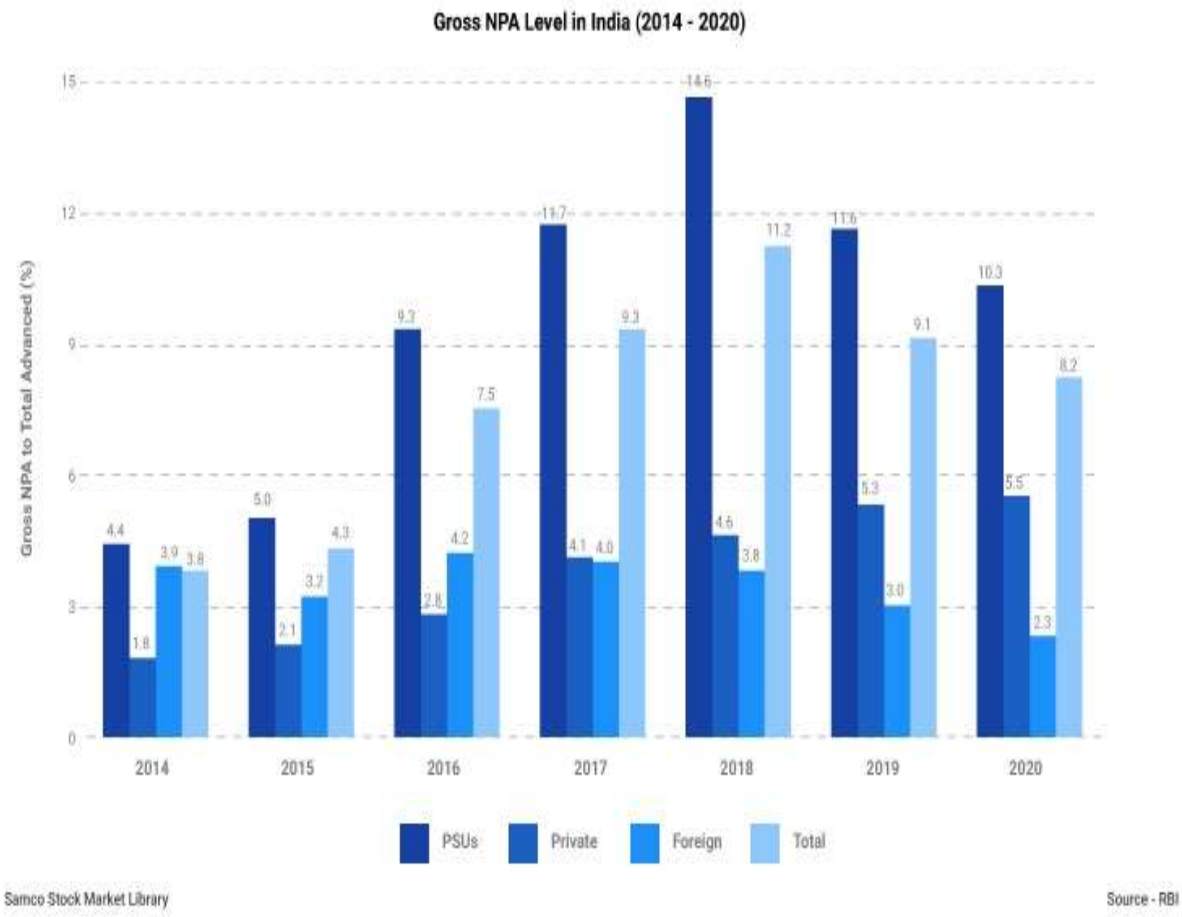


Illustration2 Gross NPA 2014 - 2020

2. The Insolvency and Bankruptcy Code.

The IBC (insolvency and Bankruptcy code was a major policy change that helped keep the credit taken by Industry and Companies in check. This also helped in keeping the NPA down and also changed the discipline of the Business running. Let's take a view of the same.

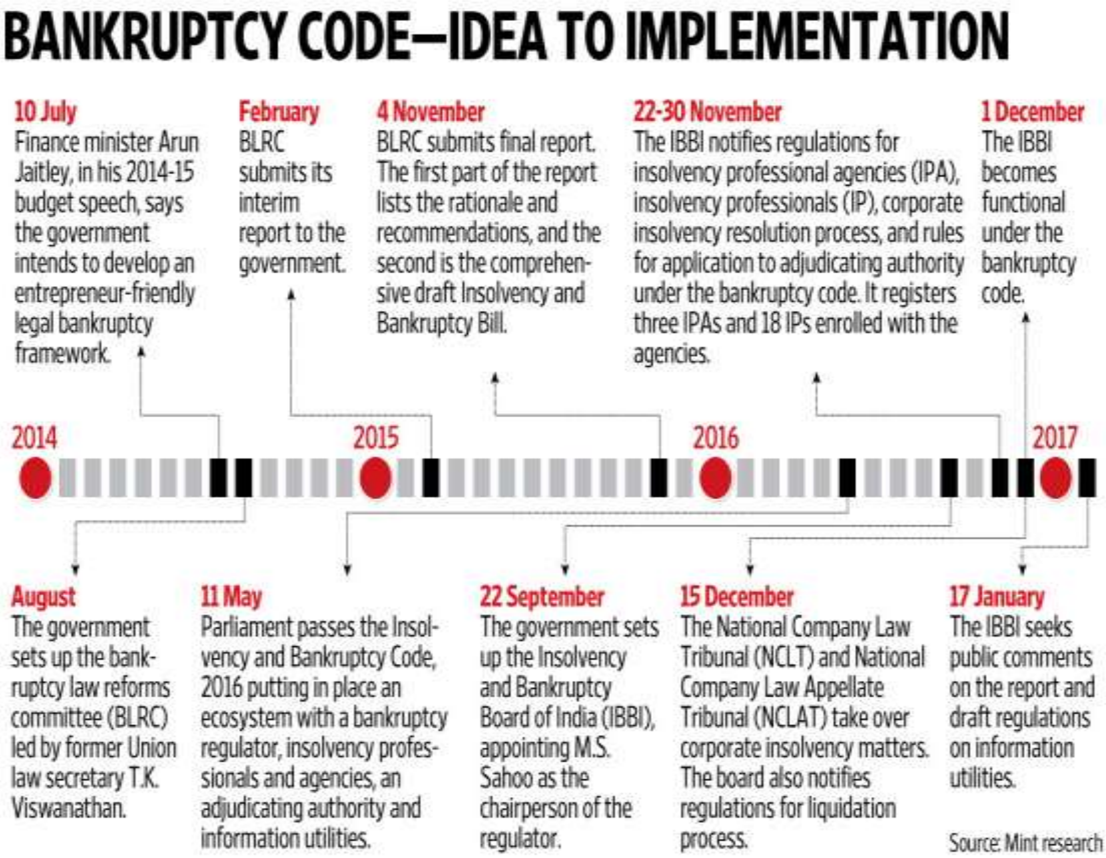
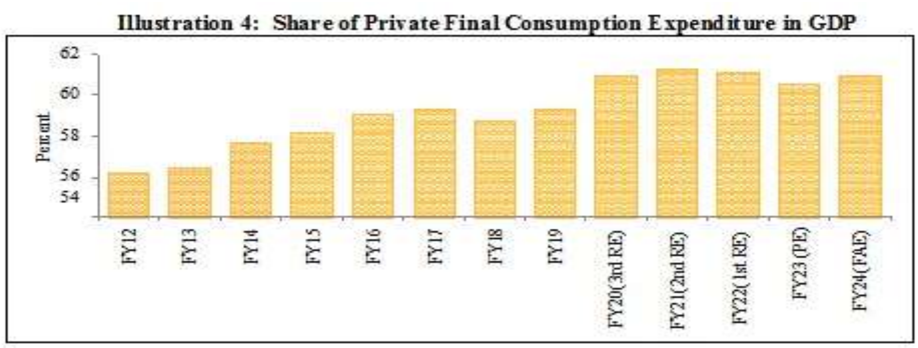


Illustration 3 The Insolvency and Bankruptcy Code: Idea to Implementation

The Consumption Demand: The Rising Share

The Consumption Expenditure increased from 58.3% till 2019 to 60.7% in the last 5 Years.

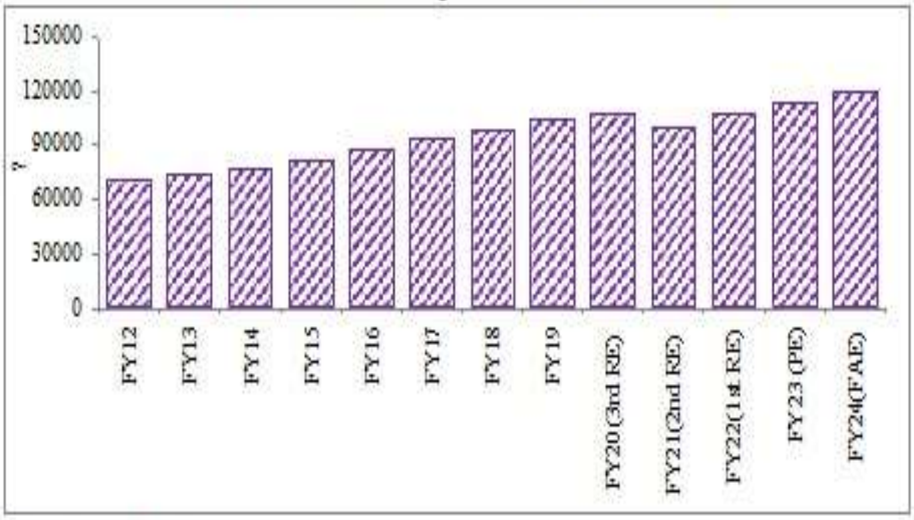


Source: NSO, MoSPI
Note: RE stands for Revised Estimates, PE for Provisional Estimates and FAE for First Advance Estimates

The Gross National Income: An Increasing Trend

The Gross National Income (GNI has also increased in the last nine years with a CAGR (Compounded Annual Growth Rate) of close to 5.6%.

Illustration 5 : Per Capita Real Gross National Income

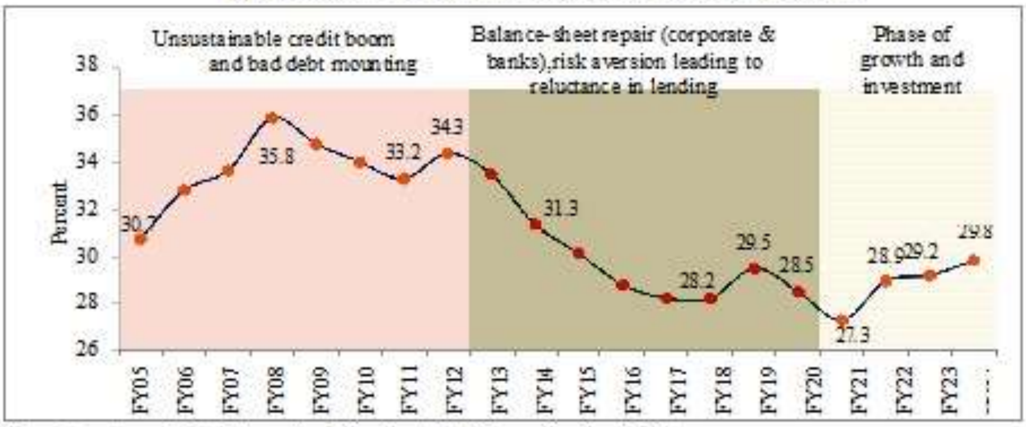


Source: NSO, Mo SPI
Note: RE stands for Revised Estimates, PE for Provisional Estimates an FAE for First Advance Estimates

The Invest Trends: Last 20 Years

There has been a complete transformation in the investment led growth in the Country. Its has seen ups and downs and now is stabilizing and the growth is steady.

Illustration 6- Trends in Investment rate over the years

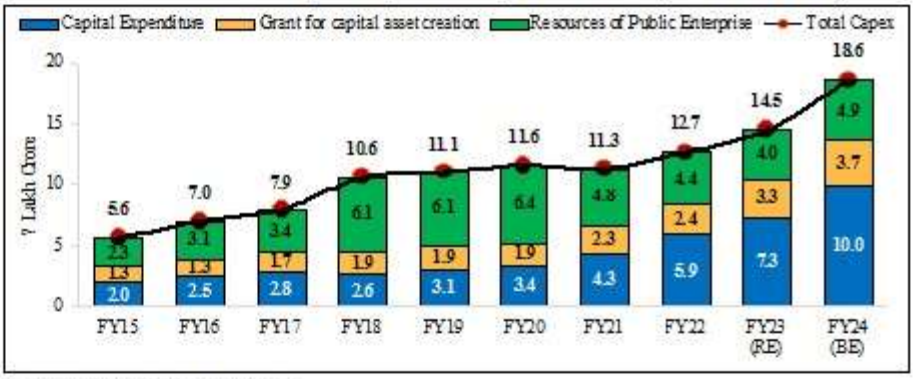


Note : Investment Rate is the ratio of Nominal GFCF over Nominal GDP
Data for FY24 is as per the First Advance Estimates
Source : NSO, Mo SPI

Capital Expenditure in Public Sector : A Driving Force

The expenditure on Capital Assets is necessary for sustained growth, and the picture is good for India. There has been a sustained effort in this area and it is visible in the figures that follow.

Illustration 7 : Capital Expenditure by Public Sector (Centre+ CPSEs)



Source : Various Budget documents

Employment Situation: The Last Decade

In the last ten years, India has experienced a significant shift in its job market, characterized by numerous favorable developments that have boosted both economic progress and societal advancement. This change has been influenced by a range of factors such as economic policy changes, technological progress, and a focus on enhancing workforce skills. The series of reforms aimed at simplifying business operations are essential for fostering job creation in the coming years.

Illustration 8: Annual Labor Market Indicators (usual status, age 15years and above)

(Values in percent)

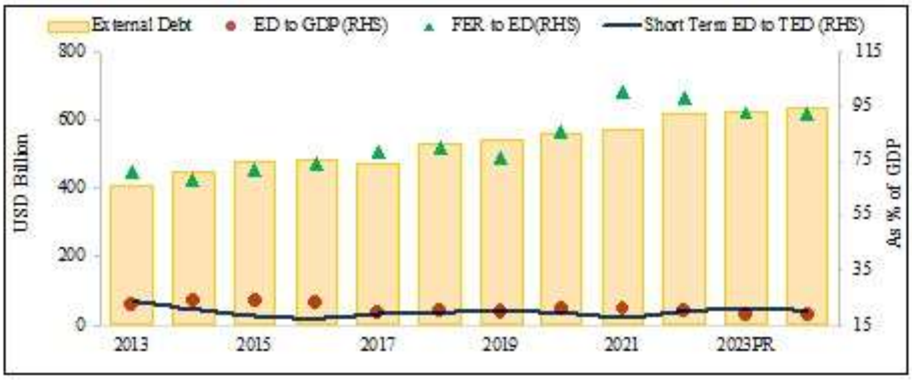
		Rural		Urban		Rural + Urban	
		2017-18	2022-23	2017-18	2022-23	2017-18	2022-23
Male	LFPR	76.4	80.2	74.5	74.5	75.8	78.5
	WPR	72.0	78.0	69.3	71.0	71.2	76.0
	UR	5.7	2.7	6.9	4.7	6.1	3.3
Female	LFPR	24.6	41.5	20.4	25.4	23.3	37.0
	WPR	23.7	40.7	18.2	23.5	22.0	35.9
	UR	3.8	1.8	10.8	7.5	5.6	2.9
Person	LFPR	50.7	60.8	47.6	50.4	49.8	57.9
	WPR	48.1	59.4	43.9	47.7	46.8	56.0
	UR	5.3	2.4	7.7	5.4	6.0	3.2

Source: Annual Periodic Labor Force Survey PLFS)

The External Debt: The Comfortable Position

India's external debt, which stood at USD 635.3 billion as of September 2023, has been effectively managed and is considered to be in a comfortable position. The ratio of external debt to GDP has decreased from 22.4 percent in March 2013 to 18.6 percent in September 2023. The short-term debt accounted for 20.1 percent of the total external debt at the end of September 2023, compared to 23.6 percent at the end of March 2023. A significant portion of the short-term debt comprises short-term trade credits. Illustration 9 offers an overview of India's external debt situation over the past decade.

Illustration 9 : India's External Debt Position and Vulnerability Indicators



Source: RBI; Note: PR-Partially Revised, P-Provisional; ED–external debt, FER–foreign exchange reserves, TED–total external debt

Conclusion:

Ten years ago, India held the position of the 10th largest economy globally, boasting a GDP of USD 1.9 trillion based on current market prices. However, today it has ascended to the 5th spot, with a GDP of USD 3.7 trillion (estimated for FY24). Remarkably, this achievement has been attained despite the challenges posed by the pandemic and the initial state of the economy, which was burdened with macro imbalances and a fractured financial sector. Throughout this decade-long journey, India has implemented numerous reforms, both substantial and gradual, that have played a significant role in propelling the nation's economic progress. Moreover, these reforms have bestowed upon the country an economic resilience that will prove invaluable in navigating unforeseen global shocks in the future.

India is projected to become the third-largest economy in the world within the next three years, boasting a GDP of USD 5 trillion. Despite this, the government has set its sights on a loftier objective of achieving 'developed country' status by 2047. With ongoing reforms, this ambitious goal is within reach. The effectiveness of these reforms will be enhanced through the active involvement of state governments. To ensure full participation from the states, reforms must extend to governance at the district, block, and village levels, fostering citizen-friendly and small business-friendly environments.

The International Monetary Fund (IMF) has reported that global economic growth, measured at constant prices, averaged 3.4 percent between 2012 and 2019. This growth rate remained consistent during the five-year period from 2014 to 2019. Looking ahead, the IMF projects a growth rate of around 3.1 percent for the world economy between 2023 and 2028. However, data from the World Trade Organization (WTO) reveals that world trade experienced minimal growth in terms of value during both the 2012-2019 and 2014-2019 periods. In terms of volume, trade growth averaged 2.4 percent. Despite these lackluster global economic and trade conditions, the Indian economy demonstrated remarkable resilience, achieving a compounded annual growth rate of 7.4 percent at constant prices between 2014 and 2019. This indicates the internal strengths of the Indian economy, enabling it to grow even in unfavorable global economic conditions. With the support of the financial sector and recent and future structural reforms, it is highly possible for the Indian economy to sustain a growth rate above 7 percent in the coming years. However, it is important to address the elevated risk of geopolitical conflicts. Key areas for future reforms include skill development, improving learning outcomes, enhancing healthcare, ensuring energy security, reducing compliance burdens for micro, small, and medium enterprises (MSMEs), and promoting gender balance in the labor force. Moreover, under reasonable assumptions regarding inflation differentials and exchange rates, India has the potential to become a USD 7 trillion economy within the next six to seven years, by 2030. This achievement would mark a significant milestone in delivering a high quality of life and surpassing the aspirations of the Indian people.

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