

# Detailed macroeconomic study of a country: india

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Macroeconomic analysis is a relatively recent development in the field of economics. Macroeconomics is the study of economy as a whole – its reforms are a continuous process which needs to be adjusted according to the changes in the environment – both domestic and international. The study of macro economy deals with the causes of major economic problems such as high rate of unemployment, rampant inflation, low wages, low economic growth, increasing trade deficit, and so on. This paper deals with a detailed macroeconomic study of India – the fourth largest and second fastest growing economies in the world.

### Economic Dimensions

It is a cardinal truth that India is “ extremely heterogeneous not only in climate, people and resources, but also in the diversity of its culture, language, level of prosperity, terrain, and stage of development” (Ray 3). Hence, it is often very difficult to balance the ‘ Indian experience’ with the diversities of regional experience of economic growth in India (Ray 1).

However, a detailed macro economic study of the nation is sure to reveal its present economic conditions and these are discussed hereunder one by one:

**Nominal and Real GDP:** India has achieved an impressive economic growth for the last three consecutive years. The nominal GDP has marked a record growth and is as high as nearly 9 per cent over the period 1995 to 2005. The year 2006 has experienced even a higher growth of around 10. 5 percent and is expected to end the fiscal year 2007 with the nominal GDP even crossing 11 per cent. The nominal GDP for the year 2005 was highly impressive – being a little more than 30, 636 billion INR (Enil 2006).

However, there has always been a sharp increase in the prices of goods produces and services rendered, and hence, it is not the nominal GDP, but the real GDP that reflects the actual growth of the economy. But, fortunately for India, in terms of real GDP too, the country has been doing extremely well. (Vembu 2007). For the period 2003 to 2006, the real GDP stood as high as 8 per cent. During the late 2006 it further reached 9. 2 per cent.

Unemployment: However, on the downside of such economic growth, the increasing unemployment rate is matter of real concern for the Indian government. The figure reached its highest peak during the past one decade – being 9. 5 during the year 2004. On the 2006, the estimated rate was 8. 9 but is feared to rise up to around 9. 2 marks by the year 2007. The fact that more than 30 percent of the Indian population still lives below the poverty level (earning less than \$1 per day) has aggravated the crisis further (Paul 406).

Account Deficit: India's current account deficit came down to 0. 4 percent of the GDP during the last five years from 1. 2 percent of the GDP in 1995-96. This was due to largely the good export performance, particularly in the software services. However, during recent times, India has been facing a Balance of Payment (BoP) crisis due to a significant increase in international oil prices. Crude oil and petroleum products accounted for almost one-fifth of India's total import bill. Thus, the current account deficit nearly doubled during the year 2005 (\$ 7. 66 billion) when compared to 2005 (\$ 3. 5 billion). The Indian people really preferred foreign goods and due to the strong demand for imports, India has been suffering a significant trade deficit till

the last one decade. On the year 2005, the imports were as high as \$39 billion when compared to exports of only \$ 23 billion (Business Line 2005).

**Fiscal Deficit:** In the recent times, Indian states has been suffering “ large and increasing gross fiscal deficit” which “ has led to a steady accumulation of debt over the years” (Nair 2004). The state governments are experiencing huge outstanding liabilities which have always been increasing during throughout the last one decade. The figure stood as high as \$ 200 billion on 2003-04 from \$ 40 billion in 1993-94. The total fiscal deficit of the government, both central and state, was extremely high – being more than 10 per cent of GDP during the year 2002-03 (Naik 2004).

**Debt-GDP Ratio:** The public debt of India during the year 2006 was estimated as almost 76 per cent of GDP. During 2003-04, the debt-GDP ratio of the state governments increases from 18. 6 (1993-94) percent to 29. 1 per cent. The total external debt on July 2006 amounted to more than \$ 132 billion. The Central government even more suffering with the debt-GDP ratio which rose from 59. 5 per cent during 2002 to 64 per cent in 2003 owing to the increase of outstanding liabilities that arises from huge borrowing from the market (Naik 2004)

**Government Expenditure:** The government expenditure consists of planned and non-plan expenditures. The total expenditure (revenue expenditure and capital expenditure) since 2003 has been rising steadily. The total expenditure for the year 2005-06 was \$ 5144 billion compared to \$ 5058 billion on 2004-2005 and \$ 4713 billion on 2003-04.

**Money Supply:** In India, the monetary policy always aims at price stability and growth. In order to control the growth of money supply and to bring it down to a preferable growth of 15 per cent, the Reserve Bank of India (RBI - The Central Bank) needs to play a crucial role in its open market operations. During the year 2006, the rate of growth (M3) of money supply is more than 16 per cent and is likely to rise beyond that figure in the present year. The total volume of money supply rose from \$ 375 billion in 2001 to \$500 (approx) billion on 2004.

**Inflation -** As a matter of fact, the rapid economic growth of the nation has been somehow spoiled by the increasing rate of inflation. One of the major concerns of the Indian government is the present rate of inflation. The early 2007 has witnessed a high rate of inflation of around 7 per cent (measured according to Wholesale Price Index - WPI) when compared to late 2006 when the rate was relatively small - being 3.8 percent.

**Foreign Currency Reserves:** In the year 1991, the Indian government has opened up the economy. Since then, the foreign exchange reserves have been steadily rising. On 1990-90, the reserves amounted to less than \$ 1 billion. However, after liberalizing the economy, 2000-01 has witness a substantial increase in the reserves - being more than \$ 50 billion. In 2004, it further rises to around \$ 120 billion.

**External Debt:** However, what is very "disquieting is that India appears to have entered a quagmire of foreign debts" (Ray 431). Of course, it cannot behave in the way that Nasser did for Egypt - to write off all foreign debts suddenly on one morning. Hence, the countries fast-increasing debt servicing is a major obstacle to enhance economic growth for the nation. As of June

2006, the total India's external debt amounted to \$ 132 billion approximately.

Oil Imports: Crude oil and petroleum products form a major part of India's imports. Oil imports during the period 2005-2006 were \$ 43.8 billion which was much higher with respect to \$ 29.8 billion on 2004-2005. Crude oil imports during 2006-2007 amounted to nearly \$ 53 billion. Non oil imports for the period 2006-07 estimated to \$ 112 billion which was around 25 per cent higher compared to the imports during 2005-06.

FDI Flows: Since the 1990s, the FDI flows in India have considerably risen. As of 2004, India's foreign trade accounted for \$235 billion which was an 8 percent increase from the country's international trade in the financial year 2003, in real terms. As a share of GDP it has grown to 34 percent. Surveys conducted by UNCTAD and AT Kearney in 2004 disclosed that India is one of the most favored FDI destinations in the world. (Business Line, 2004)

#### Economic Reforms in the Last 2 Years

India's Five-Year Plans over the past 50 years have served primary considerations to provide a common, agreed, framework of objectives, and a strategy within which compatible decisions can be evolved, to analyze the rationale of these decisions and to delineate the strategy for accelerated growth of the economy and enhance the welfare of all citizens (Ray, 162). The Tenth Plan was clearly different from those of the previous ones and was aimed to bring some major radical changes to the Indian economy. In spite of a high growth of GDP of around 7 per cent throughout the last one decade, it was observed that the problems regarding poverty,

unemployment, inflation etc. has always been a matter of real concern for the Indian Government. The Tenth-Year Plan targets to increase the GDP to above 8 per cent and aims to raise it further to 9.5 by the end of 2010.

**Government's Performance:** First of all, a development scheme requires all around improvements in government's performance. On 2007 Plans, decentralization has been emphasized to improve the participation of the people in the various development schemes. Plans have been taken up in order to rationalize rules and procedures of official services.

**Corporate Performance:** The quality of governance is really an important factor for economic development. Some sort of judicial reforms have been planned and implemented in order to settle all disputes fairly and cheaply. It was necessary for making the economic contracts more dependable than that of the earlier days. The scheme includes the revision of the Urban Land and Regulation Act, rent-control laws, price ceiling, property tax, Stamp Duty etc.

**Reduction of Poverty:** It is the key requirement of any kind of economic reforms in India. Till the beginning of the 21st century, more than 30 millions of Indians live below poverty level earning less than \$ 1 per day. To minimize this number, the government of India has taken various schemes from 2005 till now.

**Population Growth:** The extremely high rate of growth of population is a major concern for the Indian government. Demographic management is also an important element of the development scheme. So, Family Welfare Program has been undertaken in order to improve the condition of women

and children, and district-schemes seek to reduce the tremendous population growth as such.