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## **Changing scenario of Indian economy in 21<sup>st</sup> century**

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### **Abstract**

Change is one of the basic characteristics of the nature itself. Everyone, be it individuals or organizations are subject to change. Even the systems have such subsystems which are responsible for their own decay. Even the economic philosophies like socialism and capitalism have tended to change with the changes in world ecological scenario. India is no exception to this basic rule. Emphasizing on the development of basic industries followed by other developments, the nation made commendable progress in 21<sup>st</sup> century. The Republic of India is considered as one of the emerging superpowers of the world. This potential is attributed to several indicators, the primary ones being its demographic trends and a rapidly expanding economy and by GDP India became world's fastest growing economy in 2015 with 7.3% GDP rate. The country must overcome many of the economic, social, and political problems before it can be considered a superpower.

**Keywords:** Indian economy, performance and FDI, government and synergy

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### **Introduction**

India lies in the cultural region of Indian Ocean - a zone with unprecedented potential for growth in the scale of transoceanic commerce, with many Eurasian and increasingly Afro-Asian sea-trade routes passing through or close to Indian territorial waters. The subcontinent's land and water resources, though strained, are still sustaining its massive population.

The central position of India, its magnificent resources, its teeming multitude of men, its great trading harbors, its reserve of military strength, supplying an army always in a high state of efficiency and capable of being hurled at a moment's notice upon any point either of Asia or Africa--all these are assets of precious value. On the West, India must exercise a predominant influence over the destinies of Persia and Afghanistan; on the north, it can veto any rival in Tibet; on the north-east. It can exert great pressure upon China, and it is one of the guardians of the autonomous existence of Siam. Possession of India gave the British Empire its global reach.

India's current economic growth (as the world's fastest-growing major economy as of 2015) has improved its standing on the world's political stage, even though it is still a developing country, but one that is showing strong development. Many nations are moving to forge better relationships with India.

The economy of India is currently the world's third largest in terms of real GDP(PPP) after the USA and the People's Republic of China. According to the World Bank India overtook China to become the fastest-growing major economy in the world as of 2015. Its record growth was in the third quarter of 2003, when it grew higher than any other emerging economy at 10.4%. Interestingly, estimates by the IMF show that in 2011, India became the third largest economy in the world, overtaking the Japanese economy and the Seventh largest economy by GDP (Nominal). India has grown at 7.5% in 2015.

As we know that in the context of a nation the new energy and positive changes brings with it a cascading effect on other factors too and so is happening with respect to the Indian market. The Indian market is growing at a fast pace ever since the new government came to power and the hopes of people and even neighboring countries are ever high with the new system.

The Indian market has been the major spot for many big companies since the dawn of this century. The influx of FDI and FII gave the much-needed buttress to the already self-sustaining Indian economy (I take the liberty to call it a self-sustaining economy because of the fact that the impact of recession on Indian soil was not of the scope as experienced in upper-tier nations). Let's take a panoramic view on the changing scenario of the Indian economy and banking sector.

### **The new government and synergy**

Ever since the new government came to the power with full mandate, the conditions are getting better. In this new era one could be sure that we are going to witness the much awaited and needed globalization upsurge as well as manufacturing boost.

The new budget presented by Finance Minister Arun Jaitley was lamented as the mere copy of his predecessor Chidambaram's budget. Many even said that it was a cut-paste job done. But as we see now that government has been over 250 days old the real picture has started emerging. The Jan Dhan Yojna, Swach Bharat Abhiyaan, higher FDI limits in for defence and insurance and similar schemes seems like a reminiscence of old budgets of Chidambaram's, but we all know that Prime Minister Narendra Modi and his team has done at least a better sales

job to boost optimism in the common man. New projects and schemes are more than welcomed by the nation, e.g., nationwide school-toilet facility pledge which P.M. Modi took in his independence day speech (which should be the primary agenda given to the fact that in today's era our is the country with highest percentage of people who still defecate in the open). All these schemes and new synergy of newly formed government and more than ever efficient bureaucracy are the indication that the time has come when in near future India will become a global hub for investment and projects. Hopes are high and so does the energy, the results are still to emerge but one could hope that it would be better than the previous government on many accounts.

During August there was a lot of optimism and great expectations for the Indian Market to outperform, but, a change is not going to be evident in such a short span of time. There is no magic wand as rightly said by P.M. himself. Now as the picture unfolds, and as recently the Finance Minister Arun Jaitley said that declining prices of crude oil and food will help lower inflation, it seems that there is going to be a modest growth of 5.1% Gross Domestic Product (GDP) in 2014-15 as compared to what been estimated as 5.5%, but, still better than Chidambaram era.

Talking about the market size India holds a 6.4 percent share of global GDP on Purchasing Power Parity (PPP) basis and presently is the third biggest economy in the world in terms of PPP, according to a World Bank report. Also the industrial sector in India looks positive as industrial production grew at a 13-month high rate of 3.4 per cent in April 2014, driven mainly by electricity generation and manufacturing, as indicated by the Index of Industrial Production (IIP). As of now the manufacturing output picked up modestly during the October as according to HSBC survey. In addition, the export order has also witnessed a rise in October as compared to what slowed down during August-September.

The banking sector is also getting full support from the Reserve Bank Governor Raghuram Rajan. He has kept all the rates unchanged owing to the fact that the Indian economy is still in the reviving phase and the geopolitical scenario might adversely affect the economy. The short-term lending (Repo Rate) rate remained at 8%, and the cash reserve ratio (CRR) requirement of banks at 4%. The main reason touted for the rates being unchanged is that the upside risks from food price shocks remains.

Whether it be of bringing Statutory Liquidity Ratio (SLR) or simplification of Know Your Customer (KYC) documentation, the Reserve Bank of India's steps indicate that it has full confidence in the new government and its working. Appointed a little over a year ago, Raghuram Rajan, a former chief economist at the International Monetary Fund, is credited with making the RBI more amenable to change.

#### **Low home loan interests due to demonetization**

The immediate effect of demonetization was increase in cash deposits in banks. Banks which earlier encouraged customers to invest in deposit accounts suddenly found themselves in a huge influx. The next problem was to dispense the cash through various instruments. To encourage loans, the apex bank RBI to cut the interest rate on home loans to attract masses towards real estate investment. This resulted in increased demand for real estate in India. Also the lower interest rate scheme benefited property builders in resuming their projects which were discontinued due to lack of funds. One of the segments which benefited most from the demonetization drive is the affordable housing segment. Affordable housing came with lower EMIs due to various subsidies and became even cheaper after demonetization.

#### **Improved stock market performance and FDI**

The Indian real estate sector attracted all time high foreign investment of US \$ 5.7 billion in 2016, despite demonetization (The Economic Times, 2017). Also the performance of real estate firms on the stock market Bombay Stock Exchange (BSE) improved by 50% during 2016-17, dispelling fears of ill effects of demonetization. The country is on track to becoming the fourth largest economy in the world with a growth rate of 7.5% by the end of 2022. A further increase in private equity from foreign and local investors and other institutional investments in the sector are certainly going to push for more transactions. The outlook for the real estate sector is thus positive.

#### **Slow purchases due to contraction in cash**

Post demonetization there was a severe unanticipated cash crunch in the economy and liquid cash became dearer. The demonetized currency constituted a total of 85% of the total money circulated in India at the time of demonetization. As people were forced to deposit these notes in their bank accounts all cash was flushed out of the system. This restricted the number of transactions they could perform in cash, hence purchase of property slowed down. Purchase of new property fell by up to 40% in major cities, while new project announcements fell by 11% immediately after demonetization. However the effect lasted only for a short while as buyers only deferred their purchase decision and not discard it.

#### **Slow down in construction work**

The liquidity crunch hit real estate from all sides, even the supply. Construction firms which dealt in cash until then suddenly found themselves unable to meet their operational expenses like wages and raw materials. Wages were until then paid only in cash as most construction workers did not have a bank account. The reform removed cash entirely from the system, therefore constructors also could not meet their expenses. Also they were reluctant

to borrow money due to uncertainty in the market. Consequently, most of the under-constructions projects came to a standstill. Metros such as Delhi, Mumbai and Chennai were the worst affected after demonetization.

### **Low rental yield**

Demonetization also left a huge impact on rental yields in India. The figure below clearly depicts the fall in rental yield in three popular cities of India post demonetization. This is because of the fall in prices of properties in general and the effect lasted only a few months.

### **Primary sector**

India, growing at 9% per year, is the world's second largest producer of food next to China. Food processing accounts for USD 69.4 billion as gross income.

### **Secondary sector**

India is still relatively a small player in manufacturing when compared to many world leaders. Some new trends suggest an improvement in future, since the manufacturing sector is growing at 11-12%.

### **Tertiary and quaternary sector**

India currently has an expanding IT industry which is considered one of the best in the world. Some have begun to describe India as a *technology superpower*. It is considered the World's Office and is leading in the Services Industry. This is mainly due to the availability of a large pool of highly skilled, low cost, English speaking workforce.

The social infrastructure in India such as roads, power grid, water, communications infrastructure, housing and education are often below standards, and not catching up with the tune of its economic progress. Continued poor infrastructure might serve as a bottleneck to further economic development. The 2012 India blackouts, which affected millions, was a result of such problems. The government is, however, improving the infrastructure, such as expanding the freeway and highway system and bringing it up to global standards. As of 2005, India only had 4,885 km of central-divided expressways, while the U.S. and China have 90,000 km and 41,000 km of expressways, respectively.

Despite India's growth spurt of 8% p.a. in recent years, its sustainable pace is still much lower than China's, which puts its economy more at risk of overheating and rising inflation. The Reserve Bank of India (RBI) has acknowledged the risk of overheating and has been tightening monetary policy steadily. It is debatable whether this alone will be sufficient to ease inflationary pressures. The economy is running near or above capacity, and the RBI has noted that production must rise at a pace sufficient to match overall GDP growth if further inflationary pressures are to be avoided. The Indian government has said that much of the rise in inflation recently can be attributed to short-term supply constraints Unless India finds a quick way to generate jobs, its population of unemployed youths could be a reason for instability. India's growth in the services sector and Information Technology sector has not been matched by growth in manufacturing which can provide more jobs. Some claim that this sector may lose importance in the future. India is leveraging on new sectors like the KPO (Knowledge Process Outsourcing).

Though, unemployment rate on February 2017 was claimed to be around halved to 4.8% against 9.5% estimates at August 2016.

### **Conclusion**

With the aforementioned changing scenarios one could be assured that one day the Indian economy will become the largest in the world and Indian market a central one with almost all big companies streaming in for a piece. With the increase in per capita income of the masses, one can be assured that India will be the next big thing in the coming decade. The innovative and daring thinkers are going to be the decision makers in the near future with lots of transformation. Many market changers will be emerging who will have the courage and ability to cater the needs of the society. The more the market and economy becomes sensitive towards the lower strata of society, and is aware of the social and economic barriers people face, the healthier the economy will become in future. The future looks bright for the Indian economy.

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