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MACROECONOMIC CHALLENGES FACED BY INDIAN ECONOMY

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ABSTRACT

India's economic growth is expected to pick up a faster pace in 2013-14 and record six per cent plus levels of gross domestic product (GDP), according to Mr C Rangarajan, Chairman, Prime Minister's Economic Advisory Council (PMEAC).India was reported to expand at a better rate as compared to its three BRIC peers China, Russia and Brazil in May 2013, as per a survey by HSBC. India was also ranked amongst the top 20 real estate investment markets globally with investment volume worth Rs 190 billion (US$ 3.05 billion) recorded in 2012, according to Cushman & Wakefield's report 'International Investment Atlas'.

In spite of all these achievements Indian economy is peculated with some macro economic challenges which hinders the growth of economy. Efforts are been made to rectify these challenges like lowering of unemployment level by introducing various schemes and plans , curbing of inflation rate and controlling the performance of business cycle. These problems arise when the macro economy does not satisfactorily achieve the goals of full employment, stability, and economic growth. Unemployment results when the goal of full employment is not achieved. Inflation exists when the economy falls short of the stability goal. These problems are caused by too little or too much demand for gross production. Unemployment results from too little demand and inflation emerges with too much demand. Stagnant growth means the economy is not adequately attaining the economic growth goal. Each of these situations is problematic because society is less well off than it would be by reaching the goals.

This paper focuses on the macro economic challenges which is been faced by the economy and ways which can be adopted to curb these problems. This paper also focus on how such macroeconomic challenges operate in practice, and how they interact with each other, *especially in terms of their effect on growth, macroeconomic stability, and resilience to shocks.*

Key words : Macro Economic problems, unemployment, Inflation ,Stagnant growth ,Business Cycle

Introduction

Any economy of the country which faces problem is due to the detrimental situations that exist in the macro economy, largely because one or more of the macroeconomic goals are not satisfactorily attained. The major problems which an economy faces are unemployment, inflation, and stagnant growth. Though many Macroeconomic theories are designed to explain why these problems emerge and even recommend corrective policies but not much change are noticeable.

Macroeconomic problems arise when the macro economy does not satisfactorily achieve the goals of full employment, stability, and economic growth. Unemployment results when the goal of full employment is not achieved. Inflation exists when the economy falls short of the stability goal. These problems are caused by too little or too much demand for gross production. Unemployment results from too little demand and inflation emerges with too much demand. Stagnant growth means the economy is not adequately attaining the economic growth goal. Each of these situations is problematic because society is less well off than it would be by reaching the goals. The major Macro Economic problems are discussed here:

1. **Unemployment:** Unemployment arises when factors of production that are willing and able to produce goods and services are not actively engaged in production. Unemployment means the economy is not attaining the macroeconomic goal of full employment.

   (i) Unemployment Rate (UR)

One of the important parameter of the labour force is the unemployment rate. Based on the survey results, the unemployment rate at All India level is estimated at 38 persons out of 1000 persons under the usual principal status approach for the persons of age 15 years & above. In case of male category, the unemployment rate is estimated at 29 persons out of 1000 persons whereas for the female category the unemployment rate is estimated at 69 persons out of 1000 persons at All India level under the usual principal status approach. The unemployment rate based on four different approaches is given below in Table 1

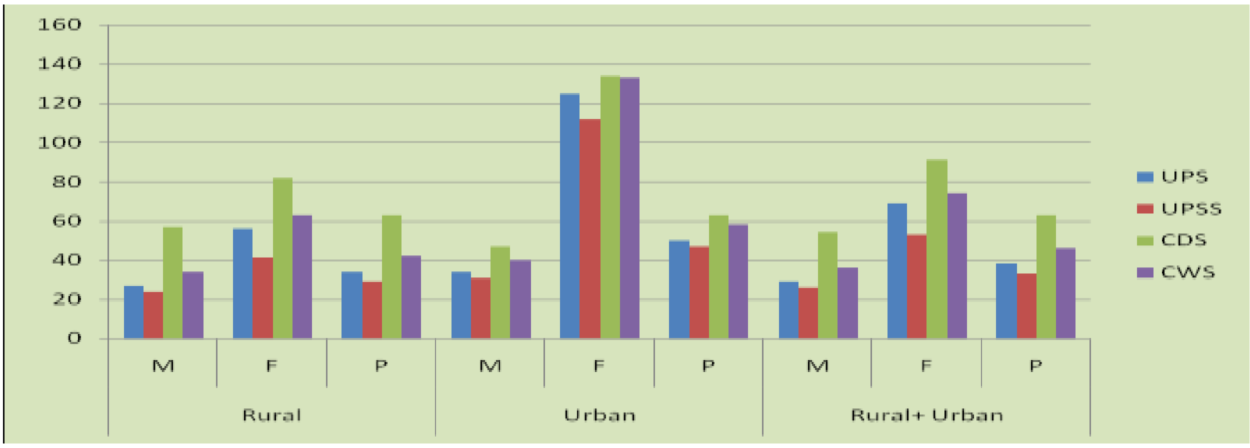
Table 1 : Unemployment Rate based on different approaches

APPROCHES	RURAL			URBAN			RURAL + URBAN		
	M	F	P	M	F	P	M	F	P
U P S	27	56	34	34	125	50	29	69	38
U P S S	24	41	29	31	112	47	26	53	33
C D S	57	82	63	47	134	63	54	91	63
C W S	34	63	42	40	135	58	36	74	46

While comparing the sector level results under the usual principal status approach, it is observed that in the rural sector the unemployment rate is estimated at 34 persons out of 1000 persons which is lower than the Unemployment Rate in urban areas i.e. 50 persons out of 1000 persons at All India level. As expected, the unemployment rate under the UPSS approach is lower than the unemployment rate under UPS approach in all the categories because of the inclusion of **subsidiary economic activity** under the UPSS approach.

A comparison of the unemployment rates estimated on the basis of different approaches, shows that UR is highest at 63 persons out of 1000 persons at All India level under the current daily status approach, followed by 46 persons out of 1000 persons under the current weekly status approach, 38 persons out of 1000 persons under the UPS approach and the lowest at 33 persons out of 1000 persons under the UPSS approach shown in Diagram 1

Diagram 1:Unemployment Rate based on different approaches

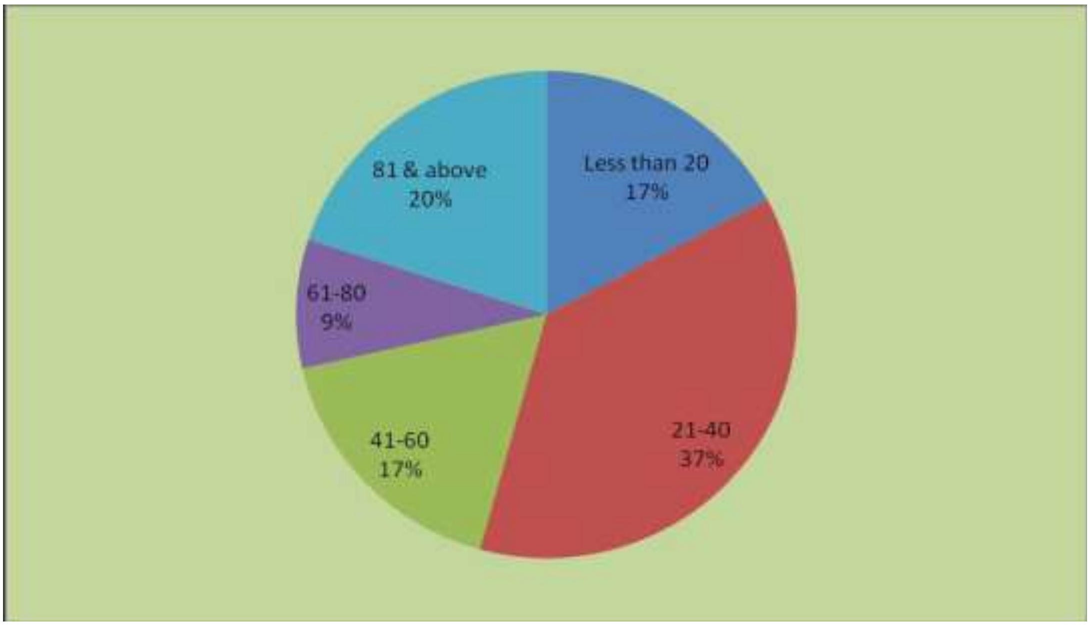


Reference: http://labourbureau.nic.in/rep_1.

While comparing the state level unemployment rates under the usual principal status approach, it is seen that the highest unemployment rate is estimated in **Goa** (179 persons out of 1000 persons) followed by 141 persons in **Tripura**, 126 persons in **Sikkim**, 99 persons in **Kerala**, 83 persons in **Bihar** and 78 persons out of 1000 persons in **West Bengal** which is shown with the help of diagram 1

Diagram 2

Proportion of States/UTs with UR range (Persons per '000)



Unemployment occurs due to various reasons which are as:

- Less output produced resulting in scarcity problem in the economy
- Less income and low per capita income which lead to lower living standards due to unemployment

2. **Inflation:** Inflation is a situation when the average price level in the economy constantly and steadily increases. In other words, general prices level rise from month to month and year to year. Inflation is an average increase in prices, with some prices rising more than the average, some rising less, and some even declining. Thus affecting the society on the whole in some way or the other in different parameters.

Inflation results because of following reasons:

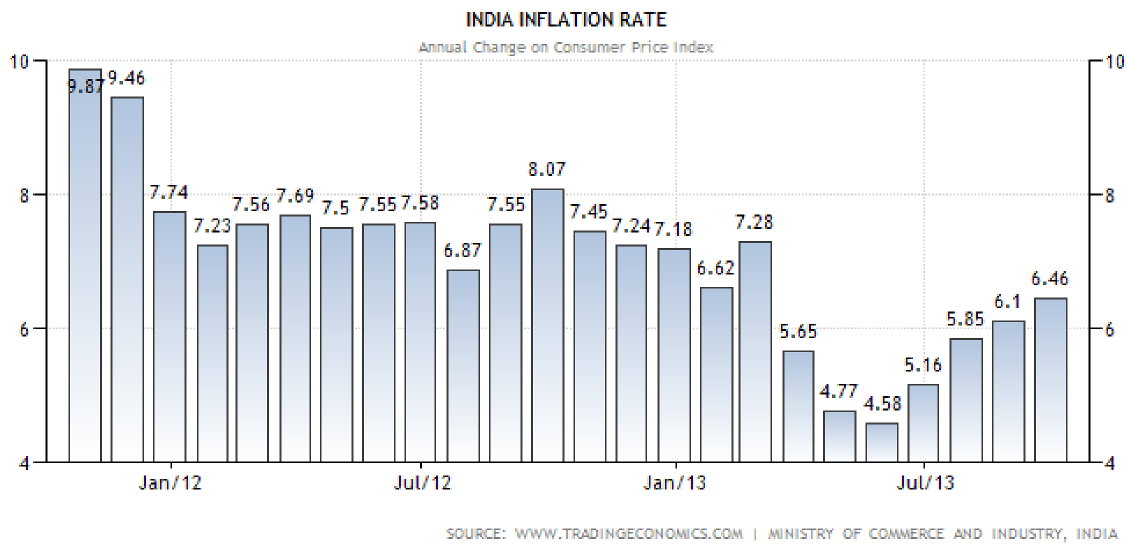
- The purchasing power of money declines, which reduces financial wealth and lowers standard of living.
- Greater uncertainty surrounds long-run planning, especially the purchase of durable goods and capital goods.
- Income and wealth can be arbitrarily redistributed among different sectors of the economy and among resource owners

India Inflation Rate:

Inflation Rate in India is reported by the Ministry of Commerce and Industry, India. The inflation rate in India was recorded at 6.46 percent in September of 2013. India Inflation Rate averaged 7.72 Percent from 1969 until 2013, reaching an all time high of 34.68 Percent in September of 1974 and a record low of -11.31 Percent in May of 1976. In India, the wholesale price index (WPI) is the main measure of inflation. The WPI measures the price of a representative basket of wholesale goods. In India, wholesale price index is divided into three groups: Primary Articles (20.1 percent of total weight), Fuel and Power (14.9 percent) and Manufactured Products (65 percent). Food Articles from the Primary Articles Group account for 14.3 percent of the total weight. The most important components of the Manufactured Products Group are Chemicals and Chemical products (12 percent of the total weight); Basic Metals, Alloys and Metal Products (10.8 percent); Machinery and Machine Tools (8.9 percent); Textiles (7.3 percent) and Transport, Equipment and Parts (5.2 percent). This page contains - India Inflation Rate - actual values, historical data, forecast, chart, statistics, economic calendar and news. 2013-10-23

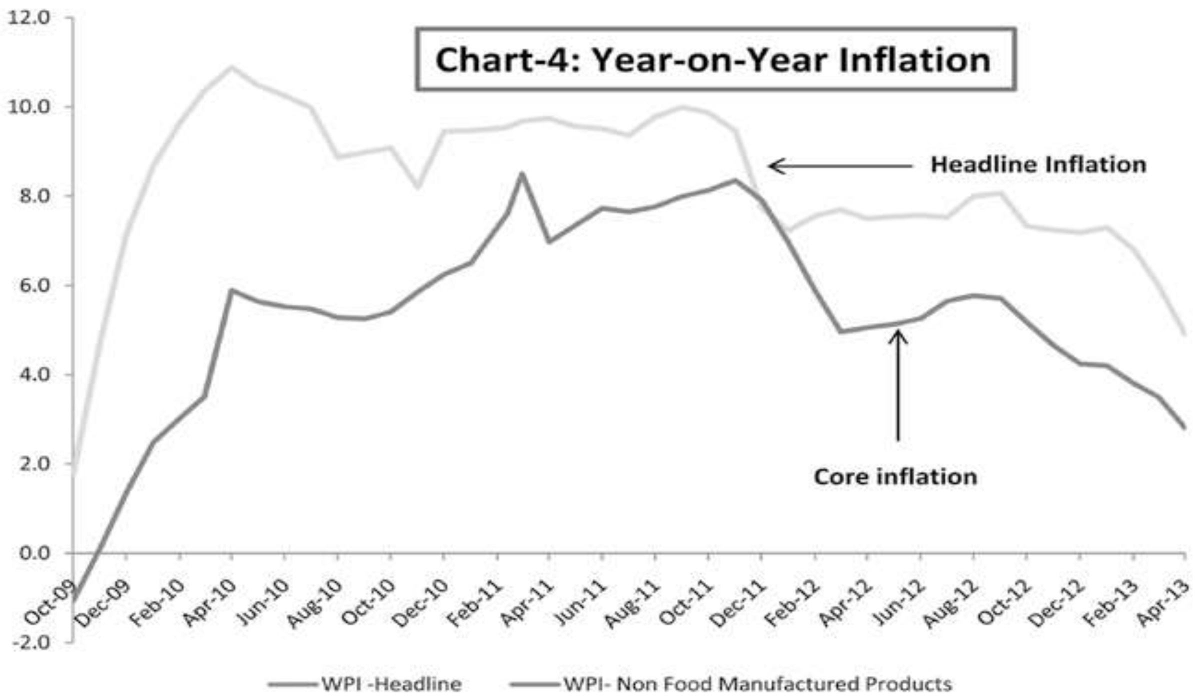
TABLE 2:

Country	Category	Dates	Actual	Highest	Lowest	Unit	Frequency
India	Inflation Rate	1969 - 2013	6.46	34.68	-11.31	Percent	Monthly



Reference : http://www.tradingeconomics.com/india/inflation-cpi

In September, India's headline inflation rate based on monthly WPI rose to 6.5 percent from 6.1 percent in August, hitting its highest level since February of 2013. The speed up is broadly due to higher prices for food.

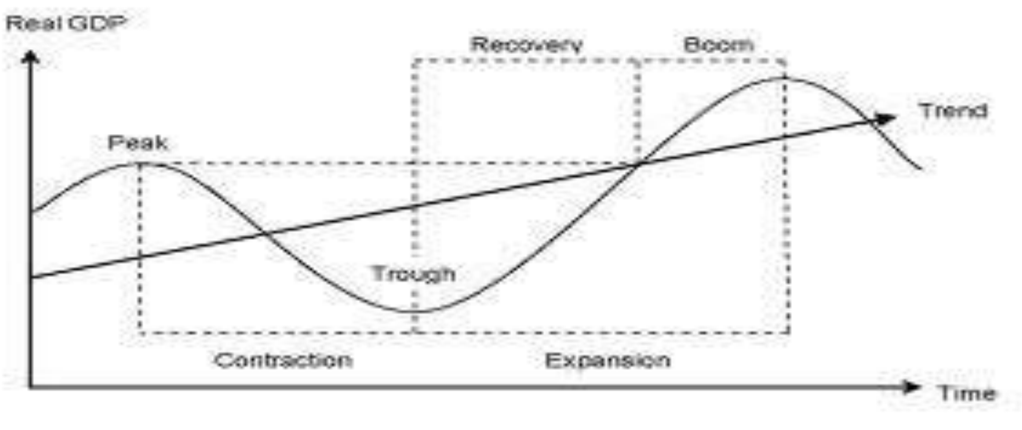


The index for food prices rose by 18 percent due to higher prices of vegetables (soaring 89 percent), rice (19 percent) and fruits (14 percent). Energy costs were up 10 percent due to higher prices of high speed diesel (20 percent), liquefied petroleum gas and oil (both up by 9 percent). Manufactured goods prices rose 2.0 percent. The build up inflation rate in the financial year so far was 5.64 percent compared to a build up rate of 4.84 percent in the corresponding period of the previous year.

3. **The Business Cycle:** Unemployment and inflation tend to vary with business-cycle instability. At some times, unemployment is less of a problem and inflation is more. At other times, unemployment is more of a problem and inflation is less. Consider how these two problems connect to the two primary phases of the business cycle.

(i) Contraction: The contraction phase of a business cycle is characterized by a general decline in economic activity. Aggregate demand is less resulting in less output and as a result fewer resources are employed. This is the reason , unemployment tends to be a key problem. However, because markets are more likely to have surpluses than shortages, inflation tends to be less of a problem.

(ii) Expansion: The expansion phase of a business cycle is characterized by a general rise in economic activity. Aggregate demand is higher, production is greater, and more resources are employed. Demand for production often outpaces the ability to supply the production. Under these circumstances, because markets are more likely to have shortages than surpluses, inflation tends to be the primary problem. However, with robust production and jobs aplenty, unemployment tends to be less of a problem.



1. By watching the long-term investments in infrastructure, maybe 10-15 years into the future, we can call the GDP growth rate. At present it is likely to be 5-7 %.

2.The current RBI governor has commented that the potential growth output frontier has shrunk to about 7.5%.

3.During the growth phase of the business cycle,when the growth reaches,85% of the capacity,which is about 6.5% growth,RBI will likely apply the brakes.

4..The business cycle time period has reduced from a previous 7-8 years to 1.5-2 years.

Reference : http://wealthymatters.com/2012/10/19/indias-shrinking-business-cycle/

The Business Cycle Indicator (BCI) for Indian economy showed 5.1 year on year growth in April 2013, showing signs of continued recovery.BluFin, the Financial Information and Content Company, today in a statement said the BCI current score for April rose to 165.9 on the falling global prices for crude oil, Gold and Copper.The rising domestic production of intermediate goods like Aluminum also gave a positive push. BCI continues to indicate an expansion indicating that the Indian economy is growing at a faster rate than the previous year, it said.BCI provides “real time” information on the state of the business cycle in the Indian economy.The key negative contributors to the BCI in April were slowing revenue generation from rail freight, domestic air travel and agricultural exports.The year-on-year growth rate of BCI noted in the previous month (March 2013) was 4.7%. Historically, the BCI has grown by 7% year-on-year, on an average.The current economic trends indicate sustainable growth in the quarters ahead. The BCI has been indicating an economic revival since July 2012, although the projected recovery path is sluggish in the near term.The first quarter of 2013-14 should see sluggish growth. Growth should pick up by Q2 of 2013-14 with a quarterly growth of 6.2-6.5%, BluFin said.

4. **Stagnant Growth:**The problem of stagnant growth arises because the supply of aggregate production is not increasing at a desired pace or is even declining. An increase in the total production of goods and services is generally needed to keep pace with an increase in the population of society and expectations of a rising living standard. Stagnant growth exists if total production does not keep pace. This means the macroeconomic goal of economic growth is not attained. Reasons for stagnant growth can be identified with a closer look at the quantity and quality of the resources used for production.

1- Quantity: The available quantities of the four factors of production--labor, capital, land, and entrepreneurship--can restrict the growth of production. The quantity of labor is based on both the overall population and the portion of the population willing and able to work. Should either decline, then growth is not likely to keep pace with expectations. The quantity of capital depends on the amount of investment expenditures relative to the depreciation of the existing capital stock. If investment expenditures should decline or depreciation increase, then the economy is less likely to grow. If, for example, restrictive government regulations and high taxes discourage The Wacky Willy Company and similar manufacturing companies from building new factories, then the total quantity of capital declines.

2- Quality: The quality of the four resources can also lead to stagnant growth. The two most noted resource quality influences are technology and education. The lack of technological progress, which could result from allocating fewer resources to scientific research can limit increases in the quantity of resources. Along a similar line of reasoning, allocating fewer resources to education can also limit resource quality.

Stagnant growth is concerned with those economy where there are limited resource and unlimited wants. Indian economy is out of this problem since we can see the underlying developments in the Indian economy scenario

The Economic Scenario

India witnessed an improvement in its business climate on the back of increased foreign direct investment (FDI) and greater revenue receipts by the Government. The ‘BluFin Business Cycle Indicator (BCI)’, which reflects various macroeconomic trends on a monthly basis, stood at 165.3 points in July 2013, 5.3 per cent higher compared to July 2012.

Some of the other important economic developments in the country are as follows:

• Indian companies have invested Rs 3,497 billion (US$ 57 billion) across Europe during 2003-2012, of which Rs 2,358 billion (US$ 38.44 billion) was through mergers & acquisitions (M&A) deals of 411 companies. A dominant 47 per cent of the Indian greenfield investment and 63 per cent of the employment creation was received by the United Kingdom (UK)

• Indian companies have raised about Rs 117 billion (US$ 1.9 billion) through external commercial borrowings (ECB) and foreign currency convertible bonds (FCCB) in June

2013 to fund modernisation, foreign acquisition, importing of capital goods and refinancing of old loans

• India registered FDI growth of 24.2 per cent year-on-year (y-o-y) to touch Rs 242.28 billion (US$ 3.95 billion) in April-May 2013, according to data released by the Department of Industrial Policy and Promotion (DIPP)

• The cumulative amount of FDI equity inflows into India were worth Rs 12.09 trillion (US$ 197.24 billion) between April 2000 to May 2013, according to the latest data published by Department of Industrial Policy and Promotion (DIPP)

• Foreign institutional investors (FIIs) made a net investment (including equity and debt) worth Rs 30.57 billion (US$ 498 million) as on August 7, 2012-13, according to data published by Securities and Exchange Board of India (SEBI)

• India's foreign exchange reserves (Forex) stood at Rs 17.01 trillion (US$ 277.17 billion) as on August 2, 2013, according to the weekly statistical data released by Reserve Bank of India (RBI). Exports during July 2013 were valued at Rs 1.60 trillion (US$ 25.83 billion), which was 11.64 per cent higher in terms of dollar

• India’s export of software services (computer services and Information Technology Enabled Services (ITeS)/Business Process Outsourcing (BPO) services) during 2011-12 was estimated at Rs 2,480 billion (US$ 40.38 billion), of which computer services exports accounted for a share of 75.2 per cent, as per Reserve Bank of India (RBI) data

• A total of 173 special economic zones (SEZ) in India have commenced export operations. The contribution of SEZ exports stood at Rs 1,300 billion (US$ 21.16 billion) in the first quarter of 2013-14

• The total mergers and acquisitions (M&A) in April 2013 were valued at Rs 102 billion (US$ 1.66 billion) through 39 deals, according to the data released by Grant Thornton

Growth Potential Story

• India has a market potential of €2 billion (US$ 2.66 billion) for setting up high-voltage transmission lines by 2018, as per Alstom. The high-voltage direct current (HVDC) market is estimated at €50 billion (US$ 66.47 billion) in the next 10 years, and Alstom is targetting a 20 per cent market share

• Private equity (PE) firms are keen to invest Rs 122.80 billion (U$ 2 billion) in the real estate market in India, according to a report by Cushman & Wakefield. PE investments in real estate was recorded at Rs 16.38 billion (US$ 266.81 million) in H1 2013 The growing stability of the market is reflected by the continuous growth of the core investors, with over Rs 77.05 billion (US$ 1.25 billion) invested in ready office space during the last three years

• The greenfield investments by automobile manufacturers in India may entail total investments worth Rs 70 billion (US$ 1.47 billion) to be incurred by auto component manufacturers over the next three years, according to a study by ICRA

• The logistics sector of India is valued at Rs 6.73 trillion (US$ 110 billion) and is expected to touch Rs 12.24 trillion (US$ 200 billion) by 2020. The sector is will double its growth in seven years from the present growth rate of 15 per cent, said Mr K V Mahidhar, Head, CII Institute of Logistics

• The Government of India encouraged the agrochemicals industry to invest in research and development (R&D) and innovations. Agrochemicals are recognised as an essential input for increasing agricultural production and preventing crop loss before and after harvesting

• The Government of India's decision to allow foreign direct investment (FDI) through automatic route in power exchanges, while retaining the cap at 49 per cent, will open up opportunities for overseas players to participate in the growth and development of the sector, especially the power exchanges

• India witnessed 73.5 million mobile handset shipments for the January-April 2013 period. Also, smartphones to a tune of 9.4 million were shipped into India, registering a growth of 167.3 per cent on an annual basis

• The risk and procurement analytics sector in India is expected to grow from the present Rs 61.24 trillion (US$ 1 billion) to Rs 183.72 trillion (US$ 3 billion) in 6-7 years, according to a report by National Association of Software and Services Companies (Nasscom). In addition, Nasscom expects the IT services sector in India to grow by 13-14 per cent in 2013-14 and to touch Rs 13.79 trillion (US$ 225 billion) by 2020

• The enterprise software market in India is expected to reach Rs 240.66 billion (US$ 3.92 billion) in 2013, registering a growth of 13.9 per cent over 2012 revenue of US$ 3.45 billion, according to Gartner

• The prime office space segment across key cities—Mumbai, the National Capital Region (NCR), Pune and Bengaluru—in India witnessed a fresh supply infusion of more than 20 million square feet (sq ft) in the first six months of 2013, witnessing a growth of 16 per cent on y-o-y basis, as per a report titled the India Office Market View Q2 2013 by CBRE

• As the healthcare coverage across the country increases, the industry is expected to register a CAGR of 12 per cent to reach Rs 4,200 billion (US$ 68.46 billion) in 2015-16, as per data released by VCCEdge

Conclusion:

For India to grow at 8-9 per cent in the future, the growth has to come through sustained growth in manufacturing, particularly labour-intensive manufacturing, highlighted Dr Manmohan Singh, the Prime Minister of India, at the meeting of the high-level committee on manufacturing. A report by CRISIL estimated that the Indian economy will grow at a higher rate of 6.7 per cent during 2013-14 due to revival in consumption, the Government projects the Indian infrastructure landscape to attract investments worth Rs 49,000 billion (US$ 803.28 billion) during the 12th Five Year Plan period (2012-17), with at least 50 per cent funding from the private sector. Exchange Rate Used: INR 1 = 0.01638 as on August 12, 2013.

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