

# A Study of Indian Economy and Its Macroeconomic Variables

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**Abstract-** In 1947, India was suffering from abject poverty, high illiteracy and drain of wealth. The study aims to understand the growth of Indian economy in connection the macroeconomic indicators as selected by the World's Bank. The macroeconomic indicators that have been studied form the base of Indian economy and are a subject of deep analysis to understand how the Indian economy has improved or shaped itself over the years. India as a subject in itself is an important topic due to the poverty rates, gross capital formation, foreign direct investment, net value added, and population. Having its base from the year 1984. three major reforms changed the path of economic development in India, the Green Revolution, the White revolution and the LPG policy reforms. The economy went through various reforms and policies structural changes that led to the advent of the growth journey for India.

**Index Terms-** Growth, Development, Macroeconomic Indicators, Population, Gross Capital Formation, Trade, Balance of Payments, Foreign Direct Investment

## INTRODUCTION

The Indian economy has gained the position of third-largest in the world ( purchasing power parity). The economy was growing at a rate of 6.8 % from last 30 years before the pandemic hit the world. India has the world's third-largest army base with the annual budget for defence running into billions of dollars. The current population of India stands at 1.35 billion with a growth rate of 1.06 % from the year 2019. as per the census of 2011 literacy rate stands at 74.04 %. Total geographic area of India ranges from 3213 kilometers moving from north to south India and 2932 kilometers from the Eastern part to the western part of India. The total land space in India is 2,93,190 square kilometers. India is rich in its natural resources from coal to natural gas, iron ore, diamonds, gold, bauxite, and limestone. The major export associates of India are Singapore, Bangladesh, China, UAE, Hong Kong, USA and UK. India has gained its popularity among the foreign investors during the cost-effective labour and raw material availability in the country. As per the statistics from the 2019 the top FDI investment was done by Singapore, Japan, UK, USA, Germany and Netherlands. But all of state did not happen in a day India had to go through many terminals and set facts before reaching a respective state of growth and giving repute among the world economy. With the help of this study we will try to find out the major development that have taken place or how the economy has shaped up with the help of various macroeconomic indicators which have been considered by World bank to study the economic development in growth of any country. We will try to check the trend and pattern of the development and fluctuations that have taken place in the various macroeconomic indicators of the country on which the entire development process is based upon.

## LITERATURE SEARCH AND ANALYSIS

The Indian economy stagnated at the rate 3.4% between 1950-1980. This phenomenon is popularly known as Hindu Growth Rate. This sluggishness can be credited to various economic barriers like delayed agricultural reforms which was the primary cause for low growth rates (Acharya, S,2014). Agricultural sector has always been very important for the Indian economy despite its fall from 55.2 % in the 1950s to 16% in 2008- 2009. Reason behind this is that agriculture has been one of the major sources of Employment generation for the

population of India and even today has been a living earning source to more than 68 % of the population and so is a vital factor for giving assistance to the Indian population. On the other hand, the exports and imports fluctuation played a very important role in determining the Indian economic development. There exists a causal relationship between the exports and the economic development of a country which has been studied using vector error correction mechanism and has found the relationship between the two (Redding, S, Zilibotti, F, 2016). Gross capital formation is an important tool for tea front of an economy which results in increase Savings and investments that promote development among all the sectors. the role of gross capital formation in improving the various sectors of the economy and also poverty reduction on the basis of the argument that increase domestic capital, proper policy structure and administration poverty reduction and stimulation of investment by the public in all sectors (S. Bisaliah,2017).Economic growth can play a crucial and unreplaceable role in poverty reduction by reducing the income inequalities in the country. For this the major role is played by various macroeconomic indicators (Himanshu and Sen, A,2018).

## OBJECTIVES

1. To discuss the various macro-economic variables which affect an economy.
2. To analyze the trend and pattern of various macro-economic variables with change in the economy of India.
3. To conclude the role of the macroeconomic variables in the development of Indian economy.

## RESEARCH METHODOLOGY

Statistical techniques like use of table for data representation, graphs and charts has been done used to analyze the information and present the study in a methodical manner.

## SOURCE OF DATA

The study has been conducted on the basis of secondary data collected from various authentic and reliable sources, so as to produce non-spurious results and provide a simplified understanding of the objectives.

## THE MACRO ECONOMIC INDICATORS

Macroeconomic indicators or the central data releases, are statistical data sets of an economy that replicate the production ratios of an economy, sector or government. They vary in with time in their frequency, effect, and denotation. Mention below are a few macroeconomic indicators that affect an economy. All the macro economic variables play a dynamic role in solving the development issues. The fluctuation in one indicator has far reaching impact on other variables leading to a heavy impact on the gross domestic product of an economy.

Macroeconomic Indicators
Population
Economy
Trade
Health
Education
Development
Labor Force
Environment
Immigration
Other

## MACROECONOMIC VARIABLES- TREND AND PATTERN

The next section discusses how some of these variables have trended over last few decades in relation to the Indian economy.

### Population -Trend and Pattern

The population(year 2020) of India is 1,380,004,295, which is a 0.97% rise from the year 2019. In the year 2019 it was 1,366,507,794, which was 1.02% more from that of 2018. This was 1,352,782,988, with 1.03% high from year 2017.

This growth has seen some huge growth when compared to the population in year 1950 which was 367,325,100. The increase in population is one of the devastating factors when the resources are limited. India is the second largest populated country of the world.

**Figure 1.1 Population Growth Rate**

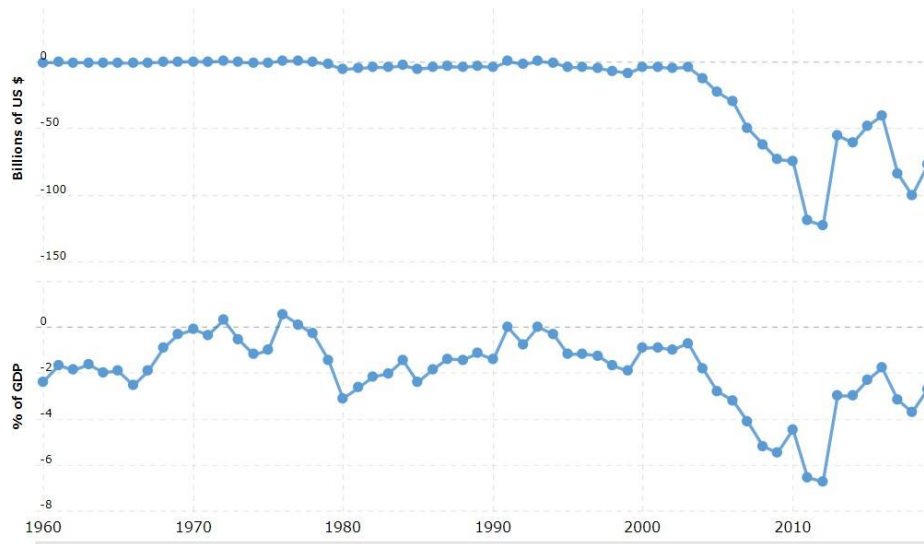


Source: World Bank, 2020

### Trade -Trend and Pattern

The balance of payments is exports of a country minus the imports. Data has been represented in (current U.S.\$). The trade as a percentage of gross domestic product in India, had always been showing a very fluctuating trend which stabilized for some time when liberalization, privatization and globalization i.e. the LPG policy reforms were introduced in India. Even after there had been many economic slumps which have led to severe fluctuations in the trade and balance of payment. The trade balance as percentage of GDP have always been negative, which means it had been affecting the economy. one of the biggest reasons behind this are imports being more than exports leading to huge fiscal deficits.

**Figure 1.2 Trade Pattern in India**

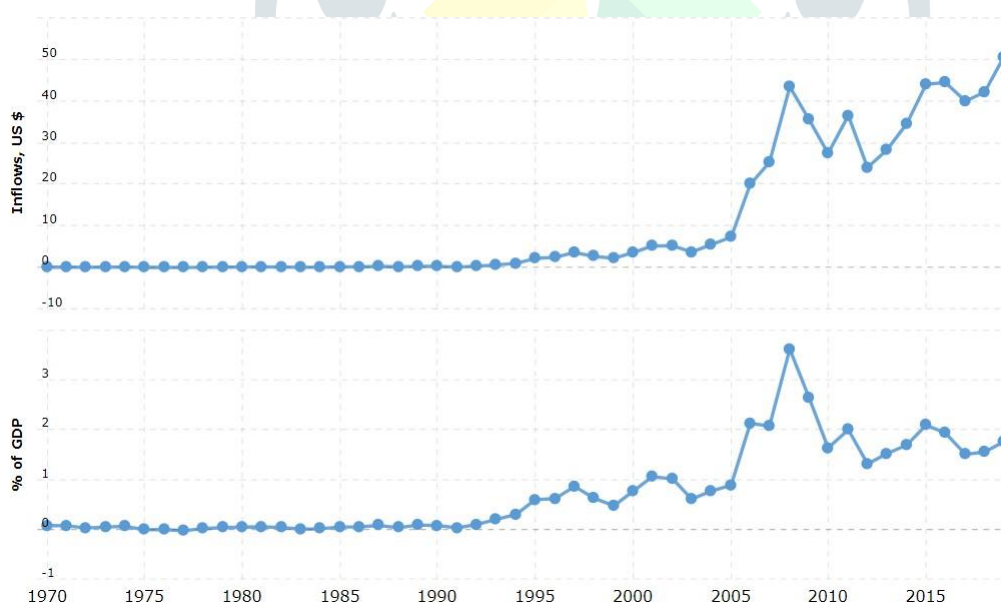


Source: World Bank,2020

**Foreign Direct Investment (FDI)-Trend and Pattern**

It refers to the direct outlay or the equity flows in an economy from other economies. The FDI investment in India started growing at a rate of 0.20% from 1970-90. From the year 1999 to 2003 the FDI in India was not running in at the desired level. Since then till year 2019, it had been showing a fluctuating trend despite billions of dollars of investment that has been done in to the economy. The FDI as a percentage of GDP was 1.53 % in the year 2018 which rose to 1.64 percent 2019. Any kind of investment in a developing economy is an important source for the development within the country. India due to its fiscal deficit depends a lot on foreign direct investments which when affected by volatility has impacted the economy negatively.

**Figure 1.3 FDI in India**



Source: World Bank,2020

**CONCLUSION**

The discussions on macroeconomic indicators and their importance is age old, which is still being studied for its impact. While discussing limited macroeconomic indicators above, there are many which need to be understood and analyzed to check the complete impact on an economy. The other macroeconomic indicators are education, exports, imports, tourism, environment, trade to GDP ratio etc. Reviewing some of the

macroeconomic indicators that have been stated above, we can say that foreign direct investment or FDI is a big source of finance in India. For any developing economy, it is difficult to attract domestic investment and so has to depend upon the investments from the outer sources. These investments are of big help in the development of the internal projects of a country. While calling of for foreign investment from abroad, it is very important for a government to have a uniform approach and invite investment in all the sectors of the economy, so as to have a holistic development.

Analyzing the trend and pattern of population factor in India, it has turned out to be a limiting factor in its development as it reduces the gross capital formation. Along with that, it also requires more amount of investment per capita. Also, larger the population bigger is the problem of unemployment leading to a negative growth rate for that countries. It also has a direct impact on the scarce resources of that country and creates deficiency in all the sectors. The growth of population is a grave problem in the developing economies like India.

The trade and growth relationship are not a new subject for any economy. Many cross-country analyses have been conducted to study the impact of trade on any economy. Economy cannot operate all alone in the times of economic integration at the global levels. On the other hand, it becomes very important for a developing economy to have more of exports than the imports to reduce its balance of payments and have a stable rate of growth based on trade. There is a lot more scope to understand how the other macroeconomic indicators have graduated since independence of India and have played roles in determining the dynamics of development and growth for the citizens of India.

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