MACRO ECONOMIC VARIABLES: IMPACT ON THE ECONOMIC DEVELOPMENT OF THE COUNTRY

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ABSTRACT:

As the process of economic growth is a continuous process, it needs to create chain reactions of such forces which may set in motion the process of income generating in the economy. This gigantic task of economic development, therefore, can be influenced by a groups of factors-economic, social, political, technological and administrative etc. In recent years underdeveloped countries have made concerted attempts to develop with the objective of narrowing down the gap that presently exists between them and the developed countries. Having detailed the serious impediments in the path of economic development and factors for the constant poverty of under developed countries, one logical question arises automatically as to what are the factors governing economic development of a country? In simple words, the answer to this very question implies that stupendous efforts should be made to remove the bottlenecks of underdevelopment or strongly defeat the forces of stagnation. In this research paper an analysis has been made to understand the various macro economic variables and their impact on the economic development of the country.

Keywords: - Macro Economic Variables, Economic Development, Indian Economy

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Introduction:

The economic development in India followed socialist-inspired policies for most of its independent history, including state-ownership of many sectors; extensive regulation and red tape known as "Licence Raj"; and isolation from the world economy. India's per capita income increased at only around 1% annualized rate in the three decades after Independence.[1] Since the mid-1980s, India has slowly opened up its markets through economic liberalization. After more fundamental reforms since 1991 and their renewal in the 2000s, India has progressed towards a free market economy. In the late 2000s, India's growth has reached 7.5%, which will double the average income in a decade. Analysts say that if India pushed more fundamental market reforms, it could sustain the rate and even reach the government's 2011 target of 10%.[1] States have large responsibilities over their economies. The annualized 1999–2008 growth rates for Gujarat (9.6%), Haryana (9.1%), or Delhi (8.9%) were significantly higher than for Bihar (5.1%), Uttar Pradesh (4.4%), or Madhya Pradesh (6.5%). India is the ninth-largest economy in the world and the fourth largest by purchasing power parity adjusted exchange rates (PPP). On per capita basis, it ranks 128th in the world or 118th by PPP. The economic growth has been driven by the expansion of services that have been growing consistently faster than other sectors. It is argued that the pattern of Indian development has been a specific one and that the country may be able to skip the intermediate industrialization-led phase in the transformation of its economic structure. Serious concerns have been raised about the jobless nature of the economic growth. Favourable macroeconomic performance has been a necessary but not sufficient condition for the significant reduction of poverty among the Indian population. The rate of poverty decline has not been higher in the post-reform period (since 1991). The improvements in some other non-economic dimensions of social development have been even less favourable. The most pronounced example is an exceptionally high and persistent level of child malnutrition (46% in 2005–6).The progress of economic reforms in India is followed closely. The World Bank suggests that the most important priorities are public sector reform, infrastructure, agricultural and rural development, removal of labor regulations, reforms in lagging states, and HIV/AIDS. For 2010, India ranked 133rd in Ease of Doing Business Index, which is setback as compared with China 89th and Brazil 129th. According to Index of Economic Freedom World Ranking an annual survey on economic freedom of the nations, India ranks 124th as compared with China and Russia which ranks 140th and 143rd respectively in 2010.

Current Scenario of Growth:

India's economy grew by just 7.8 per cent in the fourth quarter ending March this year, mainly due to poor performance of the manufacturing sector, as against 9.4 per cent in the same three-month period of the previous fiscal. However, economic growth, as measured by the Gross Domestic Product, improved to 8.5 per cent in 2010-11 from 8 per cent in 2009-10 due to better farm output and construction activities and financial services performance.

Meanwhile, the GDP growth figures for the first and third quarters of FY'11 have been revised upward. While the GDP growth figure for Quarter 1 has been pegged at 9.3 per cent -- as against the earlier estimate of 8.9 per cent -- the Q3 GDP growth has been revised upward to 8.3 per cent from 8.2 per cent. During the quarter ending March 31 this year, growth in the manufacturing sector slowed down to 5.5 per cent from 15.2 per cent in the same quarter of 2009-10. In addition, the mining and quarrying sector grew by only 1.7 per cent during the quarter under review, as against 8.9 per cent in the fourth quarter of the previous fiscal. Furthermore, the trade, hotels, transport and communications segment grew by 9.3 per cent in the March quarter this year, as against 13.7 per cent expansion in the same the period of 2010. JPMorgan said that GDP numbers were below expectations and global growth will slowdown in next few quarters.

However, services including banking and insurance grew by 9 per cent in the March quarter this year, compared to 6.3 per cent in the corresponding period last year. Farm output showed tremendous improvement, growing at 7.5 per cent during the quarter under review, compared to a meagre 1.1 per cent in the same three-month period last year. Though economic expansion slowed down in the fourth quarter, overall GDP growth touched the 8.5 per cent mark in 2010-11, as against 8 per cent in 2009-10, due the smart recovery in farm output. The agriculture and allied sectors grew by 6.6 per cent during the fiscal, as against a meagre 0.4 per cent in the previous year. The growth of services, including banking and insurance, improved to 9.9 per cent in 2010-11 from 9.2 per cent in the previous fiscal. The trade, hotels, transport and communication segment grew by 10.3 per cent in FY'11, as against 9.7 per cent last fiscal, while growth of the construction sector stood at 8.1 per cent, as against 7 per cent in the previous financial year.

However manufacturing sector growth slowed down to 8.3 per cent in the 2010-11 financial year from 8.8 per cent in 2009-10. Growth of the mining and quarrying sector also slowed to 5.8 per cent in 2010-11 from 6.9 per cent in 2009-10. The electricity, gas and water supply segment grew by 5.7 per cent last fiscal, compared to 6.4 per cent in 2009-10. India's economy is still clocking robust growth, second only to neighbouring China among major economies, as domestic demand continues to grow on the back of rising income. Economists and government officials have recently revised downward their expectations for the current financial year, citing rising crude oil and other commodity prices and doubts about economic recovery in developed nations. Prime Minister Manmohan Singh said at the weekend he was confident that India would achieve 8.5 percent growth this year, helped by expectations of a normal monsoon which is crucial to economic expansion. Referring to agriculture situation and its impact on inflation, PM said, "Whatever evidence we have, we expect a normal monsoon. And if the monsoon is normal, it will strengthen our ability to control food inflation". The headline inflation was 8.66 per cent in April, much higher than the Reserve Bank's comfort level of 5-6 per cent. Industrial output grew an annual 7.3 per cent in March, smashing forecasts on the back of a revival in capital goods production. Services sector gained momentum in April, with strong growth in new business orders, a HSBC survey showed early this month. Manufacturing sector maintained its strong rate of expansion in April, helped by higher output and employment, the latest purchasing managers' index (PMI) data showed. On oil prices, PM said, "There are problems with regards to the burden of oil subsidies. They have to be tackled and all these issues will be claiming our attention in weeks and months to come".

Although the oil marketing companies have raised the petrol rates in view of spiralling prices in the international market, the government is yet to take a view on diesel prices. A decision on raising diesel price is likely to be taken by the Empowered Group of Minister (EGOM) headed by Finance Minister Pranab Mukherjee in the second week of June. India imports about 75 per cent of its total crude oil requirement.

Macroeconomic Performance in Post 1991 Years

Year	Real GDP Growth	Inflation Rate	Interest Rate	Unemployment No. in Millions	Money Supply Billions of Rs
1991	.96	8.9	17.88	36.3	1046.1
1992	2.3	13.7	18.92	36.75	1120.9
1993	1.5	10.1	16.25	36.27	1330.2
1994	5.9	8.4	14.75	36.69	1695.0
1995	7.3	10.9	15.46	36.74	1883.5
1996	7.3	7.7	15.96	37.43	2148.9
1997	7.8	6.4	13.83	39.14	2419.3
1998	6.5	4.8	13.54	40.01	2703.5
1999	6.5	6.9	12.54	40.37	3161.2
2000	6.1	3.3	12.29	40.34	3495.9
2001	4.0	7.1	12.08	41.99	3846.0
2002	6.2	4.7	11.92	42.36	4318.6
2003	5.5	5.1	11.50	43.10	4822.3
2004	8.0	4.5	10.60	42.50	5402.3

Source:- International Financial Statistics Yearbook,

In 1994 while the real GDP increased by 5.9%, the inflation rate declined from 13.7% in 1992 to 8.4%. While the interest was still very high, it had some downward pressure. The official unemployment number was very high (36.69 million) but it remained steady, a mild achievement in an increasing population. But as it is evident for several years, the Indian unemployment is beyond the reported figures of unemployed labor. It consists of heavy under-employment, it is marred by extreme poverty partly due to illiteracy. The so called "full-time employment" in

India is concentrated mainly in urban sector with very limited industrialization in rural or semi-rural areas of extreme backwardness. Added to those problems are the imperfections of labor market, the complications in collecting the data, the Indian labor employment (or unemployment) is as hard to report as its population survey results. But these imperfections notwithstanding, the economic growth in 1990s looks impressive, it does not matter how one calculates it. It appeared that policy makers by 1995 were convinced that globalization is what is needed for faster economic growth. Success sometimes breeds upon itself, and policy makers usually are fast learners especially when political benefits are high. However the growth of 1994-19917 was not perfectly matched by accelerated growth in 1997-2000 period. As Chitre (2003) points out, this sluggishness was due to the slow growth in agricultural sector, not because of industrial slowdown. The international trade as witnessed in Table 3 did not perform poorly either.

Better monsoons of years 2000 to 2004 helped not only the agricultural sector grow faster but also the manufacturing, trade and services sectors moved admirably. In 2004 it became official that Indian economy was second fastest growing in the world, second only to the Chinese economy. In fact, the Chinese economy's growth is also primarily explained by her newly found affection for openness. The Indian economy, much like the world economy, went through technological change. While the computer mega cities such as Bangalore (that now has 1500 foreign company offices), Hyderabad and Pune grew at a unprecedented rates, the repercussions of this industrial growth was felt in many of the adjacent rural areas. In fact in April 2005, it was confirmed that India officially achieved 8 percent growth in 2004 (Times of India, April 28, 2005)

Indian Economy 2010 Overview: Development in the Global Economy:

It's almost a decade since we entered into the 2000s. Economic growth in these years wasn't so impressive for the western economies. It proves to be one of the worst economic periods for those economies. Indeed, the so-called fastest growing economies (such as India, Brazil, China, Mexico, Russia, and Indonesia) have seen an unprecedented economic expansion because, the eastern economies were the producers and the western economies were the consumer and the same trend would likely to continue as the companies, nowadays, are more conscious about the cost. Rising input cost (or raw material) are forcing the corporations in the industrialized economies to shift their focus on the cost-effective region to keep up the pricing competitiveness in the specific industry, they are in. Change in consumer trend is also major concern for the companies to invest more in the process of innovation, research and development (R&D).

As the economic pace is picking up, global commodity prices have staged a comeback from lows and global trade has also seen a decent growth over the last two years. Unprecedented Government intervention and exceptionally large interest rate cuts by the central bank in advanced and emerging economies have contributed a lot to pull the global economy up from the deepest recession since the World War II. Several Governments around the world launched the stimulus packages to prop up the economic growth, generate employment opportunities and the overall economic growth with the aim to reduce uncertainty in the economy and increased confidence.

Economic Prospect for Year 2010:

Global economy is seems to be expanding after a recent shock. Indian Economy, however just felt the blow of the global economic recession and the real economic growth have seen a sharp fall followed by the lower exports, capital outflow and corporate restructuring. It is expected that the global economies continue to stay strong in the short-term as the effect of stimulus is still strong and the tax cuts are working. Due to strong position of liquidity in the market, large corporations now have access to capital in corporate credit markets.

	India's Economic Outlook Projection				
Year		**2007**	**2008**	**2009**	**2010**
GDP Growth		9.40%	7.30%	7.60%	8.30%
CPI		6.40%	9.30%	5.50%	4.90%

Source: VMW Analytic Services

Year 2009 has started on the gloomy note, however the trend reversed from the first quarter of the year, financial markets posted strong gains fueled by huge amount of capital inflows which was set-aside during the economic downturn in search of a higher yield. Number of companies jumped into the equity markets to raise funds to de-leverage themselves, corporate risk have declined. Before the beginning of the economic recession, several companies betted on the better economic future and blindly raised funds thru various options (largely in a way of debt). Real Estate was the hardest hit industry during the recession. Many companies even offloaded their huge amount of stake, in order to meet the deadline to pay-off the short-term debt. Not only the realty companies which has faced that situation, actually many Small & Medium Enterprises (SMEs) have opted that option to expand themselves aggressively and routed out of the business. As the new year begins, the new wave of optimism has surrounded the economies to expand further from the recent shock, with the expectations of fresh stimulus package, shrink in unemployment rate, expectations of the high inflation, higher interest rates in the emerging economies. Over the next few months, inflation would be a worrisome for the economies. According to the estimates, inflation would likely to reach up to 10%, resulted, the expectations of the monetary policy tightening from the Reserve Bank of India in the second quarter review of monetary policy. Asian economies – Chinese economy in particular, along with India are in the strongest place for a sustained recovery. There are increasing signs of a recovery in a private domestic demand.

Inflation Direction:

Since the global economies are emerging from the lows, in a short run, inflation is expected to rise due to bounce back in demand for commodities. Although, the underlying inflation are still on the downside. Higher unemployment rate in the west will lead to low wage growth and pricing power would be limited for a long time as demand will be very vulnerable to price rises. But, India would buck the trend in inflation due to ample amount of liquidity in the system and rising demand.

India Economy 2010 Overview:

In order to keep the economic growth during the time of worst recession, Federal authorities in India has announced the stimulus packages to prop-up the economic growth. To finance the stimulus packages, Indian Government has raised over $100 billion over the last four quarters in a way to finance the stimulus package. Country's Public debt, according to the latest data has zoomed to over 50% of the total GDP and India's Central bank, Reserve Bank of India has started printing new currency notes.

Central Government Debt			
in Rs. Crores (10 Million)	Q3 2008	Q3 2009	% of GDP
Public Debt (Sum of 1 and 2)	2,099,286.23	2,505,450.74	50.71%
1. External Debt	237,351.77	294,941.67	
2. Internal Debt	1,861,934.46	2,210,509.07	

Source: VMW Analytic Services

Going forward, India will see sharp rise in supply side inflation, after the effect of large government borrowings, printing of new currency notes, rise in food prices due to huge gap in demand-supply. Interest rates will also expected to rise awkward, as the central bank will take precautionary measure to contain inflation rate and expanding money supply.

Important highlights of Economic Outlook 2011-12

India's GDP growth rate for 2011-12 at 8.2% as compared to 8.5% registered last year. Given the current adverse global circumstances and high Inflation to boot, expected growth rate of 8.2% looks quite good!

- **Agriculture** grew at 6.6% in 2010-11. This year's monsoon is projected to be in the range of 90 to 96 per cent, based on which Agriculture sector is pegged to grow at 3.0% in 2011-12!

- **Industry** grew at 7.9% in 2010-11. Projected to grow at 7.1% in 2011-12
- **Services** grew at 9.4% in 2009-10. Projected to grow at 10.0% in 2011-12
- **Investment rate** projected at 36.4% in 2010-11 and 36.7% in 2011-12
- **Domestic savings rate** as ratio of GDP projected at 33.8% in 2010-11 & 34.0% in 2011-12
- **Current Account deficit** is $44.3 billion (2.6% of GDP) in 2010-11 and projected at $54.0 billion (2.7% of GDP) in 2011-12
- **Merchandise trade deficit** is $ 130.5 billion or 7.59% of the GDP in 2010-11 and projected at $154.0 billion or 7.7% of GDP in 2011-12
- **Invisibles trade surplus** is $ 86.2 billion or 5.0% of the GDP in 2010-11 and projected at $100.0 billion or 5.0% in 2011-12
- **Capital flows** at $61.9 billion in 2010-11 and projected at $72.0 billion in 2011-12
- **FDI inflows** projected at $35 billion in 2011/12 against the level of $23.4 billion in 2010-11
- **FII inflows** projected to be $14 billion which is less than half that of the last year i.e $30.3 billion
- **Accretion to reserves** was $15.2 billion in 2010-11. Projected at $18.0 billion in 2011-12
- **Inflation rate would continue to be at 9 per cent in the month of July-October 2011. There will be some relief starting from November and will decline to 6.5% in March 2012.**

India's GDP growth rate for 2011-12

		Year-on-year rates of growth in per cent						
	ANNUAL RATES	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
						QE	*Rev*	*Proj.*
1	Agriculture & allied activities	5.1	4.2	5.8	-0.1	0.4	6.6	3.0
2	Mining & Quarrying	1.3	7.5	3.7	1.3	6.9	5.8	6.0
3	Manufacturing	10.1	14.3	10.3	4.2	8.8	8.3	7.0
4	Electricity, Gas & Water Supply	7.1	9.3	8.3	4.9	6.4	5.7	7.0
5	Construction	12.8	10.3	10.7	5.4	7.0	8.1	7.5
6	Trade, Hotels, Transport, Storage & Communication	12.2	11.6	11.0	7.5	9.7	10.3	10.8
7	Finance, insurance, real estate & business services	12.7	14.0	11.9	12.5	9.2	9.9	9.8
8	Community & personal services	7.0	2.9	6.9	12.7	11.8	7.0	8.5
9	**Gross Domestic Product (factor cost)**	**9.5**	**9.6**	**9.3**	**6.8**	**8.0**	**8.5**	**8.2**
10	Industry (2 + 3 + 4 + 5)	9.7	12.2	9.7	4.4	8.0	7.9	7.1
11	Services (6 + 7 + 8)	11.0	10.1	10.3	10.1	10.1	9.4	10.0
12	Non-agriculture (9 - 1)	10.5	10.8	10.1	8.2	9.4	8.9	9.0
14	**GDP (factor cost) per capita**	**7.8**	**7.8**	**7.6**	**5.0**	**6.2**	**6.8**	**6.4**
		Some Magnitudes						
15	GDP at factor cost - 2004/05 prices in Rs lakh crore (or Trillion)	32.5	35.7	39.0	41.6	44.9	48.8	52.8
16	GDP market & current prices in Rs lakh crore (or Trillion)	36.9	42.9	49.9	55.8	65.5	78.8	89.8
17	GDP market & current prices in US$ Billion	834	949	1,241	1,223	1,385	1,732	1,994
18	Population in Million	1,108	1,126	1,145	1,164	1,183	1,202	1,222
19	GDP market prices per capita current prices	33,317	38,117	43,554	47,975	55,384	65,517	73,460
20	GDP market prices per capita in current US$	753	842	1,084	1,051	1,171	1,441	1,632

Source: Economic Outlook 2011-12

Conclusion:

Main finding of this paper is that India's economic growth has received a strong impetus in post 1991 era. This increased economic growth is mainly and directly is a result of country's better monsoons and the free trade movement that started in that year. All of us have seen an unprecedented government intervention during the economic recession by way of announcing huge amount of stimulus package for the economy to prop-up domestic demand. With many recovery tools were used during the crisis, government deficits are in deep red and central bank rates are almost zero in certain countries and the prospect of zero rates over a longer period and deflationary concerns will probably gain the upper hand and send bond yields lower. Hence, there is a low scope of further announcement.

As far as the Indian economy is concerned, is suffering from huge debt to GDP ratio, moreover India is the largest net importer of commodities like Oil, Food, metal in relation to the GDP. Sharp decline in oil prices, could cut the subsidy burden and those savings would be use for the fiscal stimulus. Increased and better expenditure with greater focus on improved outcomes in social and physical infrastructure, and safety nets will speed up the recovery consistent with the long-term growth.

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