



**ORIGINAL RESEARCH PAPER**

**Social Science**

**RECENT DEVELOPMENTS AND TRENDS IN INDIAN ECONOMY**

**KEY WORDS:** Indian economy, Growth, Banking and financial services

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**ABSTRACT**

The economy of India is characterized as a developing market economy. It is the world's fifth-largest economy by nominal GDP and the third-largest by purchasing power parity. According to the IMF, on a per capita income basis, India ranked 142nd by GDP and 119th by GDP per capita in 2018. The Indian economy has experienced a notable turnaround in recent years. Growth has rebounded, inflation has moderated, and the budget and trade deficits have narrowed. The Indian Government has also initiated policies and reforms aimed at encouraging investment, strengthening productivity and ensuring fiscal sustainability.

**INTRODUCTION**

The Indian economy has experienced large swings in growth and inflation over the past decade. GDP growth weakened sharply during the global financial crisis (GFC) due to a decline in export demand from advanced economies and a slump in investment. Nonetheless, activity rebounded and high inflation became entrenched after the GFC, supported by an increase in government spending and expansionary monetary policy. While growth subsequently softened due to the withdrawal of stimulus and the rising price of crude oil, more recently, conditions have improved along several dimensions. GDP growth has trended higher, inflation has come down, external fragilities (relating to currency volatility and the size of the current account deficit) have abated and the fiscal position has become more sustainable.

**History of Indian Economy**

The combination of protectionist, import-substitution, Fabian socialism, and social democratic-inspired policies governed India for sometime after the end of British rule. The economy was then characterized by extensive regulation, protectionism, public ownership of large monopolies, pervasive corruption and slow growth. Since 1991, continuing Economic liberalization has moved the country towards a market-based economy. By 2008, India had established itself as one of the world's faster-growing economies.

**Banking and financial services**

The financial services industry contributed \$809 billion (37% of GDP) and employed 14.17 million people (3% of the workforce) in 2016, and the banking sector contributed \$407 billion (19% of GDP) and employed 5.5 million people (1% of the workforce) in 2016. The Indian money market is classified into the organized sector, comprising private, public and foreign-owned commercial banks and cooperative banks, together known as 'scheduled banks'; and the unorganized sector, which includes individual or family-owned indigenous bankers or money lenders and non-banking financial companies. The unorganized sector and microcredit are preferred over traditional banks in rural and sub-urban areas, especially for non-productive purposes such as short-term loans for ceremonies.

Prime Minister Indira Gandhi nationalized 14 banks in 1969, followed by six others in 1980, and made it mandatory for banks to provide 40% of their net credit to priority sectors including agriculture, small-scale industry, retail trade and small business, to ensure that the banks fulfilled their social and developmental goals. Since then, the number of bank branches has increased from 8,260 in 1969 to 72,170 in 2007 and the population covered by a branch decreased from 63,800 to 15,000 during the same period. The total bank deposits increased from 59.1 billion (US\$830 million) in 1970-71 to 38,309.22 billion (US\$540 billion) in 2008-09. Despite an increase of rural branches – from 1,860 or 22% of the total in 1969 to 30,590 or 42% in 2007 – only 32,270 of

500,000 villages are served by a scheduled bank.

**Development in Indian Economy**

The economic development in India followed socialist-inspired politicians for most of its independent history, including state-ownership of many sectors; India's per capita income increased at only around 1% annualized rate in the three decades after its independence.<sup>[1]</sup> 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.

And, In the late 2000s, India's growth reached 7.5%, which will double the average income in a decade. IMF says that if India pushed more fundamental market reforms, it could sustain the rate and even reach the government's 2011 target of 10%. States have large responsibilities over their economies.

The economic growth has been driven by the expansion of the 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 industrialisation-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 amongst 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).

**Recent Developments**

With the improvement in the economic scenario, there have been various investments in various sectors of the economy. The M&A activity in India increased 53.3 per cent to US\$ 77.6 billion in 2017 while private equity (PE) deals reached US\$ 24.4 billion. Some of the important recent developments in Indian economy are as follows:

- Exports from India increased 1.60 per cent year-on-year to US\$ 356.96 billion in April-November 2019.
- Nikkei India Manufacturing Purchasing Managers' Index (PMI) stood at 52.7 in December 2019, showing expansion in the sector.
- Mergers and Acquisitions (M&A) activity in the country has reached US\$ 48 billion during Jan-Sept 2019.
- The gross tax revenue stood at Rs 11.74 lakh crore (US\$ 168 billion) out of which Income tax collection contributed

- Rs 2.67 lakh crore (US\$ 38.34 billion) between April-November 2019.
- Companies in India have raised around US\$ 114.1 billion through 768 Initial Public Offers (IPO) first nine months of 2019.
- India's Foreign Direct Investment (FDI) equity inflows reached US\$ 436.47 billion between April 2000 and June 2019, with maximum contribution from services, computer software and hardware, telecommunications, construction, trading and automobiles.
- India's cumulative growth of Index of Industrial Production (IIP) with base 2011-12 for the period April-September 2019 stands at 1.3 per cent, with September 2019 stands at 123.3.
- Consumer Price Index (CPI) – Combined inflation 3.3 per cent in April-September 2019.
- Around 12 million jobs in a year were created in India during 2015-19.
- India improved its ranking in the World Bank's Doing Business Report by 14 spots over last year and is ranked 63rd among 190 countries in 2020 edition of the report.
- India is expected to have 100,000 startups by 2025, which will create employment for 3.25 million people and US\$ 500 billion in value, as per Mr. T V Mohan Das Pai, Chairman, Manipal Global Education.
- The World Bank has stated that private investments in India is expected to grow by 8.8 per cent in FY 2018-19 to overtake private consumption growth of 7.4 per cent, and thereby drive the growth in India's gross domestic product (GDP) in FY 2018-19.
- India is expected to retain its position as the world's leading recipient of remittances in 2018, with total remittances touching US\$ 80 billion, according to World Bank's Migration and Development Brief.

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#### **Australian-Indian Bilateral Trade and Future Prospects**

India is the fourth largest destination for Australian exports, accounting for more than 5 per cent of total goods and services exports by value in 2017. Coal exports have been the largest category of Australian exports to India over the past two decades, accounting for 46 per cent of total goods and services exports (Table 1). After peaking in 2010, exports to India declined sharply, reflecting the stagnation of Indian coal demand and a slowdown in education exports (Graph 12). However, exports have recovered in the past three years, reflecting a broad-based recovery across goods and services, spurred by the recovery in Indian domestic demand. Australian imports from India are relatively small; India is Australia's twelfth largest import source. The largest import categories are refined petroleum, travel (mainly tourism) and business services.

#### **CONCLUSION**

The Indian economy has strengthened steadily in recent years, emerging relatively unscathed from bouts of volatility associated with the GFC and the 2013 'taper tantrum'. A combination of policy reform and the reversal of a negative terms of trade shock have helped the Indian economy realize its strong potential for growth, underpinned by a rising working-age population and rapid growth in labour productivity. The government's economic reform program, which is targeted at facilitating urbanization and expanding the manufacturing sector, has supported a rebound in business confidence and stronger growth in investment. Despite the recent increase in crude oil prices and the depreciation of the rupee, the Indian economy is therefore in a better position today than it was several years ago.

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