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CHALLENGES AND POLICIES FOR ECONOMIC GROWTH IN INDIA – AN ANALYSIS

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Abstract

India is facing many challenges to hike economic growth, being a fast-moving economy during 2016-17 and 2017-18 at 7% - 7.5% growth rate per annum. It fixed a target of 8% per annum though having potential to grow at 10% annually. Indian economy showed fast recovery in Industrial Production (IIP), Gross fixed capital formation (GFCF), and consumer demand indicators reflecting a positive economic growth rose at 12% in the third quarter (2018-19) from 6.92% in the previous quarter. later India's Gross Domestic Product (GDP) speed got reduced as found from each quarter in 2018-19 due to decline in domestic demand, fall in savings from 30.5% in 2017- 18 to 28% in 2018-19, rise in inflation beyond 4%, slow growth in manufacturing, decline in agriculture growth, rising unemployment in both urban as well rural areas, declining contribution from labour force, fall in exports, unfavorable foreign capital flows etc. These challenges are to be tackled effectively by government of India as it aims to attain $5 trillion economy by 2024-25. The study used secondary data from various published reports from Economic survey of India -2019 & 2020, NITI Aayog reports, Ministry of Statistics and Program implementation, Government of India, Reserve Bank of India -Handbook of Statistics, World Bank and IMF reports and Expert's opinion published in leading newspapers, published articles in journals. The study focuses on growth achieved during 2014-15 and 2018-19, rate of interest, industrial production, growth impact on job creation, unemployment rate factors to present the challenges and revival measures for economic growth in India.

Keywords: Growth Rate, Challenges, Gross Domestic Product (GDP), Index of Industrial Production (IIP), Gross Fixed Capital Formation(GFCF), Shrinking Share of Labour Force, Rate of Interest, Unemployment Rate.

INTRODUCTION

Economic growth is very essential for estimating the progress of a country. The status of a country depends primarily on the economic growth achieved and growth potential it possesses for future development. Economic growth is a very old and highly discussed topic because all countries across the globe regardless of their development try to increase their gross domestic product (GDP). In India Manufacturing, services, agriculture and allied sectors play a major role in economic growth and growth story of India is analyzed from the contribution made these sectors. As per the Economic Survey-2018-19 report Indian Economy being an emerging developing economy is growing in fast manner in last five years with annual average rate of about 7-5% average growth per annum and with 4.5 percent annual average inflation.

The present performance of Indian economy, partly supported by International Monetary Fund (IMF) estimation of India being one of the fastest growing economies in the World, played an important role. Despite the predictions, surprisingly the economy has not fared well since in the last quarter of 2018-19 (5.8%) indicating a slowdown in the economy. The July 2019 monthly report released by the Union Finance Ministry reveals a three-year trend of declining economic growth. It is a clear picture of India's underwhelming economic performance for a decade. Further it highlights about slowdown in agricultural output, sluggish investment consumption ratio, increasing inflation and deficit balance of payments in the current account. Hence it is a story of what could have been, of growth that did not happen, of missed opportunity. It also narrated the story of mismatch of Economic and Political objectives. In this story, the later undermined and ignored good sense of the former. With this background the paper attempts to discuss the challenges for economic growth in India by using key macro factors like- Inflation, interest rate, industrial production and job creation.

Growth and its impact on job creation, unemployment rate and educated unemployment in the country.
The paper is organized under different sections as follows, starting from section 2:

- 2nd Section presents the state of economy
- 3rd Section presents growth achieved during 2014-15 and 2018-19, Growth versus revival reforms, Interest rate and Growth
- 4th Section explains industrial production and job creation
- 5th Section presents growth and its impact on job creation
- 6th Section presents the summary of the article.

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METHODOLOGY

The study used secondary data from various published reports from Economic survey of India -2019 & 2020, NITI Aayog reports, Ministry of Statistics and Program implementation, Government of India, Reserve Bank of India -Handbook of Statistics, World Bank and IMF reports and Expert's opinion published in leading newspapers, published articles in journals.

REVIEW OF LITERATURE

A large number of studies have presented useful discussions and research on relationship between economic growth and macro-economic factors like inflation, interest rates, industrial development, employment generation etc.

Aravind Veeramani (2019) summarized that GDP growth in India has followed an inverted U-shaped curve, accelerating from a low of 5.5% in 2012-13 to a peak of 8.2% in 2016-17 and then decelerated to 6.8% in 2018-19. The GDP growth decline is due to rise in real interest rates, enforcement of tighter norms on Bank NPAs and implementation of the Indian Bankruptcy Code, decline in GFCF and other factors. Studies by Loto, (2012) and Papola T.S. (2013) highlighted the role of high growth sectors like manufacturing which have high employment elasticity, high income and consumption impetus and high export growth with the capability to earn huge foreign exchange Studies by Friedman (1973), Mallik & Chowdhury (2001) and Behera (2014) have done the research in the area of economic growth and its relation with inflation. Two studies by Mallik & Chowdhury (2001) and Behera (2014) have showcased the inflation and economic growth dynamics in South Asian countries. They have statistically proved the long run positive correlation between the study variables inflation and economic growth.

Hasan, et al (2003) & Goldar (2011) study opined that states that have made industry friendly changes in laws and rules have experienced higher growth of employment in the organized manufacturing sector.

Section 2
State of the Economy

The growth status of India during 2018-19 is not encouraging mainly due to slowing down of financial strength. National Institution for transforming India (NITI Aayog,) a policy thinks tank of government of India, states that India will attain the target of $4 lakh crores financial strength by 2022 only if it secures 8% GDP rate per annum, but the present conditions are not favourable to attain the required strength. Based on the present situations, it can attain only 7% in 2019-20. According to the data presented to Parliament on 4th July which was published in The Economic survey 2018-19, gave very clearly the macro view of the state of the Indian Economy in brief.

The Global Economic growth rate was just as that of Hindu Growth rate, as termed in India in the period between 50's and 80's, i.e., 3.6% in 2018 (3.8% in 2017). But the Indian economy experienced a moderate growth in 2018-19 with 6.8%, which is lower than the 2017-18 growth rate 7.2% (declined by 0.4%). But on the global platform, it continued to retain its image as the rapidly growing and a robust emerging economy of the World. This image of stable macro economy was created by managing its major macroeconomic challenges viz. rising inflation and growing deficit of current account. With all its efforts India could contain inflation rate below 4% and a 2% ratio of current account deficit to GDP. During the year 2018-19, the manufacturing sector witnessed high manufacturing growth and a narrowed agricultural growth. Since 2017-18 investment growth started to recover, which was sluggish for many years. In the year 2018-19, fixed investment growth rate was 10%, net FDI inflows increased to 14.2%, Capital expenditure of Central Government raised to 15.1% resulted into an increase in its share in total expenditure.

In spite of all these favorable conditions growth rate was 6.8% in 2018-19 which is less than previous year. With this macro-economic situation and structural reforms implemented by government, the economy is projected to grow at 7% in 2019-20. The projected growth would be achieved with strong support to drivers of growth by government – consumption (demand), Government final consumption expenditure (GFCE), investment etc.

Section 3
Growth achieved between 2014-15 and 2018-19

Due to slow progress of financial sector, low growth in industrial production and slowdown in agriculture sector India's GDP speed got reduced. During the fourth quarter of 2018-19, the GDP growth declined to low level of 5.8% is a matter of concern. In the first quarter it reached to 8% fell to 7% in the second quarter and 6.6% in the third quarter and 5.8% in the fourth quarter, resulting in 6.8% growth rate for the whole year (2018- 19) belying the GDP estimates of international organizations, as seen in Table 1

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Table 1: Pattern of progress of GDP during 2014-15 to 2018-19 and Provisional estimates of International Institutes/Rating agency during 2018-19

Pattern of progress of GDP during 2014-15 to 2018-19		**Provisional estimates of International Institutes/Rating agency during 2018-19**	
Year	**Rate of progress of GDP %**	**Institutes**	**Rate of Progress (%)**
2014-15	7.4	IMF	7.3
2015-16	8.2	World Bank	7.5
2016-17	7.1	Fitch Rating	6.6
2017-18	7.2	CRISIL	7.3
2018-19	6.8	UNO	7.4
		Asian Development Bank (ADB)	7.2

Source: Economic Survey -2018-19 & International Institutes official web sites

It is clear from Table 1 that in 2018-19 India's GDP rate is 6.8% is far below the provisional estimates of IMF, World Bank, CRISIL, UNO and ADB rates except that of Fitch rating (6.6%) which is below that of India achieved (by 0.2%).

Growth forecast for India by IMF was brought down for 2019-20 to 7% from its earlier forecast of 7.3% (by 0.3%) on poor demand conditions, it also reduced its growth forecast for 20-21 to 7.2% from earlier estimate of 7.5% (by 0.5%). The downward revision of 0.3% percentage of points for both years reflects a weaker than repeated outlook for domestic demand. The cut in the latest forecast follows a series of cuts by IMF in the previous updates. In the case of World GDP growth forecast by IMF, has been decreased by 0.1% each in 2019 and 2020 to 3.2% and 3.5% respectively. IMF has cut the growth rate for emerging market and developing economies by 0.3% points for 2019 to 4.1% and by 0.1% points for 2020 to 4.7%.

Indian economy showed fast recovery in 2017-18 in **In**dex of Industrial Production (IIP) and consumer demand indicators, reflecting a positive economic growth, indicates that India is on the right direction to become one of the fastest growing economies in the World by surpassing China. Gross fixed capital formation (GFCF), a macro economic indicator of investment activity in the economy, rose at 12% in the third quarter (2018-19) from 6.92% in the previous quarter. It is because of growth picked up in manufacturing and construction sector on the output side and whereas on the demand side led by GFCF. No doubt capital formation in the first two quarters was driven by the government, and in the third quarter the private sector demand began to grow, though private final consumption expenditure (PFCE), proxy for consumption spending decreased in the Q3 at 5.58% down from 6.56% in Q2 and 6.2% in Q1 of 2018-19.

Growth Versus Revival Measures

The monetary and fiscal policy experts debating on growth revival measures to determine India's economic future suggested a series of policy decisions to be introduced in key sectors in the economy. The reforms undertaken by the government had mixed response from experts.

Amitabh Kant (2019, Aug 3, p15) CEO of policy think tank NITI Aayog expressed that a spate of reforms undertaken – Goods and Service Tax (GST), Indian Bankruptcy Code (IBC), Real Estate Regulations Act (RERA) -by the government has led to the current slowdown in the country and advocated a series of policy decisions to review the economy. He suggested that the government should focus on four key aspects like bring greater levels of liquidity, revive the animal spirit of the private sector, because wealth cannot be created without private sector, to recycle a lot of government assets such as roads, privatization of a vast range of public sector and push for major structural reforms. All these reforms will help push investment, infrastructure development and wealth creation. The nation has to make next round of reforms in sectors like oil and gas, mining, coal etc. The country must commercialize coal mining, railways, as they will really drive growth of India. India as a Nation of massive domestic demand, but all this demand we import and this should happen in future particularly in the case of electrical vehicles. Privatisation of public sector will help banks start flowing credit on a large scale.

Ahluwalia (2081) suggested that in an open economy a precondition for successful growth is macroeconomic stability. The other key elements for successful growth are a credible monetary policy, fiscal sustainability and sensible exchange rate management.

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The banking system should resolve the non-performing assets issue and government should reduce its stake in at least few public sectors and try to attract private capital. Infrastructure deficiencies are a challenge for India which is also a limiting factor for investments in industrial sector. The problems relating to Goods and services Tax (GST) needs to be resolved to support the industrial sector. India should focus on improving the competitiveness in manufacturing sector for two reasons. Firstly, to meet a large part of its own demand and to seek a reasonable share for exports of manufacturers in global markets.

According to Raghuram Rajan, (2019, Dec 6) former RBI governor, India needs a reenergized reforms that focuses on liberalising capital, land and labour markets. Agriculture, power and construction sectors which are in trouble can become engines of growth with right attention by government. Many reforms undertaken – Goods service Tax (GST), Insolvency and Bankruptcy Code (IBC) has led to current slowdown in Indian economy. India has to be more predictable on tax and regulatory changes to attract more investment. Sectors like real estate, construction and infrastructure are in deep trouble and also non- bank finance companies (NBFCs) because of lending to these sectors. Business sector will cope and reinvent itself if India brings down trade barriers. Massive new reforms are critical for economic growth.

The expert's opinion relating to the reforms undertaken and new reforms to be introduced are critical because it serves as a road map for redesigning government policy decisions in important sectors which drives economic growth.

Interest Rate and Growth

Any revival of economic activity will succeed only with the combined efforts by government to stimulate demand on the fiscal front and the RBI to keep interest rate low.

Interest rates cut will boost the performance of manufacturing, agriculture, construction, real estate and infrastructure sectors that are in deep trouble. Monetary transmission has been weak in rate structure during 2019 because Schedule commercial banks Weighted Average Lending Rate (WALR) has not declined despite the reduction in repo rate by 135 points since January 2019.Despite the decrease in policy rates credit growth to industry is very low as on November 2019 due to negative growth rate in the deployment of bank credit to Micro, Small and Medium Enterprises (MSME) and textiles. To boost MSME performance onetime restructuring scheme implementation should be the top priority by the government. As seen in Table 2 growth in industry -wise deployment of bank credit by major sectors is negative to micro & small (-0.1), medium (-2.4) and textile (-6.1) sectors as on 22nd November ,2019.

The steps taken by RBI to lower interest rates is not helping the economy even after RBI made a rate cut since Oct 2018.But interest problem still continues because of higher real interest rates when compared with other countries. Added to this interest policy transmission to bank rates is slow. A major concern in the banking system is balance sheet and NPA problems. Early recognition of major defaulters of large borrowers by banks and stringent measures against defaulters are very helpful so that credit flow to required sectors will not be a constrain. The RBI and government have to play a key role by introducing reforms in banking sector. Increase in investment rate which is declining should be given more focus by the government because monetary policy alone cannot increase growth. Lending for manufacturing, capital goods and construction sectors will contribute to growth particularly for housing sector because this indirectly supports other industries like cement, steel and other construction related works.

GDP down turn continues

As per the World Bank's GDP ranking, 2018, India's ranking was in seventh place ($2.73 Trillion) compared to 2017 which stood at fifth place ($2.65 Trillion). In 2018, UK and France rose by 6- 8% and 7.3% respectively pushing India to Seventh Place. Fall in consumption and Investments in new projects dropped to a 15 year low in June 2019, the drop in value of new projects was due to fall in both private and government investments. The government of India's aim of (through Budget 2019-20) of making India $5 Trillion Economy by 2024-25 may not succeed with this GDP growth.

Consumption decreased four major indicators of the consumer economy posted negative growth rates in the first half of 2019. For example, domestic tractor sales, domestic air traffic, two-wheeler sales, passenger vehicle sales posted negative growth. Other factors which weakened the consumption is due to ongoing agrarian distress and subdue income growth expectation in urban areas.

World Bank projected growth to slow down to 5 percent in FY 19/20 due to Liquidity issues in financial sector, subdued private consumption, slow down in agriculture and manufacturing sector.

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Rating agency CRISIL has decreased its GDP growth forecasts for 2019-20 at 6.9 % (from its previous forecast of 7.1%) citing weak monsoon and slow growth at the global level.

Section 4

Industrial Production and jobs creation

Industrial policy helps the government to promote industrial development which contributes to increase economic growth. Industrial policy helps to regulate and enhance the industrial production which leads to economic growth. Compared with India, China followed strategic industrial policy for two decades and increased its labor-intensive manufacturing exports. But India's policy structure could not utilize its labour advantage to grow labour intensive manufacturing exports as it failed to couple and integrate small and medium scale enterprises as in Japan. As per the estimates by NSO data low growth in industrial sector is because of negative growth of manufacturing sector (0.2 percent) in 2019 -20 first half(H1). This low growth in industrial sector directly impacts economic growth in India.

Table 3: Index of Industrial Production (IIP) Growth Rates (in per cent)

	Weight	2015-16	2016-17	2017-18	2018-19	2018-19 (April-November)	2019-20 (April-November)
General Index	100	3.3	4.6	4.4	3.8	5	0.6
Sectoral Classification							
Mining	14.4	4.3	5.3	2.3	2.9	3.7	-0.1
Manufacturing	77.6	2.8	4.4	4.6	3.9	4.9	0.9
Electricity	8	5.7	5.8	5.4	5.2	6.6	0.8
Use Based Classification							
Primary goods	34	5	4.9	3.7	3.5	4.8	0.1
Capital goods	8.2	3	3.2	4	2.7	7.2	-11.6
Intermediate goods	17.2	1.5	3.3	2.3	0.9	0.7	12.2
Infrastructure/ construction goods	12.3	2.8	3.9	5.6	7.3	8.3	-2.7
Consumer durables	12.8	3.4	2.9	0.8	5.5	7.8	-6.5
Consumer non-durables	15.3	2.6	7.9	10.6	4	4	3.9

Job Growth in manufacturing sector

The job growth in manufacturing is a big challenge due to slow down of the growth rates in the sector. Compared with India, China reduced its absolute poverty (percentage of the poor in the population) by absorbing surplus labour in manufacturing. This failure resulted in reducing India's poverty with slow phase. While China's agricultural and rural income growth was far higher as it helped sustain consumer demand, besides generating industrial jobs made faster. In India construction jobs (real estate effect) rose very fast since 2000 continuing up to 2011-12, resulting in big gap between manufacturing output and employment growth which was not taken seriously by government. Moreover between 2004-05 and 2011-12 the growth of manufacturing jobs decreased but the decreases were more between 2011-12 and 2015-16 and after 2011-12, they also became negative.

Since 2000 persons joining labour market (force) rose to 12 million per annum until 2004-05; as domestic manufacturing employment slowed, they were absorbed only in agriculture or traditional services, pushing up informal employment; but with GDP growth rising from 2003-04, non-agricultural jobs grew at 7.5 million per year.

Section 5

Growth and its Impact on job creation Shrinking share of the labour force

Despite growth of GDP, jobless growth becomes more systemic as per the findings of the periodic labour force survey of 2017- 18, proving the fact that GDP growth is not an automatic transformation process for employment in the economy. The findings

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of the survey reveal this scenario categorically proving that even now growth is far from anything that would denote decent employment. It has placed two big concerns before the emerging economy of India.

1) The shrinking share of the labour force
2) Rising unemployment

Labour Force Participation Rate (LFPR)

LFPR, percentage of people working or seeking work in the above 15 years age category, in the survey of 2012 was 55.5%, which declined to 49.7% minus 5.8%. This resulted in an absolute decline in number of workers from 467.7 million in 2012 to 461.5 million in 2018 during the last six years.

Different categories

The survey rationally replied to the criticism that self-employment has not been taken into consideration (included) by the National Sample Survey. It is blatantly false as the definition of employment includes in itself the category of wage employment in this category the "self-employed", the survey also counts those engaged in "unpaid family labour".

Unemployment rate

Overall unemployment rate at 6.1% is 2.77 times the same figure for 2012, though raised doubts about comparability of estimates between two period, yet they are not substantial issues coming in the way of judicious comparison. The unemployment has both locational and gender dimensions. The rate of unemployment (of severe type) was highest among the urban women at 10.8% followed by urban men at 8.7%. In the case of rural unemployment rate, it was high among men at 5.8% followed by women at 3.8%; if the location of residence is ignored, unemployment was higher among men at 6.2% than among women at 5.7%. Considering sharp decline in women LFPR, they are losing out heavily due to double disadvantage of exclusion from the labour force and the inability to access employment when included in the labour force. The fall in women's LFPR from 31.1% to 25.3 % (decline by 7.8 % points) proves that India is among the countries with the lowest LFPR among women in the labour force.

Educated unemployment:

The educated unemployment issue has never been so highly acute as found now, considering its link with not just growth but also with transformative development. The unemployment in the persons with higher education (defined as unemployment) is at 11.4% (2018) compared to 2012 survey figure of 4.9%. The significant point is that both are directly related as unemployment rates go up along with the rise in education levels. For example, with secondary school education, the unemployment rate is 5.7%, but it goes up to 10.3% when persons with higher secondary education level education is considered.

Highest rate of unemployment is among the diploma and certificate holders at 19.8%, followed by graduates, 17.2% and post graduates at 14.8%. No doubt higher educated persons have liking for particular jobs and may be less economically deprived and hence prefer longer waiting period than less educated persons. But if the country's inability to absorb the educated, including highly educated, provide gainful employment entails definitely a great economic loss to the Nation besides a demoralizing experience for the unemployed and those willing to secure higher education with confidence. If educated unemployment rate continues at the higher rate the percentage of jobless youth also increases. The broad definition of unemployment rate by International Labour Organisation (ILO) includes the category of people who are neither attending school/colleges nor employed. This category is defined as jobless youth.

Unemployment rate of youth:

Unemployment rate of youth (those in the 15-29 years of age) shot up to a high of 17.8%, a matter of high concern and points to inability of the Nation (including economy). Even here the women face more disadvantaged than men, particularly urban women, whose unemployment rate reached 27.2% (peak level), which is double the percentage (13.1%) in 2012; and the rate for urban men is equally high at 18.7%.

The latest survey 2018, clearly concluded that the trend of "jobless growth", till recently confined largely, if not only, to organized sector, now spread to other sectors of the economy as a generalized situation. Hence serious steps must be taken through thorough reexamination of failures faced in finding missing linkages (causes) between growth and employment. Growth without employment mostly affects and delays the target and aim of $5 trillion economy goal of India by 2025.

Section 6 Summary

India is facing many challenges to hike economic growth which was 6.8% (2018-19).It fixed a target of 8% per annum

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though having potential to grow at 10% annually supports India to achieve the potential crossing all challenges in the growth of the economy. However, the present status of India is not encouraging mainly due to slowing down of financial strength. In all core sectors – Agriculture, manufacturing, infrastructure, construction, power etc. India is experiencing declining trend and nation may find it difficult to attain 7% growth rate per year. India's growth is stabilized at 6.5% - 7%, government must take immediate steps to rise GDP to 7.5% - 8%. India's GDP rate reduced as found from each quarter in 2018-19 from 8% in first quarter to 7% in second quarter and 6.6% in third quarter and 5.8% in fourth quarter, resulting in 6.8% for the whole year and brought down its forecast for 2019-20 to 7% from its earlier forecast of 7.3% (by 0.3%). Factors for decreasing growth rates are decline in domestic demand, fall in savings from 30.5% in 2017-18 to 28% in 2018-19, rise in inflation beyond 4%, destabilize influences on monetary side and fiscal side, slow growth in manufacturing besides decline in agriculture growth, shrinking share of labour force, fall in exports, unfavourable foreign capital flows. Economic growth challenges can be carefully taken care if experts opinion is taken into consideration.

These challenges are to be tackled effectively by government as it aims to attain $5 trillion economy by 2024-25. Government should focus on strategies for effective governance to build a strong, prosperous and inclusive India to fulfill the growing aspirations of India's present youth. Government should also focus on labour reforms, innovative reforms to attract investment in industrial sector particularly in manufacturing sector. In the context of trade wars between USA and China, India should focus on realizing the ways to secure larger benefits should reduce key rates of interest, besides correctly assessing inflation rates to help government hike GDP growth potential. During the coming five years (2019-20 to 2024-25) if 9-10% growth per year is achieved, India's economy will grow to $5 Trillion by 2025.

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