CHALLENGES OF INDIAN ECONAMY & ITS OPPORTUNITIES

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Abstract: India's Constitution adopted in 1950 had established parliamentary form of democracy and India has been a republic with universal adult suffrage, which has contributed to significant stability of political system. It is a now a federation with 28 States and seven Union territories. While the largest State (Uttar Pradesh) has a population of 166 million the smallest State (Sikkim) has a population of only 0.54 million. India is a poor country where a large section of the population cannot afford all these. The matter is made worse due to the fact that our economy does not provide adequate employment opportunities so that poor people can get jobs and earn income. Hence eradication of poverty and unemployment is a major challenge before the economy. Similarly higher quality of life is achieved by getting proper education and health care facilities. Since India is a very large country in terms of population, provision of education and health care by the government to all its citizens is also a major challenge. Another important concern before the government is the rising prices of commodities in the market which is called inflation. Rise in prices hit the poor and middle class people very badly. So controlling the price level is a major problem to be dealt with whenever it occurs. Finally, the income of the nation must also grow with rise in population and their wants so that the development process continues

Key Words: Adequate employment opportunities, inflation , commodities, development process

INTRODUCTION:

The average gross fiscal deficit of the central government as per cent to GDP during the decade of 1980s was 6.8 per cent as against 3.8 per cent in the 1970s. The Reserve Bank had to facilitate the financing of budgetary imbalances from the banking system as also through monetary accommodation. As interest rates were administered and not market determined, the interest rates on public debt were kept artificially low. By the early 1990s, as the budgetary imbalances became unsustainable, percolating into the overall macroeconomic imbalance and financial repression ensued, the Government had to initiate a programme of stabilization and structural reforms, *inter alia*, to bring down the budgetary imbalances.

A major landmark in the interface of the Reserve Bank with fiscal developments was the Supplemental Agreement between the Reserve Bank and the Government to terminate the process of automatic monetization through phasing out *ad hoc* Treasury Bills and introduction of a system of Ways and Means (WMA) advances from April 1997. However, the Reserve Bank continued to participate in the primary market by privately placing/devolving the issues of government securities on its own account in the market. Subsequently, however, under the provisions of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003, the Reserve Bank no longer participates in the primary market auction of the government securities since April 2006.

The Government of India is pursuing the path of rule-based fiscal consolidation from the year 2004-05 under the FRBM Act, 2003 and FRBM Rules, 2004. The underlying purpose of the targets set under this legislative mandate has been to reduce the ratio of gross fiscal deficit (GFD) to gross domestic product (GDP) to three per cent by 2008-09. Furthermore, the revenue deficit (RD) to GDP ratio has been targeted to touch 0 per cent by 2008-09 so that borrowed resources can be used to meet only capital expenditures. The progress of targeted fiscal consolidation has been satisfactory so far and GFD/GDP and RD/GDP ratios are budgeted to reduce to 3.3 per cent and 1.5 per cent, respectively, in 2007-08; the objective is to meet the FRBM targets by 2008-09 and remain at those levels in 2009-10.

EXTERNAL SECTOR:

The average current account deficit since 1950-51 has been around one per cent of the GDP. During this period, except for 11 years when there was marginal surplus in the current account, we had modest deficit during the rest of the years.

After the Independence in 1947, higher imports and capital outflows, led by partition, resulted in significant deficit in the balance of payments necessitating running down of the accumulated sterling balances. However, the signs of strain in the balance of payments were clearly visible from the Second Five Year Plan (1956-61) onwards. Though the devaluation of 1966 brought to the fore the problems associated with the overvalued exchange rate, it did not bring immediate desired improvement in the balance of payments position. The remittances from Indians working abroad became a new source of meeting the growing financing needs in the 1970s. However, the second oil price shock during 1979-80 proved to be the precursor of another phase of strain on India's balance of payments.

In the recent period, India’s external sector has become resilient with the current account deficit being maintained at modest levels after a few years of marginal surplus during 2001-02 to 2003-04. External sector indicators show considerable level of sustainability attained in the last decade. Sustained growth in export of services and remittances has continued to provide buoyancy to the surplus in the invisible account, which has enabled financing a large part of trade deficit. The capital flows have been buoyant leading to sustained rise in foreign exchange reserves. The merchandise trade deficit is currently close to 7 per cent of GDP; however, the current account deficit is under 1.5 per cent of GDP, mainly due to the knowledge and competitive advantage we have in services and the steady support from remittances from Indians working abroad.

Financial sector: The experience during the initial period after Independence shows that institution building and development of the financial system was propelled by the needs of the country's central planning. It was considered necessary to ensure that sectoral needs of credit to agriculture and industry were met in accordance with the Plan priorities. The Reserve Bank was vested with the major responsibility of developing the institutional infrastructure in the financial system. With a view to expand the outreach, the 14 largest commercial banks were nationalized in July 1969 as a major step to ensure adequate credit flow into genuine productive areas in conformity with Plan priorities. Again in 1980, six more private sector banks were nationalized, thus further extending the domain of public control over the banking system.

Since the beginning of the reform period in 1991, the approach towards the financial sector in India has been to move away from financial repression and consistently upgrade the system by adopting the international best practices through a consultative process. Financial sector reforms were carried out in two phases. The first phase of reforms was aimed at creating market-oriented financial institutions operating in an environment of operational flexibility and functional autonomy. The focus of the second phase of financial sector reforms has been on strengthening of the financial system consistent with the movement towards global integration of financial services.

OBJECTIVES:

- Understand the meaning of poverty and programmes implemented by the government to eradicate poverty and generate employment;
- Know the steps taken by the government to provide education and health Care facilities;
- Understand the methods to control price rise or inflation, the strategy of the government to achieve higher economic growth.

CHALLENGES OF INDIAN ECONOMY:

Each and every citizen of the country has a right to lead a decent life. Every body must be able to fulfill his minimum needs such as food, health care, housing, basic education, etc. However, India is a poor country where a large section of the population cannot afford all these. The matter is made worse due to the fact that our economy does not provide adequate employment opportunities so that poor people can get jobs and earn income. Hence eradication of poverty and unemployment is a major challenge before the economy. Similarly higher quality of life is achieved by getting proper education and health care facilities. Since India is a very large country in terms of population, provision of education and health care by the government to all its citizens is also a major challenge. Another important concern before the government is the rising prices of commodities in the market which is called inflation. Rise in prices hit the poor and middle class people very badly. So controlling the price level is a major problem to be dealt with whenever it occurs. Finally, the income of the nation must also grow with rise in population and their wants so that the development process continues. So achieving economic growth every year is also a major challenge before the economy.

- **Sustainable and inclusive growth:** India has to set itself an ambitious growth rate target of 10% to adequately meet the requirements for sustainable and inclusive growth of her 1.29 billion people. Estimates for India's GDP growth average around 7.5%, which is an essential base growth rate to pursue the goals and priorities for the country's development. India's steady growth also offers a spark for supporting global growth. Its success is therefore in the interests of other countries in the region and beyond. Significant challenges for sustainable and inclusive economic and social development continue to persist within India, such as the fiscal deficit, slowing private sector investment and industrial credit, and decelerating capital goods imports. Low carbon green growth, infrastructure development and entrepreneurship through national and international collaborations provide valuable opportunities for sustainable growth. India's young and rapidly growing working age population also presents both an opportunity and a challenge, depending on how effectively it can be harnessed.

- **Environmental sustainability**: Low carbon green growth and environmental protection is inevitable. An immediate priority for India is to improve the air quality in urban areas, as it is having a negative impact on life expectancy. Faster and stronger policies (including improvement of public transport) are therefore required across all major cities to tackle air pollution.India's Intended Nationally Determined Contributions (INDCs) submitted before COP21 in Paris include commitments to reduce emissions intensity by 33-35% by 2030 compared to 2005 levels through introducing, new, more efficient, cleaner and renewable technologies; produce 40% of electricity from non-fossil fuel based energy resources; create additional carbon sink of 2.5-3 billion tonnes of carbon dioxide equivalent through additional forest and tree cover; and develop robust adaptation strategies for agriculture, water and health sectors.
- **Technology governance**: This is a public policy concept with an aim to develop knowledge-based, transparent and efficient systems for sustainable economic growth and greater social cohesion. Technology governance is therefore crucial to transform growth and development in the evolving processes and politics of government (centre and state), private institutions, media, non-governmental institutions and society in India. The large scale food security and various other social security programmes for poverty alleviation in the country struggle with concerns of implementation, with leakages, misuse, wastage by non-beneficiaries and provisions not reaching the beneficiaries. Some improvements have been initiated through development of national e-governance infrastructure. However, greater information, education and communication (IEC) programmes, better application of technological processes, further reforms, monitoring and evaluation are essential to improve implementation, transparency, accountability and reduce leakages of public and private institutions and individuals.
- **Infrastructure development:** India requires at least $1 trillion to develop new infrastructure. Investments for developing infrastructure by public, private sectors and public-private partnerships, are requisite components to drive growth in the fastest growing economy in the world. The New Development Bank, Asian Infrastructure Investment Bank and Asian Development Bank provide additional resources toward infrastructure and sustainable development in the country.

- ***Peri*-urban and rural development:** The state of Tamil Nadu has the best bus connectivity in the country, which has driven easier mobility and trade between rural and urban areas over the past decades and enabled more widespread growth and development across the state. The long distance bus services (and roads) between contiguous cities within and between states (example between Chennai and

Bangalore) have also helped drive *peri*-urban growth and development in the region over the last twenty-five years. The 'Golden Quadrilateral' of improved highway network (the fifth largest in the world) has enhanced movement across major cities in the country, as well as rural-urban regions across the country and enabled greater connectivity and growth in *peri*-urban and rural areas in the past decade. About 68% of people currently live in rural areas, many of whom still have inadequate access to services. It is therefore crucial to take their economic and social development to the next level.

- **Responsible private corporations:** As the fastest growing economy in the world, India's billionaires are increasing year on year. Private corporations should operate more transparently and responsibly to create wealth for a nation. They should also contribute more actively to drive growth and development in the country. There are examples of some foundations (Tata, Birla, Wipro, Mahindra, Shiv Nadar) involved in excellent social initiatives for inclusive development. Many more companies and high net worth individuals should take a lead on promoting inclusive economic and social development. The legislation for mandatory corporate social responsibility (CSR) spending encourages corporations to play an active role for wider development. Organizations should be willing to support beyond the minimum CSR requirement and be philanthropic, particularly as the country's development is likely to benefit them in the longer term.
- **Entrepreneurship:** With 28% of her 1.29 billion-strong population aged between 10-24 years, India has the largest young population in the world. Today's young Indians enjoy new privileges and unprecedented opportunities to aspire. The challenge for India is to support their growing entrepreneurial aspirations as more and more Indian youth are seeking to tap into the opportunities that exist in a growing economy. These young men and women are bright, capable, well informed and impatient for things to happen rapidly. Public and private sector initiatives are essential to improve systems and structures and provide advice, training, easily accessible loans, workshops and other enabling equal opportunities for young people across all economic and social strata, in order for them to translate ideas into reality. The success of their ventures will consequently contribute to advancing the country's development, for example by creating jobs and wealth or social entrepreneurships that address poverty and inequality.
- **Demographic dividend:** Although difficult to determine accurately, a reasonable estimate suggests that 250 million Indians now qualify as middle class. With the developments in recent decades, the current conditions in India are better than they have ever been before. At the same time, as the population with high disposable incomes continues to expand, the country's public and private sector goods and services for food, water, housing, education, health, roads, rails, airports and other infrastructure have to keep pace with the increasing demand. However the prevalent situation at the moment is that, by the time a particular service (for example, roads and airports) is completed, it's capacity has already been outstripped by the demand.
- **Equalizing development across states:** India is unique in the vast diversity between its 29 states. The diversity of cultures and textures is worth celebrating. However, wide variation in economic and social development between states, and sometimes within states, is a cause for concern. Central policies, resource allocation and frameworks for equitable development across all states are essential. Policies should not be biased toward central or specific states. Collaborations between states should be enhanced for mutual development. Greater awareness and information now exists, so that successful examples can be drawn from various states and implemented early for improvements to be on par across all cities and states as required..
- **Regional influence:** India's engagement with its neighbors has seen much-needed advancement in the past year. As the country grows and develops further, its influence in the global community will continue to grow. Bilateral and multilateral communication and collaborations have the scope to be enhanced further at all levels between countries in Asia. Arbitration, building trust and working together will be beneficial for all countries in the region. In the fastest growing region in the world, geo-economic and geo-political initiatives such as silk road, spice route, among others, can expand opportunities for commercial, technological, cultural and peaceful advancements provided all involved can work together as equal partners with mutual respect, understanding and inclusion.

CONCLUSION :

India is described as a re-emerging economy since in the 18th century, this area had accounted for about a quarter of world output – but that is part of history. The annual growth rate of GDP in the geographical area of India in the first half of 20th century is estimated to be around an average of 0.9 per cent per annum and per capita income at an average rate of 0.1 per cent per annum. The economy of independent India which is of contemporary interest had to be built upon the overhang issues of second World War, the trauma of partition, the integration of princely states numbering over 500 and a low level of GDP. From an annual average growth rate of 3.5 per cent during 1950 to 1980, the growth rate of the Indian economy accelerated to around 6.0 per cent in the 1980s and 1990s. In the last four years (2003-04 to 2006-07), the Indian economy grew by 8.6 percent. In 2005-06 and 2006-07, it had grown at a higher rate of 9.0 and 9.4 per cent, respectively.

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