# Interrelation between Macro-Economic Variables and the Growth of Indian Economy

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**Abstract -** *The paper examines how the macro-economic variables are significant to the contribution of growth of any economy. They influence the production of goods and services and the final value is known as Gross Domestic Product which is an indicator of the economic growth. The integrated contribution of variables enhance Gross Domestic product. The research aims to analyse the variables to find out the share of contribution to GDP( Gross Domestic Product) and investigate the scope for improvement for more impressive growth and accelerate the country's development.The study considers the sectors of Indian economy- Primary , Secondary and Tertiary Sectors, Foreign Trade Policy, Fiscal and Monetary policies (Inflation, Unemployment, credit policy ) , Foreign Investment Policy , the role of Globalization and International Organizations such as WTO (world Trade Organization ), IMF( International Monetary Fund) , World Bank, etc. in the economic development. It was observed that foreign Direct Investment , export and service sector have contributed largely to the growth of GDP . The research finds the performances of the variables , the reasons for the poor growth and suggestionsfor improvement. The secondary data have been collected for the period of 2008-09 to 2017-18. ANOVA(F-test) was conducted at the Significance level of 0.05. The findings revealed that India needs inclusive growth to involve all the variables which can contribute comprehensively to the growth of GDP(Gross Domestic Product).*

**Keywords**: *Economic Development, FDI( Foreign Direct Investment), Fiscal Policy, GDP(Gross Domestic Product), Globalization, Inclusive Growth, Macroeconomic Variables.*

## INTRODUCTION

The macro-economic variables have a great impact on any economy. Every economy of the world is influenced by some factors known as macro-economic variables. These variables comprise the various small or big components of the economy such as sectors and policies which are affected by the performance through infrastructure or the sound strategies of home and foreign to boost up the growth of Gross Domestic Product of any country which is an indicator of development. Any country of economic strength can apply the variables with sound policy framework in global economic scenario to attract foreign investment and portfolio, build up infrastructure to a global standard and follow the policies of globalization for a better foreign relation . The era of globalization has transformed the world economy and opened a wide scope for development and improvement of standard of living. India is a mixed economy consisting of Primary, Secondary, Tertiary , Public and Private Sectors. The condition of each sector has a remarkable variation in the production of goods and services as well as share to the growth of GDP(Gross Domestic Product). Indian economy is highly influenced by globalization and liberalization in Foreign trade and Investment in obedience to the regulations of the world organizations such as WTO (World Trade Organization), IMF (International Monetary Fund), and IBRD (International Bank for Reconstruction and Development) or World Bank. The study reveals the performances and scope of the sectors of Indian Economy, investigates the causes of pitfalls and suggests the ways of improvement for a better share in the growth. The performance of the Primary sector is depressing and a cause of concern. It requires a great attention and innovation for an inclusive growth. The secondary sector has been static in producing goods and services during the period of study and can do much better with better infrastructural technologies. Public sector is a slow and sick sector which needs to go into disinvestment or privatization. It is observed that the share of Service Sector and FDI (Foreign Direct Investment) in India have comparatively good contribution to GDP( Gross Domestic Product). Therefore, the government needs to pay attention to

the various aspects of these variables and overhaul to bring to global expectation and envisage a tremendous growth for development. The economy needs to create confidence in consumers and investors to augment aggregate demand, consumption, Savings Investment, employment, inflation control and sound credit policy to benefit the farmers and small businessmen effectively.

The data showed a substantial increase in average saving rate over 33per cent during the high growth phase of 2004-08.The efficiency of capital utilization also improved as the incremental capital output ratio (ICOR) declined from 5 to 3.7 during the high growth phase period [1]**.** The economic survey of the study period witnessed various issues and challenges in the economy. It has not been consistent throughout the decade. Some of the variables have produced incredible growth output while the others staggered and decelerated continuously and some being at loggerhead came out of the difficult face of global financial crisis. It was also predicted the persisting global slowdown in the present scenario has transformed into global recession. There has been a slow implementation of policies because of indifferent and lacklusture attitude. The poor monetary, credit and fiscal policy suppressed the sectors which accommodate more employment, produce more goods and services to contribute significantly to the growth of GDP. floods, landslides in hills and plains, drought and suicidal rate of farmers were the main reasons, therefore, the pace of growth slowed down in the key sectors of production. The rise in unemployment, inflation, rigid credit policy and bad loan has hampered the economy to a great extent. The government did not pay much attention to the improvement in variables which could have shared comparatively good to GDP. In this study, the status of some of the variables are presented in quantitative data to analyze the growth trend specially the three sectors of Indian economy i.e. primary, secondary , service sector, foreign investment , export to the share of GDP. Interest rate, domestic demand, consumption, unemployment, poverty, Government schemes, etc have not been touched. On the basis of this current study of the macro-economic variables, it can be inferred that foreign investment, export and service sector are the key contributory pillars to the growth of GDP in this decade and kept the momentum of the economy even during the bad phase. Similarly, there are opportunities for the underprivileged sectors, provided the sound economic policy framework and its implementation are executed aggressively which is the need of the hour. All variables are important as any small variable can make a big difference in the better growth achievement. All the variables from the interest rate and inflation to the manufacturing, agriculture and allied, mining, industry, service sector, export and FDI have been widely considered. The government should redress the status of the variables with effective and immediate measures to make improve the economy better. On the whole, it is good that the economy is expanding, no matter the momentum of growth is slow.

## OBJECTIVES OF THE STUDY

After the literature reviews of articles , research papers in Journals, books , reports and internet sources, it was found that no comprehensive and latest research based on the current data has been made which could discuss the significance , role and impacts of macro-economic variables in detail.One related research discussed the influence of manufacturing, Service and FDI on GDPwith old data up to 2000 to 20012, the other studiesfocused the development of either Agriculture or mining or manufacturing while the most of the researches revolved around the different angles of FDI only.

This research is different in the way that it has tried to establish inter-relation of different macro-economic variables which influence the growth of GDP. The major components of macro-economics have been studied comprehensively with the help of current data from the authentic sources from thenational and international department and Organisation for its validity with statistical test.

The significant analysis and result reveal the conditions and impacts of variables on the growth of Indian economy. It reflects their proportionate share of contributions to GDP and examines the issues, challenges regarding the variables and the scope of improvement to increase the productive efficiency for a better share to the growth of GDP.

## MATERIALS AND METHODS

The materials were derived from the literature reviews which reflected the limitations of data collections. The data were pertaining to either agriculture or manufacturing or export or most of all FDI in relation to GDP. No series of data of major economic variables was found in a single research

paper. This makes a difference between this research and the previous researches.

The research covers up most of the aspects of macroeconomic variables in quantitative form to understand the economic growth better in a wider scope in relation to GDP.

The secondary data,from the Ministry of Statistics andprogramme Implementation, Central Statistics Office, Government of India published on 28 November 2018, statistical report of World Bank and IMF's GDP projections, were collected and ANOVA F-Test was conducted at the significance level of 0.05 to present a novel method. The study of different journals , books , reports , Internet sources and websites were made for a valid research.

## RESULTS AND DISCUSSION

While taking into consideration the Primary , Secondary and Tertiary sectors to find out their performances and shares to the growth of GDP from the period of 2008-09 to 2017-18 , it was observed that their conditions are a cause of concern for a low contribution. They have affected the growth of GDP deeply in the development of Indian economy. By investigating the percentage share of the Primary Sector throughout the decade, it was witnessed that the sector was stagnant in 2009-10 and 2011-12 with merely 21.1 per cent of contribution and from 2011-12 to 2014-15 it remained fluctuating but could not reach 22 percent and more shockingly, instead of improving it declined constantly from 20 to 19 per cent from 2015-16 to 2017-18.

**Table 1. Primary, Secondary and Tertiary Sectors and their (%) share to GDP Base(2011-12)**

| Year | Primary | Secondary | Service |
|---|---|---|---|
| 2008-09 | 21.1 | 30 | 48.9 |
| 2009-10 | 21.1 | 29.9 | 49 |
| 2010-11 | 21.9 | 29.6 | 48.5 |
| 2011-12 | 21.7 | 29.3 | 49 |
| 2012-13 | 21.3 | 28.7 | 50 |
| 2013-14 | 21.4 | 27.9 | 50.6 |
| 2014-15 | 20.9 | 27.3 | 51.8 |
| 2015-16 | 20.1 | 27.4 | 52.5 |
| 2016-17 | 20.4 | 26.9 | 52.8 |
| 2017-18 | 19.6 | 26.6 | 53.9 |

**Source:** Data by Central Statistics Office, Government of India, 28 Nov.2018

The industry and manufacturing sectors play the second fiddle. Due to urbanisation and employment opportunities, the rural people have started migrating from this sector to the Secondary Sector in a large number. The share of this sector is also not considerable. It was noticed that it has been continuously falling all through the period. Of course, the service sector has shown an improvement from 2011-12. Although it shares less employment, its share to GDP's was greater than the other two sectors.

The Primary Sector's Contribution to gross domestic product has been decelerating because it has undergone a slowdown and demand deflation as there is a trade shift to non agricultural activities. The agricultural prices have collapsed and the crop sector (allied such as horticulture which share two-third of this whole sector) has decelerated. The factors such as lack of minimum support price policy, credit to the small and poor farmers and absence of farm investment are responsible for this situation [2]. Similarly, mining and quarrying have underperformed. It is not opened to commercial mining and it is facing socio- political land acquisition issues and tough tax policy [3]. The secondary sector is stagnant. The GDP share of the service sector has been remarkable. It has been sharply rising. There are a lot of opportunities in this sector.

In order to improve the government should take it as a challenge and put endeavour to remove the hurdles on the path of development. There are many ways and means to increase production of goods and services in these sectors. It should lay stress on the issues of rural areas. In Agriculture, there is 'disguised or under-employment' which is a waste of human capital. Small farmers should be provided financial assistance, subsidies on seeds or agricultural equipment. Employment opportunities in allied sectors or 'start up business' should be created for the people in the Primary Sector.

Unemployment and poverty should be redressed properly. The scope of business and employment is wider and with proper use of it, this gap can be easily bridged up. The Schemes like 'National Rural Employment Guarantee' can be better revised and implemented honestly. It can remove rural unemployment and their efficiency can bring in the rural development bydigging canals, constructing village roads, schools, hospitals, bridges , etc.

GDP( Gross Domestic Product ) of India was the least in 2008-09 with only 3.1 per cent . After an improvement in 2009- 10 and 2010-11 around 8 and 8.5 per cent respectively , it again declined in 2011-12 and 2012-13 to the figure of 5. From 2013-14 it crossed 6 percent and kept the momentum with a fall

in 2017-18 to 7 per cent. It is a big challenge before India to improvise GDP for a better development of the nation.

**Table 2. GDP( Gross Domestic Product) of India ( 2008-09 to 2017-18)**

| Year | GDP (%) |
|---|---|
| 2008-09 | 3.1 |
| 2009-10 | 7.9 |
| 2010-11 | 8.5 |
| 2011-12 | 5.2 |
| 2012-13 | 5.4 |
| 2013-14 | 6.3 |
| 2014-15 | 7.4 |
| 2015-16 | 8.00 |
| 2016-17 | 8.26 |
| 2017-18 | 7.00 |

**Source:** Data by World Bank

The growth of GDP is affected by some external factors such as Foreign Trade Policies, Foreign Direct Investment , International organisations, domestic trade policies, fiscal, Inflationary and monetary policies , exclusively RBI's policies for banks and financial institutions. All these macro-economic variables, if implemented aggressively altogether, can produce a tremendous results in the growth with their maximum whopping share to GDP for a better development of the country.

**Foreign Direct Investment, Foreign Portfolio Investment and Foreign Inflows**

By globalization the foreign direct investment provided a new opportunity to the improvement in infrastructure, development of business with multinational corporations (MNCs) [4], employment and growth, rise in living standard, global competitions for quality goods and services, portfolio investment (FPI) which altogether enhanced the total foreign investment flow. Furthermore, it depends upon the foreign exchange rate and the value of currency. The stronger currency value, the more attraction of FDI and the better growth of GDP of the country. The integration of the domestic economy through the twin channels of trade and capital flows has accelerated in the past two decades which in turn led India's GDP to reach UD$ 2.30 trillion in 2017-18. Simultaneously, the per capita income also nearly trebled during these years. India's trade and external sector had a significant impact on the GDP growth and expansion of per capital income.

FDI and FPI contribute 63 per cent and 37 per cent share of GDP in the economy**[4].** The liberal foreign policy led to improvement in FD1. The momentum was affected by global crises **[5].**Nonetheless, the overall foreign inflows of FDI has seen an upward trend since 2009 butFPI dropped sharply in 2011. Mauritius topped as an investing country both in financial and non-financial sectors **[4]**. Mumbai and New Delhi attracted the highest FDI inflows. FDI in 2011 exceeded pre economic crisis levels .UNCTAD( United Nations Council of Trade and Development) published world Investment Report for 2012 and ranked India as third most preferred economy for FDI after China and U.S. Service, construction and telecommunication attracted the highest FDI and among top 15 countries India ranked 10 in overall GDP and 12 in service GDP in the year of 2012 [6].

**Trends in FDIs**

Foreign direct investment in India is the most influential financial resource, especially for the emerging sectors. Foreign Direct Investment helps in exploiting a wide range of opportunities and utilizing the same to attain the desired level of development in the nation [7]. Analyzing the trend of foreign direct investment in India , its graph is rising and the main reasons for such an increase are due to new government policies and various initiatives and 'Make in India'. According to Department of Industrial Policy and Promotion (DIPP), the total FDI in April-June 2018 stood at US$ 12.75 billion, indicating that government's efforts to improve ease of doing business and relaxation in FDI norms in yeilding results. Data for April-June 2018 indicates that service sector attracted the highest FDI equity inflow of US$ 2.43 billion, followed by trading US$ 1.63 billion, telecommunication US $ 1.59 billion and computer software and hardware US$ 1.41 billion. Most recently , the total FDI equity inflows for the month of June 2018 touched US$ 2.89 billion. During April-June 2018 , India received the maximum FDI equity inflows from Singapore(US$ 6.52 billion), Mauritius (US$ 1.49 billion), Japan (US $ 0.87 billion), Netherlands ( US$ 0.84 billion) and United Kingdom (US $ 0.65 billion). The world Bank has stated that private investments in India is growing by 8.8 percent from 2018-19 to overtake private consumption growth

of 7.4 per cent , and thereby drive the growth in India's gross domestic product.

**Table 3. India's FDI ( in % of GDP)**

| Year | FDI |
|---|---|
| 2008 | 24 |
| 2009 | 20.5 |
| 2010 | 22.5 |
| 2011 | 24.4 |
| 2012 | 24.5 |
| 2013 | 25.5 |
| 2014 | 23 |
| 2015 | 19.5 |
| 2016 | 19.1 |
| 2017 | 18.5 |
| 2018 | 19.5 |

**Source:** Data by World Bank

**India's Export: An overview**

Foreign trade is an important segment of macroeconomics which improves the economic growth. It requires a favourable balance of payment with export more than the import and current account surplus. The export of organic herbs and medicine, pharmaceutical goods, crude oil and petroleum, iron ore, copper, automobiles parts, leather, cotton, rice, meat and dairy products from India produced a favourable outcome which resulted into upward rise of the export graph constantly. Total exports from India (Merchandise and services) increased 15.48 per cent year -on-year during April -November 2018 to US$ 351.99 billion according to data from the Ministry of Industry and Commerce. Exports from the country recorded highest growth in 2017-18.

In November 2018, India and Iran had signed a bilateral agreement to settle oil trades in Indian currency through public sector bank United Commercial Bank (UCO). In June 2018, a Memorandum of Understanding (MoU) was signed with China to export non-basmati rice. As of October 2018, total 24 mills got clearance. Bilateral trade between India and China reached US$ 84.44 billion in 2017 with 40 per cent increase in Indian exports to China. In August 2018, US upgraded India's status as a trading partner at par with its North Atlantic Treaty Organization (NATO) allies. India has revised its proposal on trade facilitation for services ( TFS) at the World Trade Organisation (WTO) and issued a new draft, with contents being more meaningful and acceptable to other countries. India's external sector has a bright future as global trade growing at 4 per cent in 2018 from 2.4 per cent in 2016.

**Foreign Trade Policy**

- In the Mid-Term Review of the Foreign Trade Policy (2015-2020) the Ministry of Commerce and Industry has enhanced the scope of Merchandise exports from India Scheme (MEIS) and Service Exports from India Scheme (SEIS) , increased MEIS incentive for ready-made garments and SEIS by 2 per cent and raised the validity of Duty Credit Scrips from 18 months to 24 months.
- As of December 2018, India planned to set up trade promotion bodies in 15 countries to boost exports from Small and Medium Enterprises(SME)
- The Central Board of Excise and Custom (CBES) has developed an 'integrated declaration' process leading to creation of a single window which will provide the importers and exporters a single point interface for customs clearance of import and export goods.
- As part of the FTP strategy of market expansion , India has signed a Comprehensive Economic Partnership Agreement with South Korea which will provide enhanced market access to Indian exports. These trade agreements are in line with India's Look East Policy. To upgrade export sector infrastructure 'Towns of Export Excellence' and units located therein will be granted additional focused support and incentives.
- RBI has simplified the rules for credit to exporters, through which they can get long-term advance from banks for up to 10 years to service their contract. This measure will help exporters to get into long -term contracts while aiding the overall export performance.
- All export and import-related activities are governed by the Foreign Trade Policy ( FTP) , which is aimed at enhancing the country's exports and use trade expansion as an effective instrument of economic growth and employment generation.

Export is witnessed a continuous growth throughout the decade. After being stagnant in 2002-03 in $ 44.5 billion each, it has accelerated since 2004 speedily and became more than double in 2007 and didn't lose momentum affectedless by the economic crises, however, the space was broken in 2012. The current account deficit remained at 3.6 per cent of GDP in 2011-12 and reduction in the Net Capital

Inflow in Q2 and Q3 put pressure on the exchange rate [8].The government had indifferent attitude in trade agreement with European union in the perspective of Free Trade Agreement. The RBI had no sound policy. The country was facing the situation of fiscal deficit. There were depreciation of rupees and high tariffs. The current account deficit witnessed an upward trend in proportion to GDP . Therefore, the Central Bank has been constantly carrying out tightening of monetary policy**[1].**

**Table 4. India's Export (in % of GDP)**

| Year | Export |
|---|---|
| 2008 | 2.1 |
| 2009 | 3.5 |
| 2010 | 2.5 |
| 2011 | 1.5 |
| 2012 | 2 |
| 2013 | 1 |
| 2014 | 1.5 |
| 2015 | 1.5 |
| 2016 | 2 |
| 2017 | 2 |
| 2018 | 1.5 |

**Source:** Data by World Bank

**The World Trade Organisation (WTO)**

The government of India has taken several steps to implement the policy commitments made under WTO agreements such as Agreement on Tariffs and Quantitative Restrictions, Agreement on Agriculture, Trade Related Intellectual Property Rights( TRIPS), Trade Related Investment Measures (TRIMS), General Agreements on Trade in Services ( GATS), etc. The importance of WTO in promoting multilateral trade is being increasingly acknowledged . The WTO rules envisage non-discrimination in the form of national treatment and most favoured nation( MFN) treatment to our exports in the markets of other WTO members. National treatment ensures that our exports to other member countries would not be discriminated vis-s-vis their domestic products. MFN treatment like-wise ensures non- discrimination among various members in their tariff regimes and also other rules and regulations. Various multiltilateral developmental issues and trade are focused increasingly at the international level. Poverty concerns of developing countries along with development and trade policies are also being given cognisance.

**Table 5. ANOVA (F-test)**
**Round off figures( in %)**

| Year | Export | FDI | GDP |
|---|---|---|---|
| 2008 | 24 | 2 | 3 |
| 2014 | 22 | 1 | 5 |
| 2018 | 20 | 1.5 | 7 |

**Step 1:** Sum of Square between groups

X Export=22
X FDI=1.5
XGDP=5

-----------------------------

(X-d)2 of Export=8
(X-d)2 of FDI= 0.5
(X-d)2 of GDP=104
€X = 112.5

Degree of Freedom(Df) =2
Sum of square between groups =€X* Df
=112.5*2
225

**Step 2: Sum of Squares within group**

Grand mean of all groups=9.5
(X-d)2 of Export= 156.25
(X-d)2 of FDI= 64
(X-d)2 of GDP = 20.25
----------
Sum of all €=240.5
Degree of Freedom (Df) =6

Sum of square within groups = Sum of square deviation/Df
= 240.5/6
= 40.08

**Step 3:** F-ratio= Sum of Squares between the groups/Sum of the squares within the groups

**Value of F**= 225/40.08
=5.61

**p-value** =0.04

**CONCLUSIONS**

Indian economy is highly influenced by macroeconomic variables. It has been undergoing ups and down with a number of challenges to steer out and move forward on the development trail.

It was largely affected by external environment and crises..The recovery of the economy was

interrupted in 2011-12. GDP(Gross Domestic Product) fell from 3.1 per cent in 2009 to 5.2 per cent in 2011.The major risks to economy resulted from uncertain global macro environment such as high inflation, rigid monetary policy and worrying fiscal scenario.There was the absence of the appropriate actions for addressing the supply bottlenecks. The domestic consumption dipped. Infrastructure- power, road, transport, communication and ports -was inadequate. The growth wasmoderate and the fiscal balance decelerated due to the rigid monetary policy. However, the economy rebounded sharply as front runner during FY10 and maintained the high growth rate momentum in FY2011 too. Almost all macroeconomic variable except electricity generation in industrial segment and trade and hotels in service segment showed a negligible growth which was a matter of concern. Now, India needed to focus on inclusive growth. India in its annual budget suggested some plans to boost up the economy and realized that domestic demand and infrastructural investment can contribute largely to the growth of economy. It should frame better Monetary and Fiscal policies to tame the domestic inflationary pressure. It needs to strengthen investment environment. The states should allow FDI in multi-brand retail up to 51%. The study suggested that India is still reeling under the economic crisis of unemployment, poverty, food inflation, slow economic growth in all the sectors less or more and therefore, low GDP growth detrimenting the development of the country. India needs to strengthen the economy by improving all the macroeconomic variables which can be significantly useful in contributing to the growth of GDP with meticulous strategies in a serious manner [9]. The government should take immediate initiatives to the weak and potentially weak sectors by sound policies framework and its proper implementation by categorising on priority for a better resultby redressing their issues seriously for maintaining the momentum of GDP growth unlike other large sharing GDP variables for an inclusive growth of Indian economy.

## RECOMMENDATIONS

This study focused on the Primary, Secondary, Tertiary, Export and FDI which contribute largely to the growth of GDP share. Performance of the major sectors were judged through the data analysis and ANOVA F-test was conducted on the basis of data of 2008, 2014 and 2018 with Export , FDI and GDP to know the interrelation between the variables to find the significant result successfully at 0.05 Significance level.

It was found that the Primary sector( agriculture, allied , mining and quarrying) had a slight fluctuation of growth while Secondary sector (industry, Manufacturing , Construction) declined constantly during the period.. The service sector with the least share of employment grew faster and contributed more than half of the shares in GDP as compared to the two sectors. FDI growth picked up from 2006 proportionately ahead. However, a deep variation was noticed in FPI growth which fell to negative in the year 2008. Even then, the total Foreign Inflows witnessed a better growth from the year 2009. The overall export performance rose since 2004. These variables except Primary and secondary sectors could contribute to the growth of GDP comprehensively. That is why, the growth of GDP saw the rise and fall with some diversifications throughout the period from 2008-09 to 2017-2018. The economycontracted in 2008 and still persists. Unlike, FDI, Export and Tertiary Sector, Auto and manufacturing industries showed a sign of recovery.

The data of all variables are not discussed in detail such as comparison between import and export, domestic demand and consumption, inflation and purchasing power, poverty and unemployment, credit policy implementation of government schemes, plans and policies, etc.

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