INDIAN ECONOMY & INDIAN FINANCIAL SYSTEM

INDIAN INSTITUTE OF BANKING & FINANCE

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INDIAN ECONOMY &
INDIAN FINANCIAL SYSTEM

INDIAN INSTITUTE OF BANKING & FINANCE

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Kohinoor City, Commercial-II, Tower-1, 2nd & 3rd Floor,
Kirol Road, Off-L.B.S. Marg, Kurla-West,
Mumbai-400070

Established on 30th April 1928

MISSION

- To develop professionally qualified and competent bankers and finance professionals primarily through a process of education, training, examination, consultancy/counselling and continuing professional development programmes.

VISION

- To be the premier Institute for developing and nurturing competent professionals in banking and finance field.

OBJECTIVES

- To facilitate study of theory and practice of banking and finance.
- To test and certify attainment of competence in the profession of banking and finance.
- To collect, analyse and provide information needed by the professionals in banking and finance.
- To promote continuous professional development.
- To promote and undertake research relating to Operations, Products, Instruments, Processes, etc., in banking and finance and to encourage innovation and creativity among finance professionals so that they could face competition and succeed.

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INDIAN ECONOMY & INDIAN FINANCIAL SYSTEM

(For JAIIB/Diploma in Banking & Finance Examination)

Indian Institute of Banking & Finance

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INDIAN ECONOMY & INDIAN FINANCIAL SYSTEM

First Edition (2023)

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FOREWORD

Formal education will make you a living; self-education will make you a fortune.

–Jim Rohn

The banking sector, currently, is experiencing a transformation catalysed by digitalization and information explosion with the customer as the focal point. Besides, competition from NBFCs, FinTechs, changing business models, growing importance of risk and compliance have contributed to this radical shift. Such an ever-evolving ecosystem requires strategic agility and constant upgradation of skill levels on the part of the Banking & Finance professionals to chart a clear pathway for their professional development.

The mission of the Indian Institute of Banking & Finance is to develop professionally qualified and competent bankers and finance executives primarily through a process of education, training, examination, counseling and continuing professional development programs. In line with the Mission, the Institute has been offering a bouquet of courses and certifications for capacity building of the banking personnel.

The flagship courses/examinations offered by the Institute are the JAIIB, CAIIB and the Diploma in Banking & Finance (DB&F) which have gained wide recognition among banks and financial institutions. With banking witnessing tectonic shifts, there was an imperative need to revisit the existing syllabi for the flagship courses.

The pivotal point for revising the syllabi was to ensure that, in addition to acquiring basic knowledge, the candidates develop concept-based skills for keeping pace with the developments happening in the financial ecosystem and to ensure greater value addition to the flagship courses and to make them more practical and contemporary. This will culminate in creating a rich pool of knowledgeable and competent banking & finance professionals who are capable of contributing to the sustainable growth of their organizations.

Keeping in view the above objectives, the Institute had constituted a high-level Syllabi Revision Committee comprising of members from public sector banks, private sector banks, co-operative banks and academicians. On the basis of the feedback received from various banks and changes suggested by the Committee, the syllabi of JAIIB & CAIIB have since been finalized.

The revised JAIIB syllabi will now have four compulsory subjects as under:

1. Indian Economy & Indian Financial System
2. Principles & Practices of Banking
3. Accounting & Financial Management for Bankers
4. Retail Banking & Wealth Management

The new subject on Indian Economy & Indian Financial System will cover the basics of economics and financial system prevalent in India. This will familiarise the candidates with the evolving financial ecosystem of the country.

Insofar as the book on Accounting & Financial Management is concerned, two new modules viz Financial Management and Taxation & Fundamentals of Costing have been introduced. With bankers having to cater to the requirements of varied industries, it is imperative that they have an underlying understanding of the relationships between cost accounting, financial accounting, management accounting and financial management. Some of the other topics that have been covered are Cost of Capital, Equipment Leasing, GST, Standard Costing, Marginal Costing, Budgetary Control system etc.

The books on Principles & Practices of Banking and Retail Banking & Wealth Management have been thoroughly revised and updated.

As is the practice followed by the Institute, a dedicated courseware for every paper/subject is published. The present courseware on Indian Economy and Indian Financial System has now been authored in line with the revised syllabus for the subject. The book follows the same modular approach adopted by the Institute in the earlier editions/publications.

While the Institute is committed to revise and update the courseware from time to time, the book should, however, not be considered as the only source of information / reading material while preparing for the examinations due to rapid changes witnessed in all the areas affecting banking & finance. The students have to keep themselves abreast with the current developments by referring to economic newspapers/ journals, articles, books and Government / Regulators' publications / websites etc. Questions will be based on the recent developments related to the syllabus.

Considering that the courseware cannot be published frequently, the Institute will continue the practice of keeping candidates informed about the latest developments by placing important updates/Master Circulars/ Master Directions on its website and through publications like IIBF Vision, Bank Quest, etc.

The courseware has been updated with the help of Subject Matter Experts (SMEs) drawn from respective fields and vetted by practitioners to ensure accuracy and correctness. The Institute acknowledges with gratitude the valuable contributions rendered by the SMEs in updating/vetting the courseware.

We welcome suggestions for improvement of the courseware.

Mumbai
2023

Biswa Ketan Das
Chief Executive Officer

RECOMMENDED READING

The Institute has prepared comprehensive courseware in the form of study kits to facilitate preparation for the examination without intervention of the teacher. An attempt has been made to cover fully the syllabus prescribed for each module/subject and the presentation of topics may not always be in the same sequence as given in the syllabus.

Candidates are also expected to take note of all the latest developments relating to the subject covered in the syllabus by referring to Financial Papers, Economic Journals, Latest Books and Publications in the subjects concerned.

INDIAN ECONOMY & INDIAN FINANCIAL SYSTEM

SYLLABUS

MODULE A: INDIAN ECONOMIC ARCHITECTURE

An overview of Indian Economy

Evolution of Indian Economy, Basic Characteristics of Indian Economy, Indian Economy in Pre-British period, Economy till 2008 & after 2008, Structural changes in Indian Economy

Economic Planning in India

Definition of Economic Planning, History of Economic Planning, Objectives of Economic Planning, Types of Planning, Achievements of Planning, Financial resources for 5-year plans

Sectors of the Indian Economy

Role & Importance of Primary, Secondary, Tertiary Sector, Quaternary & Quinary Sectors, Different Revolutions in Primary sector, Difference between the sectors, GDP contribution of different sectors, Agriculture, Industry, Services, Employment growth rate in Secondary sector, Sunrise Sector of Indian Economy, Organised and Unorganised sectors

Role of Priority Sector and MSME in the Indian Economy

Definition & Role of Priority Sector, List of Priority Sectors identified in India, Priority Sector Lending Norms, Definition of MSME, Role & Significance of MSME in economic development, Contribution of MSME in GDP, Recent Initiatives in MSME sector viz., Atmanirbhar Bharat package, Make in India, Start-up India, Stand-up India etc.

Infrastructure including Social Infrastructure

Infrastructure & Economic Development, Energy, Power, Transport system viz., Rail, Road, Civil Aviation, Concept of Social Sector & Social Infrastructure, Health, Education, Family welfare, Development of Health Infrastructure

Globalisation – Impact on India

Globalisation and its Advocacy, Globalisation and its Impact on India, Fair Globalisation & the Need for Policy framework, Globalisation in reverse gear – The Threatened Re-emergence of Protectionism

Economic Reforms

A brief overview, Transformation, Economic Transformation – Real Sector, Economic Transformation – Financial Sector, Economic Transformation – Integration with the Global Economy, Economic Reforms in India

Foreign Trade Policy, Foreign Investments and Economic Development

FTP – Structural Changes during 1990s, FTP policy – 2015-2020, Challenges to be addressed in upcoming FTP, FDIs, FIIs and Recent trends, Economic development vs economic growth, Importance of economic development as a dimension etc.

International Economic Organisations (World Bank, IMF etc.)

IMF and World Bank, World Trade Organization (WTO) – India and WTO, Regional Economic Co-operations, Recent International Economic Issues

Climate change, Sustainable Development Goals (SDGs)

Core elements of Sustainable Development, Global Issues and initiatives, India's progress in SDGs including Climate change, CSR Activities

Issues facing Indian Economy

Poverty Alleviation, Jobless growth, Rising Inequalities, Migration and excessive pressure on resources, Possible remedies, Pandemic situations

MODULE B: ECONOMIC CONCEPTS RELATED TO BANKING

Fundamentals of Economics, Microeconomics Macroeconomics and Types of Economies

Economics – An Introduction, Microeconomics and Macroeconomics, Types of Economies, Market, Command, and Mixed Economies

Supply and Demand

The Demand Schedule, Forces behind the Demand Curve, shifts in Demand, The Supply Schedule, Forces behind the Supply Curve, shifts in Supply, Equilibrium of Supply and Demand, Effect of a Shift in Supply or Demand, Interpreting Changes in Price and Quantity

Money Supply and Inflation

What is Money, Money Supply, Inflation, Causes of Inflation, Measures of Inflation

Theories of Interest

Classical Theory of Rate of Interest, Keynes' Liquidity Preference Theory of Rate of Interest, Money Demand Curve, Determination of Rate of Interest: Equilibrium in the Money Market, Effect of an Increase in the Money Supply, shifts in Money Demand or Liquidity Preference Curve, Hicks-Hansen Synthesis: IS-LM Curve Model

Business Cycles

Characteristics of a Business Cycle, Phases of a Business Cycle

Monetary Policy and Fiscal Policy

Tools of Monetary Policy, how did Monetary Policy in India Respond to the Global Financial Crisis? Fiscal Policy, FRBM Act

National Income and GDP Concepts

Computation, Utility

Union Budget

Receipts, Expenditure, Plan Expenditure, Deficit Concepts

MODULE C: INDIAN FINANCIAL ARCHITECTURE

Indian Financial System – An Overview

What is a Financial System? Phase I: Pre-1951 organisation, Phase II: 1951 to Mid-eighties organisation, Phase III: Post Nineties Organisation, Narasimham Committee (1991) on the banking system in India, Reform of the Banking sector (1992-2008), Present Status of Banking System

Indian Banking Structure

Functions, Development of Banking in India, Scheduled Commercial Banks- Types and functions, Local Area Banks, Regional Rural Banks, Cooperative Banks: Types, Payment Banks and Small Finance Banks, NBFCs, Key RBI Guidelines

Banking Regulation Act, 1949 and RBI Act, 1934

Background of Enactment, PART-I Reserve Bank of India Act, 1934: Chapter I to Chapter V, Schedules to the RBI Act, 1934, PART-II Banking Regulations Act, 1949, Background and Structure of the Banking Regulation Act: Section 1 to Section 56

Development Financial Institutions

Evolution of Development Financial Institutions in India, Gaps in the Post-Independence Financial System, Objectives of Development Financial Institutions, Classification of DFIs, Role of DFIs in the Indian Economy, Changing Role of DFIs and Emergence of Universal Banks, Industrial Finance Corporation of India (IFCI), Industrial Credit and Investment Corporation of India (ICICI),Industrial Development Bank of India (IDBI), Small Industries Development Bank of India (SIDBI), Export Import Bank of India (EXIM Bank), National Bank for Agriculture and Rural Development (NABARD), National Housing Bank (NHB), National Bank for Financing Infrastructure and Development (NaBFID).

Micro Finance Institutions

Evolution of Microfinance in India, Grameen Bank Model, Delivery of Microfinance, SHG-Bank Linkage programme, Joint Liability Groups (JLGs), Regulatory Framework for Microfinance Institutions, Inclusion of Bank Finance to Microfinance Institutions in Priority Sector Lending, Regulatory Framework for Micro Finance Loans RBI Directions 2022, RBI's Fair Practices Code for NBFC-MFIs,

Non-Banking Financial Companies

What is a Non-Financial Banking Company (NBFC)?, Evolution of NBFCs in India, Role of NBFC in Promoting Inclusive Growth of India, Regulators of NBFCs, Classification of NBFCs, Regulatory Oversight by RBI on NBFCs, Types of NBFCs, Concept of Owned Funds and Net Owned Funds (NOF) for NBFCs, Bank Finance to NBFCs, Fair Practice Code for NBFCs, Applicability of Ombudsman Scheme to NBFCs, Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs.

Insurance Companies

History and Development of Insurance. Privatisation and Foreign Direct Investment (FDI) in Insurance Sector. Insurance Business Globally and in India. Insurance Penetration and Density. Number of Insurance Companies Operating in India. Legislations Governing Operation of Insurance Companies. Insurance Intermediaries. Reinsurance. Insurance Repository's-Insurance Account.

Indian Financial System - Regulators & their roles

Role of Financial Sector Regulators in an Economy, Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority of India (IRDA), Pension Fund Regulatory and Development Authority (PFRDA).

Reforms & Developments in the Banking sector

Bad Banks, Infrastructure financing, Formation/role of NaBFID-National Bank for Financing, Infrastructure & Development, Basic concepts on EASE.

MODULE D: FINANCIAL PRODUCTS AND SERVICES

Overview of Financial Markets

What is a Financial Market?, Evolution of the Financial Market, Segments of Financial Markets, Functions of Financial Markets, Price Discovery.

Money Markets and Capital Markets

Call Money, Notice Money and Term Money, Treasury Bills, Certificates of Deposit, Commercial Paper, Repo, Tri-Party Repo, Bill Rediscounting Scheme (BRDS), Long-Term Repo Operations (LTRO).

Fixed Income Markets - Debt / Bond Markets

Government Securities, Bond Valuation and Theorems, Auction of Government Securities, Primary Dealers, Fixed Income Money Market and Derivatives Association of India (FIMMDA), RBI Retail Direct Scheme (RDS), Corporate Bond Market, Inter-Corporate Deposits.

Capital Markets and Stock Exchanges

Primary Market, Secondary Market Stock Exchanges in India, Financial Products/Instruments Dealt with in the Secondary Market, Regulatory Requirements Specified by SEBI for Corporate Debt Securities, Commonly Used Terms in the Capital Market, Types of Capital Issues in the Primary Market, Eligibility Norms for Making Capital Issues, Intermediaries in an Issue in the Primary Market, Applications Supported by Blocked Amount (ASBA) Qualified Institutional Placement (QIP).

Forex Markets

Profile of Foreign Exchange (Forex) Market, Evolution of the Forex Market in India, Characteristics of the Forex Market, Market Participants, LIBOR and Alternate Reference Rates (ARRs), Foreign Exchange Dealers Association of India (FEDAI), Foreign Exchange Management Act (FEMA), 1999, FX-Retail Platform, US Dollar Index (USDX), American Depository Receipt (ADR) and Global Depository Receipt (GDR).

Interconnection of various markets/Market Dynamics

Process of Interconnectedness of Financial Markets, Reasons for interconnectedness, Importance of Interconnectedness of Financial Markets, Heterogeneity of Financial Markets, Achievement of Market Integration in India, Different Levels of Market Integration, Asian Clearing Union, Benefits and Costs of Interconnectedness of Markets, Interconnectedness of the Money Market, Interconnectedness of the Credit Market, Interconnectedness of the Capital Market, Interconnectedness of the Forex Market, Integrated Treasury Operations, Contagion Effect.

Merchant Banking Services

Definition of Merchant Banking, Historical Background, Development of Merchant Banking in India, Merchant Banking Vs Commercial Banking, Licensing Requirements, SEBI Regulations on Merchant Banking, Activities of Merchant Banks, Key Policy Requirements as per SEBI Regulations, Key Codes of Conduct as per SEBI Regulations.

Derivatives Market including Credit Default Swaps

What is a Derivative. History of Derivatives, Size of the Derivatives Market, Underlying Assets, Exchange Traded and Over-the-Counter Markets, Participants in the Derivatives Market, Functions of Derivatives, Types of Derivatives, Forward Contracts, Futures, Options, Swaps, Credit Default Swaps (CDS), RBI guidelines on Credit Default Swaps, Documentation for Derivatives – ISDA Agreement.

Factoring, forfaiting & Trade Receivables Discounting System (TReDS)

What is Factoring, History of Factoring, Types of factoring, Domestic Factoring, International Factoring, Bills Discounting vs Factoring, Fees Involved in Factoring, Advantages of Factoring, What is Forfaiting, Mechanism of a Forfaiting Transaction, Fees Involved in Forfaiting, Advantages of Forfaiting, Differences between Factoring and Forfaiting, What is TReDS? Participants under TReDS, Process Flow under TReDS, Eligibility Criteria to Set Up and Operate TReDS.

Venture capital

Concept of Venture Capital, Evolution of Venture Capital in India, Characteristics of Venture Capital Finance, Stages of Venture Capital Financing, Process of Venture Capital Financing, Regulatory Aspects of Venture Capital Funds, Modes of Venture Capital Financing, Advantages and Disadvantages of Venture Capital Financing, Exit Routes for Venture Capital Finance.

Leasing and Hire Purchase

Lease Finance, Evolution of Leasing in India, Types of Leasing, Advantages and Disadvantages of Lease Finance, Market Share of Various Leased Asset Classes, Impact of Leasing on Financial Ratios, Legal Aspects of Leasing, Regulatory Aspects of Leasing Activities, Hire Purchase, Evolution of Hire Purchase in India, Legal Aspects of Hire Purchase, Parties to a Hire Purchase Contract, Leasing and Hire Purchase Compared,

Credit Rating agencies & their functions

What is Credit Rating? Credit Rating Agencies (CRAs) ;History of Credit Rating; Characteristics of Credit Rating ;Importance of Credit Rating, Benefits of Credit Rating, Factors Considered while Rating Companies/Instruments, Process of Credit Rating, Credit Rating Symbols, Ratings Outlook, Regulations for CRAs in India, Fees for Credit Rating, What is Credit Scoring?, Credit Information Companies (CICs) in India, Membership to CICs, Regulatory Guidelines Governing CICs, Credit Scores, Difference Between Credit Ratings and Credit Scores.

Mutual Funds

Mutual Funds and their Functions, Management of Mutual Funds, Evolution of Mutual Funds, Classification of Mutual Funds, Role of Mutual Funds, Supervision of Mutual Funds, New Fund Offer, Risks Associated with Mutual Funds, Risk Depiction – Riskometer, Net Asset Value (NAV), Expenses Ratio, Load/No-Load Funds, Strategies for Investment in Mutual Funds, Role of Mutual Funds in the Capital Market, Alternative Investment Funds.

Insurance Products

What is Insurance? Fundamental Principles Governing Insurance Products, Classification of Insurance, Types of Insurance Business, Group Insurance Schemes, Micro Insurance, Insurance Based Social Security Schemes, Bancassurance, Insurance Ombudsman Scheme, Government Business Products (Social Security Schemes like PMJJBY, PMSBY).

Pension Funds (include APY, NPS)

Pension System and its Aspects, Pension Products, Different Types of Pension Schemes, Employees Provident Funds Scheme, Public Provident Fund (PPF) Scheme, Insurance Annuity Schemes, National Pension Scheme (NPS), Atal Pension Yojana (APY).

Guidelines on Para Banking & Financial Services provided by Banks

Types of Para Banking and Financial Services provided by Banks, Organisation of Para Banking and Financial Services Activities by a Bank, Para-Banking and Financial Services Undertaken by a Bank, Disclosure of Commissions/Remunerations earned from Para Banking and Financial Services Activities.

Real Estate Investment Funds / Infrastructure Investment Fund (concept)

What are Real Estate Investment Trusts (REITs), History of REITs, Organisation of REITs, Types of REITs, Difference Between REITs and Real Estate Mutual Funds, Advantages and Disadvantages of Investing in REITs, Comparison of Various Modes of Investment in Real Estate, Taxation Guidelines for Investors of REITs, Regulatory Guidelines for REITs. What are Infrastructure Investment Trusts (InvITs), Organisation of InvITs, Rationale of Setting up InvITs, Activity of InvITs in India, Types of InvITs, Advantages and Disadvantages of InvITs, InvIT's Revenue Model, Taxation on Investments in InvITs.

CONTENTS

MODULE – A

INDIAN ECONOMIC ARCHITECTURE

UNIT 1

AN OVERVIEW OF INDIAN ECONOMY

STRUCTURE

1.0 OBJECTIVES

This chapter will be helpful in understanding:

- Evolution of Indian economy
- Basic characteristics of Indian economy
- Indian economy during British period
- Economy till 2008 & after 2008
- Structural changes in Indian economy

1.1 EVOLUTION OF INDIAN ECONOMY

According to the Angus Maddison database, India and China contributed 50.5 per cent of global GDP in 1000 AD (GDP computed in 1990 dollars and in purchasing power parity terms). By 1600 AD, that figure had risen to 52 per cent, with China accounting for 29 per cent and India accounting for 23 per cent of global GDP. A century later, China's GDP share had declined, while India's had risen to 24.4 per cent of world output. British colonialism altered the dynamics, and by 1820, India's share had plummeted to 16.1 per cent. According to the International Monetary Fund (IMF), India's contribution of global GDP reached 7.3 per cent in 2021. However, in terms of GDP purchasing power parity (PPP), India is ranked 3rd in the world only after USA and China. Today, India is one of the world's fastest growing major economies.

India's economic performance during the British Raj was dismal. The colonial state's policies were significant barriers to the country's growth. The recurring famines and disease outbreaks in India throughout the second half of the nineteenth century and the first half of the twentieth century demonstrate the British government's socioeconomic irresponsibility. The pre-independence period was characterised by near-stagnation, with little change in the organisation of production or productivity levels.

The British East India Company ignored industrialisation in the nation, and infrastructure was created not to industrialise India but to exploit its raw materials. At the time of independence, India's economic picture was in complete distress. When India gained independence, the administration of the time had a significant challenge in systematic organisation of the economy.

1.2 BASIC CHARACTERISTICS OF INDIAN ECONOMY

World Bank classifies economies considering per capita income. There are 4 categories namely Low Income; Lower Middle-Income; Upper Middle-Income and Higher Income.

Indian economy falls under the category of - lower-middle income economy. Countries that have Per Capita Income (PCI) between $996 and $ 3895 fall in this classification and India as on 2019 had PCI of $1891. Indian economy in terms of Purchasing Power Parity (PPP) is the 3rd largest economy in the world but in terms of PCI, India ranked very low.

The low per capita income is mainly attributed to high levels of poverty, unemployment, illiteracy, etc. India was a backward nation at the time of its independence. The government addressed the developmental issues through five-year plans by setting targets and ensuring the allocation of funds for the development of various sectors.

A number of factors influence the nature and characteristics of the Indian economy. Some of these factors include: (i) low per capita real income, (ii) rapid population growth, (iii) a high rate of unemployment, underemployment, and disguised unemployment, (iv) excessive reliance on the primary sector, (v) a vicious circle of poverty, and (vi) rising unemployment.

Following extract of India's macro-economic aggregates from RBI publication dated 15th September, 2021, will give an overall view of the economic status of India

Table 1.1 Macro-Economic Aggregates

(Base Year: 2011-12 At Current Prices)

Item/Year	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
1	2	3	4	5	6	7	8
Population (in lakhs)	12670	12830	12990	13140	13270	13410	13554
GVA at Basic Prices	11504279	12574499	13965200	15505665	17161213	18461343	17915167
Net taxes on products	963680	1197375	1426469	1584377	1725744	1889670	1830503
Gross Domestic Product	12467959	13771874	15391669	17090042	18886957	20351013	19745670
Consumption of Fixed Capital	1342291	1449697	1591332	1764812	1979987	2163598	2099588
Net Domestic Product	11125668	12322177	13800337	15325231	16906970	18187414	17646082
Primary income receivable from ROW (net)	-147430	-159779	-176400	-184813	-202324	-193114	
Gross national Income	12320529	13612095	15215269	16905230	18684632	20157899	19561348
Net national Income	10978238	12162398	13623937	15140418	16704645	17994301	17461759
Other current transfers (net) from ROW	405154	413083	379438	405740	493740	540364	
Gross national Disposable Income	12725683	14025178	15594707	17310970	19178372	20698263	20128484
Net National Disposable Income	11383392	12575481	14003375	15546158	17198385	18534665	18028896
Gross Savings	4019957	4282259	4825113	5480741	5776960	6385981	
Net Savings	2677666	2832562	3233781	3715929	3796973	4222382	
Gross Capital Formation	4179779	4422659	4918077	5791573	6172623	6551251	
Net Capital Formation	2837487	2972961	3326745	4026761	4192635	4387653	
Per Capital GDP(₹)	98405	107341	118489	130061	142328	151760	145680
Per Capita GNI(₹)	97242	106096	117131	128655	140804	150320	144320
Per Capita NNI(₹)	86647	94797	104880	115224	125883	134186	128829
Per Capita GNDI(₹)	100439	109315	120052	131743	144524	154349	148504
Per Capita PFCE(₹)	57201	63339	70258	76379	84567	91790	85348

(Contd.)

Notes:
1. Data for 2017-18 are Third Revised Estimates, for 2018-19 are Second Revised Estimates and for 2019-20 are First Revised Estimates.
2. Data for 2020-21 are Provisional Estimates.
3. Population figures relates to mid-financial year.

Source: National Statistical Office (NSO)

India was an agricultural economy, with a very low per capita income. After independence, agriculture's share of GDP fell during the development process, while industry and services increased. Agriculture was a dominant sector in the Indian economy in 1950, accounting for 53.1 per cent of GDP. Industry had a 16.6 per cent share, while services had a 30.3 per cent share. Following independence and the start of the planning process, agriculture's share decreased while industry and services increased. In 1980–81, the services sector (38 per cent of GDP) surpassed agriculture (36.1 per cent) to become the largest contributor to India's GDP. The industry remained third with a 25.9 per cent share. There was a clear and significant compositional shift in favour of the services sector after 1980.

1.3 INDIAN ECONOMY IN BRITISH PERIOD

During British colonialism, India's commerce, trade, and investment were hampered by the unilateral transfer of capital and raw materials to Britain. The neglected social sector, had a negative impact on the economy's production and productivity. Furthermore, under British rule, India remained a low-quality labour market. As a result of Britain's steady industrialisation, India's economic situation was in a dire state of affair. According to statistics, less than one-sixth of Indians were only literate. The country's survival had been called into question due to abject poverty and sharp social differences.

Dadabhai Naoroji published the first estimates of national income in India in his book "Poverty and Un-British Rule in India" for the year 1867–1868. According to him, British India's national income was Rs. 340 crore, and per capita income was Rs. 20 per annum at current prices. This works out to Rs. 142 per annum in 1948–1949 prices. Other economists of the period (William Digby, Findlay Shirras, V.K.R.V. Rao and R.C. Desai) produced estimates of India's national income, and the findings were almost identical. Atkinson estimated India's per capita income to be Rs. 172 and Horne calculated it to be Rs. 158 in 1948–1949 prices for the years 1875 and 1891, respectively. Curzon projected per capita income in 1902 to be Rs. 148 in 1948–1949 prices. However, by 1947, the per capita income had risen to Rs. 250 per year.

According to the work of Cambridge economist Angus Maddison, India's share of global income was 23 per cent in 1600 A.D., but by the time the British left in 1947, it had shrunk to only 3 per cent. Similarly, India accounted for 33 per cent of global trade in 1600 but fell to less than 3 per cent in 1947. According to former Prime Minister Manmohan Singh, at the turn of the twentieth century, India was the brightest jewel in the British Crown and the poorest country in the world, in terms of per capita income.

India: National Income, Per Capita Income and Population Since 1 A.D.

Year	GDP (1990 International $)	Per Capita GDP (1990 International $)	Population of India
1 A.D.	$33,750 million	$450	5.5 crore
1000 A.D.	$33,750 million	$450	7.5 crore

(Contd.)

Year	GDP (1990 International $)	Per Capita GDP (1990 International $)	Population of India
1600 A.D.	$74,250 million	$550	13.5 crore
1820 A.D.	$111,417 million	$533	20.9 crore
1870 A.D.	$134,882 million	$533	25.3 crore
1913 A.D.	$204,241 million	$673	30.4 crore
1950 A.D.	$222,222 million	$619	35.9 crore

Source: Tabulated by author from Maddison, A. (2001). *The world economy: A millennial perspective. Development Centre Studies*, OECD. Paris.

British Era: The British impact on the Indian economy can be discussed in three different phases: Early British Period: from 1600–1757 A.D., from 1757–1857 AD, and British Crown Period: 1858 onward.

The foundation of the East India Company in 1600 A.D. marks the beginning of the first phase. The company had two goals – procure raw materials for their factories and find a market for their completed goods. The second phase began with the Battle of Plassey, which marked a turning point in colonial control in India. This time was marked by blatant robbery by the East India Company, camouflaged as trade, exploitative land revenue policies, and dishonest and unscrupulous company officers accumulating vast fortunes. The third phase began in 1857, when the British quashed the Sepoy Mutiny. The British crown dissolved the company and assumed exclusive control of India. This period was marked by colonial exploitation through de-industrialisation, agricultural commercialisation, wealth drain, and Westernisation of Indian education systems.

By the time the British withdrew, India had devolved into a destitute economy. India's proportion of global GDP fell from 23 per cent in 1600 A.D. to 3 per cent in 1947. During the same time span, India's proportion in global exports fell from 33 to 3 per cent. The British land taxation programme was designed to exploit the Indian peasantry. The British introduced the Zamindari, Mahalwari, and Ryotwari systems to take excessive land tax from farmers. Farmers in India were both enticed and coerced to produce for British industries, thus, commercialising Indian agriculture. Transportation, trade policy, port expansion, and the opening of the Suez Canal accelerated the commercialisation process. Commercialsation created a new class of intermediaries, increased the frequency of famines, and reduced farmers to landless labour.

The process of deindustrialisation began in the mid-nineteenth century. The fall of the Mughal Empire, the decline of Indian agriculture, an increase in nominal wages, a reduction in Indian textile competitiveness, and an increase in transportation facilities, all contributed to deindustrialisation. Trade policy that was unfavourable to India also contributed to trade decline and aggravated deindustrialisation. Though considerable industrialisation occurred during British rule, British backing was motivated by self-interest rather than an interest in helping India.

The British transportation system was also marked by a desire to exploit India. Railways assisted the British in moving commodities from the hinterlands to ports and vice versa. It also enabled British investors to make attractive profits on their cash spent in railway infrastructure building and development. The fundamental goal of introducing Western education to India was to generate a group of Indians who had a shaky grasp of English but were enough Westernised to be estranged from their own culture.

The wealth drain was the unilateral movement of riches from India to Britain, without a sufficient economic, commercial, and material return. It occurred through remittances, home charges, and the transfer of revenue from private business or investment, among other things.

Many British philosophers and Indian nationalists, including Dadabhai Naoroji, R.C. Dutta, and C.N. Vakil, have done research and written about the wealth drain from India to Britain. In 1783, Edmund Burke explained the mechanism of economic drain and rising poverty in Indian situations. In 1776, Philip Francis studied the drain economy and classified it into four broad streams: The East India Company's investment, remittances to other presidency, transfer of private income, and transfer of revenue from private commerce or investment. As per the findings of Angus Maddison, India's share of world economy went down from 23 per cent in 1600 to 3 per cent in 1947.

The first generation of British rulers was rapacious. Clive took quarter of a million pounds for himself as well as a Jagir worth £27,000 a year. British salaries were high: The Viceroy received £25,000 a year, and governors £10,000. The starting salary in the engineering service was £420 a year or about sixty times the average income of the Indian labour force. Under the rule of the East India Company, official transfers to the UK rose gradually, until they reached about £3.5 million in 1856, the year before the mutiny. In addition, there were private remittances.

During the time of direct British control from 1858 to 1947, the colonial government's official transfers of monies to the United Kingdom were referred to as "Home Charges". Dividends to East India Company shareholders; interest on loans raised by the Government of India in England; expenditure on British army stationed in India and bringing them to India; pensions, annuities, etc., of retired British officers; payment of guaranteed interest to railway companies; and salaries of the secretary of state for India and his staff were all included in home charges. According to Dadabhai Naoroji's calculations, India paid Britain £10 crores in house costs between 1829 and 1865. By the 1930s, these residential levies were in the £40–50 million level each year.

Comparative Macroeconomic Performance of India and Britain, 1600–1947

Per Capita GDP (1990 int. Dollars)		
India	550	618
United Kingdom	974	6,361
Population		
India	13.5 crore	41.4 crore*
United Kingdom	61.7 lakhs	4.95 crore
GDP (Million 1990 int. Dollars)		
India	74,250	255,852
United Kingdom	6,007	314,969

Source: Tabulated by author from Maddison, A. (2001). The world economy: A millennial perspective. Development Centre Studies, OECD. Paris; *: Including Pakistan

The above table reflects how Britain prospered at the cost of India's depredation. India's per capita income from 1600–1947 increased by 12 per cent, whereas the increase for Britain for the same period was 553 per cent. India's total GDP during 1600–1947 increased by 2.44 times, but for Britain the rise was 52 times.

1.4 ECONOMY TILL 2008 & AFTER 2008

1951–1980

India's growth rate was slow during the first three decades after independence. In 1978, Professor Raj Krishna coined the phrase "Hindu rate of growth" to describe the slow growth of the Indian economy. The term refers to India's planned economy's low annual growth rate, which hovered around 3.5 per cent from the 1950s to the 1980s, while per capita income growth averaged 1.3 per cent.

1980–1990

This is widely regarded as the period of economic buoyancy and recovery. Only during the sixth five-year plan (1980–1985) India could break the curse of the 'Hindu Rate of Growth'. Higher government spending, which provided a much-needed fiscal stimulus to the economy, is one of the factors attributed to higher economic growth. The liberalised import policies of the government, increased imports of capital goods and raw materials for manufacturing, boosting the production of luxury goods in the country.

1992 to 2008

This is popularly referred as the post-reform period. Following the 1991 economic crisis, the implementation of reforms and the adoption of LPG (Liberalisation – Privatisation – Globalisation) policies paved the way for positive economic outcomes and higher GDP growth rates. The economy grew at 6.7 per cent during the eighth five-year plan (1992–1997), 5.3 per cent during the ninth five-year plan (1997–2002), and 7.6 per cent during the tenth five-year plan (2002–2007). The main reason for the high growth rate in the eighth plan was an increase in the inflow of foreign capital, which was a direct result of the new economic policy implemented in 1991. Due to favourable economic policies and a global economic boom, the economy experienced rapid growth from 2004–05 to 2009–10. In fact, from 2002–03 to 2006–07, India's GDP grew at an 8.6 per cent annual rate, making it the world's second fastest growing economy after China.

2008 to 2021

The 2008 growth euphoria had led to a widespread belief that the Indian economy was decoupled from that of the developed world in the days following the Lehman collapse (September 15, 2008). However, in the months following September 2008, India took unprecedented action. In order to mitigate the effects of the crisis, the government provided fiscal stimulus to the economy. The economy was bolstered by three stimulus packages totalling Rs. 1.86 lakh crore (3.5 per cent of GDP). The RBI dramatically eased monetary conditions and injected a whopping Rs 5.6 lakh crore (roughly 9 per cent of GDP), in domestic and external liquidity.

The economy recovered impressively, but at the expense of a larger fiscal deficit, which continued to grow beyond the limit set by the Fiscal Responsibility and Budget Management Act. The fiscal stimulus was never phased out, and India allowed the current account deficit (CAD) to balloon. The previous decade's high economic growth drove credit growth in the system as the economy's productive capacity expanded dramatically. In the economy, revolutionary policies such as the Goods and Services Tax (GST), the Insolvency and Bankruptcy Code (IBC), corporate tax cuts, and demonetisation were implemented. Prior to the COVID-19 pandemic, the economy's average annual growth rate between 2008-09 and 2019-20 were 6.5 per cent (at base year 2011-12 prices).

Growth had slowed due to structural bottlenecks in the system before the pandemic hit the economy. In 2019-20, the economy expanded by only 4.0 per cent. The cyclical slowdown that had begun in the Indian economy prior to the outbreak of the pandemic was exacerbated by the pandemic.

1.5 STRUCTURAL CHANGES IN INDIAN ECONOMY

Indian Economy Post COVID-19

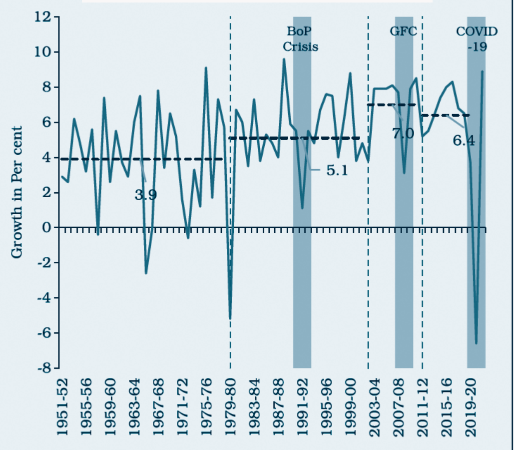
In the last four decades, India has faced three major shocks: the 1991 balance of payments (BoP) crisis, which was followed by a major liberalisation drive that raised India's trend growth; the 2008 global financial crisis, and the COVID-19 pandemic, which hit India in early 2020 and is still unfolding, with the impact on trend growth unknown.

COVID-19 was declared as pandemic by the World Health Organization (WHO) on March 11, 2020, after being first reported officially in Wuhan, China, towards the end of December 2019. Since the first COVID-19 case was recorded in Kerala on January 30, 2020, India has had three waves of infections as on June 2022, pushing its total case load to the world's second highest. The Government of India imposed a stringent lockdown during the initial wave, due to the unexpectedness of the COVID-19 shock, pushing the peak date to September 16, 2020, when 0.97 lakh new cases were documented. On January 16, 2021, India launched its vaccination programme. A number of factors responsible for the most severe economic impact on India, with the severity of the lockdown being the most frequently stated explanation. To fight the virus's spread, India instituted one of the world's most stringent lockdowns in 2020. GDP contraction was more severe in countries with a higher stringency index — India, Argentina, Italy, and the United Kingdom. Restricted lockdowns and rising resilience of both firms and individuals in dealing with the infections mitigated the severity of the economic damage and the second wave's economic impact is seen to be one-third that of the first. Further the impact of the third wave was significantly lower than both first and second wave.

Sectoral Impact of COVID-19

Due to stringent restrictive measures, contact-intensive services were almost halted during the pandemic. The services sector, which encompasses the bulk of contact-intensive and non-essential activities in India

Chart 1.1: Structural Breaks in GDP



Source: NSO; and RBI staff estimates.

suffered the brunt of the pandemic's impact. The pandemic has reduced the profitability of contact-intensive businesses such as retail trading, hotels and restaurants, air transportation services, transportation logistics services, and education. The real estate and automobile sector was severely impacted by the pandemic, but there were signs of slowdown in these sectors prior to the pandemic.

The Indian labour market suffered a severe decline during the first wave of the epidemic, with unemployment hitting an all-time high and labour force participation plummeting. Reverse migration from urban to rural areas raised demand for Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) employment in rural areas, during the first wave phase. The second and third waves had a little impact, and work conditions had stabilised. Because of the lockdown, investment demand ceased during Q1:2020-21 and experienced the most severe contraction. The recovery in gross fixed capital formation (GFCF) has been expedited, mainly mostly to active government investment – the only sector that positively contributed to investment demand in 2020-21.

Agriculture remained robust in terms of production during the pandemic since agriculture and allied activities were spared from the lockdown restrictions. Manufacturing, mining and quarrying, and electricity, gas, and water supply all saw significant drops, with manufacturing reaching a new low. Mining and quarrying, on the other hand, had been underperforming for some time and were declining prior to COVID. Manufacturing, which had led the recovery following the first wave, remained strong during the second wave.

Table 1.2 Sector-wise Recovery Pattern

<table>
<tr><th colspan="2" rowspan="2">Sector</th><th colspan="2">Trend Growth Pre-Pandemic</th><th colspan="2">Growth Pandemic Period</th><th rowspan="2">Status</th></tr>
<tr><th>2012-2017</th><th>2017-2020</th><th>2020-21</th><th>2021-22 over 2019-20</th></tr>
<tr><td colspan="2">1. Agriculture, forestry & fishing</td><td>3.6</td><td>5.2</td><td>3.3</td><td>6.7</td><td>Resilient</td></tr>
<tr><td colspan="2">2. Mining & quarrying</td><td>2.4</td><td>2.4</td><td>-8.6</td><td>2.9</td><td rowspan="3">Recovering/ Need Repair</td></tr>
<tr><td colspan="2">3. Manufacturing</td><td>6.8</td><td>5</td><td>-0.6</td><td>9.8</td></tr>
<tr><td colspan="2">4. Electricity, gas, water supply & other utility services</td><td>6</td><td>7.5</td><td>-3.6</td><td>3.9</td></tr>
<tr><td colspan="2">5. Construction</td><td>4.2</td><td>4.6</td><td>-7.3</td><td>1.9</td><td></td></tr>
<tr><td rowspan="2">6. Trade, hotels, transport, communication and services related to broadcasting</td><td>6.1. Trade, hotel and repair</td><td>8.4</td><td>8.1</td><td>-22.4</td><td rowspan="2">-10.9</td><td rowspan="2">Still Suffering</td></tr>
<tr><td>6.2. Transport, communication and services related to broadcasting</td><td></td><td></td><td>-15.3</td></tr>
<tr><td rowspan="2">7. Financial, real estate & professional services</td><td>7.1. Financial services</td><td rowspan="2">8.2</td><td rowspan="2">5.4</td><td>5.1</td><td rowspan="2">6.6</td><td rowspan="2">Resilient</td></tr>
<tr><td>7.2. Real estate, and professional services</td><td>1.2</td></tr>
<tr><td rowspan="2">8. Public Administration, defence and other services</td><td>8.1. Public Administration, defence</td><td rowspan="2">6.5</td><td rowspan="2">7.0</td><td>2.3</td><td rowspan="2">6.4</td><td>Resilient</td></tr>
<tr><td>8.2. Other services</td><td>-11.5</td><td>Recovering/ Need Repair</td></tr>
<tr><td colspan="2">GVA at basic prices</td><td>6.6</td><td>5.9</td><td>-4.8</td><td>3.1</td><td>Recovering/ Need Repair</td></tr>
</table>

Source: NSO and RBI Staff Estimates.

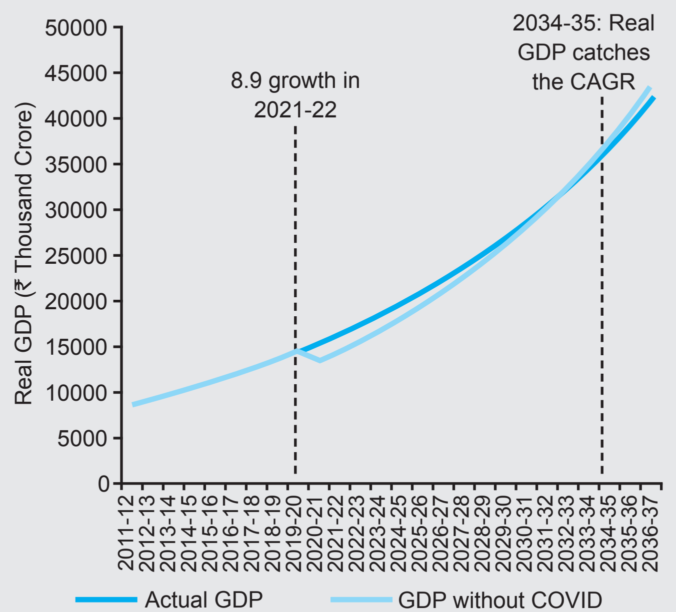
The recovery has been uneven among services, with financial, real estate, and professional services, as well as public administration, defence, and other services, gaining traction and exceeding their respective pre-pandemic levels. Recovery in the trade, hotel, transportation, communication, and broadcasting-related sectors, on the other hand, has been gradual. Different sectors of the economy are recovering to varying degrees. While agriculture survived the pandemic's multiple waves, industry and construction are on the rebound.

Economic Recovery Dynamism Post COVID

During the first wave of infections, India had one of the world's worst recessions, with GDP contracting by as much as 23.8 per cent in the first quarter of 2020-21. A gradual recovery gained traction in the second half of the year (Q3: 0.7% & Q4: 2.5%), resulting in a substantially less severe contraction of 6.6 per cent for the entire fiscal year, placing India in a relatively better position among the G-20 countries in terms of annual GDP growth for 2020.

Regardless of the second wave, the economy's recovery in 2021-22 has been outstanding. With the ebb of the second wave, economic activity rebounded fast in June 2021 and remained persistent, indicating a steady recovery through October 2021. Coal and semiconductor chip shortages, followed by the third wave in January 2022, led in a reduction in momentum beginning in November 2021. Rural demand, in particular, dropped after the second wave, but urban demand rebounded. Contagion from the Russia-Ukraine conflict impeded activities beginning in March 2022, eroding and delaying recovery.

Chart 1.2: Medium-term Real GDP Path



Source: RBI staff estimates.

The COVID-19 pandemic disrupted global supply chains, shipping, and logistics, as well as affecting the Indian economy through mass lockdown, loss of life, and destruction in permanent demand. According to the provisional estimates of annual national income, 2021-22, GDP growth in 2021-22 at Constant (2011-12) Prices in the year 2021-22, is estimated to attain a level of Rs. 147.36 lakh crore. Supported by low base, economy recovered handsomely in 2021-22. Economy expanded by 20.1 per cent, 8.4 per cent, 5.4 per cent and 4.1 per cent in Q1, Q2, Q3 and Q4 of 2021-22, respectively. The growth in GDP during 2021-22 is estimated at 8.7 per cent as compared to a contraction of 6.6 per cent in 2020-21. Nominal GDP or GDP at Current Prices in the year 2021-22, is estimated to attain a level of Rs. 236.65 lakh crore, as against Rs. 198.01 lakh crore in 2020-21, showing a growth rate of 19.5 per cent. The pre-COVID trend growth rate is 6.6 per cent (CAGR from 2012-13 to 2019-20). Using the growth rate of -6.6 per cent for 2020-21, 8.9 per cent for 2021-22, and 7.2 per cent for 2022-23 and 7.5 per cent beyond that, RBI has predicted that India to offset COVID-19 losses in 2034-35. Hence, India is expected to overcome COVID-19 pandemic losses in 12 years' period.

Structural change refers to the fundamental changes that have occurred in the critical components of the Indian economy over time. The primary sector's contribution to GDP decreases over time, while the secondary and tertiary sectors increase. In the long run, the tertiary sector surpasses the secondary sector, as the major contributor to the economy. In India, the services sector has largely replaced the industrial sector, and it now dominates the economy. The role of the primary sector declines as income rises, and India is no exception. Agriculture's share of GDP has steadily declined from 26.9 per cent in 1990 to 21.6 per cent in 2000, and the decline has continued to 17.8 percent in 2010 and 17.7 per cent in 2019 owing to service-led growth in India.

The onset of the pandemic has increased the primary sector's contribution to the economy as agriculture was the only sector allowed to function smoothly during the economic lockdown. In 2020-21, the services sector contributed 60.9 per cent of the economy, followed by the secondary sector (19.8 per cent) and the primary sector (20.1 per cent). An empirical examination of the nature and causes of structural change in the Indian economy reveals that the services sector drives the industry and the overall economy, and the sector's growth and dominance is influenced by external factors such as foreign direct investment.

LET US SUM UP

1. In terms of GDP purchasing power parity (PPP), India ranked 3rd in the world only after USA and China (IMF WEO April 2022).
2. According to the Angus Maddison database, India and China contributed 50.5 per cent of global GDP in 1000 AD.
3. As per the work of Cambridge economist Angus Maddison, India's share of global income was 23 per cent in 1600 A.D., but, by the time the British left in 1947, it had shrunk to only 3 per cent.
4. The British East India Company, ignored industrialisation in the nation, and infrastructure was created not to industrialise India, but to exploit its raw materials.
5. India accounted for 33 per cent of global trade in 1600, but fell to less than 3 per cent in 1947.
6. The pre-independence period was characterised by near-stagnation, with little change in the organisation of production or productivity levels.
7. As per the World Bank classification, Indian economy is a lower-middle income economy, which is attributed to low per capita income, high levels of poverty, unemployment and illiteracy.
8. Following independence and the start of the planning process, agriculture's share decreased, while the shares of industry and services increased.

9. During the time of direct British control from 1858 to 1947, the colonial government's official transfers of monies to the United Kingdom were referred to as "*Home Charges*".
10. India's growth rate was slow (3.5 per cent) during the first three decades after independence. In 1978, Professor Raj Krishna coined the phrase "Hindu rate of growth" to describe the slow growth of the Indian economy.
11. Following the 1991 economic crisis, the implementation of reforms and the adoption of LPG (Liberalisation–Privatisation–Globalisation) policies paved the way for positive economic outcomes and higher GDP growth rates.
12. According to the provisional estimates of annual national income, 2021-22, the growth in GDP during 2021-22 is estimated at 8.7 per cent, as compared to a contraction of 6.6 per cent in 2020-21.
13. The COVID-19 pandemic disrupted global supply chains, shipping, and logistics, as well as affecting the Indian economy through mass lockdown, loss of life, and destruction in permanent demand.

KEYWORDS

Economy; Poverty; Growth; Pandemic; Reforms; Globalisation; Deindustrialisation; Colonialism; State; Productivity; National Income; Sector; Taxation; Wealth.

CHECK YOUR PROGRESS

Tick the Correct Answer

1. Contribution of which sector is maximum to the Indian Economy?
   (a) Primary sector
   (b) Secondary sector
   (c) Tertiary sector
2. In terms of GDP purchasing power parity (PPP), India is ranked ____ in the world in 2022. (As per IMF World Economic Outlook April 2022)
   (a) 1^{st} (b) 3^{rd}
   (c) 4^{th} (d) 7^{th}
3. As per the Angus Maddison database, India's share to global GDP was ___ in 1600 AD.
   (a) 5 per cent
   (b) 10 per cent
   (c) 23 per cent
   (d) 30 per cent
4. As per the World Bank classification, Indian economy is a _____________ economy.
   (a) Low income
   (b) Lower-middle income
   (c) Upper-middle income
   (d) High income

ANSWERS TO CHECK YOUR PROGRESS

1. (c); 2. (b); 3. (c); 4. (b)

UNIT 2

SECTORS OF THE INDIAN ECONOMY

STRUCTURE

2.0 OBJECTIVES

This chapter will be helpful in understanding:

- Role of different sectors
- Importance of Primary, Secondary, Tertiary Sector, Quaternary & Quinary Sectors
- Revolutions in Primary sector
- Difference between the sectors
- GDP contribution of different sectors
- Agriculture
- Industry
- Services
- Employment growth rate in Secondary sector
- Sunrise Sector of Indian Economy
- Organised and Unorganised sectors

Sectors of the Indian Economy

Economic activities in an economy are usually classified into three major sectors, and economies achieve development via their dominance in such areas.

2.1 ROLE & IMPORTANCE OF PRIMARY, SECONDARY, TERTIARY SECTOR, QUATERNARY & QUINARY SECTORS

Primary Sector

This sector includes all those economic activities where there is the direct use of natural resources as agriculture, forestry, fishing, fuels, metals, minerals, etc. An agrarian economy exists when the agriculture sector (one of the key sectors) provides at least 50 per cent of a country's national revenue and livelihood. Primary sector constitutes (a) agriculture, (b) forestry, and (c) fishing

Secondary Sector

It includes all economic activities that involve the processing of raw materials extracted from the primary sector also called industrial sector. Manufacturing, one of its sub-sectors, has proven to be the largest employer in the Western developed economies. An industrial economy is one, in which, the secondary sector generates at least half of a country's national GDP and employment.

Tertiary Sector

This sector includes all economic activities that produce services, such as education, healthcare, banking, communication, and so on. A service-based economy exists when this sector generates at least half of a country's national income and livelihood.

Along with these 3 main sectors, the quaternary and quinary sectors have been introduced. In a broader sense, they are tertiary sector subsectors.

Quaternary Sector

Also known as the 'knowledge' sector. This category includes activities such as teaching, research, and development. The sector is by far the most important in assessing the strength of an economy's human resources. The intellectual aspect of the economy is represented by the quaternary sector. This group includes employees in office buildings, elementary schools and university classrooms, hospitals and physicians' offices, theatres, accountancy and brokerage businesses, and so on.

Quinary Sector

It includes activities in which key choices are made. It includes the highest level of decision makers in governments (including their bureaucracy) and the private corporate sector. The number of people participating in this sector is quite small, yet they are regarded the "brain" behind an economy's socioeconomic performance. This group includes occupations such as senior company executives, government officials, research scientists, financial and legal advisors, and others.

2.2 DIFFERENCE BETWEEN THE SECTORS

The differences in activities are the foundations of their classification. The following are some of the most significant variations.

Primary Sector	Secondary Sector	Tertiary Sector
Agriculture, forestry, and mining are examples of activities in this sector	Manufacturing units, small-scale units, major enterprises, and global organisations are all included	This sector involves banking, insurance, and communications
Known as agriculture and associated services	The industrial and manufacturing sector is often known as the manufacturing sector	Known as the service sector
Provides raw materials for the production of goods and services	Transforms one good into another by value addition to it	Offers valuable services to the primary and secondary sectors
Unorganised and most of the times employs old methods	Organised and employs more efficient production methods	It is well-organised and use advanced logistics techniques to carry out its tasks
In most developing economies, such as India, this sector employs a large proportion of the workforce, compared to developed countries.	Since this sector requires a particular set of talents, the employment rate is in equilibrium.	This sector's employment share has risen dramatically in recent years

2.3 DIFFERENT REVOLUTIONS IN PRIMARY SECTOR

Agriculture has always been the most important industry in India. Traditional, subsistence and livelihood, rain fed farming, food grain oriented, and deficient in diversification and commercialisation characterise India's agricultural sector. With a burgeoning population and rising wages, particularly among the poor, the demand for agricultural goods has skyrocketed. To overcome the situation, the government carried out a series of revolutions in the primary sector to increase capacity. The multiple revolutions influencing agricultural production and related activities in India are listed here.

Revolution	Field/Product	Father of Revolutions	Period
Green Revolution	Agriculture	Mr. M.S. Swaminathan	1966 - 1978
White Revolution or Operation flood	Milk/Dairy products	Mr. Verghese Kurien	1970 - 1996
Yellow Revolution	Oil Seeds	Mr. Sam Pitroda	1986 - 1990
Blue Revolution	Fish & Aqua	Dr. Arun Krishnan	1973-2002
Golden Revolution	Fruits, Honey, Horticulture	Mr. Nirpakh Tutej	1991- 2003
Golden Fibre Revolution	Jute	-	1991-2003
Silver Revolution	Eggs	Mrs. Indira Gandhi	1969-1978
Silver Fiber Revolution	Cotton	-	2000s
Pink Revolution	Pharmaceuticals, Prawns, Onion	Mr. Durgesh Patel	1970s
Brown Revolution	Leather, Cocoa, non -conventional energy	Mr. Hirlal Chaudri	-
Red Revolution	Meat, Tomato	Mr. Vishal Tewari	1980s
Grey Revolution	Fertilisers	-	1960 -1970
Evergreen Revolution	Overall Production of Agriculture	M.S. Swaminathan	2014 – 2022
Black Revolution	Petroleum	-	-
Round Revolution	Potato	-	1965- 2005
Protein Revolution	Agriculture (Higher Production)	Coined by Mr. Narendra Modi	– 2020

2.4 GDP CONTRIBUTION OF DIFFERENT SECTORS

By the late 1990s, India had transitioned from agricultural dominance to services supremacy, with services accounting for over half of her national GDP. The agriculture sector accounts for barely 18 per cent of total GDP. The services sector contributes more than 55 per cent, while the secondary sector contributes the remaining 27 per cent, with only 14 per cent coming from the manufacturing sector. The table below shows the economic contribution of various sectors.

Table 2.1 Contribution of different sectors to the economy (by percentage)

Year	Agriculture & Allied	Industry	Services
1950-51	51.8	14.2	33.3
1960-61	42.6	19.3	38.3
1970-71	42.0	20.5	37.2
1980-81	35.4	24.3	39.9

(Contd.)

Year	Agriculture & Allied	Industry	Services
1990-91	29.0	26.5	44.2
2000-01	23.0	26.0	51.0
2010-11	18.2	27.2	54.6
2019-20**	18.3	26.9	54.8
2020-21*	20.0	26.9	53.1
2021-22#	18.6	28.6	52.8

Source: National Statistics Office (NSO), **: 2ndRE, *: 1stRE, #: 2ndAE

2.5 AGRICULTURE

Agriculture has always been the most significant sector in India. It is not only the largest sector, but also the biggest private sector. This is the main unorganised sector of the economy, accounting for more than 90 per cent of all unorganised labour (93.4 per cent of the total labour force of the economy, i.e., 40.0 crore is employed in the unorganised sector).

Agriculture's share of the country's gross income has been declining, while the industrial and service sectors' shares have been steadily increasing. The industrial and service sectors have expanded faster than agriculture, resulting in agriculture's falling percentage of national accounts. Agriculture has recently had satisfactory development as a result of improved technology, irrigation, inputs, and pricing strategies. In recent years, livestock, poultry, fisheries, and horticulture have led the way in terms of output increase. Despite all these structural changes, agriculture remains a critical sector, offering employment and livelihood opportunities to a large segment of the population.

Below is extract of Government of India Report of 2020-21 by Ministry of Agriculture & Farmers' Welfare

"Agriculture plays a vital role in India's economy. 54.6% of the total workforce is engaged in agricultural and allied sector activities (Census 2011) and accounts for 17.8% of the country's Gross Value Added (GVA) for the year 2019-20 (at current prices). Given the importance of the agriculture sector, Government of India has taken several steps for its development in a sustainable manner. Steps have been taken to improve the income of farmers. Further, to mitigate risk in the agriculture sector, a scheme '**Pradhan Mantri Fasal Bima Yojana**' (PMFBY) was also launched in 2016. Schemes such as Formation & promotion of 10,000 FPOs & the Agriculture Infrastructure Fund have also been launched recently to benefit the sector."

As per the Land Use Statistics 2016-17, the total geographical area of the country is 328.7 million hectares, of which 139.4 million hectares is the reported net sown area and 200.2 million hectares is the gross cropped area with a cropping intensity of 143.6%. The net area sown works out to 42.4% of the total geographical area. The net irrigated area is 68.6 million hectares.

Agriculture Gross Value Added (GVA): As per the provisional estimates of Annual National Income released by Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation, the agriculture and allied sectors contributed approximately 17.8% of India's GVA at current prices, during 2019-20, marginally higher than 17.7%, in 2015-16.

2.6 INDUSTRY

The industrial sector is equally vital, since it promotes economic growth, provides self-sufficiency and employment, generates demand for agricultural commodities and produces a 'ripple effect.' India's industrial sector is divided into four sub-sectors namely i. Mining and quarrying ii. Manufacturing iii. Power, Gas, Water supply, and other utility services, and iv. Construction. Manufacturing accounts for roughly 18 per cent of total gross value added (GVA), while construction accounts for around 8 per cent of total GVA. Mining and quarrying, as well as power, gas, water supply, and other utility services, contribute approximately 3 per cent and 2 per cent, respectively. Industry's share of GVA has increased from nearly 17 per cent in 1950–51 to 29 per cent in 2021–22.

The journey of Indian industry is quite interesting and can be summed up into four phases including both pre-reform and post-reform period.

i. Phase I (1951–1965): The period of industrial foundation
ii. Phase II (1965–1980): The period of industrial fall
iii. Phase III (1980–1991): The period of industrial recovery
iv. Phase IV (1991 onwards): The post-reform period.

The Index of Industrial Production (IIP) measures the change in volume of production in a given year (base year 2010-11). It is an index reflecting growth in the broad sectors of mining, manufacturing and electricity and also the growth in use-based sectors of basic goods, capital goods and intermediate goods. It is calculated by the National Statistical Office which also calculates the Index of Core Industries (ICI). Eight industries namely refinery products, electricity, steel, coal, crude oil, natural gas, cement and fertilisers are considered as core industries.

2.7 SERVICES

The sector produces 'intangible or invisible goods' for businesses as well as consumers. Trade, repairs, hotels and restaurants, transport, storage, communication and broadcasting services, railways, road transport, water transport, air transport, services incidental to transport, storage, financial, real estate, and professional services are all sub-sectors of the services sector. Financial services, real estate, property ownership, and professional services, communal, social, and personal services, government administration and defence, and other services are all a part of the services. The services sector's proportion has increased from 33 per cent in 1950 to 53 per cent in 2021-22.

As per Government of India publication, chapter 9 of Union Budget 2019-20 – "The services sector accounts for 54 per cent of India's Gross Value Added (GVA). Its growth rate moderated to 7.5 per cent in 2018-19 from 8.1 per cent in 2017- 18. The segments that saw deceleration are tourism, trade, hotels, transport, communication and services related to broadcasting, public administration and defence. Financial, real estate and professional services category accelerated. An important finding is that India's services sector does not generate jobs in proportion to its share in GVA. This contrasts with the international experience. India received 10.6 million foreign tourists in 2018-19 compared to 10.4 million in 2017-18. Foreign exchange earnings from tourism in India stood at US$27.7 billion in 2018-19, compared to US$28.7 billion in 2017-18. Many of the high frequency indicators, such as bank credit to services sector, decelerated in 2018-19. However, the IT-BPM industry grew by 8.4 per cent in 2017-18 to US$167 billion and is estimated to have reached US$181 billion in 2018-19."

As per the findings of the Ministry of Statistics and Programme Implementation (MoSPI), in the year 2019-20, the share of the Service Sector in GVA was 55.3%, with break-up as follows-18.3% from Trade, hotels, transport, communication and services related to broadcasting; 21.4% from financial, real estate & professional services Public; and 15.6% from public administration, defence & other services.

As per the World Investment Report 2021 by the UN Conference on Trade and Development (UNCTAD), India in 2020 was the 5th largest recipient of FDI.

India has made a global impact by being amongst the top ten service exporter countries. India's and Indians dominance in Software is globally respected. Of the total net Service Exports, about 40% pertains to Software.

2.8 EMPLOYMENT GROWTH RATE IN SECONDARY SECTOR

The following table taken from NCERT website of Government of India gives a comparative understanding of the employment pattern.

Industrial Category	Rural place of residence	Urban place of residence	Male	Female	Total
Primary	66.6	9	43.6	62.8	48.9
Secondary	16	31	25.9	20	24.3
Service/Tertiary	17.4	60	30.5	17.2	26.8
	100	100	100	100	100

Manufacturing employs roughly 12 per cent of the labour force. The manufacturing sector is known throughout the world for creating mass employment for low-skilled workers in the modern economy. With agriculture's capability to provide jobs rapidly dwindling and the modern services sector's limited ability to absorb relatively unskilled labour displaced from agriculture, hopes are that the manufacturing sector will generate mass employment.

The construction sector is the second largest employment sector in the country, only after agriculture. Construction activity is an essential component of a country's industrial and infrastructure growth, as well as a key input for socioeconomic development. This sector provides significant employment and growth input to other sectors via backward and forward linkages. It is consequently critical that this fundamental activity is nurtured, in order to achieve healthy economic growth. Cement, steel, bricks, tiles, sand, aggregates, fixtures, fillings, paints & chemicals, construction equipment, petro-products, timber, mineral products, metal, glass, and plastics are all important components of the construction industry. The Indian construction sector is an important element of the economy, and it is positioned for strong expansion as a result of industrialisation, urbanisation, and economic development, as well as people's aspirations of higher living standards. The construction industry employs over 31 million people and accounting for around 8 per cent of total employment.

2.9 SUNRISE SECTOR OF INDIAN ECONOMY

A sunrise sector is one that is still in its infancy, but has the potential for significant growth. The sector is often characterised by strong growth rates, a high degree of innovation, and a high level of public awareness, with investors attracted to its long-term growth prospects.

Existing Indian industries that may be categorised as Sunrise sectors are likely to benefit the economy in terms of job creation and business growth, in the future. Green Energy, Fintech, Information Technology, Electronics, Pharmaceuticals, Automobiles, Healthcare, Infrastructure Sector, Retail Sector, Processing Plants, and other emerging sectors of the Indian economy are part of the Sunrise Sector.

2.10 ORGANISED AND UNORGANISED SECTORS

The organised sector is one in which the job terms are fixed and regular, and the employees are guaranteed work. The organised sector comprises manufacturing, enterprise, business, school, hospital, and unit registered with the government. It also comprises legally licenced stores, clinics, and offices. The organised sector has lower unemployment than the unorganised sector. In the organised sector, job terms are stable and consistent, and employees have guaranteed work and social security.

Unorganised sector, on the other hand, is one in which employment terms are not defined and regular, and enterprises are not registered with the government. Construction workers, domestic workers, street workers, and those operating in tiny workshops unaffiliated with the government are all part of the unorganised sector. A home-based worker, self-employed worker or wage worker in the unorganised sector is an unorganised worker. Low wages, unstable and irregular work, and a lack of protection from legislation or trade unions characterise the industry. The unorganised sector relies heavily on labour and indigenous technologies. According to the NCEUS (National Commission for Enterprises in Unorganised Sector) categorisation, "the unorganised sector comprises of all unincorporated private enterprises owned by individuals or households engaged in the sale and production of goods and services operated on a proprietary or partnership basis and with fewer than ten total workers." However, "informal workers" are defined as "those who work in unorganised firms or families, excluding regular workers with social security benefits, and workers in the formal sector who do not get any employment benefits/social security from their employers."

Difference between Organised and Unorganised sectors

Basis for Comparison	Organised sector	Unorganised sector
Meaning	It is a sector where the employment terms are fixed and regular, and the employees get assured work.	The unorganised sector is characterised by small and scattered units, which are largely not registered with the government.
Governed by	Various acts like Factories Act, Bonus Act, PF Act, Minimum Wages Act, etc.	Not governed by any act.
Government rules	Strictly followed	Not strictly followed
Remuneration	Regular monthly salary	Daily wages

(Contd.)

Basis for Comparison	Organised sector	Unorganised sector
Job security	Yes, workers enjoy the security of employment	No, employment is not secure. People can be asked to leave without any reason
Working hours	Fixed	Not fixed
Salary of workers	As prescribed by the government	Less than the salary prescribed by the government
Contribution to Provident fund by the employer	Yes	No
Increment in salary	Once in a while	Rarely
Benefits and perquisites	Employees get add-on benefits like medical facilities, pension, leave travel compensation, etc.	Not provided
Examples	Examples: Government employees, registered industrial workers, etc.	Examples: Shop keeping, Farming, Domestic works, etc.

LET US SUM UP

1. Primary sector includes all those economic activities where there is the direct use of natural resources as agriculture, forestry, fishing, fuels, metals, minerals, etc.
2. Secondary sector includes all economic activities that involve the processing of raw materials extracted from the primary sector also called industrial sector. An industrial economy is the one, in which, the secondary sector generates at least half of a country's national GDP and employment.
3. Tertiary sector includes all economic activities that produce services, such as education, healthcare, banking, communication, and so on.
4. Quaternary sector is also known as the 'knowledge' sector. This includes activities such as teaching, research, and development.
5. Agriculture's share of the country's gross income has been declining, while the industrial and service sectors' shares have been steadily increasing.
6. Industry's share of GVA has increased from nearly 17 per cent in 1950–51 to 29 per cent in 2021–22
7. The services sector's proportion has increased from 33 per cent in 1950 to 53 per cent in 2021-22
8. The construction sector is the second largest employment sector in the country, only after agriculture. It employs over ~31 million people and accounting for around 8 per cent of total employment.
9. Green Energy, Fintech, Information Technology, Electronics, Pharmaceuticals, Automobiles, Healthcare, Infrastructure Sector, Retail Sector, Processing Plants, and other emerging sectors of the Indian economy, form part of the Sunrise Sector
10. The organised sector is the one, in which, the job terms are fixed and regular, and the employees are guaranteed work. The organised sector comprises manufacturing, enterprise, business, school, hospital, and unit registered with the government.
11. Unorganised sector, on the other hand, is one in which employment terms are not defined and regular, and enterprises are not registered with the government. Construction workers, domestic workers, street workers, and those operating in tiny workshops unaffiliated with the government are all part of the unorganised sector.

KEYWORDS

Sector; industry; revolution; production; organised sector; employment; share; social security; knowledge; innovation; manufacturing; services; industrial revolution; GDP; raw material; livelihood; opportunity

CHECK YOUR PROGRESS

Tick the Correct Answer

1. Which is not a component of the primary sector?
   (a) Construction
   (b) Agriculture
   (c) Forestry
   (d) Fishing
2. Quaternary Sector is a part of ______________.
   (a) Agriculture sector
   (b) Service sector
   (c) Industrial sector
   (d) Foreign sector
3. Black Revolution is connected to ________________.
   (a) Eggs
   (b) Banana
   (c) Petroleum
   (d) Pulses
4. Which sector contributes most to the National Output (GDP)?
   (a) Agriculture
   (b) Industry
   (c) Manufacturing
   (d) Services
5. Which sector provides maximum employment in India?
   (a) Agriculture
   (b) Industry
   (c) Construction
   (d) Services

ANSWERS TO CHECK YOUR PROGRESS

1. (a); 2. (b); 3. (c); 4. (d); 5. (a)

UNIT 3

ECONOMIC PLANNING IN INDIA & NITI AAYOG

STRUCTURE

3.0 OBJECTIVES

This chapter will be helpful in understanding:

- Definition of Economic Planning
- History of Economic Planning
- Objectives of Economic Planning
- Types of Planning
- Achievements of Planning
- Assessment of Five-year Plans Performance
- National Institution for Transforming India (NITI Aayog)
- Financial resources for 5-year plans

3.1 DEFINITION OF ECONOMIC PLANNING

Planning, as a broader term, is characterised in a variety of ways. Economist H. D. Dickinson defines economic planning as "*the making of major economic decisions–what and how much is to be produced and to whom it is to be allocated by the conscious decision of a determinate authority, on the basis of a comprehensive survey of the economic system as a whole*."

At home, the National Planning Committee, set up in 1938 by the Indian National Congress defined planning in India as "*Planning, under a democratic system, may be defined as the technical coordination, by disinterested experts of consumption, production, investment, trade, and income distribution, in accordance with social objectives set by bodies representative of the nation. Such planning is not only to be considered from the point of view of economics, and raising of the standard of living, but must include cultural and spiritual values, and the human side of life*." In a nutshell, planning is the skill of reaching any sort of objective utilising the resources at hand.

3.2 TYPES OF PLANNING

Planning is a vital component of every economy and is carried out at many levels. Depending on the goal, planning may be categorised into several types. From a territorial standpoint, planning may be regional or national. Similarly, from a political standpoint, planning might be federal, state, or local. It might be classified as centralised or decentralised planning from the standpoint of participation. Again, from a temporal standpoint, planning might be long-term or short-term. Similarly, planning may be sectoral as well as geographical. While sectoral planning focuses on a single sector of the economy, spatial planning focuses on development in the geographical context (which aims at influencing the distribution of people and activities in places).

Some of the key forms of planning that are a part of the Indian planning process are as follows:

1. **Regional Planning:** The United States was the first country to begin regional planning in 1916, and it was a huge success in achieving its well-defined goals. Planning is implemented at the regional level and is targeted to a wide geographical area (i.e., a region consisting of rural and/or urban communities), guaranteeing optimal space utilisation and human activity distribution.
2. **National Planning:** It all started with the Soviet Union, which implemented its first five-year plan from 1928 to 1933, giving the world its first taste of national planning. It was certain from the start that India needs national planning. The government sought national strategy in order to take an active

role in resource allocation and mobilisation for equitable growth and development as a result of the abject poverty.

3.3 OBJECTIVES OF ECONOMIC PLANNING IN INDIA

In India, the primary goals of planning are not only broad, but also open-ended. However, the following are some of the broad objectives of planning in India.

i. **Economic Growth:** It aims for a sustainable growth in the economy's output levels. Sustained growth in economic output, is one of the primary goals of planning in India.
ii. **Poverty Alleviation:** One of the goals of Indian planning is to alleviate poverty. Several programmes aimed at alleviating poverty have been introduced in India, by all governments, till date.
iii. **Employment Generation:** One of the most fundamental goals of planning has been to reduce unemployment. Employment generation in India has therefore been an integral aspect of poverty alleviation programmed in India.
iv. **Social justice and reducing the inequalities:** Economic disparities have far-reaching negative consequences in any society, and there were visible economic inequalities in India at both the inter-personal and intra-personal levels. By the time India started planning, economic planning was widely acknowledged, as a technique for addressing all types of economic inequities and injustices.
v. **Self-reliant economy:** Self-reliance was characterised as an endeavour, to combat a subservient position in the global economy, not as autarchy.
vi. **Modernisation of the economy:** India's plans prioritised the industrialisation of the conventional sector. It began with agriculture, a traditional sector that necessitated the quick integration of modern farming, dairying, and other practices. Modernisation also refers to changes in social outlook such as the recognition that women should have the same rights as men.

3.4 HISTORY OF ECONOMIC PLANNING IN INDIA

By the 1930s, there was political agreement that independent India would be a planned economy and by early 1950s, India had begun economic planning. In post-independence India, socioeconomic planning has been directed by five-year plans, with a mid-term review. In unusual years of wars and other such crises, India has opted for yearly plans, commonly denoted as 'plan holidays', as a departure from five-year plans. In 2015, the Government of India (GOI) established the NITI (National Institution for Transforming India) Aayog, to substitute the Planning Commission, based on the logic that the nature of the economy had shifted to a market-dominated system and that state rights required to be prioritised, necessitating the establishment of a new structure with dynamic purposes.

India has a centralised planning procedure that offers a broad framework for the economy's developmental and investment requirements. It also aims for equal resource mobilisation to accomplish targeted socioeconomic progress. The Planning Commission has been in charge of planning in India since 1950. It is not a statutory entity and is headed by a Deputy Chairman and the Prime Minister as Chairman of the Planning Commission. The Planning Commission's plans are approved for implementation by the National Development Council (NDC), which is chaired by the Prime Minister.

Meanwhile, the central government sought to redefine the parameters of decentralised planning throughout the country. In line with its reform objective, the Indian government established the NITI Aayog, to replace the Planning Commission. This was done to better serve the needs and ambitions of the people of India. NITI Aayog, a significant evolutionary departure from the past, serves as the Government of India's primary platform for bringing States together in national interest, fostering Cooperative Federalism. NITI Aayog was established as a Think Tank, to provide relevant strategic and technical assistance to governments at the federal and state levels, on a wide range of policy issues.

First Plan

This plan was in effect from 1951 until 1956. As the economy faced the challenge of large-scale food grain imports (1951) and price increases, the strategy prioritised agriculture, including irrigation and electricity developments. The public sector received around 44.6 per cent of the plan outlay (PSUs). The Plan was introduced with all of the high intentions of socio-economic progress, but the results were disappointing, in the years that followed.

Second Plan

The plan was in effect from 1956 until 1961. The growth strategy emphasised fast industrialisation, with a concentration on heavy industries and capital goods. Professor Mahalanobis devised the strategy. Food and capital shortages were experienced during this Plan period, due to the assumption of a closed economy.

Third Plan

The Plan spanned from 1961 to 1965. The Plan notably included agricultural growth as one of the objectives of planning in India, as well as, for the first time, recognising the goal of balanced, regional development. Two wars, one with China in 1961–62 and the other with Pakistan along the Gujarat border in 1965–66, as well as a catastrophic drought-led famine in 1965–66, awaited this plan. This plan was unable to accomplish its objectives, due to a significant drain and diversion of finances.

Three Annual Plans

The three successive Annual Plans extended from 1966 to 1969. Despite the fact that the Fourth Plan was ready for execution in 1966, the government chose an Annual Plan for 1966–67, due to the country's poor financial situation following wars. For the same reason, the government pursued two more such plans in the subsequent years. The wider goals of these Annual Plans were included into the design of the Fourth Plan, which would have been executed for the period 1966–71, if the financial situation had not deteriorated by then. Due to discontinuity in the planning process, it was named as a period of "Plan Holiday".

Fourth Plan

The Plan lasted from 1969 until 1974. The pursuit of political stability at the Centre transformed planning into a vehicle of actual politics, with increasing 'centralisation' ensuing plan after plan. The plan was based on the Gadgil strategy, with a special focus on the concepts of growth with stability and progress toward self-sufficiency. Due to droughts and the Indo-Pak War of 1971–72 there was a divert of money, resulting in a financial constraint for the Plan. Frequent double-digit inflation, unrestricted increases in fiscal deficits, subsidy-induced higher non-plan expenditures, and the first step toward 'nationalisation' of banks and greater control and regulation of the economy were some of the most notable features of this plan, which remained unchanged until the early 1990s.

Fifth Plan

The Plan (1974–79) focuses on poverty eradication and self-sufficiency. The government sensationalised the popular discourse of poverty alleviation to the point of launching a new plan, the Twenty-point Programme (1975), with a minimal weight accorded to the goal of 'development with stability' (one of the major objectives of the Fourth Plan). The planning process became increasingly politicised. The devastation caused by hyperinflation prompted the government to delegate a new responsibility to the Reserve Bank of India: inflation stabilisation. This Plan saw a growth in socioeconomic and regional inequalities. The emergency and a change of government at the Centre, severely disrupted the planning phase. The Janata Party was elected with a landslide win, in 1977.

Sixth Plan

This Plan (1980–85) was introduced with the motto 'Garibi Hatao' (alleviate poverty). Already, the same government tested and tried a programme in the Fifth Plan, which attempted to improve the standard of living of the poor masses by a 'direct approach' (the notion of poverty alleviation, but no slogan of 'Garibi Hatao' was given to the programme). The plan prioritised socioeconomic infrastructure in rural areas, with the objective of lowering rural poverty. Poverty and regional inequities (through the IRDP); beginning the "target group" approach in addition to developing a variety of national level programmes and strategies directed at certain populations.

Seventh Plan

The Plan (1985–90) emphasised rapid food grain production, greater job creation, and productivity in general. The guiding principles of planning maintained the essential tenets of expansion, modernisation, self-reliance, and social justice. The Jawahar Rojgar Yojana (JRY) was introduced in 1989, with the goal of providing wage employment to the rural poor. Some existing programmes, such as the IRDP, CADP, DPAP, and DDP, were re-oriented. Though the economy experienced higher growth rates during the 1980s, particularly in the later half, it did so, at the expense of severe fiscal imbalances. By the end of the Plan, India's balance of payments condition had deteriorated significantly. The government relied heavily on foreign borrowing. The Plan lacked a sound financial strategy, causing the economy to face an unsustainable balance of payments and budgetary deficits.

Two Annual Plans

The 'fast-changing political environment at the Centre' prevented the execution of the Eighth Plan. The Eighth Plan's innovative and restructuring-oriented proposals, the massive economic changes that followed across the world, and the late 1980s budget imbalances were all key factors for the delay in launching the Eighth Plan. The new government, which took office in June 1991, decide to start the Eighth Plan for the fiscal years 1992–97, with the fiscal years 1990–91 and 1991–92 recognised as separate Annual Plans. The two successive Annual Plans (1990–92) were developed, within the context of the approach to the Eighth Plan (1990–95), with the primary focus on employment maximisation and social reform.

Eighth Plan

The Eighth Plan (1992–97) was implemented under typically unstable economic circumstances. Economic reforms had already begun (in July 1991), with the implementation of structural adjustment and macro-stabilisation measures forced by a worsening balance of payments, increased fiscal deficit, and unsustainable rate of inflation. This was the first plan that went on to examine the macroeconomic strategies that the government had been following for decades.

The following are the major concerns and innovative suggestions:

i. It was recommended that the role of the state in the economy be redefined immediately.
ii. 'Market-based' development advised in areas that can afford it, i.e., a greater role for the private sector in the economy
iii. More infrastructure investment, particularly in laggard states, as the ongoing emphasis on greater private sector investment could not be attracted to these states
iv. Rising non-plan expenditure and fiscal deficits must be checked
v. Subsidies must be restructured and refocused
vi. Planning needs to be 'decentralised'
vii. Special emphasis on 'co-operative federalism' suggested
viii. A stronger emphasis on 'agricultural' and other 'rural activities' was proposed, for which the Plan cited empirical evidence as they encourage the economy to attain a higher quality of life for its people and to advance the cause of balanced growth—a shift in planning philosophy.

Ninth Plan

The Ninth Plan (1997–2002) was implemented during an overall 'slowdown' in the economy, caused by the South-East Asian Financial Crisis (1996–97). Though the liberalisation process was still criticised, the economy has emerged from the early 1990s budget crisis. The Plan, with a general character of 'indicative planning,' not only aimed an ambitious high growth rate (7 per cent), but also attempted to steer itself towards time-bound 'social' objectives. There was a focus on the seven designated Basic Minimum Services (BMS), with extra Central Assistance for these services, in order to achieve entire population coverage in a timely way. The BMS included safe drinking water, primary health service, universalisation of primary education, public housing assistance to the homeless poor families, nutritional support to children, connectivity of all villages and habitations and streamlining of the public distribution system. The issue of fiscal consolidation became a top priority of the governments for the first time.

Tenth Plan

The Plan (2002–07) began with the goal of increasing NDC engagement in policy formation. Several critical measures were done throughout the plan, indicating a shift in the government's planning policy mindset, the most significant of which was

i. Doubling per capita income in 10 years
ii. Accepting that the higher growth rates are not the only objective—it should be translated into improving the quality of life of the people
iii. For the first time, the Plan went to set the 'monitorable targets', for eleven select indicators of development for the Centre as well as for the states
iv. 'Governance' was considered a factor of development
v. States' role in planning to be increased, with the greater involvement of the PRIs
vi. Policy and institutional reforms in each sector, i.e., reforms in the PSUs, legal reforms, administrative reforms, labour reforms, etc.
vii. Agriculture sector declared as the prime moving force (PMF) of the economy
viii. Increased emphasis on the social sector (i.e., education, health, etc.)
ix. Relevance between the processes of economic reforms and planning emphasised; etc.

Eleventh Plan

The Plan calls for a 10 per cent growth rate and emphasises the idea of "inclusive growth." The Planning Commission expresses its worries about meeting growth objectives in light of the Fiscal Responsibility and Budget Management Act in the approach paper. The major concerns are:

i. A higher inflation (above 6 per cent) led to the tightening of the credit policy forcing lower investment in the economy (which will lower production)
ii. A stronger rupee is making export earnings shrink fast
iii. Costlier food grains and other primary articles playing havoc for the poor masses
iv. Costlier oil prices becoming a burden for the national exchequer; etc.

Twelfth Plan

The Planning Commission prepared the 'Draft Approach Paper' of the Twelfth Plan (2012–17) following the most extensive consultation to date, recognising that residents are now better informed and willing to engage. Over 950 civil society organisations across the nation provided input. Business associations, particularly those representing small businesses, were consulted; and contemporary electronic and 'social media' were used to allow citizens to share suggestions. Through five regional consultations, all state governments, as well as local representative bodies and unions, were consulted.

The Draft Approach Paper outlines the Plan's major objectives, the problems in attaining them, and the overall approach that must be taken to accomplish the stated goals.

i. Growth rate of 9 per cent is targeted for the Plan.
ii. It underlines the importance of stepping up efforts to achieve 4 per cent average growth in the agriculture sector over the Plan period, with food grains growing at around 2 per cent per year and non-food grains (particularly, horticulture, livestock, dairying, poultry, and fisheries) rising at 5 to 6 per cent.
iii. Higher agricultural growth would not only bring broad-based economic gains to the rural people, but it would also assist to limit inflationary pressures that might occur if high levels of growth are tried without equivalent increases in domestic food production capabilities.
iv. It suggests that the key flagship programmes that were significant in fostering inclusion in the Eleventh Plan be carried over to the Twelfth Plan.
v. According to the Plan, meeting the energy demands of rapid growth will be a substantial issue since these needs must be addressed in an environment where local energy prices are constrained, and international energy prices are high and anticipated to rise further.
vi. In order for GDP to increase at 9 per cent, commercial energy supply must grow at a pace of 6.5 to 7 per cent per year. Because India's internal energy supplies are limited, its reliance on imports will grow. Petroleum import dependency has always been high, and it is anticipated to reach 80 per cent in the Twelfth Plan.
vii. Even in the case of coal, import dependency is expected to expand as thermal generation grows, necessitating coal supplies that cannot be provided entirely by domestic miners.
viii. It suggests the need to take steps to reduce the energy intensity of production processes, increase domestic energy supply as soon as possible, and ensure rational energy pricing that will help achieve both objectives, namely, reduced energy intensity of manufacturing processes and increased domestic energy supply, even if it appears difficult to do so.

ix. It emphasises the importance of developing a comprehensive water management strategy aimed at more effective water conservation as well as water usage efficiency, notably in agriculture.

x. It contends that new land acquisition law is required, striking an adequate balance between the requirement for equitable compensation to people whose land is purchased and whose livelihood is affected.

xi. It maintains that health, education, and skill development will continue to be priority areas in the Twelfth Plan, and that enough resources must be allocated to these sectors. It proposed for 'universal' healthcare, facility.

xii. Recognises that achieving 9 per cent growth will necessitate large investments in infrastructure sector development—notes that greater momentum to public investment and Public Private Partnerships (PPPs) in infrastructure sector must be imparted so that current infrastructure shortages can be addressed early.

xiii. It has emphasised the significance of the fiscal adjustment process. However, the study warns that fiscal consolidation would mean that overall resources available for the Plan would be constrained in the short run. Because of resource constraints, it is necessary to prioritise properly, and certain priority sectors, such as health, education, and infrastructure, will require more funding than others.

xiv. Achievements of Planning

The Five-Year Plans are the most significant components of central planning, and they are constantly executed to obtain the intended results. The accomplishments of the five-year programmes are listed below.

Five-Year Plan	Objectives	Assessment
First Plan 1951-1956	• Rehabilitation of refugees, quick agricultural growth to attain food self-sufficiency, inflation management, and prioritisation of irrigation and power projects.	• The plan aimed for a 2.1 per cent growth rate and attained a 3.6 per cent growth rate. • The government was given an active role in all economic area. • Five Indian Institutes of Technology (IITs) were established, as premier technological institutes.
Second Plan 1956-1961	• The policy emphasised fast industrialisation, with a concentration on heavy industries and capital goods.	• The target growth rate was 4.5 per cent, whereas the actual rate was 4.27 per cent. • It could not be fully executed due to inadequate availability of foreign exchange. • Hydroelectric power plants and five steel plants were built in Bhilai, Durgapur, and Rourkela.
Third Plan 1961–1965	• The plan's key goals were boosting national income, by more than 5 per cent per annum. • Increasing agricultural productivity and achieving self-sufficiency in food grains. • Expansion of basic industries.	• The third five-year plan's projected growth rate was 5.6 per cent, while the actual growth rate was 2.4 per cent, owing to the wars and the drought conditions.

(Contd.)

Five-Year Plan	Objectives	Assessment
Plan Holidays – Annual Plans 1966-1969	• The larger objectives of these Annual Plans were integrated into the Fourth Plan. • A new agricultural strategy was implemented, including the distribution of high-yielding seed varieties, extensive fertiliser usage, irrigation potential exploitation, and soil conservation measures.	• An annual plan, also known as a plan holiday, is a time in which, the government abandons normal five-year planning in favour of yearly plans. • The government may choose for annual plans because it does not have enough resources to allocate according to the five-year plan.
Fourth Plan 1969-1974	• The Plan was based on the Gadgil strategy, with a special emphasis on the ideas of growth with stability and progress toward self-reliance. • Growth with stability and progressive achievement of self-reliance were major objectives of the fourth five-year plan.	• Droughts and the Indo-Pak War of 1971–72 compelled the economy to diversify capital, causing a financial crunch for the Plan. • The fourth five-year plan's target growth rate was 5.6 per cent, while the actual growth rate was 3.3 per cent.
Fifth Plan 1974-1979	• The plan's emphasis has been on poverty reduction and self-reliance. • The plan emphasised agriculture.	• The Indira Gandhi administration nationalised 14 major Indian banks, and the Green Revolution in India boosted agriculture. • The targeted growth rate was 5.2 per cent, while the actual growth rate was 5.5 per cent.
Sixth Plan 1980-1985	• The strategy was established under the phrase '*Garibi Hatao*', and family planning was broadened to combat population growth.	• The plan began with a 'target group' strategy, as well as the implementation of many national level programmes and schemes addressing specific problems and areas of development. Most objectives were met with 5.5 per cent growth.
Seventh Plan 1985-1990	• The plan's major objective was to improve growth in areas such as boosting economic productivity, increasing food grains, and creating jobs through social justice.	• The Jawahar Rojgar Yojana (JRY) was begun in 1989 with the goal of creating wage employment for rural impoverished people. • The target growth rate was 5 per cent, while the actual growth rate was 6 per cent.
Annual Plans 1989-1991	• The Eighth Plan could not take off due to the 'fast-changing political environment at the Centre. • The primary focus was on increasing employment and social reform.	• It marked the start of privatisation and liberalisation in India.

(Contd.)