

PAPER I - INDIAN ECONOMY & INDIAN FINANCIAL SYSTEM

Module A: INDIAN ECONOMIC ARCHITECTURE

Chapter 1: An overview of Indian Economy

Quick Revision

1.1 & 1.3: Evolution of the Indian Economy - A Historical View

- **Historical Dominance:** For centuries, India was a global economic powerhouse. In 1700 AD, its share of the world's GDP was a massive 24.4%.
- **Decline During British Colonialism:** The British Raj systematically dismantled India's economy. Colonial policies led to de-industrialisation, the commercialisation of agriculture for Britain's benefit, and a massive "Wealth Drain".
- **Wealth Drain:** This refers to the unilateral transfer of resources from India to Britain. A key component was the "Home Charges," which were official payments India had to make to Britain for salaries of British officers, army costs, and interest on loans.
- **Impact of Colonialism:** By the time of independence in 1947, India's share of the global economy had plummeted to just 3%. The country was left with a stagnant, distressed economy, widespread poverty, and low literacy.
- **Recent Resurgence:** India is once again one of the world's fastest-growing major economies, ranked 3rd in the world in terms of GDP by Purchasing Power Parity (PPP).

1.2: Basic Characteristics of the Indian Economy



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- **Classification:** The World Bank classifies India as a **lower-middle-income economy**.
 - **Key Characteristics:**
 - Low per capita income despite having a large overall GDP.
 - Rapid population growth.
 - High rates of unemployment (including underemployment and disguised unemployment).
 - Excessive reliance on the primary sector (agriculture) for employment, although its contribution to GDP has fallen.
 - **Sectoral Shift:** The structure of the Indian economy has changed significantly. Agriculture's contribution to GDP has fallen from over 50% in 1950 to around 18% today. The **services sector** is now the largest contributor to India's GDP, having surpassed agriculture in the early 1980s.
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1.4: Economic Performance Post-Independence

- **1951-1980:** This period was marked by very slow growth, famously termed the **"Hindu rate of growth,"** which averaged around 3.5% annually.
 - **1980-1990:** A period of stronger economic recovery.
 - **1992-2008 (Post-Reform Period):** Following the 1991 economic crisis, India implemented major reforms under the **LPG (Liberalisation, Privatisation, Globalisation)** policy. This led to a period of high GDP growth, making India one of the world's fastest-growing economies.
 - **2008-2021:** This period saw the impact of the 2008 global financial crisis, followed by major policy changes like the Goods and Services Tax (GST) and the Insolvency and Bankruptcy Code (IBC). The economy experienced a slowdown just before the COVID-19 pandemic.
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1.5: Structural Changes and the Impact of COVID-19

- **Structural Change:** This refers to the long-term shift in the economic contribution of different sectors. In India, the **services sector** has become the primary driver of the economy, largely replacing the industrial sector in this role.
- **Impact of COVID-19:**
 - The pandemic was the third major shock to the Indian economy in the last four decades.
 - The nationwide lockdown in 2020 led to a severe economic contraction of **23.8%** in the first quarter of FY 2020-21.
 - **Sectoral Impact:**
 - The **services sector** was the worst hit due to its contact-intensive nature.
 - The **labour market** suffered severely, with high unemployment and reverse migration.
 - The **agriculture sector** proved to be resilient and robust, as it was exempt from most lockdown restrictions.
- **Economic Recovery:** The economy showed a strong recovery after the initial shock, with an estimated GDP growth of 8.7% in 2021-22. However, the RBI has estimated that it will take the Indian economy about **12 years (until 2034-35)** to fully overcome the permanent damage caused by the pandemic.

