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# HPAS

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*Revised Study Notes*

## GENERAL STUDIES

PAPER - III



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# GENERAL STUDIES-III (200 MARKS)

## UNIT-I

### SUB UNIT-1

## Characteristics of Indian Economy

### Overview

India has emerged as the fastest growing major economy in the world as per the Central Statistics Organisation (CSO) and International Monetary Fund (IMF) and it is expected to be one of the top three economic powers of the world over the next 10-15 years, backed by its strong democracy and partnerships. *India's GDP increased 7.1 per cent in 2016-17* and is expected to reach a growth rate of 7 per cent by September 2018

India's gross domestic product (GDP) grew by 6.3 per cent in July-September 2017 quarter as per the *Central Statistics Organisation (CSO)*. Corporate earnings in India are expected to grow by over 20 per cent in FY 2017-18 supported by normalisation of profits, especially in sectors like automobiles and banks, according to Bloomberg consensus.

The tax collection figures between April-June 2017 Quarter show an increase in Net Indirect taxes by 30.8 per cent and an increase in Net Direct Taxes by 24.79 per cent year-on-year, indicating a steady trend of healthy growth. The total number of e-filed Income Tax Returns rose 21 per cent year-on-year to 42.1 million in 2016-17 (till 28.02.17), whereas the number of e-returns processed during the same period stood at 43 million.

India has retained its position as the third largest startup base in the world with over 4,750 tech-

nology startups, with about 1,400 new start-ups being founded in 2016, according to a report by NASSCOM.

India's labour force is expected to touch 160-170 million by 2020, based on rate of population growth, increased labour force participation, and higher education enrolment, among other factors, according to a study by ASSOCHAM and Thought Arbitrage Research Institute.

India's foreign exchange reserves were US\$ 404.92 billion in the week up to December 22, 2017, according to data from the RBI.

### Recent Developments

With the improvement in the economic scenario, there have been various investments in various sectors of the economy. The M&A activity in India increased 53.3 per cent to US\$ 77.6 billion in 2017 while private equity (PE) deals reached US\$ 24.4 billion. Some of the important recent developments in Indian economy are as follows:

Indian companies raised Rs 1.6 trillion (US\$ 24.96 billion) through primary market in 2017.

Moody's upgraded India's sovereign rating after 14 years to Baa2 with a stable economic outlook.

India received net investments of US\$ 17.412 million from FIIs between April-October 2017.

The top 100 companies in India are leading in the world in terms of disclosing their spending on corporate social responsibility (CSR), according to a 49-country study by global consultancy giant, KPMG.

The bank recapitalisation plan by Government of India is expected to push credit growth in the country to 15 per cent, according to a report by Ambit Capital.

India has improved its ranking in the *World Bank's Doing Business Report* by 30 spots over its

2017 ranking and is ranked 100 among 190 countries in 2018 edition of the report.

India's ranking in the world has improved to 126 in terms of its per capita GDP, based on purchasing power parity (PPP) as it increased to US\$ 7,170 in 2017, as per data from the International Monetary Fund (IMF).

The Government of India has saved US\$ 10 billion in subsidies through direct benefit transfers with the use of technology, Aadhaar and bank accounts, as per a statement by Mr Narendra Modi, Prime Minister of India.

India is expected to have 100,000 startups by 2025, which will create employment for 3.25 million people and US\$ 500 billion in value, as per Mr T V Mohan Das Pai, Chairman, Manipal Global Education.

The total projected expenditure of Union Budget 2018-19 is Rs 23.4 lakh crore (US\$ 371.81 billion), 9 per cent higher than previous year's budget, as laid out in the Medium Term Expenditure Framework (MTEF).

India received the highest ever inflow of equity in the form of foreign direct investments (FDI) worth US\$ 43.4 billion in 2016-17 and has become one of the most open global economies by ushering in liberalisation measures, as per the mid-year economic survey of India.

The World Bank has stated that private investments in India is expected to grow by 8.8 per cent in FY 2018-19 to overtake private consumption growth of 7.4 per cent, and thereby drive the growth in India's gross domestic product (GDP) in FY 2018-19.

The *Niti Aayog* has predicted that rapid adoption of green mobility solutions like public transport, electric vehicles and car-pooling could likely help India save around Rs 3.9 trillion (US\$ 60 billion) in 2030.

Indian impact investments may grow 25 per cent annually to US\$ 40 billion from US\$ 4 billion by 2025, as per Mr Anil Sinha, Global Impact Investing Network's (GIIN's) advisor for South Asia.

The Union Cabinet, Government of India, has approved the Central Goods and Services Tax (CGST), Integrated GST (IGST), Union Territory GST (UTGST), and Compensation Bill.

Indian merchandise exports in dollar terms registered a growth of 30.55 per cent year-on-year in November 2017 at US\$ 26.19 billion, according to the data from Ministry of Commerce & Industry.

The Nikkei India manufacturing Purchasing Managers' Index increased at the fastest pace in December 2017 to reach 54.7, signaling a recovery in the economy.

### Government Initiatives

In the Union Budget 2017-18, the Finance Minister, Mr Arun Jaitley, verified that the major push of the budget proposals is on growth stimulation, providing relief to the middle class, providing affordable housing, curbing black money, digitalisation of the economy, enhancing transparency in political funding and simplifying the tax administration in the country.

India's unemployment rate has declined to 4.8 per cent in February 2017 compared to 9.5 per cent in August 2016, as a result of the Government's increased focus towards rural jobs and the *Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)* scheme.

The Government of Maharashtra has set a target to double farm income by 2022 through measures like large scale micro irrigation, water conservation, expansion of formal cash credit coverage, crop insurance and agriculture diversification, as per Mr Vidyasagar Rao, Governor of Maharashtra.

Numerous foreign companies are setting up their facilities in India on account of various government initiatives like Make in India and Digital India. Mr. Narendra Modi, Prime Minister of India, has launched the Make in India initiative with an aim to boost the manufacturing sector of Indian economy, to increase the purchasing power of an average Indian consumer, which would further boost demand, and hence spur

development, in addition to benefiting investors. The Government of India, under the Make in India initiative, is trying to give boost to the contribution made by the manufacturing sector and aims to take it up to 25 per cent of the GDP from the current 17 per cent. Besides, the Government has also come up with Digital India initiative, which focuses on three core components: creation of digital infrastructure, delivering services digitally and to increase the digital literacy.

*Some of the recent initiatives and developments undertaken by the government are listed below:*

The Government of India has succeeded in providing road connectivity to 85 per cent of the 178,184 eligible rural habitations in the country under its Pradhan Mantri Gram Sadak Yojana (PMGSY) since its launch in 2014.

*A total of 15,183 villages have been electrified in India between April 2015-November 2017* and complete electrification of all villages is expected by May 2018, according to Mr Raj Kumar Singh, Minister of State (IC) for Power and New & Renewable Energy, Government of India.

The Government of India has decided to invest **Rs 2.11 trillion (US\$ 32.9 billion)** to recapitalise public sector banks over the next two years and **Rs 7 trillion (US\$ 109.31 billion)** for construction of new roads and highways over the next five years.

The mid-term review of India's Foreign Trade Policy (FTP) 2015-20 has been released by Ministry of Commerce & Industry, Government of India, under which annual incentives for labour intensive MSME sectors have been increased by 2 per cent.

The India-Japan Act East Forum, under which India and Japan will work on development projects in the North-East Region of India will be a milestone for bilateral relations between the two countries, according to Mr Kenji Hiramatsu, Ambassador of Japan to India.

The Government of India will spend around Rs 1 lakh crore (US\$ 15.62 billion) during FY 18-20 to build roads in the country under *Pradhan Mantri*

*Gram Sadak Yojana* (PMGSY).

The Government of India plans to facilitate partnerships between gram panchayats, private companies and other social organisations, to push for rural development under its 'Mission Antyodaya' and has already selected 50,000 panchayats across the country for the same.

The fiscal deficit of the Government of India, which was 4.5 per cent of the gross domestic product (GDP) in 2013-14, has steadily reduced to 3.5 per cent in 2016-17 and is expected to further decrease to 3.2 per cent of the GDP in 2017-18, according to the Reserve Bank of India (RBI).

The Government of India plans to implement a new scheme, named '*Sasti Bijli Har Ghar Yojana*' with an outlay of Rs 17,000 crore (US\$ 2.64 billion), to provide electricity to around 40 million un-electrified households in the country.

The Government of India and the Government of Portugal have signed 11 bilateral agreements in areas of outer space, double taxation, and nano technology, among others, which will help in strengthening the economic ties between the two countries.

India's revenue receipts are estimated to touch Rs 28-30 trillion (US\$ 436- 467 billion) by 2019, owing to Government of India's measures to strengthen infrastructure and reforms like demonetisation and Goods and Services Tax (GST).

### Future of the Economy

India's gross domestic product (GDP) is expected to reach US\$ 6 trillion by FY27 and achieve upper-middle income status on the back of digitisation, globalisation, favourable demographics, and reforms.

India is also focusing on renewable sources to generate energy. It is planning to achieve 40 per cent of its energy from non-fossil sources by 2030 which is currently 30 per cent and also have plans to increase its renewable energy capacity from 57 GW to 175 GW by 2022.

India is expected to be the third largest consumer economy as its consumption may triple to US\$ 4 tril-

lion by 2025, owing to shift in consumer behaviour and expenditure pattern, according to a Boston Consulting Group (BCG) report; and is estimated to surpass USA to become the second largest economy in terms of purchasing power parity (PPP) by the year 2040, according to a report by Pricewaterhouse Coopers.

### Characteristics of the Indian Economy

- **Fast Growing Economy** : India's economy is one of the world's fastest growing economies on the globe. India's economy has emerged as the world's fastest growing economy in the last quarter of 2014 and has replaced the People's Republic of China with a growth rate of approx 7%.
- **Fast growing Service Sector** : With growth in the service sector, Indian economy has formulated its growth in the service sector as well. There has been a high rise growth in the technical sectors like-e of Information Technology Sector, BPO, etc. The business in these sectors has not only added and enhanced the contribution to the economy, but has also helped in the multi-fold growth of the country a well. These emerging service sectors have helped the country go global and helped in spreading its branches around the world.
- **India has a mixed economy** : Indian economy is a true example of complete mixed economy. This means both private and public sectors co-exist and function here, simultaneously. On one side, some of the fundamental and heavy industrial units are being operated under the public sector. Whereas, due to the liberalization factors of the economy, the private sector has gained further enhancements in terms of scope. This makes it a perfect amalgamation of both public and private sectors being operated and supported under a single economic cloud.
- **Newly Industrialized Economy - good balance between agriculture and industrial sector** : Indian economy has been a true holder of newly imbibed innovations in the formation of the country's economy. Earlier agriculture used to be the prime contributor as industrialization was at a lower edge during the time. With the growing time, subsequently industrial took a high tide in the country making it a very important contributor to it. Well the Indian economy keeps both these in good balance. It amalgamates the agricultural outputs towards enhancing the industries and contributing to the growth of the economy, together.
- **Unequal distribution of Income/economic disparities** : There exists a huge economic disparity in the Indian economy. There is a huge difference in the distribution of income among the various categories of people on the basis of income. This has led to an increase in the poverty level in the society and a maximum percentage of individuals are thus living under the - Below Poverty Line (BPL). This unequal distribution of income has created a huge gap and economic disparity among the various categories of people in the Indian economy.
- **Instability of price - Cost of products is not stable** : Even though there has been a constant growth rate in the GDP and growth opportunities in the Indian economy, but there have been fluctuations in the price concerns too. Being depended on the other bigger economic giants the price of the products and services keep on fluctuating since decades. At times the inflation grows high raising the prices of the commodities. This clearly indicates the instability of the price concerns in the Indian economy.
- **Lacks proper infrastructure** : Even though there has been a gradual and high scale improvement in the infrastructural development in the past few decades, but there is still a scarcity of the same. The industrial growth escalating in the country lacks proper infrastructure growth. The rate at which the infrastructure is growing needs