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**JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA**
**PGDM / PGDM (M) / PGDM (SM)**
**SECOND TRIMESTER (Batch 2023-25)**
**END TERM EXAMINATION, JANUARY 2024**

| Course Name | **Macroeconomics and Economic Environment of Business (MEEB)** | Course Code | **20402** |
|---|---|---|---|
| Max. Time | **2 Hours** | Max. Marks | **40 MM** |

**INSTRUCTIONS:**

a. **Attempt all Questions**
b. **Be Precise in your answer**
c. **All questions carry equal marks**
d. **Only a single-bound notebook or register containing handwritten notes or a single book is allowed in the examination hall. The copy or register must display the student's full name and roll number on the cover for identification and verification during the exam. Loose sheets or papers of any kind are strictly prohibited.**
e. **Exchange of registers or copies in the Exam Hall is strictly prohibited. Violation of this rule may result in disqualification from the exam.**

Read and answer the questions that follow.

## SECTION I

**The IMF should revise its opinion on the Indian rupee's managed float**
**(Adapted from Mint published on 21 Dec 2023)**

India and other developing countries have long argued for reforms of multilateral institutions like the International Monetary Fund (IMF) and World Bank to make them more representative of the emerging world order and less like handmaidens of advanced economies, especially of the US-led West. On Tuesday, the IMF gave us one more reason to press for speedy reform. In a move uncannily reminiscent of a similar observation by the US government in 2018, it claimed the Reserve Bank of India (RBI) had intervened "excessively" in the foreign exchange market to influence the rupee's value. The Fund argued that from December 2022 to October 2023, our currency's movement was "too restricted" (it traded between ₹80.88 and ₹83.42 to the US dollar). This narrow trading range, it says, was not a reflection of any improvement in our external position, as the Reserve Bank of India (RBI) reportedly said in its rebuttal, but the result of excessive RBI intervention "beyond what was required to manage market conditions." As a result, pursuant to its Article IV review, the Fund has reclassified India's exchange-rate regime from "floating" to a "stabilized arrangement" for that period.

One could dismiss the Fund's reading as nothing but semantics. Except that it matters. Till such time as the global comity of nations comes up with a better institutional framework, the Bretton

Woods twins do count in the economic arena, just as the UN does in world politics, despite their diminishing relevance. However, it does not mean we must accept their views. Back in 2018, when the US placed India on its watch-list of currency manipulators, India held its ground. So should we today. Who is to determine what is kosher when it comes to forex intervention? Policymakers who have a better overall picture of the economy and our long-term interests in mind? Or armchair economists at the Fund? It's sad that the Bretton Woods twins still reflect a Western view. It was not long ago that the IMF was a harsh critic of capital controls and tried to brainwash all emerging economies into full capital account convertibility. Some nations took that advice and dismantled all controls—but to their cost, as they found during the Asian currency crisis of 1997. It was only much later that the Fund recanted and accepted that capital controls have a role to play in developing economies.

It is no surprise that RBI rejected the IMF's charge. Our central bank has always held that its interventions in the forex market are not aimed at securing any specific level of the rupee's value vis-à-vis the US dollar, but are guided by the need to prevent unwarranted volatility that could de-stabilize markets. At our stage of development, policymakers have consistently argued, we need a flexible exchange-rate system—with a managed rather than free float. Indeed, a turnaround on external-sector parameters is one of the big success stories of the reform process initiated in 1991. The rupee is now fully convertible for all current account transactions and has limited—but increasing— convertibility on the capital account. This is what works for us. Under a classic trilemma of macro-economics, an economy that is open to capital inflows and outflows can only fix its currency's forex value at the cost of lost autonomy over monetary policy. As a partially open one, India has sought a managed float (for stability) that doesn't weaken RBI's policy tools. It demands a fine balance, but RBI has done a better job of it than the IMF gives it credit for.

**Q1. The IMF reclassified India's exchange rate regime due to RBI's forex intervention. Critically analyze the trade-offs between maintaining a stable exchange rate and preserving monetary policy autonomy in the context of a developing economy like India. Is RBI's intervention justified, considering the recent economic turbulence and India's specific circumstances?** (10 Marks)

**Q2. Compare and contrast India's approach to exchange rate management with another developing economy facing similar challenges.** (10 Marks)

## SECTION II

### State of Indian Economy

(adapted from RBI Bulletin, December 2023)

Over the next two years, the global economy is expected to slow moderately before returning to near-trend rates. Global growth is projected to weaken to its lowest annual rate in 2024 since the global financial crisis other than the first year of the pandemic. With inflation expected to converge to targets only by 2025, monetary policy may grudgingly give up its disinflationary stance although the effects of past tightening will linger. Wages may recover as inflation eases and the increase in labour costs may be absorbed by a decline in profit shares. Fiscal policy may remain modestly restrictive and government final consumption is expected to remain subdued. Business investment is projected to stagnate before picking up towards the latter part of 2025 while household saving may remain broadly stable. For most AEs, real gross domestic product (GDP) growth is projected in a 0.7-1.7 per cent range for 2024, and around 4 per cent for emerging economies (OECD Economic Outlook). Global trade may recover gradually, aided by the cyclical improvement in demand.

India aims to attain developed nation status by its 100th year of independence in 2047, striving to elevate the current per capita income of approximately $2400 to at least $15,000. Achieving this target requires India's GDP to maintain a consistent annual growth rate of 8 percent. In a latest show of strength and poise, India left sceptics gasping and woefully behind the curve as real GDP clocked a growth of 7.7 per cent in the first half of 2023-24. The key value of these numbers lies in what they tell about the future. There is a distinct shift in the momentum of the economy from a contraction in the first quarter to not just positive territory but also to well above trend in the second quarter. High frequency indicators suggest that this build-up in momentum will sustain over the rest of the year. A silver lining is that hitherto tepid rural demand is on the mend. The recent release of ` 10,000 crore to meet enhanced expenditure under the rural job guarantee scheme and the provision of free foodgrains to about 81 crore beneficiaries under the Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY) for a period of five years with effect from January 1, 2024 would cushion rural consumption and preserve the stimulus from government final consumption expenditure. A major driver of growth has been the public policy thrust on infrastructure which has propelled gross fixed capital formation into double digit growth. This boost is also likely to be sustained as the quality of public spending improves on an ongoing basis. Merchandise exports recorded a positive momentum and incoming data will indicate if this is a turnaround from a long contraction. Meanwhile, services exports go from strength to strength, especially with global IT spending expected to surge in 2024 after remaining lukewarm in the preceding three years. Indian global capability centres (GCCs) are increasingly emerging as a hub for leaders with global roles. India is currently home to 1580 GCCs employing close to 2 million people, a testimony to talent, growing capital markets and maturity of services competencies. Indian GCCs are evolving into a sandbox for global organisations driving large-scale transformation in skills like artificial intelligence, generative technologies, internet of things, quantum computing and blockchain. Increasingly, they are taking end-to-end product ownership, building niche competencies and challenging untapped frontiers.

On the supply side, agriculture is flattening after seven consecutive years of record foodgrain production, but prospects remain bright for allied activities such as livestock, forestry and fishing. The biggest upside surprise is stemming from the broad-based strengthening of industrial value added, especially manufacturing. The surge in profitability, aided by easing input costs, is expected to sustain this dynamism. As inflation eases, a revival of topline growth will support the manufacturing expansion. Among services, construction activity remains robust, boosted by housing demand. Other categories of services are normalizing from the post-pandemic revenge spending, but underlying momentum remains resilient. However, the main risk to the outlook stems from the evolution of inflation in the months ahead. The recurrence of food price spikes in November has punctured a brief respite in September and October. It is expected that these pressures will linger on into December before the usual winter softening sets in and dispels these adversities.

Domestic financial markets have been lifted by the abiding strength of the real economy. The primary segment of the equity markets has been set afire by a blitz of oversubscribed – some of them massivelyinitial public offerings (IPOs) by more than 40 companies and more than 60 having filed for more. It coincides with an ebullient bullish sentiment, the ongoing rally in mid-cap and small-cap stocks in the secondary market and the strength of the underlying macro-fundamentals. It has been a broad-based rebound spanning diverse sectors ranging across small finance banks, jewellery, supply chain management, infrastructure, hospitality and biotechnology. The reduction in the timeline for listing shares on the stock exchanges after closure of IPOs from T+6 to T+3 in August 2023 has also given investors the opportunity to participate in more IPOs, obtain faster access to capital and do business better.

Another important indicator of the innate strength of the economy is the stability of the Indian rupee (INR). On a trade-weighted basis, the nominal value of the INR has undergone an appreciation by 1.6 per cent during 2023-24 (April-December 8, 2023). Adjusted for inflation differentials, the INR's appreciation is even higher at 4.5 per cent. Over this period, the US dollar has appreciated by 1.5 per cent against a broad index of currencies. The strength of the INR reflects no less to the active hands-on management by the RBI in allowing the currency to find its level in a market determined manner but in eschewing volatility in a time of formidable global spillovers and an extremely uncertain international environment.

For most of 2023, global growth was weighed by a host of factors, including ongoing geo-political tensions, adverse weather conditions and tight financial conditions, although incoming data point toward the global economy avoiding a hard landing. In Q3:2023, growth accelerated in the US, buoyed by households' spending; and in China, it was propelled by a slew of policy stimuli, whereas GDP contracted in the Euro area and Japan, and stagnated in the UK. The Organization for Economic Cooperation and Development (OECD) in its Economic Outlook of November 2023 projected the global economy to grow by 2.9 per cent in 2023 and by 2.7 per cent in 2024 as much of the headwinds for global growth are expected to continue in the next year as well (Table II.1). Despite significant global headwinds, the Indian economy remained the fastest growing major economy in 2023. The outlook is one of cautious optimism as consumer confidence remains positive and perceptions about current income turned up in the RBI's latest survey of households in November 2023.

**India- Aggregate Demand**

Real GDP registered a growth of 7.6 per cent in Q2:2023-24, up from 6.2 per cent in Q2:2022-23 (7.8 per cent in Q1:2023-24) and exceeding market expectations. The robust expansion of activity in Q2:2023-24 was primarily led by domestic drivers – government consumption and fixed investment. Among the components of real GDP, private final consumption expenditure (PFCE) recorded a moderate growth of 3.1 per cent in Q2, primarily due to tepid rural demand conditions following lower kharif production. The growth in government final consumption expenditure, however, surged to 12.4 per cent, primarily led by the Union government's spending while that of the State governments remained steady. Buoyed by the government's thrust on infrastructure, gross fixed capital formation (GFCF) recorded a double-digit growth of 11.0 per cent. Consequently, the share of GFCF in real GDP surged to 35.3 per cent. This was also reflected in a sharp acceleration in its proximate coincident indicators – steel consumption; cement production; and production and imports of capital goods. With import growth exceeding that of exports, net exports contributed negatively to GDP growth in Q2:2023-24.

**Table II.1: GDP Growth Projections**

(Per cent)

| Month of Projection → | 2023 | | 2024 | |
|---|---|---|---|---|
| Region/Country ↓ | November 2023 | September 2023 | November 2023 | September 2023 |
| World | 2.9 | 3.0 | 2.7 | 2.7 |
| **AEs** | | | | |
| US | 2.4 | 2.2 | 1.5 | 1.3 |
| UK | 0.5 | 0.3 | 0.7 | 0.8 |
| Euro area | 0.6 | 0.6 | 0.9 | 1.1 |
| Japan | 1.7 | 1.8 | 1.0 | 1.0 |
| **Emerging Market Economies (EMEs)** | | | | |
| Brazil | 3.0 | 3.2 | 1.8 | 1.7 |
| India | 6.3 | 6.3 | 6.1 | 6.0 |
| China | 5.2 | 5.1 | 4.7 | 4.6 |
| South Africa | 0.7 | 0.6 | 1.0 | 1.1 |

**Source:** OECD.

As per the data available from the Centre for Monitoring of Indian Economy (CMIE), the all India unemployment rate (UR) fell to 9.2 per cent in November, driven by lower UR in rural areas even as urban UR recorded an increase.

India's merchandise exports at US$ 33.9 billion in November 2023 registered a contraction of 2.8 per cent (y-o-y), but this essentially reflected an unfavourable base effect. In terms of m-o-m momentum, however, it grew by 1.0 per cent. Out of 30 major commodities, 15 commodities, including petroleum products, organic and inorganic chemicals, engineering goods and rice registered contraction on a y-o-y basis. On the other hand, iron ore, gems and jewellery, drugs and pharmaceuticals, fruits and vegetables and meat, dairy and poultry registered expansion and supported overall export growth. India is the third largest exporter of onions, with a share of 12 per cent in total exports in 2022. In view of the spike in domestic prices, customs duty of 40 per cent was levied on onion exports in August 2023. This led to a 35.7 per cent (m-o-m) decline in onion exports (in quantity terms) in September, but recorded a partial rebound in October. During episodes of high onion price increases in recent years, the Government has embargoed onion exports.

Merchandise imports at US$ 54.5 billion swung back into contraction in November. The y-o-y decline of 4.3 per cent was due to a negative momentum of 14.1 per cent which offset a positive base effect. Among 30 major commodities, 15 commodities accounting for 61.8 per cent of the import basket (share in 2022-23) recorded a y-o-y decline. Petroleum, oil, and lubricants (POL), pearls, precious and semi-precious stones, fertilisers, vegetable oil and transport equipment were the main items that dragged import growth down, while electronic goods, silver, iron and steel, metalliferous ores and other minerals; and non-ferrous metals supported import growth in November. With decline in imports and increase in exports on a sequential basis the merchandise trade deficit in November 2023 narrowed to US$ 20.6 billion from the high of US$ 29.9 billion a month ago. The share of oil in the total merchandise trade balance increased in November.

During April-November 2023, India's merchandise exports at US$ 298.2 billion contracted by 6.5 per cent (y-o-y). Merchandise imports at US$ 487.4 billion declined by 8.7 per cent (y-o-y). Consequently, the merchandise trade deficit narrowed to US$ 166.4 billion from US$ 189.2 billion during the corresponding period a year ago.

In a nutshell, Private final consumption expenditure (C), a substantial component contributing 56 percent to the GDP, holds pivotal importance in this pursuit. Gross fixed capital formation (GFCF), indicating productive asset creation, has notably risen from 30.7% of GDP in FY15 to 34% of GDP in FY24, marking the highest level of asset formation in India since 2009. However, in comparison to China, where this indicator has consistently surpassed 40 percent of their GDP for several years, India's GFCF remains relatively lower. This emphasizes the potential for further enhancement in asset creation for sustained economic progress. Similarly, India's exports have shown remarkable growth, surging from USD 375 billion in FY 2011 to USD 770 billion in FY 2023. However, there's considerable untapped export potential.

Challenges persist, notably in youth unemployment and employability. The India Skill Report indicates that only 54 percent of Indian graduates are employable. Addressing this is crucial; otherwise, India's demographic dividend might shift into a demographic burden. Despite these challenges, India maintains its position as one of the fastest-growing economies globally. The first advance estimate for 2023-24 projects a 7.3 percent growth in real GDP, a slight uptick from the previous year's 7.2 percent, signaling a steady yet gradual economic expansion. It's evident that while India progresses economically, addressing key concerns like asset creation, export potential, and enhancing the employability of its youth are pivotal to sustain this growth and transition into a developed nation.

**Q.3. Analyze the impact of the shift from consumption-driven growth to investment-led growth on India's quest to elevate its per capita income to $15,000 by 2047.** (10 Marks)

**Q.4. Discuss the implications of India's GFCF being lower than that of China and its importance in achieving sustained economic progress.** (10 Marks)