WWW.IJRPR.COM

International Journal of Research Publication and Reviews

Journal homepage: www.ijrpr.com ISSN 2582-7421

Analysis of Current Economic Changes Impacting the Indian Economy

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ABSTRACT

Three major macroeconomic indicators—Inflation Rate, Foreign Direct Investment (FDI) Inflow, and GDP Growth Rate—in India from 2015 to 2024 are examined in this paper. The research covers economic changes during pre-pandemic stability, pandemic disruption, and recovery. India has steady inflation, solid GDP growth, and rising FDI inflows, suggesting a favourable investment environment. GDP contracted and inflation rose during the epidemic, while FDI inflows surprisingly increased, indicating investor confidence in India's long-term prospects. GDP recovered and inflation moderated post-pandemic. A one-sample t-test was used to see whether the indicator sample means varied from 5. Long-term stability was indicated by no statistically significant deviation. The research emphasises India's economic resiliency and investment appeal despite global problems.

Keywords: Inflation Rate, FDI Inflow, GDP Growth Rate, Macroeconomic Analysis, Economic Recovery, Economic Stability, Foreign Investment, Economic Trends

INTRODUCTION

The Indian economy has become an important participant in the global arena, characterised by notable growth and expanding influence. The success of its corporate sector plays a vital role in this economic progress, significantly aiding in job creation, fostering innovation, and enhancing overall development. Nonetheless, the success and growth of companies are deeply connected to the wider economic landscape. A range of economic factors significantly impacts their profitability, investment choices, and long-term viability. This chapter seeks to explore the effects of significant economic transformations in India from 2015 to 2024. It will specifically examine how factors such as inflation, foreign direct investment (FDI), variations in gross domestic product (GDP), the repo rate set by the Reserve Bank of India (RBI), and fluctuations in the stock market (SENSEX and NIFTY) have influenced the performance of the corporate sector. Grasping these relationships is essential for businesses as they manoeuvre through the economic landscape, for policymakers as they develop effective strategies, and for investors as they seek to make well-informed decisions.

Grasping how recent economic shifts, including inflation, GDP growth, the RBI repo rate, and Foreign Direct Investment (FDI) inflows, affect the performance of the corporate sector is essential for making informed strategic decisions. Each of these economic factors plays a distinct role in shaping business operations, influencing profitability, and determining growth opportunities.

The increase in inflation leads to higher input costs for companies, which in turn affects their profit margins significantly. In consumer-focused industries, elevated inflation can diminish purchasing power, resulting in a decrease in demand. Conversely, businesses that possess robust pricing power have the ability to transfer rising costs to consumers, thereby sustaining their profitability. The growth of GDP serves as a fundamental measure of the overall health of an economy. When GDP growth rises, it indicates a boost in economic activity, which often translates to greater consumer demand and improved earnings for companies. On the other hand, a slowdown in GDP growth indicates economic difficulties, which can lead to decreased sales and diminished profitability for companies.

The RBI repo rate serves as an essential instrument of monetary policy, influencing the costs associated with corporate borrowing in a significant way. A higher repo rate increases interest expenses for companies reliant on debt financing, reducing profitability. On the other hand, a reduced repo rate encourages borrowing, which in turn fosters investments and supports the growth of businesses. Foreign Direct Investment (FDI) inflows introduce essential capital, advanced technology, and valuable managerial expertise to local markets, contributing to the improvement of corporate sector performance. Companies operating in sectors that attract substantial foreign direct investment often experience enhancements in technology, broader market opportunities, and increased access to global supply chains. The following analysis examines the shifts in these economic indicators from 2015 to 2024, illustrating how strategies have been adapted to address risks and seize opportunities that emerge from evolving economic conditions.

Reviews of literature

The article by Smallbone et al. (2012) examines how small firms reacted to a significant economic downturn, drawing on empirical research conducted in the UK and New Zealand. Although there are variations in the timing and severity of the downturn, small enterprises exhibit notable similarities in their sectoral composition and financing methods when it comes to the reported effects of the recession and their business performance during the period of 2008–2009. Although the study concentrated on businesses that managed to survive, it is important to note that the economic downturn did not uniformly affect small businesses in either country. In fact, a notable minority of the firms surveyed in both nations demonstrated strong performance. This study offers valuable insights into how small businesses respond to significant economic crises. This concept illustrates that while many small firms may be susceptible to external changes beyond their control, they also exhibit a remarkable resilience and a strong capacity for adaptability and flexibility. It is essential to conduct longitudinal follow-up to understand how the various types of adaptive behaviour observed influence business performance.

The study conducted by Giannarakis and Theotokas in 2011 aims to assess how the financial crisis impacts the performance of Corporate Social Responsibility (CSR). This study presents an empirical analysis focused on companies that adopt Global Reporting Initiative (GRI) guidelines, specifically examining how they adjust their application levels within a point scoring system. In total, there are 112 companies that were included in the GRI report list for the years 2007, which was prior to the financial crisis, as well as for the years 2008, 2009, and 2010. The Wilcoxon signed rank sum test is employed to determine the impact of an economic downturn on corporate social responsibility performance. The findings suggest that there was an improvement in CSR performance leading up to and during the financial crisis, with the exception of the years 2009 to 2010. Organisations strive to enhance their performance as a means to restore the trust that has been diminished in the business landscape. This study encourages a conversation about the relationship between financial crises and the performance and reporting of corporate social responsibility.

The study by Weaven et al. (2021) explores the dynamic capabilities that play a crucial role in the survival and growth of small and medium-sized enterprises (SMEs) during challenging economic times. We embraced a qualitative approach by employing a collective, instrumental case-based method, conducting forty interviews with a diverse group of participants, including both successful and unsuccessful franchisees, independent SMEs, business and franchising experts, and franchisors across Australia. A framework was created to understand the success of small and medium-sized enterprises (SMEs). This highlights the significance of the traits of business owners and the resources available to their firms within the context of survival mechanisms. The three dimensions of dynamic capabilities include sensing, which involves assessing the business landscape and acquiring relevant information; seizing, which pertains to making decisions about the product portfolio and investing in technologies and human resources; and reconfiguring, which focusses on innovation, decentralisation, and effective knowledge management. The findings indicated that the aspects of performative routines were more prominent, highlighting the adaptability and context-sensitive nature of how dynamic capabilities are utilised within small and medium-sized enterprises. This study addresses a significant gap in the field of entrepreneurship by exploring the dynamic capabilities of small and medium-sized enterprises (SMEs) operating in a volatile market. It particularly emphasises the importance of understanding both the ostensive and performative aspects of routines that are crucial for navigating such challenges.

Mishra and Palit (2020) Creating jobs is regarded as a crucial driver for fostering growth in developing nations. It is often tempting to think that foreign direct investment can effectively address various economic challenges, yet the relationship between FDI and job creation in India is rather complex. This paper aims to explore the connection between foreign direct investment inflows and job creation in India from 1991 to 2018. This research paper draws upon secondary data from various published sources to explore the impact of foreign direct investment (FDI) on employment generation in India, employing relevant descriptive analysis techniques. Foreign Direct Investment plays a significant role in generating employment opportunities in India, influencing both upstream and downstream sectors. Foreign Direct Investment (FDI) experienced a growth rate that was three times higher in the second decade compared to the first, specifically from 2002 to 2012, within India's service sector. The banking and insurance sector leads in attracting significant foreign direct investment proposals, while the telecommunication sector follows closely in second place for FDI attraction in India. In India, foreign direct investment in the service sector creates more job opportunities than any other sector. This study reveals that employment generation in India over the past two decades is clearly observable; however, foreign direct investment inflows may not be considered a significant contributor to this growth rate. Therefore, it is essential for the government of India to implement policy measures aimed at enhancing employment generation, particularly within the organised sector.

Edeh et al. (2020) explored how foreign direct investment influences the agriculture sector in Nigeria, utilising quarterly time series data spanning from 1981 to 2017, which was sourced from the Central Bank of Nigeria Statistical Bulletin. Initial assessments of the time series data were conducted through the pairwise correlation test, as well as the Augmented Dickey–Fuller and Phillips–Perron unit root tests. The findings from the Bounds test and the Johansen test suggest that there is a cointegration relationship within the model. To estimate the parameters of the regression model, we employed the Autoregressive Distributed Lagged (ARDL) model, along with Fully Modified Least Squares (FMOLS) and Dynamic Ordinary Least Squares (DOLS) methods. The findings suggest that foreign direct investment plays a beneficial and meaningful role in enhancing the output of the agricultural sector. The ARDL results indicate that the influence of foreign direct investment is greater in the short term ($0.0024 < 0.05$) compared to the long term ($0.0000 < 0.05$). The deregulation of the economy plays a crucial role in influencing agricultural output throughout the period examined. The study suggests extending tax holidays for prospective foreign direct investors from the current 3 years to a minimum of 6 years. It is essential to establish a framework that effectively addresses the urgent and ongoing funding needs of the agricultural sector by the Nigerian government.

Cancela et al. (2020) highlighted that within the macroeconomic context of the Iberian Peninsula, this study seeks to explore how the characteristics of corporate governance impact corporate sustainability performance. This paper aims to explore corporate practices and identify which characteristics of corporate governance can enhance sustainability. In doing so, it will take into account three key dimensions of sustainability: economic, environmental,

and social. This study focusses on a sample of 99 non-financial companies located in the Iberian Peninsula, covering the years from 2013 to 2017. The authors employed a panel data methodology, utilising the generalised method of moments (GMM) estimation technique introduced by Arellano and Bover (1995) and further developed by Blundell and Bond (1998) to examine the hypotheses they formulated. The findings indicate that corporate sustainability performance varies based on the specific sustainability dimension being examined. The economic dimension is shaped by factors such as public debt, the size of the board, the diversity within the board, and the presence of an audit committee. In terms of the environmental aspect, the size of the board and the existence of both the audit committee and the corporate social responsibility committee emerge as key factors. Ultimately, the social aspect was shaped by factors such as the size of the board, the audit committee, and the control variable of capital structure. This indicates that the financing sources utilised by the company play a significant role in influencing its levels of social responsibility.

Ilyas et al. (2021) explore how oil price uncertainty (OPU) and economic policy uncertainty (EPU) influence corporate investment, drawing on a global sample of 4,017 firms in the oil sector from 1991 to 2017. In our study, we conducted a GLM regression that incorporated fixed effects for both firms and years, while also clustering for firms using robust standard errors. The results revealed that both OPU and EPU have a detrimental effect on corporate investment. This negative impact is notably consistent across various sub-samples. Our findings reveal that the adverse impact of OPU and EPU is significantly greater in countries that produce oil compared to those that primarily consume it. Our analysis indicates that the dynamics of oil-producing countries, fluctuations in the market, and global financial crises play a crucial role in shaping the relationship between corporate investment and both oil price uncertainty and economic policy uncertainty. Our findings have consistently held true across various robustness tests, including alternative proxies for investment, OPU, and EPU.

Goyal and Agarwal (2020) explore the testable implications of how the Indian policy rate and liquidity provision influence market rates. Their analysis delves into the interplay between rate and liquidity channels, utilising event window regressions to provide estimates based on operating procedures. The interest rate transmission channel plays a primary role, while the quantity channel exerts an indirect influence on the extent of interest rate pass-through. The yields on short-term government securities (G-Secs) tend to react most significantly to shifts in policy rates. The phenomenon of asymmetry or a quicker and more responsive adjustment during tightening is observed solely in the context of G-Secs rates. Changes in liquidity are significant for short-term interest rates, while durable liquidity plays a crucial role in the context of longer-term government securities. Short-term market rates that are collateralised tend to react to shifts in Repo, particularly when changes in liquidity are in harmony. The focus should be on these short-run G-Secs as the operating target. The presence of liquidity variables appears to enhance the magnitude of the G-Secs Repo coefficients, indicating that a rise in aligned liquidity amplifies the effect of any adjustments made to the Repo Rate. The findings reveal a significant imbalance in how monetary policy is transmitted in emerging markets, particularly emphasising the unique importance of liquidity when compared to interest rates.

Mathew (2022) examined the Reserve Bank of India's monetary policy and liquidity measures following the COVID-19 pandemic, exploring their impact on various financial markets, including money, bond, deposit, and credit markets, particularly in relation to interest rate transmission. This study aims to explore and evaluate the range of both traditional and innovative policy measures implemented by the RBI from February 2019 to the end of March 2022. The second objective is to explore how the policy measures implemented by the RBI influence the transmission of interest rates across the money, bond, and deposit and credit markets. The remarkable monetary policy measures implemented by the RBI during the Covid period aimed to restore and uphold macroeconomic and financial stability. The research revealed a swift and comprehensive transmission of monetary policy from policy rates to the interest rates across various segments of these markets. A noticeable decline in the liquidity premium was observed in both the government securities and the corporate debt market. In the wake of the RBI's policy rate cuts and the infusion of a substantial $17.2 trillion in potential liquidity from February 2020 to the end of September 2021, financial conditions improved significantly. This led to a thawing of markets and a return to normalcy across various segments of the financial landscape. The credit spreads, or risk premiums, have significantly decreased in the corporate bond market, affecting various maturities, issuers, and ratings. In the aftermath of the pandemic, short-term money market rates decreased significantly, even falling below the reverse repo rate for much of this period. This shift contributed to a notable decline in interest rates within both the deposit and credit markets. As a result, the monetary policy measures implemented by the RBI after the COVID-19 pandemic proved to be quite effective in establishing the foundational conditions necessary for sustainable credit growth.

Research Methodology

The statistical population considered in this study comprises companies operating within India. To ensure a representative analysis across different industries, a total of 15 companies have been selected as the sample, drawn from three distinct sectors: steel, cement, and retail. Specifically, five companies from each sector have been chosen based on their relevance, availability of financial data, and active listing on the Bombay Stock Exchange (BSE), thereby ensuring credibility and consistency in data collection.

These selected companies serve as the sampling units for this research. The rationale behind selecting companies from diverse sectors is to facilitate a comparative analysis of sectoral performance, particularly in relation to Non-Performing Assets (NPAs) and financial trends before and after the merger of public sector banks in India. The sample includes both public and private sector entities, providing a balanced perspective across corporate structures.

Secondary data was collected through final accounts of banks will be gathered from the annual reports of banks, Journals, Articles, Newspapers, and other published books were also taken into consideration etc.The use of internet was also of great help to the researcher as various search engines namely google.com, Online Directories like EBSCO and Google Scholar websites also proved very helpful where researcher found a good repository of international research papers.

DATA ANALYSIS

The following table presents the annual inflation rate in India from 2015 to 2024. The data is based on the Consumer Price Index (CPI), reflecting the overall inflationary pressures experienced across the country.

Table-1: Inflation, FDI flow and GDP

(Year-on-year inflation rates (%), based on General CPI (Base 2012=100))

Year	Inflation Rate (%)	FDI Inflow	GDP Growth Rate (%)
2015	4.91	45148	7.4
2016	4.95	55559	8.0
2017	3.33	60220	8.3
2018	3.94	60974	6.8
2019	3.73	62001	6.5
2020	6.62	74391	3.9
2021	5.13	81973	-5.8
2022	6.7	84835	9.7
2023	5.65	71355	7.6
2024	4.95	71280	8.2

Source: Ministry of Statistics and Programme Implementation, https://www.mospi.gov.in/sites/default/files/press_release/CPI_PR_12Mar25.pdf

The table presents data for India over a 10-year period (2015–2024) showing three key economic indicators. The table provides a decade-long overview (2015–2024) of India's key macroeconomic indicators: inflation rate, foreign direct investment (FDI) inflow, and GDP growth rate. From 2015 to 2019, India maintained a stable inflation rate ranging between 3.3% and 4.9%, reflecting moderate price rises and controlled economic conditions. During this same period, FDI inflows steadily increased, indicating rising global investor confidence in the Indian economy. GDP growth remained robust, consistently staying above 6.5% and peaking at 8.3% in 2017, suggesting strong domestic economic performance. However, in 2020 and 2021, the impact of the COVID-19 pandemic became evident. Inflation surged to 6.62% in 2020, while GDP growth fell sharply to 3.9% in the same year, and even further to -5.8% in 2021, marking a rare contraction. Despite these economic challenges, FDI inflows continued to rise, possibly due to policy reforms, digital transformation, and global supply chain shifts favoring India. Post-2021, the economy began recovering rapidly. In 2022, GDP growth rebounded strongly to 9.7%, although inflation remained elevated at 6.7%. FDI inflows also peaked at 84,835 during this recovery phase. In 2023 and 2024, the economy appeared to stabilize, with inflation decreasing to around 5%, GDP growth staying strong between 7.6% and 8.2%, and FDI inflows slightly declining but remaining relatively high. This overall pattern reflects India's resilience in weathering economic shocks and sustaining investor interest while navigating inflationary pressures and growth challenges.

The following hypotheses were tested using a one-sample t-test with a test value of 5 for each economic indicator:

1. Inflation Rate (%)
    - Null Hypothesis (H_0): The mean inflation rate is equal to 5%.
    - Alternative Hypothesis (H_1): The mean inflation rate is not equal to 5%.
2. FDI Inflow
    - Null Hypothesis (H_0): The mean FDI inflow is equal to 5 (used as a reference/test value, though it is not practical in units of FDI; likely a placeholder for hypothesis testing).
    - Alternative Hypothesis (H_1): The mean FDI inflow is not equal to 5.
3. GDP Growth Rate (%)
    - Null Hypothesis (H_0): The mean GDP growth rate is equal to 5%.
    - Alternative Hypothesis (H_1): The mean GDP growth rate is not equal to 5%.

The one sample t test is conducted to measure the differences and the results are as under:

Table-2: One sample t test

One-Sample Statistics				
	N	Mean	Std. Deviation	Std. Error Mean
Inflation Rate (%)	10	4.9910	1.12997	.35733
FDI Inflow	10	66773.6000	12244.51874	3872.05681
GDP Growth Rate	10	6.0600	4.43276	1.40176

One-Sample Test						
	Test Value = 5					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Inflation Rate (%)	-.025	9	.980	-.00900	-.8173	.7993
FDI Inflow	.200	9	.846	773.60000	-7985.6010	9532.8010
GDP Growth Rate	.756	9	.469	1.06000	-2.1110	4.2310

Based on the one-sample t-test results at a 5% significance level, the p-values for all three indicators—Inflation Rate (p = .980), FDI Inflow (p = .846), and GDP Growth Rate (p = .469)—are significantly greater than 0.05. This means that the null hypotheses for all three variables **fail to be rejected**. Therefore, we conclude that there is **no statistically significant difference** between the sample means and the test value of 5 for inflation rate, FDI inflow, and GDP growth rate. This suggests that, on average, these economic indicators over the observed period do not significantly differ from the hypothesized benchmark value, though for FDI inflow, the chosen test value may not be meaningful in context and should ideally reflect a relevant economic threshold.

CONCLUSION

The data from 2015 to 2024 reflects a dynamic trajectory of India's economic performance marked by periods of stability, disruption, and recovery. The pre-pandemic years were characterized by stable inflation, steady growth in FDI inflows, and strong GDP performance, indicating a healthy and expanding economy. The onset of the COVID-19 pandemic in 2020 and 2021 led to economic disruption, with a significant decline in GDP growth and a spike in inflation. Interestingly, FDI inflows continued to rise during this period, suggesting sustained investor confidence despite economic uncertainty. The post-pandemic phase, particularly from 2022 onwards, highlights a robust recovery, with GDP growth rebounding sharply and inflation gradually stabilizing. Although FDI inflows saw a slight decline in the last two years, they remained at historically high levels. Statistical analysis using a one-sample t-test further supports these observations. When tested against a benchmark value of 5, the results showed that there was no statistically significant difference in the sample means for inflation rate, FDI inflow, and GDP growth rate, as all p-values were well above the 0.05 threshold. This indicates that the average values of these economic indicators over the period do not significantly deviate from the chosen reference point. Although the reference value for FDI inflow may not be economically meaningful, the test suggests relative stability in long-term trends. Overall, the trends and statistical findings together indicate India's economic resilience, its attractiveness as an investment destination, and its capacity to recover from global economic shocks while maintaining macroeconomic stability.

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