

Policy Modernization and Novel Economic Indicators Coxswaining Nation on Growth Path

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ABSTRACT: India as a nation witnessing the continuous modernization of Monetary and Fiscal Policies. In the previous subsequent budgets, the allocation of funds on the national development which is gauged on the scales of infrastructure, production and manufacturing index, farming and allied farming index, supply chain and logistics, health, education, employment, rural and women empowerment and national governance has seen considerable progress. On looking at the larger picture, the total expenditure stated in the budget and its impact on the economic growth considering the factor Like GDP, GVA, NR, Per Capita Income, is evident. However, to create a profound understanding and awareness about the policy, changes and implementation of policy, and how its roads to the growth of the nation, we need to prove it with the less revealed, less used economic indicators like, to name a few, Government Debt to GDP, Government Revenue to Spending, Government spending to GDP, PMI to Private sector Credit, Youth Unemployment Rate to Jobless Claims, Labor Force Participation rate, NPA to Loans to Private Sector, Capital flow to Capacity utilization, Business Confidence index, Composite PMI to corporate profits, ZEW Economic Sentiment Index, etc. This research would provide all the hidden spots, blind spots to the leaders who can guide the nation to prosper.

KEYWORDS: Fiscal Policy, Monetary Policy, GDP, GVA, Economic Indicators, Leading and Lagging, National Development

1. INTRODUCTION

Economic indicators are key statistics or data points that provide insights into the overall health and performance of an economy. These indicators are used by policymakers, investors, businesses, and the general public to assess economic conditions, make informed decisions, and gauge the direction of economic trends. Economic indicators can be broadly categorized into three types: leading, lagging, and coincident indicators.

Leading Indicators

Leading indicators provide insights into the future direction of the economy. They are considered predictive of future economic activity. Examples include:

Stock Market Indices:

Stock market indices, such as the S&P 500 or Dow Jones Industrial Average, are considered leading indicators as they can signal changes in investor sentiment and economic expectations.

Building Permits:

The number of building permits issued is an indicator of future construction activity, providing insights into the health of the housing market and overall economic growth.

Consumer Confidence Index:

This index measures the confidence consumers have in the overall state of the economy. High consumer confidence often leads to increased spending, which can stimulate economic growth.

Yield Curve:

The shape of the yield curve, which represents the relationship between short-term and long-term interest rates, is closely watched. An inverted yield curve, where short-term rates exceed long-term rates, is often seen as a potential indicator of an economic downturn.

Lagging Indicators

Lagging indicators follow changes in the economy and are used to confirm trends. They are typically used to confirm whether an economic trend is established. Examples include:

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Unemployment Rate:

The unemployment rate is a lagging indicator, reflecting changes in employment conditions after they have occurred. It provides insights into the health of the labor market and overall economic stability.

Corporate Profits:

Corporate profits are often considered a lagging indicator as they reflect the financial performance of companies after economic changes have taken place.

Interest Rates:

Central banks may adjust interest rates in response to economic conditions. Changes in interest rates can impact borrowing costs, but their effects may be felt with a lag.

Inflation Rate:

Inflation is a lagging indicator as it reflects changes in the general price level after they have occurred. Central banks may use inflation data to adjust monetary policy.

Coincident Indicators

Coincident indicators move in tandem with the overall economy and provide real-time information about its current state. Examples include:

Gross Domestic Product (GDP):

GDP is a key coincident indicator as it measures the total value of goods and services produced in a country. Changes in GDP reflect the overall health of the economy.

Industrial Production:

The level of industrial production provides insights into the current state of manufacturing and production activities.

Retail Sales:

Retail sales data indicates the level of consumer spending and is a key coincident indicator of economic activity.

Employment Levels:

Current levels of employment, along with the unemployment rate, provide real-time information about the state of the labor market.

Importance of Economic Indicators

Policy Decisions:

Policymakers, including central banks and government officials, use economic indicators to make informed decisions about monetary and fiscal policies.

Investment Decisions:

Investors use economic indicators to assess investment opportunities, manage risks, and make decisions about asset allocation.

Business Planning:

Businesses use economic indicators to plan production, manage inventories, and make strategic decisions based on the prevailing economic conditions.

Consumer Behavior:

Consumers pay attention to economic indicators such as the unemployment rate and consumer confidence when making decisions about spending and saving.

Global Economic Trends:

Economic indicators are crucial for assessing global economic trends, trade conditions, and interconnectedness among economies.

2. RESEARCH QUESTIONS

1. Do the Monetary and Fiscal policy changes bring relevant and measurable changes in the Economic Indicators?
2. Do these Indicators give confirmation and acts as the driving force for national growth?
3. What are the factors that should be considered to ensure the nation is on the growth track?

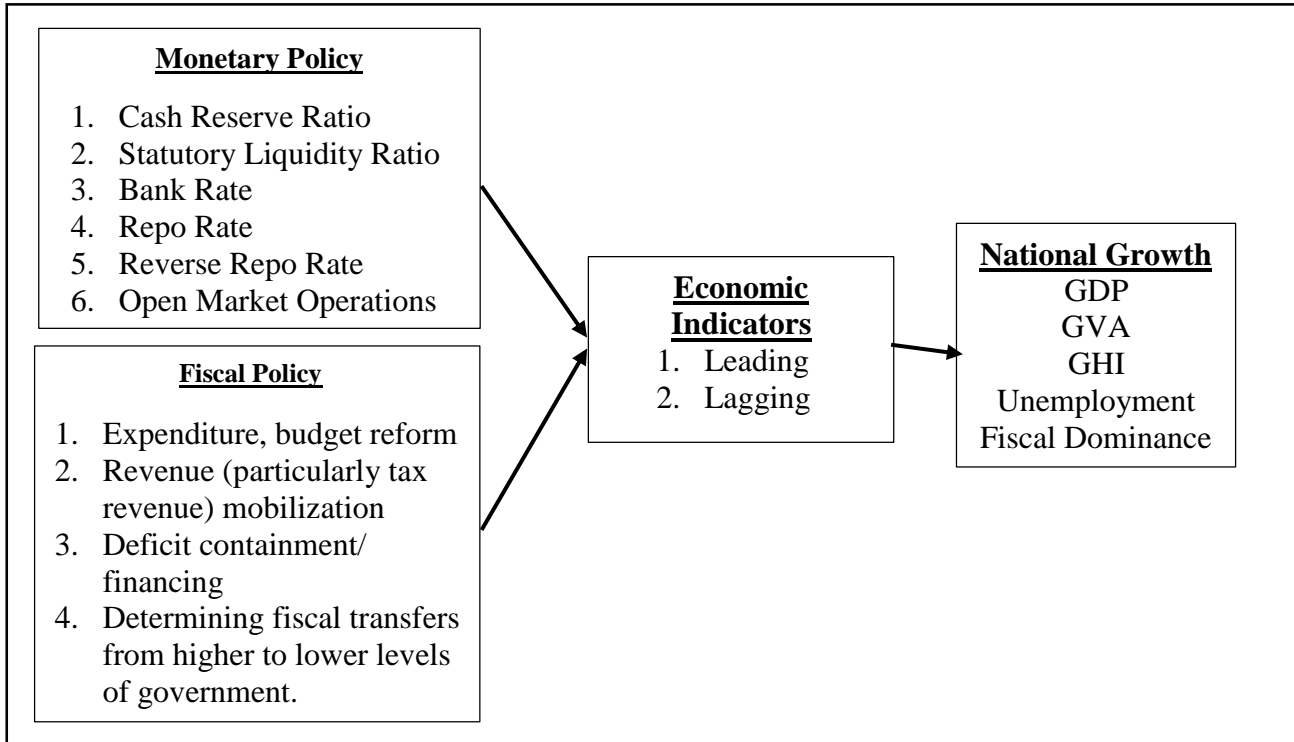
3. THEORETICAL FRAMEWORK

Four factors can impact the success of the monetary policy, three of which are exogenous factors like, Fiscal Dominance (Power), Dollarization and Global Risks; one is endogenous, a monetary policy framework that integrates strategy, tactics and governance of monetary policy. By leveraging the central banks' monetary powers, fiscal dominance occurs when they use them to support Government bond prices while pegging rates at low levels as a means of lowering the costs of servicing government debt. Dollarization is using the U.S. dollar as part of or instead of a national currency of a foreign country. Dollarization usually happens when a country's currency loses its usefulness as a medium of exchange due to hyperinflation or instability. In addition, the essential measures of fiscal dominance and dollarization are the Cash Reserve Ratio, Statutory Liquidity Ratio, Bank Rate, Repo Rate, and Reverse Repo Rate. The Fed has traditionally used three tools to conduct monetary policy: reserve requirements, the discount rate, and open market operations.

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A fiscal policy consists of four essential aspects: (i) expenditure, budget reform (ii) the mobilization of revenues (primarily tax revenues), (iii) deficit financing/containment and (iv) transfers from higher to lower levels of government. Key objectives of fiscal policy include maintaining economic stability, maintaining price stability, eliminating unemployment, maximizing resources, accelerating economic development, and encouraging investments.

Fig.1. Showing the Theoretical Framework of the Research



4. RESEARCH OBJECTIVES

1. To identify the changes in monetary and fiscal policies creates relatable changes on the economic indicators and on the economy.
2. To identify the relation between the leading and lagging economic indicators on indicators relevant to the nation's growth.

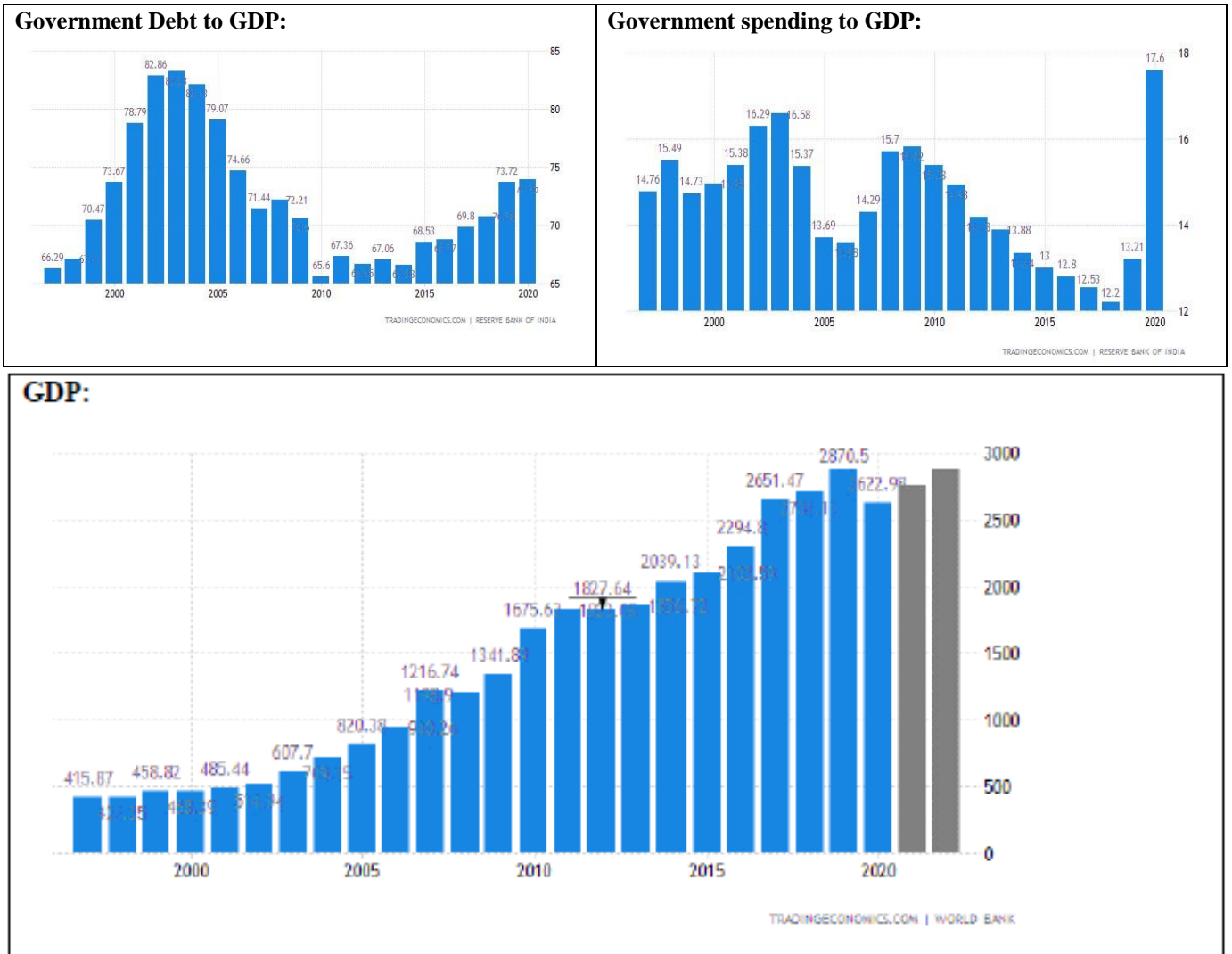
5. COMPUTING THE FOLLOWING INDICES, WHICH ARE THE COMBINATION OF LEADING AND LAGGING ECONOMIC INDICATORS.

- Government Debt to GDP
- Government spending to GDP
- PMI to Private sector Credit
- Labour Force Participation rate
- NPA to Loans to Private Sector
- Capital flow to Capacity utilization
- Business Confidence index
- Composite PMI to corporate profits
- GDP Growth Rate
- All Monetary Rates to Inflation Rate
- Unemployment Rate
- Balance of Trade
- Current Account to GDP
- Employment Change to Employment Rate
- Labour Costs to Long Term Unemployment
- Minimum Wages

- Households Debt to GDP

6. ANALYSIS AND INTERPRETATION

6.1 Table showing the Debt to spending to GDP comparison



Interpretation

The ratio of government debt to government spending to GDP is a measure that helps assess a government's fiscal health and its ability to manage its finances. This ratio considers the level of government debt in relation to both government spending and the overall economic output, as represented by the Gross Domestic Product (GDP).

Here's how this ratio is commonly expressed and interpreted:

$$\text{Debt-to-Spending-to-GDP Ratio} = (\text{Government Debt}/\text{Government Spending}) \times 100$$

This ratio is expressed as a percentage, and it provides insights into the sustainability of a government's fiscal policy. Here's what each component of the ratio represents:

Government Debt:

This is the total outstanding debt of the government. It includes both domestic and external debt and represents the accumulated borrowings over time.

Government Spending:

This represents the total expenditures made by the government, including expenditures on goods and services, social programs, infrastructure, and debt service payments.

Gross Domestic Product (GDP):

GDP is the total value of all goods and services produced within a country's borders in a specific time period. It is a measure of the overall economic output.

A lower ratio indicates a more sustainable fiscal policy, as it suggests that the government's debt burden is relatively smaller compared to its spending and the overall economic output. A higher ratio may indicate a higher level of government debt relative to spending and GDP, raising concerns about the government's ability to manage its finances and potentially service its debt. It's important to note that a comprehensive analysis of a government's fiscal health would also consider other factors, such as the

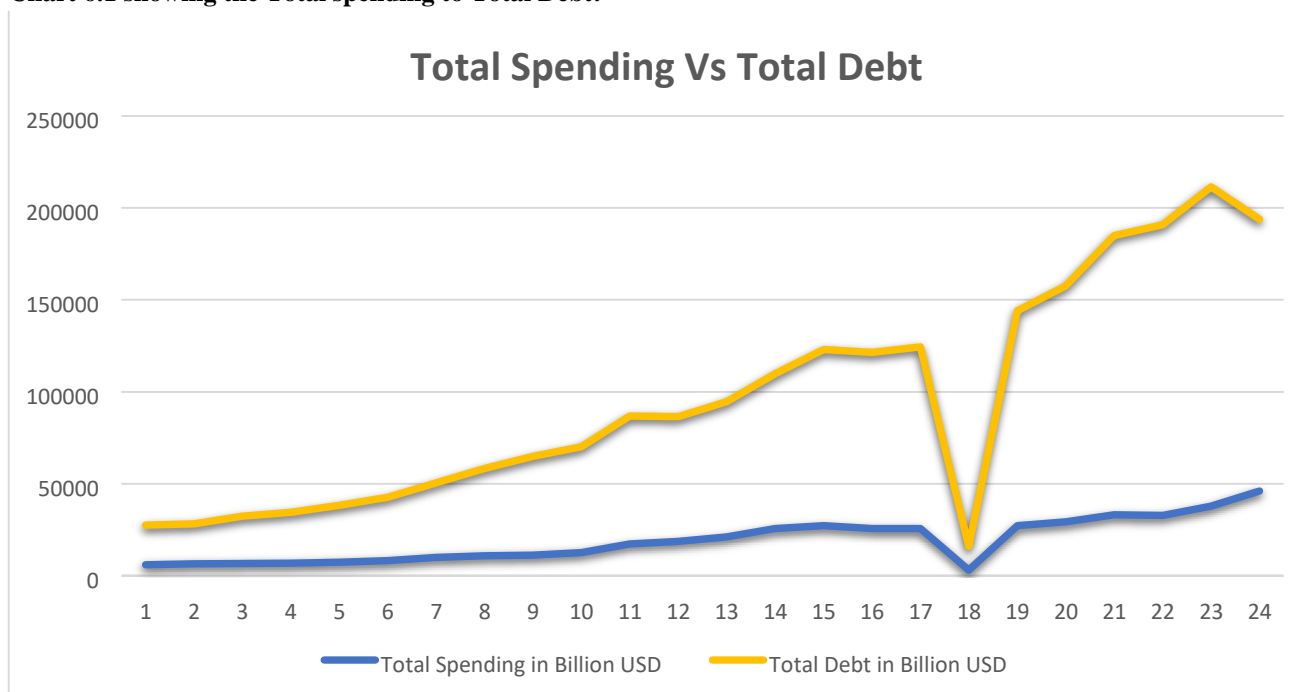
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composition of the debt (domestic or external), the purpose of government spending, the economic context, and the government's ability to generate revenue. When using this ratio for analysis, it's recommended to compare it over time and across different countries to gain a more meaningful understanding of the government's fiscal position. Additionally, it's crucial to consider the reasons behind changes in these ratios and whether they are a result of intentional policy decisions or external economic factors.

6.2 Table showing the Debt to GDP and Spending to GDP Comparison:

Year	Debt to GDP	Spending to GDP	GDP in Billion USD	Total Spending in Billion USD	Total Debt in Billion USD
1997	66.29	14.76	415	6125.4	27510.35
1998	67.11	15.49	421	6521.29	28253.31
1999	70.47	14.73	458	6746.34	32275.26
2000	73.67	14.95	468	6996.6	34477.56
2001	78.79	15.38	485	7459.3	38213.15
2002	82.86	16.29	514	8373.06	42590.04
2003	83.23	16.58	607	10064.06	50520.61
2004	82.18	15.37	709	10897.33	58265.62
2005	79.07	13.69	820	11225.8	64837.4
2006	74.66	13.53	940	12718.2	70180.4
2007	71.44	14.29	1216	17376.64	86871.04
2008	72.21	15.7	1198	18808.6	86507.58
2009	70.6	15.82	1341	21214.62	94674.6
2010	65.6	15.33	1675	25677.75	109880
2011	67.36	14.93	1827	27277.11	123066.72
2012	66.65	14.13	1823	25758.99	121502.95
2013	67.06	13.88	1856	25761.28	124463.36
2014	66.53	13.34	239	3188.26	15900.67
2015	68.53	13	2103	27339	144118.59
2016	68.77	12.8	2294	29363.2	157758.38
2017	69.8	12.53	2651	33217.03	185039.8
2018	70.73	12.2	2701	32952.2	191041.73
2019	73.72	13.21	2870	37912.7	211576.4
2020	73.95	17.6	2622	46147.2	193896.9

Chart 6.1 showing the Total spending to Total Debt:



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6.3 Regression Equation Table:

Regression Table							
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics	cs	
					R Square Change	F Change	df1
1	.996 ^a	.993	.992	77.278	.993	1426.393	2

Interpretation:

High Explained Variance:

An r^2 value of 0.993 means that approximately 99.3% of the variance in the dependent variable is explained by the independent variables in your regression model.

This is an exceptionally high r^2 value and suggests that your independent variables are very effective in explaining and predicting the variation in the dependent variable.

Good Fit:

The closer is to 1.0, the better the model fits the data. In this case, the model is an excellent fit to the observed data. Model Appropriateness:

While a high r^2 is generally desirable, it's also important to consider the context of the specific problem and the nature of the data. Sometimes, extremely high r^2 values may indicate overfitting, especially if the model includes too many variables or is too complex for the dataset.

Predictive Power:

A high r^2 value suggests that the model has strong predictive power. It implies that the independent variables in your model are very good at explaining the variations observed in the dependent variable. Validation:

It's crucial to validate the model's performance on new data, especially if the model was fitted on a specific dataset. High r^2 on the training data doesn't guarantee good performance on new, unseen data.

Possible Overfitting:

In some cases, an extremely high r^2 might be an indication of overfitting, especially if the model is too complex or if there are too many predictors relative to the sample size. Overfit models may not generalize well to new data.

Consider Other Metrics:

While r^2 provides a measure of overall model fit, it's essential to consider other metrics like adjusted r^2 which accounts for the number of predictors in the model and penalizes overly complex models. Check Residuals:

Examine the residuals (the differences between observed and predicted values) to ensure that they are approximately normally distributed and show no discernible patterns. This helps validate the assumptions of the regression model.

Table 6.4 Table showing the Durbin Watson test:

Durbin – Watson Table			
Model	Change Statistics		Durbin-Watson
	df2	Sig. F Change	
1	21a	.000	.369

Table 6.5 Table showing the regression:

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Zero-order	Correlations	
	B	Std. Error	Beta				Zero-order	Partial
(Constant)	-24.595	30.411		-.809				
Total Spending in Billion USD Total	.004	.006	.058	.683	.975	.975	0.147	.013
Total Debt in Billion USD	.013	.001	.940	11.032	.996	.996	.923	.206

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Table 6.6 showing the comparison of BCI, Competitiveness ranking and index

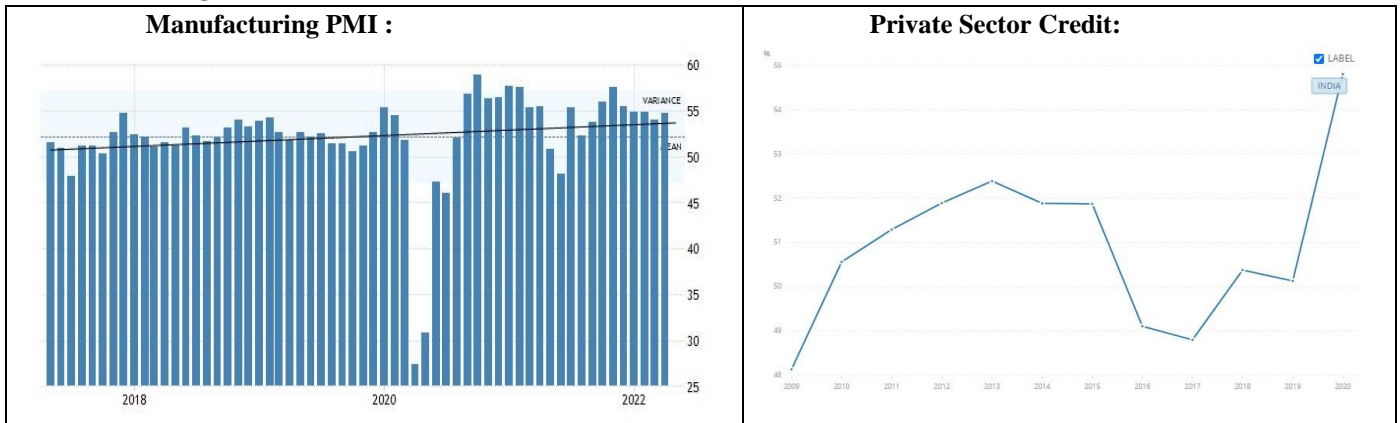


Interpretation

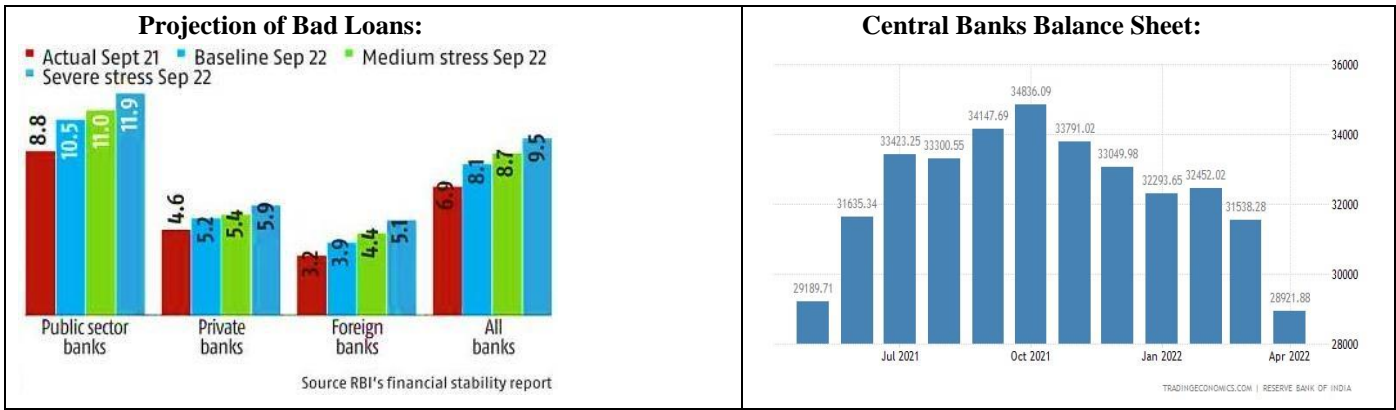
The above board of charts represents the basic indicators but interpreting the numbers delivers a contradicting view. Business confidence index is more than 100 represents the environment here is so optimistic and conducive for the business operations but the looking at the next indicators, Ease of Doing Business Index which is declining signifies the opposite meaning (a score of 80 is better, but its way below). So, the policy makers has to consider the both the national and global parameters to arrive at the decision of creating a sanguine business environment. To explain this phenomenon better let us consider the other 2 index, The Global Competitiveness Index (GCI), an extremely ample index, captures the microeconomic and macroeconomic foundations of national competitiveness.

Competitiveness as the set of institutions, policies, and factors that determine the level of productivity of a country. Meaning, the country with more levels of competition at all level and product and service rendered. Higher the competitiveness index better the number of competitors for the same business which keeps the growth track alive. No monopoly can that quickly born and prevail for long in India which is a good sign.

Table 6.7 Showing the charts of PMI, Credit and Bad loans:



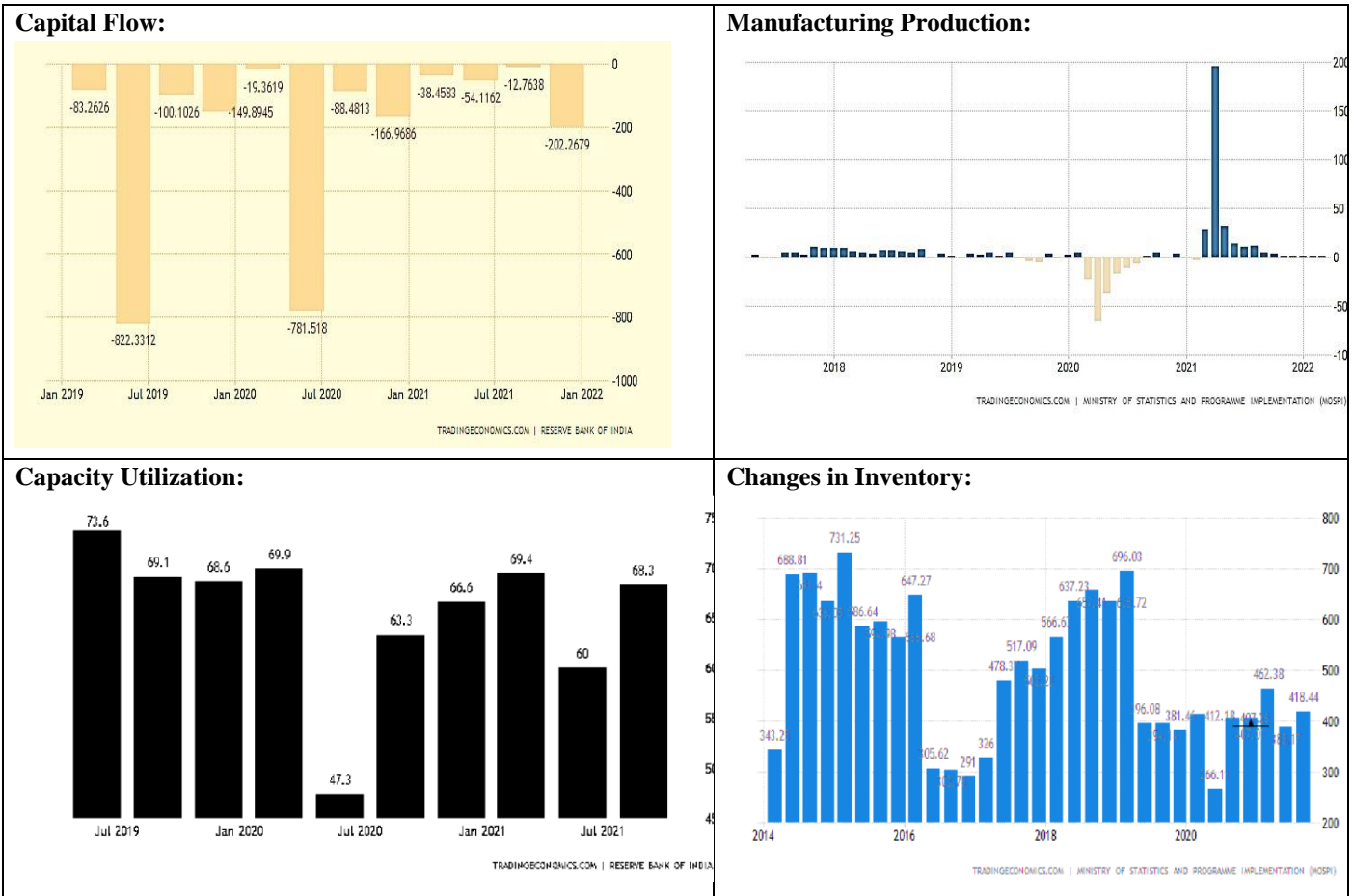
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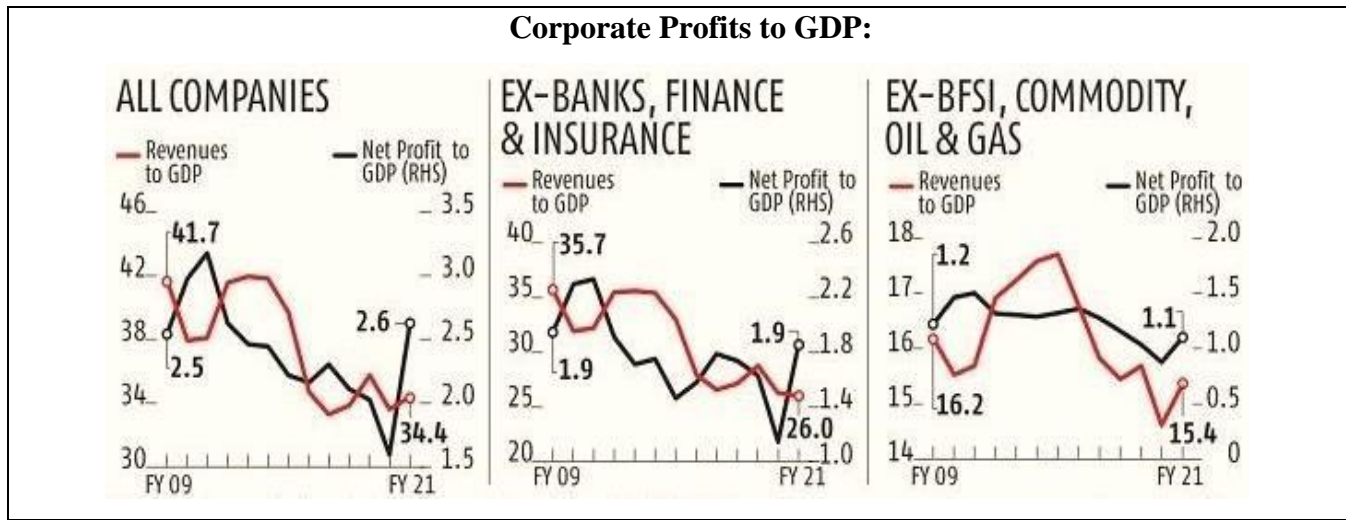


Interpretation

Manufacturing PMI in India averaged 52.04 points from 2012 until 2022, reaching an all-time high of 58.90 points in October of 2020 and a record low of 27.40 points in April of 2020. This page provides the latest reported value for - India Manufacturing PMI - plus previous releases, historical high and low, short-term forecast and long-term prediction, economic calendar, survey consensus and news. India Manufacturing PMI - data, historical chart, forecasts and calendar of releases - was last updated on May of 2022. Credit to private sector refers to financial resources provided to the private sector, such as loans and advances, purchases of non-equity securities, trade credits and other accounts receivable, which establish a claim for repayment. There are three main parts to a balance sheet: Assets, Liabilities and Equity. The 'Balance' in balance sheet refers to the fact that Assets must always equal the sum of liabilities and Equity. For most banks, loans to customers are the most common type of asset on their balance sheet.

Table 6.8 showing the chart comparison of capital flow and Production and inventory changes





Interpretation

The relationship between capital flow, manufacturing rate, capacity utilization, and inventory change reflects key dynamics in the manufacturing sector of an economy. Let's break down each component and discuss their interconnections:

Capital Flow to Manufacturing:

Capital flow to manufacturing represents the investment of financial resources (capital) into the manufacturing sector. This capital can be used for expanding production capacity, modernizing facilities, adopting new technologies, or other initiatives aimed at improving and enhancing manufacturing operations.

Manufacturing Rate:

The manufacturing rate refers to the pace at which goods are produced within the manufacturing sector. It is often measured in terms of the quantity of goods produced over a specific period. A high manufacturing rate indicates increased production, while a low rate may suggest reduced production activity.

Capacity Utilization:

Capacity utilization measures the extent to which a manufacturing facility is operating at its full production capacity. It is expressed as a percentage and reflects the efficiency with which resources are being utilized. High capacity utilization indicates that the manufacturing sector is operating close to its maximum potential, while low utilization may suggest underutilized capacity.

Inventory Change:

Inventory change refers to the net change in the level of inventories held by manufacturers. It is the result of the difference between goods produced and goods sold during a specific period. Positive inventory change implies an increase in inventories, while negative change suggests a decrease.

Interconnections:

Capital Flow and Manufacturing Rate:

Increased capital flow to manufacturing can lead to higher investment in production capabilities, technology, and skilled labor. This, in turn, can contribute to an increase in the manufacturing rate as the sector becomes more productive and efficient.

Manufacturing Rate and Capacity Utilization:

A higher manufacturing rate can lead to increased utilization of production capacity. However, sustained high rates of production may eventually reach a point where the manufacturing sector operates at or near full capacity utilization. At this point, further increases in the manufacturing rate may require additional investment in capacity expansion.

Capacity Utilization and Inventory Change:

High capacity utilization levels may lead to changes in inventory levels. If production is consistently near or at full capacity, manufacturers may need to maintain higher inventories to meet demand fluctuations. Conversely, during periods of low capacity utilization, manufacturers may reduce inventories to align with reduced production levels.

Inventory Change and Capital Flow:

The level of inventory change can influence future capital flow decisions. For example, if manufacturers experience excess inventories, they may adjust their capital investment strategies to align with reduced production needs. Conversely, low inventory levels may prompt increased capital flow to support capacity expansion.

Understanding these interconnections is crucial for policymakers, investors, and manufacturers to make informed decisions. For example, policymakers may monitor these indicators to assess the overall health of the manufacturing sector and formulate appropriate economic policies. Investors may use these indicators to identify opportunities or risks in manufacturing-related stocks, and manufacturers can use them to optimize production planning and resource allocation.

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Interpretation of Corporate profits

The Corporate Profits to GDP Ratio is a financial metric that expresses the total profits earned by corporations within a country as a percentage of the country's Gross Domestic Product (GDP). It provides insights into the profitability of businesses relative to the overall economic output. The formula for calculating the Corporate Profits to GDP Ratio is as follows:

$$\text{Corporate Profits to GDP Ratio} = \left(\frac{\text{Corporate Profits}}{\text{GDP}} \right) \times 100$$

This includes the total profits generated by corporations operating within a specific economic jurisdiction. Corporate profits typically include profits before taxes and other deductions. GDP represents the total value of goods and services produced within a country's borders over a specific period. It is a comprehensive measure of a nation's economic output.

The ratio is calculated by taking the total corporate profits and dividing it by the GDP, expressing the result as a percentage.

A higher Corporate Profits to GDP Ratio suggests that a significant portion of the overall economic output is attributable to corporate profits. This can indicate a strong corporate sector with robust profitability. Conversely, a lower ratio may suggest challenges or a less profitable corporate sector relative to the overall economic activity. Changes in the Corporate Profits to GDP Ratio over time can provide insights into the health of the business sector within an economy. An increasing ratio might indicate a growing and profitable corporate sector, while a decreasing ratio might suggest challenges or a declining profitability trend. The ratio tends to be cyclical, meaning it may vary with economic cycles. During economic expansions, corporate profits may grow faster than GDP, leading to an increase in the ratio. Conversely, during economic contractions, the ratio may decrease. It is essential to analyze the composition of corporate profits to understand which sectors are driving the overall profitability. For example, a high ratio driven by a few sectors may not necessarily reflect broad-based economic strength. While a high Corporate Profits to GDP Ratio may generally be positive, it's important to consider other economic indicators and factors to gain a comprehensive understanding of the economic landscape.

The Corporate Profits to GDP Ratio is just one of many indicators used by economists, policymakers, and investors to assess the overall health and performance of an economy. It provides valuable insights into the relationship between corporate profitability and the broader economic activity within a country.

Table 6.9 showing the chart comparison of labour force participation rate and wage rate



Interpretation

Labor Force Participation Rate and Unemployment Rate:

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A higher labor force participation rate implies a larger proportion of the population is actively seeking employment. This may lead to an increase in the unemployment rate if job opportunities are not sufficient to accommodate the increased labor force. Conversely, a lower labor force participation rate may lead to a decrease in the unemployment rate if individuals exit the labor force altogether, potentially due to discouragement or other factors.

Wage Rate and Labor Force Participation Rate:

The wage rate can influence the labor force participation rate. Higher wages may attract individuals to enter or re-enter the labor force, leading to an increase in the participation rate.

Conversely, lower wages or wage stagnation may discourage individuals from participating in the labor market or lead to part-time or informal employment, potentially resulting in a lower participation rate.

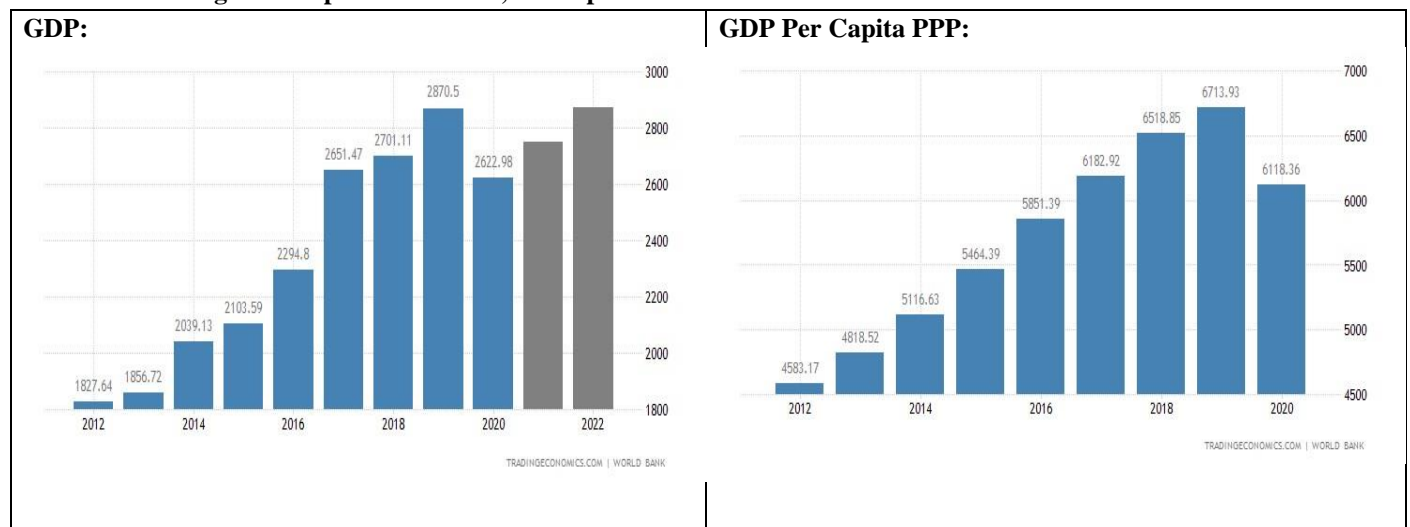
Wage Rate and Unemployment Rate:

There is an inverse relationship between the wage rate and the unemployment rate, as described by the Phillips curve. Generally, when wages rise, employers may be less inclined to hire, leading to potential increases in the unemployment rate. Conversely, when wages fall or remain stagnant, employers may find it easier to hire, potentially leading to a decline in the unemployment rate.

Feedback Loop:

The relationships between these indicators often create a feedback loop. Changes in the labor force participation rate and wage rates can impact the unemployment rate, and changes in the unemployment rate can, in turn, influence wage dynamics and the labor force participation rate.

Table 6.10 showing the comparison of GDP, Per capita PPP



Interpretation

Gross Domestic Product (GDP) and GDP per capita at purchasing power parity (PPP) are key economic indicators that provide insights into the overall economic performance and the standard of living in a country. Let's explore the relationship between GDP and GDP per capita PPP:

Gross Domestic Product (GDP):

GDP is the total value of all goods and services produced within the borders of a country within a specific time period. It is a comprehensive measure of a nation's economic output and is often used to assess the size and growth of an economy.

GDP per Capita at Purchasing Power Parity (GDP per capita PPP):

GDP per capita PPP is calculated by dividing the total GDP at purchasing power parity by the population of the country. Purchasing power parity takes into account the relative cost of living and inflation rates, providing a more accurate comparison of living standards across countries.

Relationship

Individual Economic Well-Being:

GDP per capita PPP is a more refined measure when it comes to assessing the standard of living or economic well-being of individuals in a country. It takes into account the distribution of income among the population.

While GDP provides a measure of the overall economic output, GDP per capita PPP provides an average income level per person, adjusted for differences in the cost of living.

Economic Disparities:

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GDP per capita PPP can reveal disparities in income distribution within a country. Two countries with similar GDPs may have significantly different GDP per capita PPP figures if one has a more equitable distribution of income than the other.

High GDP with low GDP per capita PPP might indicate a concentration of wealth among a few individuals, while a lower GDP with a higher GDP per capita PPP might indicate a more evenly distributed income. Economic Structure:

Comparing GDP to GDP per capita PPP can provide insights into the economic structure of a country. For example, a country with a high GDP but a relatively low GDP per capita PPP may have a large population, which dilutes the average income.

On the other hand, a country with a high GDP per capita PPP suggests that, on average, individuals have higher purchasing power and a higher standard of living.

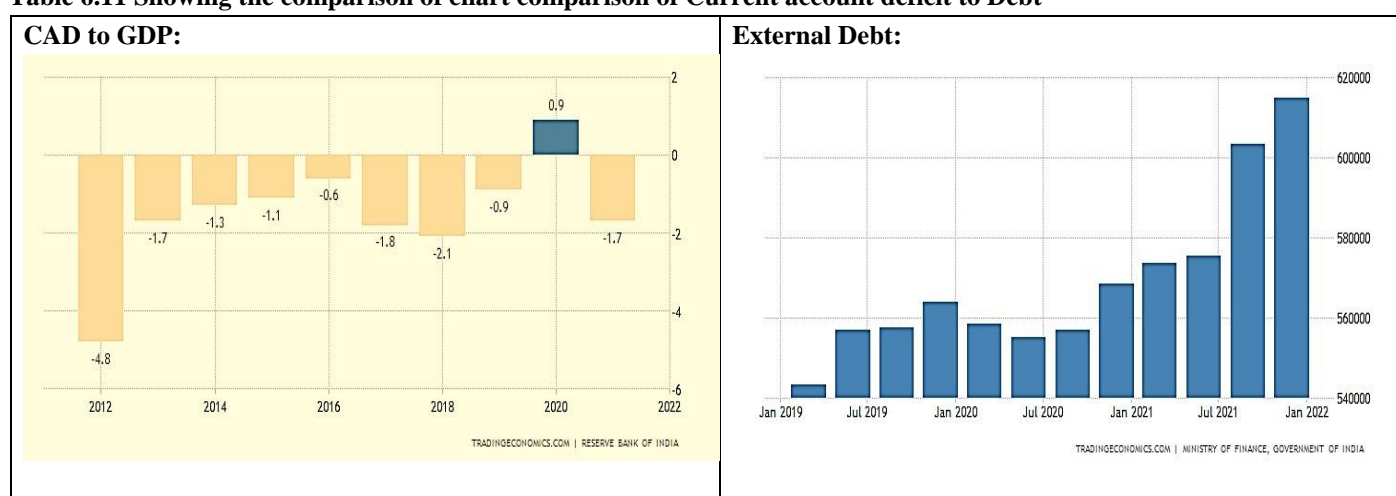
Policy Implications:

Policymakers use both GDP and GDP per capita PPP to formulate economic policies. GDP helps assess the overall economic performance and growth, while GDP per capita PPP guides policies aimed at improving living standards, income distribution, and social welfare.

International Comparisons:

When comparing countries, GDP per capita PPP is often preferred over simple GDP because it accounts for differences in the cost of living and provides a more accurate reflection of the relative prosperity of individuals in different nations.

Table 6.11 Showing the comparison of chart comparison of Current account deficit to Debt



Interpretation

Financing the Current Account Deficit

A current account deficit implies that a country is spending more on imports and other external payments than it is earning through exports and other income. To finance this deficit, the country may borrow from abroad, attracting foreign capital in various forms. The accumulation of debt can be one way for a country to finance its current account deficit. For instance, the government may issue bonds or other debt instruments, or private entities may take on external loans.

Impact on External Debt Levels

Persistent current account deficits can contribute to the growth of external debt levels over time. If a country consistently relies on borrowing to finance its deficit, it will see an increase in its overall indebtedness to foreign creditors.

Sustainability and Risks

The sustainability of a current account deficit depends on how the borrowed funds are utilized. If the borrowed funds are invested in productive assets that generate future income, the country may be able to service its debt more easily. However, if the debt is used for non-productive purposes, it can lead to challenges in repaying or servicing the debt.

High and unsustainable levels of external debt relative to the size of the economy can pose risks, as the country may face difficulties in meeting debt obligations, leading to potential financial crises.

Exchange Rate Impact

Accumulating external debt to finance a current account deficit can also impact a country's exchange rate. If foreign creditors become concerned about the country's ability to service its debt, it may lead to a depreciation of the national currency.

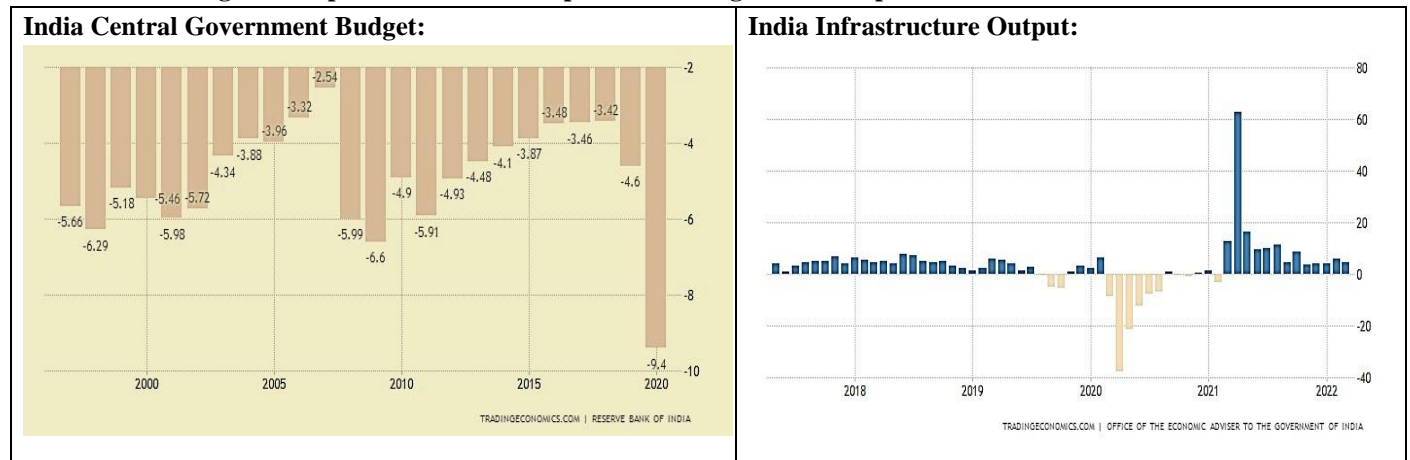
A weaker currency, in turn, can affect the cost of imports, potentially contributing to an adjustment in the trade balance over time. However, the adjustment process can be challenging and may involve economic and policy adjustments.

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Policy Considerations

Policy makers need to carefully manage the relationship between current account deficits and external debt. Prudent fiscal and monetary policies, along with effective use of borrowed funds, can contribute to sustainable economic growth without excessive reliance on external borrowing.

Table 6.12 Showing the comparison of chart comparison of budget value output and infrastructure



Interpretation

The relationship between budget, economic output, and infrastructure is complex and multifaceted. Government budgets play a crucial role in shaping economic policies, and the allocation of resources within the budget can have a significant impact on both economic output and infrastructure development. Let's explore these relationships:

Budget and Economic Output:

Government budgets influence economic output through fiscal policy. Fiscal policy involves government revenue (taxation) and government spending. The budgetary decisions made by the government can either stimulate or contract economic activity.

Stimulative Measures: Increasing government spending or reducing taxes can boost economic output. This is especially true during economic downturns when increased government spending can stimulate demand and support economic growth.

Contractionary Measures: On the other hand, reducing government spending or increasing taxes can have a contractionary effect on the economy. Governments may implement such measures to control inflation or address fiscal challenges.

Budget and Infrastructure:

The allocation of funds within the budget, particularly towards infrastructure projects, has direct implications for a country's development. Infrastructure includes transportation, energy, water supply, communication networks, and other essential facilities.

Investment in Infrastructure: Governments often allocate funds to infrastructure projects as a means of promoting long-term economic growth. Infrastructure investments can enhance productivity, reduce transportation costs, and create an environment conducive to business activities.

Public-Private Partnerships (PPPs): Some governments leverage private sector participation through PPPs to finance and implement large infrastructure projects. This allows for the sharing of risks and responsibilities between the public and private sectors.

Impact of Infrastructure on Economic Output:

Well-developed infrastructure can positively impact economic output in various ways:

Productivity: Efficient transportation and communication networks can improve productivity by reducing time and cost inefficiencies.

Competitiveness: Countries with robust infrastructure are often more competitive, attracting investments and facilitating trade.

Quality of Life: Infrastructure investments in areas like healthcare and education contribute to an improved quality of life, which can indirectly enhance economic output.

Long-Term Economic Planning:

Budgetary decisions related to infrastructure should align with a country's long-term economic goals. Strategic planning and prioritization of projects based on economic impact are crucial for optimizing the use of budgetary resources.

Challenges and Trade-offs:

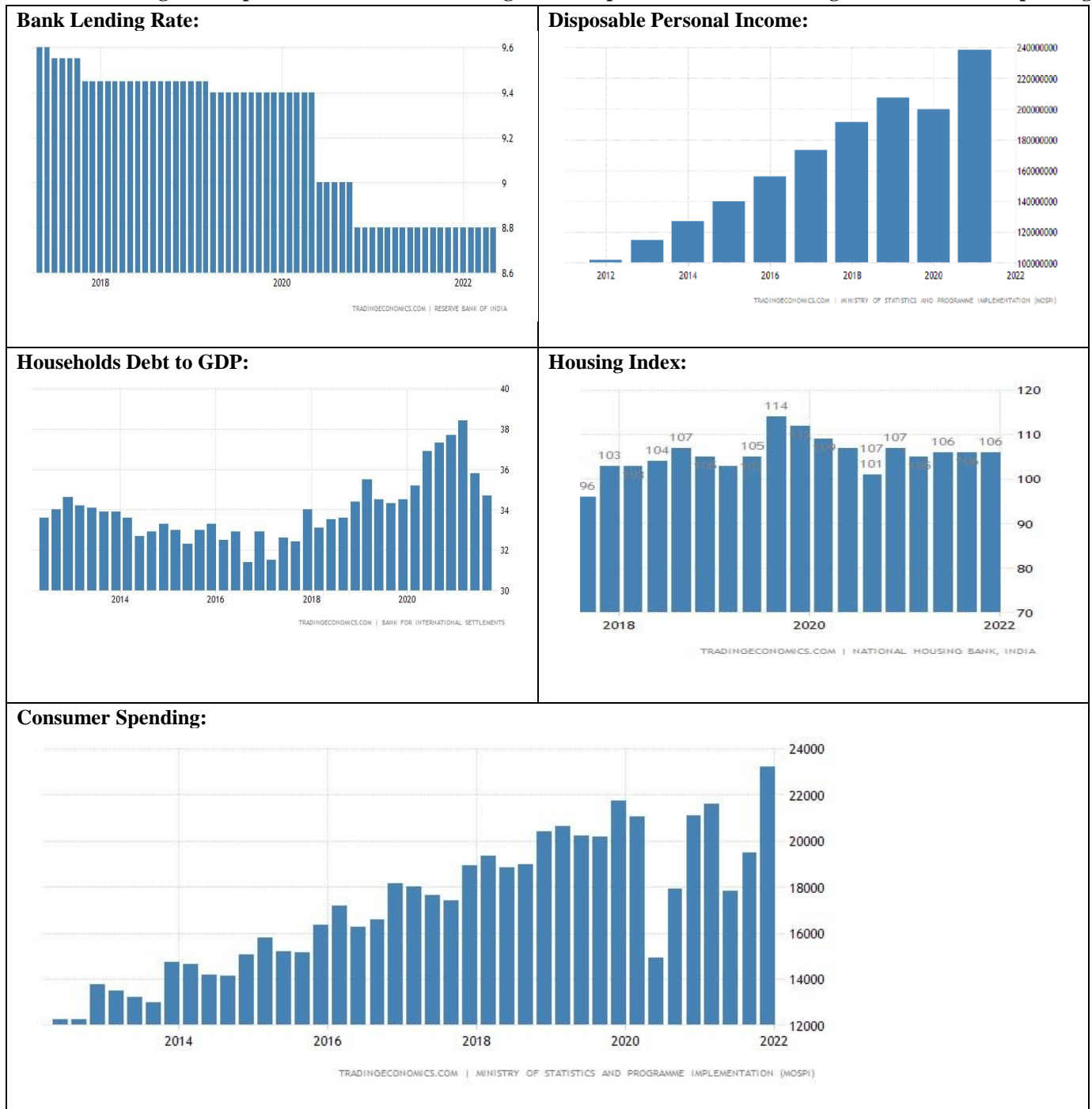
Governments face challenges in balancing competing priorities within a budget. Trade-offs may be necessary, and governments must carefully consider the impact of their decisions on economic growth, social welfare, and fiscal sustainability.

Evaluation and Monitoring:

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Regular evaluation and monitoring of budget allocations and the outcomes of infrastructure projects are essential. This helps ensure that funds are used efficiently, projects are completed on time, and the intended economic benefits are realized.

Table 6.13 Showing the comparison charts of bank lending rate to disposable income to housing index to consumer spending:



Interpretation

Bank Lending Rates and Disposable Income:

The relationship between bank lending rates and disposable income is crucial for understanding the affordability of borrowing. Lower interest rates can make borrowing more attractive, leading to increased consumer spending and investment. Higher interest rates, conversely, may reduce disposable income as borrowing becomes more expensive. This can impact consumer spending patterns and influence saving and investment decisions.

Bank Lending Rates and Housing Indices:

Bank lending rates play a significant role in the housing market. Changes in interest rates can affect mortgage rates, influencing the affordability of homeownership.

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Lower lending rates often stimulate demand in the housing market, leading to potential increases in housing indices. Higher rates may have the opposite effect, potentially slowing down housing market activity.

Housing Indices and Consumer Spending:

Changes in housing indices can impact consumer spending through various channels:

Wealth Effect: Rising home values may contribute to a wealth effect, making consumers feel more financially secure and encouraging increased spending.

Home Equity Loans: Homeowners may use increased home equity to obtain loans, contributing to additional spending.

Consumer Confidence: Housing market conditions can influence consumer confidence. A robust housing market may positively impact sentiment and spending.

Disposable Income and Consumer Spending:

Disposable income directly influences consumer spending. When disposable income increases, consumers generally have more resources to allocate to goods and services, contributing to higher spending.

Conversely, a decrease in disposable income may lead to reduced consumer spending, impacting various sectors of the economy.

CONCLUSION

Overall to conclude, all economic indicators play a vital role in providing a comprehensive understanding of the economic landscape, guiding decision-making across various sectors, and contributing to the overall stability and growth of economies. Corporate Profits to GDP Ratio is just one of many indicators used by economists, policymakers, and investors to assess the overall health and performance of an economy. It provides valuable insights into the relationship between corporate profitability and the broader economic activity within a country. While GDP provides a broad measure of economic output, GDP per capita PPP offers a more nuanced perspective on the average standard of living in a country, considering both the size of the economy and the distribution of income among its population. Both indicators play crucial roles in economic analysis and policymaking. The current account deficit and external debt are closely linked, with a deficit often leading to the accumulation of external debt. While some level of external borrowing can be a normal part of economic development, it is essential for countries to manage these dynamics carefully to ensure sustainability and avoid potential risks associated with high levels of indebtedness. The budget is a powerful tool for governments to shape economic outcomes and drive infrastructure development. Strategic budgetary decisions that prioritize infrastructure investments can contribute to long-term economic growth and development. However, effective planning, execution, and monitoring are crucial to maximizing the positive impact of budget allocations on economic output and infrastructure.

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