



TOWARDS A HIGHER growth trajectory

Renowned economist and Prime Minister Narendra Modi's Economic Advisory Council chairman **Bibek Debroy** explains how India is on the right path to become a USD 5-trillion economy

Over the past few years, India has often been tagged as one of the fastest growing world economies, a scenario that looks even brighter when pitted against the global economic slowdown. The Indian government has announced an aspirational target of making India a USD 5 trillion economy by 2024-25. While some have been calling this

unachievable, most ignore the massive size of the Indian economy while making predictions. Even if it grows at a slower pace, India's contribution to the world economy will be larger due to its volumes.

A GDP growth rate of eight per cent is required to meet the USD 5 trillion target and the government's initiatives of efficient public expenditure, efficient land, labour and capital markets



“India has already embraced new paradigms such as the sharing economy with aggregator platforms displacing conventional businesses. government has harnessed new technologies to enable direct benefit transfers and financial inclusion on a scale never imagined before.”

Nirmala Sitharaman
Minister of Finance of India

and stimulating productivity and entrepreneurship are meant to trigger this. Needless to say that there is enough slack in Indian states to deliver an eight per cent growth. A higher GDP is not just a number. It translates into higher incomes, more employment, better living conditions, lower poverty and improved socio-economic indicators. While a slowdown has been witnessed in the last quarter, India's monetary and fiscal stimulus has already begun to kick in and will show soon. Looking at the current status, one can assume

that in the financial year 2019-20, India will have a real GDP growth of around five per cent. Next year, in 2020-21, the growth rate will increase to at least six per cent and inch towards another half per cent more.

One of the successes of macroeconomic management since 2014 has been control of inflation. Inflation is a regressive tax. It hurts the poor relatively more than it hurts the relatively rich. Six per cent real growth and four per cent inflation yield 10 per cent nominal growth, while six per cent real growth and nine per



The Union Minister for Finance and Corporate Affairs, Nirmala Sitharaman, arrives at the Parliament House to present the General Budget 2020-21, in New Delhi on February 1, 2020 with Anurag Singh Thakur, Minister of State for Finance and Corporate Affairs

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“I think while we have seen temporary pains, with the leadership that the finance minister provided, we’re just going to get out of it. external turbulence (has) hit us, but I am very optimistic.”

Mukesh Ambani
Chairman and Mg. Director,
Reliance Industries



“the Indian economy has been going through a process of detoxification. the negative impact of disruptions is now over and the economy is expected to see an upside in FY21.”

Anand Mahindra
Executive Chairman,
Mahindra & Mahindra Ltd



“going forward, the real growth should be higher at 6-6.5 per cent in the next financial year. we have focussed a lot on rural consumption.”

Krishnamurthy V Subramanian
Chief economic advisor,
Government of India

cent inflation yield 15 per cent nominal growth. While 15 per cent nominal growth may make one feel better than a 10 per cent nominal growth, but the latter, with lower inflation, is preferable.

However, the aim is to move India to a higher growth trajectory. Since 2014, and the policies of the second Narendra Modi government are a logical continuation of the first, the building blocks are being put in place to ensure precisely that. But first, the external environment is unkind, global uncertainty affects India’s export and growth prospects too. Not too many countries are likely to grow at six per cent. Second, there is plenty of internal slack in the system and endogenous sources of growth.

Historically, India’s governance has been excessively centralised. Since 2014, there has been institutional change, making governance more decentralised. An example of this is the way GST (Goods and Services Tax) Council functions. Decentralised governance is more than mere fiscal devolution, though this too has occurred through recommendations of 14th Finance Commission.

Third, inclusion has to be interpreted in the sense of public provisioning of physical and social infrastructure. Dashboards, available in the public domain, illustrate improvements in availability of roads (and other forms

While a slowdown has been witnessed in the last quarter, India's monetary and fiscal stimulus has already began to kick in and will soon show

of transport), electricity, gas connections, toilets, sanitation, housing, schools (and higher education), skills, medical treatment, insurance, pensions, bank accounts and credit. The veracity of what dashboards show has been confirmed through third party validation. This improvement is especially evident in rural India. That's the reason the UNDP's recent Human Development

Report highlights sharp drop in multi-dimensional poverty. Inclusion is also about subsidising the deprived. This is now done through decentralised identification (a census, not a survey),

using what is known as SECC (Socio-Economic Caste Census). This survey is used to identify beneficiaries, both for Union and state-level schemes, eliminating leakage and multiplicity. Subsidies are now channelled into bank accounts and linked to Aadhaar (Aadhaar is an identification number issued by the Unique Identification Authority of India to every resident of the country). Productivity gains



Rural economy constitutes 46% of national income and it is imperative that widespread growth and development are inclusive of rural and small scale economy

Improving India's global rankings



In World Bank's Ease of Doing Business rankings, India has leapfrogged to 63 position



In the resolving insolvency rankings, India has moved from 108th to 52nd position



In the Global Innovation rankings, from 74th to 52nd position



India improved international ranking by 10 points on Logistics Performance



India moved from 52nd to 34th position in World Economic Forum's Travel and Tourism Competitiveness rankings

Economy

from such inclusion initiatives and empowerment cannot be immediately quantified in economic terms. But they are palpable (and confirmed anecdotally, such as in the switch from firewood to LPG, or provision of toilets, or Mudra loans) and will enable India to reap the demographic dividend contribution to growth.

Fourth, that inclusion and economic empowerment agenda is against the background of improving both the citizen's ease of living and the entrepreneur's ease of doing business. An entrepreneur is not

necessarily a corporate entrepreneur. Nor is ease of doing business only about World Bank's ease of doing business indicators, where too, India's rank has improved. The ease of doing business initiative under the Department of Industrial Policy and Promotion (DIPP) or the Department for Promotion of Industry and Internal Trade, has improved the business and investment climate in all states. Modernisation of land records and cleaner titles is also work in progress. Investment figures (including FDI) show improvements.



WHAT THE Economic SuRVEY

SAYs AbOuT THE fuTuRE

The Finance Ministry's
flagship annual document
projects growth

projections

According to the Economic Survey 2019-20 prepared under Krishnamurthy Subramanian (Chief Economic Adviser to the Government of India), India's GDP growth is expected to grow in the range of 6.0 to 6.5 per cent in 2020-21. The survey has projected India's growth at 6 per cent to 6.5 per cent in the next financial year starting April 1. The growth in 2020-21 compares to a projected 5 per cent expansion in 2019-20



GROWTH TO COME

Economic growth is expected to pick up and a strong rebound could be seen in FY21 on a low base.

Easing of monetary policy by the Reserve Bank of India and several measures announced by the government in the last year present green shoots for growth.



FUELLING THE HIKE

India's exports increased by 13.4 per cent for manufactured products and 10.9 per cent for total merchandise.

India gained 0.7 per cent increase in trade surplus per year for manufactured products and 2.3 per cent per year for total merchandise.



GREEN RESOLVE

India is also pushing towards sustainable economic growth.

Forest and tree cover increased and has reached 80.73 million hectares covering 25.56 per cent of the geographical area of the country.



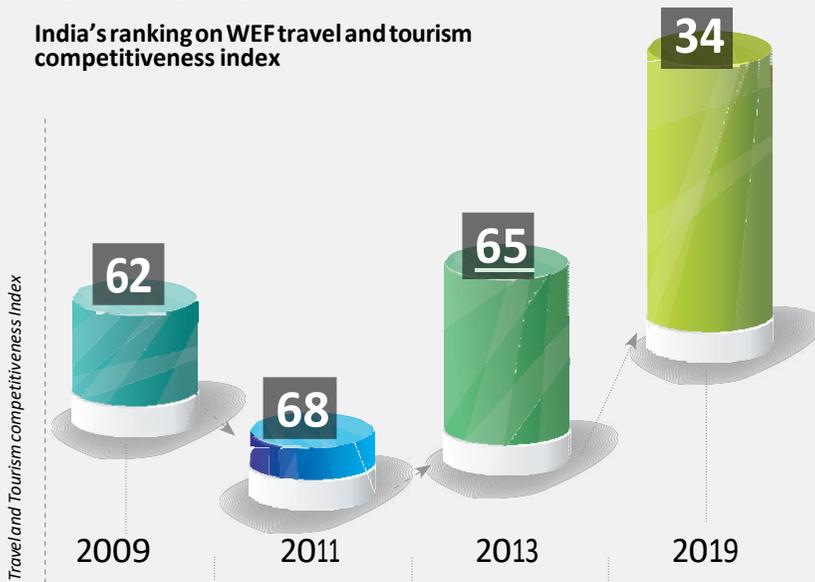
SPACE FOR NEW

India ranks third in terms of number of new firms created.

According to the survey, from about 70,000 new firms created in 2014, the number has grown by about 80 per cent to about 1,24,000 new firms in 2018.

bOOMING TOuRISM FORAGROWING INDIA

India's ranking on WEF travel and tourism competitiveness index



Inclusive progression

An all-India growth rate is largely a function of state-level growth and many states have historically grown at rates lower than 6%. However, structural reforms under way will ensure such states increase their growth rates, thereby incrementally increasing all-India growth rates closer to 8%.

The economic survey for 2020 is focussed on creating favourable conditions for investments to boost the economy towards the USD 5 trillion mark

Fifth, the institutional cleaning up is bound to have adverse consequences for growth in the short run. Examples of such institutional cleansing are the Real Estate (Regulation and Development) Act, scrutiny of illegal financial transactions, clamping down on shell companies, an insolvency and bankruptcy code and improved tax compliance. These will lead to immediate growth costs, traded off against efficiency gains in the future.

Broadly, India is in the process of making land (and natural resources), labour and capital markets more competitive and efficient, with not just entry, but exit as well.

Union government finances have been managed well, with no deviations from the goal of fiscal consolidation. Tax reform is a work in progress and the corporate tax rate has already been

reduced. For both direct and indirect taxes, the agenda is simplification and elimination of exemptions, leading to lower compliance costs. Thus, the broad message is that a five per cent GDP in 2019-20 shouldn't lead to gloom and doom; there is a higher growth trajectory in the offing.



Bibek Debroy is currently serving as the Chairman of the Economic Advisory Council to the Prime Minister. A member of the Niti Aayog, he was the Chairman of the Committee to restructure Indian Railways. He has authored and translated several books in the field of Economics, Polity, Indology and Sanskrit.