SUSTAINABLE GROWTH

DESPITE AN IMF REPORT EMPHASISING THAT INDIA WILL REMAIN THE FASTEST-GROWING EMERGING ECONOMY IN THE WORLD, ITS SUSTAINABILITY IS QUESTIONABLE

Dynamics of the Indian growth story

LEKHA CHAKRABORTY

Associate professor, NIPFP and visiting professor at American University

IMF'S WORLD ECONOMY *Outlook* recently reported that India's real GDP growth forecast for FY19 remains at 7.3% while it is relatively higher at 7.5% for FY20. This growth rate is higher than that of China—its growth rate in both the years was only 6.2%. The lower prices of oil have helped India to grow faster. Yet another reason for faster growth cited by the IMF report is the low pace of monetary tightening. However, our growth process is not devoid of challenges.

The lack of sufficient job creation is the single-most significant challenge facing the Indian economy at this point of time. The recent National Sample Survey estimates indicated that India's unemployment rate has increased to a 45-year high of 6.1% in 2017-18. The IMF report rightly flagged the gender gaps in labour force participation rates in India. This gender gap affects "potential output" of the country and also harms the inclusiveness of the growth process. It is high time India frame policies which can enhance women's economic and social opportunities. This can be the fastest and smartest path to sustained growth in India. It is a shame if India does not adequately focus on reducing the unemployment rates among educated women. The policy emphasis on "care economy infrastructure" as new fiscal services complimenting employment policies can be a powerful mantra to a sustained growth process in India. Employment policies alone cannot reduce the gender gaps in the labour market as women are disproportionately time-stressed. This time-stress can affect their decisions to join the labour force. It is high time for India to recognise that resource requirement for framing care economy policies are relatively insignificant when we compare it to the loss of productivity due to the loss to the growth process when educated women decide to exit the labour market to address the care economy functions.

The second challenge to sustained economic growth is the agrarian crisis. The government has realised that the farm loan waiver policy cannot tackle the agrarian distress in India as only a few Indian farmers have access to formal banking credit markets. The declining rate of gross capital formation, especially in the agricultural sector, is a matter of concern in maintaining the high pace of economic growth in India. The third area that requires attention is policy co-ordination. The recent debate of "participation income" (earned income by participating in an economic activity) versus "basic income" (transfer of basic income with no requirement to participate in economic activity) needs amention here.

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In the Interim Budget 2019, the government announced a direct income transfer to the small and marginal farmers. This is fiscally difficult. This transit to direct income transfers is seen as a powerful policy alternative to the other welfare schemes designed by the Central government. So the question is whether this new policy will lead to elimination of existing welfare schemes, or will it be designed as an additional fiscal programme. Either way, the severe drawback of such policies is the lack of attention to public service provisioning. Unless India has reached a respectable threshold in public service provisioning in social and economic infrastructure, the income transfers can be of limited impact. There are challenges to this transition due to inadequate progress in financial inclusion and digital infrastructure in public finance. Simplifying labour market regulations and land acquisition procedures is yet another impending area.

The fiscal-monetary policy co-ordination is a significant ingredient towards sustaining India's growth story. One of the positive features of the Indian economy in recent years is the low inflation rate. Through a New Monetary Framework (NMF), the central bank was mandated to look into "only" price stability since February 2015. The NMF is indeed limited in scope to trigger economic growth through the interest rate. However, the link between interest rates and economic growth is not "one-to-one", as many other factors determine economic growth, including the policies that look into infrastructure bottlenecks and the declining gross capital formation in the country.

The economists have denied the adverse impacts of global headwinds on the Indian economy. The major ones are increasing trade tensions between US and China and the volatility in oil prices. IMF has revised downwards the global growth projections taking into consideration these headwinds. These adverse headwinds can arise primarily from commodity markets and financial markets. The pressures from the US economy on India is yet another concern in terms of capital flows, which depends on interest rate differentials, and trade. High tariffs by the US can adversely affect trade in emerging economies. However, the IMF report noted that US has reached a high in the business cycle, when world economic prospects are meagre. The IMF report also noted that job creation and consumer confidence in the US is very high. The downward risks for the US will be in the trade and financial sectors.

The quality of fiscal consolidation is yet another concern in sustaining the pace of economic growth. Recent CAG (Comptroller and Auditor General) reports have highlighted that the quality of fiscal consolidation has been a matter of concern and can have adverse impacts for long-term macroeconomic stability and economic growth. The point to be noted here is that the plausibility of fiscal policies to trigger economic growth is limited due to the FRBM requirement of threshold ratio of fiscal deficit to remain at 3%. Yet another aspect is with respect to the new GST reforms. The multiplicity of taxes is seen as one of the challenges of GST implementation. However, in the long-run, fundamental reforms like GST and the Insolvency and Bankruptcy Code (IBC) should help India in maintaining the growth momentum. The significance of policies relating to climate change, including the 'blue economy', is relevant in the growth process to avoid a tug of war between ecology and economy.

Despite the existing challenges, the economy is poised to meet the global challenges head on with resilience and foresight. The IMF report emphasised that India will remain the fastest growing emerging economy in the world. The PwC report, published recently, also noted that "India and France are likely to surpass the UK in the world's largest economy rankings in 2019". However, the sustainability of the Indian growth story would significantly depend on how we pitch our internal policy.