Emerging Growth Scenarios for the Twelfth Five-Year Plan

INDIA'S ECONOMIC PLANNING has witnessed a paradigm shift since the early 1990s to meet the new challenges under a more liberal policy environment[1]. These policies perhaps were effective and helpful in achieving new heights in economic prosperity during the 10th and 11th Five-Year Plans (FYP). However, the high growth during the 10th FYP (2002–03 to 2006–07) was not sufficiently inclusive. During the 11th FYP (2007–08 to 2011–12), the Planning Commission focused on achieving faster growth and greater inclusiveness. The economy performed even better, registering, on average, an eight per cent gross domestic product (GDP) growth rate and a two percentage point decline in poverty per annum.

The 12th Plan (2012–13 to 2016–17) emphasises 'faster, sustainable and more inclusive growth'. But, the initial two years of the 12th FYP have seen a severe slowdown in economic growth and investment and amplified business uncertainty. These policy uncertainties make it difficult to realise the goal of a GDP growth rate of eight per cent or more during the Plan.

In this context, the Planning Commission has introduced scenario analysis in the 12th FYP document, for the first time in the history of India's economic planning. The Plan document outlines three growth scenarios. The 'Flotilla Advances' scenario aims at achieving strong inclusive and highly sustainable eight plus GDP growth rate. The second scenario is called 'muddling along' or 'insufficient policy actions', where the GDP growth rate drops to 6–6.65 per cent, and the third scenario called 'falling apart' or 'policy logjam' can result in the growth rate dropping to 5–5.5 per cent.

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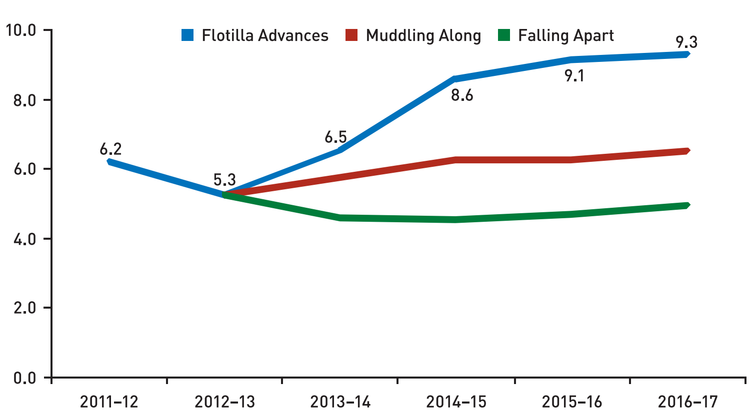
Against this backdrop, the Planning Commission commissioned the NCAER to study these alternative scenarios in a macro-modelling framework. The NCAER used its macroeconometric model to carry out the exercise.

The report says that to achieve a faster and sustainable inclusive growth, the government needs to focus on key structural policy reforms and their effective implementation. Decentralisation and good governance policies will improve the efficiency of the public delivery system and address supply-side bottlenecks. These are, however, qualitative perceptions and it is difficult to quantify and capture their full impact. Instead, we have identified a few quantitative variables to capture these indirectly. We assume that in a positive policy environment, there will be significant net capital inflows and healthy growth in private investment. Reforms in oil, fertilisers and other key sectors would improve the fiscal position of the government. The government could divert part of these fiscal savings towards creating productive assets, including enhancing the productivity of human capital. Our analysis shows that a one Rupee investment in human capital or in physical infrastructure generates very similar growth impacts.

The findings of the study indicate that GDP growth rate will decline significantly under the 'falling apart' scenario compared with the other two scenarios (Figure R.1). As a result, poverty reduction is expected to be marginal. The 'falling apart' scenario will also lead to an unsustainable fiscal and current account deficit situation over the medium-term.

Figure R.1: Growth Rate of GDP under Three Scenarios for the Twelfth Five-Year Plan



1. Based on the NCAER report titled, "Economic Modelling of Emerging Scenarios for India's Twelfth Five-Year Plan" (September 2013), sponsored by the Planning Commission, Government of India. The authors thank Jahnavi Pravakar for research assistance.