A REALISTIC SURVEY OF THE INDIAN ECONOMY

February 1, 2023 | Poonam Gupta

The Economic Survey for 2022-23 has presented the customary wealth of information and data pertaining to the Indian economy. It has provided the growth projections for the current year and next year, as well as a medium-term outlook. Simultaneously, it has also further articulated the rationale for those projections and outlooks. All these outputs are of tremendous interest for the Survey and Budget Watchers.

As regards the projections for the current fiscal year, that is, 2022-23, most of the information provided in the Survey is already in the public domain. The real GDP has been projected to grow at 7 per cent, as per the First Advance Estimate of the National Account Statistics; and the RBI has projected that inflation for the year will settle at 6.8 per cent. Taken together, these figures would yield a nominal economic growth rate of close to 14 per cent. The Survey has further highlighted high tax buoyancy, which would likely ensure meeting of the budgeted fiscal deficit of 6.4 per cent of GDP for the year.

The upshot of the above figures is that despite being faced with a highly challenging external environment this year, overall, the Indian economy will emerge from it relatively unscathed. Albeit, the inflation target was breached during the year, but inflation has already been retreating both in India and globally, and it should be possible for India to remain within the band of 2-6 per cent mandated under the inflation-targeting framework for the year 2023-24.

The Survey has projected a baseline real growth rate of 6.5 per cent for the coming fiscal year, 2023-24, which could easily yield a nominal growth rate of about 11.0-11.5 per cent in 2023-24. This projected nominal growth is lower than that achieved during the current year but is quite close to the pre-pandemic levels, especially since India has managed to tame its inflation since around 2014-15.

Perhaps one of the most interesting parts of the Survey is the medium-term outlook that it has presented. The Survey takes full cognisance of the fact that India is a globally integrated economy, which is why its economic outlook is impacted by global developments.

Holding the global environment constant, the Survey has presented two different scenarios. The first is the 'business-as-usual' scenario, wherein the economy can grow at 6.5 per cent a year in the medium term, based on the strength of the ongoing reforms.

The second scenario is conditional on the continuation of the reforms and their possible expansion into a few more areas, such as energy, wider regulatory reforms, administrative reforms, harnessing of the untapped talent of women, leveraging of the Micro, Small and Medium Enterprises (MSME) sector, and investment in education and skills. These are projected to help accelerate the growth rate to 7-8 per cent a year.

A third scenario, not explicitly mentioned in the Survey but implicit in it, is that in order for India to achieve growth rates higher than 7-8 per cent, its economy would require a healthy boost from the global economy.

This resonates with the kind of support that the Indian economy received from the global economy in the early 2000s, when global growth, global trade, and capital flows, all were in the high-growth trajectory and easily contributed extra growth of about 2 percentage points a year to the Indian economy.

The question then arises as to which one of the above three scenarios will play out in the coming years. The third scenario seems only a remote possibility currently as the global environment seems unlikely to improve significantly enough in the coming years to provide the extra needed boost to the Indian economy. If anything, it will likely be saddled with semi-permanent high inflation, high public debt, a dented trade outlook, and a more fragmented rather than integrated global ecosystem. This would pretty much leave us with the first two scenarios of positing the attainment of average growth.

The first one seems like a given, based on the strengths of the domestic economy and the dividends of the past reforms, including improved logistics; enhanced physical and digital infrastructure; digitalisation in all walks for life; regulatory reforms; and the healthy balance sheets of banks and corporates (signifying the repair of the twin balance sheet problems).

Attaining the second scenario depicted in the Survey, would require a greater contribution to growth by the manufacturing sector, more integration in the global markets, and India becoming a more attractive destination for Foreign Direct Investments (FDIs). The Survey is not adequately vocal about the fact that the manufacturing sector has still not started yielding the growth dividends despite decades of policy support. The sector grew at a paltry 1.6 per cent during 2020-23, compared to 3.5 per cent growth in agriculture and 9.1 per cent growth in services.

All in all, we may brace ourselves to accept the first scenario, while working relentlessly to steer the economy toward the second one.