

ACKNOWLEDGE INDIA'S ECONOMIC SUCCESSES TOO

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'Along with accelerating economic growth, the government has been focusing on inclusive growth' | Photo Credit: Getty Images/iStockphoto

The Indian economy has grown at an impressive rate in the post-COVID-19 years. In FY2023, it grew year-over-year (YoY) at 7.2%, the fastest among major economies. In FY2024, the International Monetary Fund (IMF) projects India's YoY growth at 6.3%, again the fastest among major economies. [For those yet to absorb its full import](#), the tagline, 'fastest-growing major economy,' calls for some elaboration.

The word 'major' in the tagline makes it clear that India's relatively high economic growth in the global context is not on account of its small size. India is currently the fifth largest economy in the world in U.S. dollar terms and is projected by the IMF to become the third largest by 2027. An economy as large as this and growing rapidly cannot be characterised by weak domestic demand, particularly when external demand growth has been uneven and uncertain.

Some commentators contest the tagline, 'fastest'. There is a view that post-COVID-19, YoY growth rates need to be replaced by compound annual growth rate estimated on the pre-COVID-19 year of 2019-20. This view seeks to measure annualised progress as if there was no pandemic. However, the fact is that there was a pandemic, and YoY growth rates measure progress despite the pandemic. In this perspective, the YoY growth rate of 7.2% in FY23 comprises two components: one that measures annualised progress over the pre-pandemic year and the other that measures annual recovery of the output lost to the pandemic. The latter in no way is less significant than the former.

Present-day economic dividends are also rooted in the steps taken to mitigate the economic challenges of the pre-COVID-19 period. In the first decade of this century, the Indian economy grew rapidly, propelled by strong growth in world trade and a domestic credit boom.

In the aftermath of the global financial crisis of 2007-08, growth in world trade fell, dampening the trade stimulus for economies worldwide, including the Indian economy. The domestic credit bubble also burst as high leverage in the corporate sector led to frequent defaults in repayments and a consequent surge in non-performing assets of public sector banks. The twin stresses on the balance sheets combined with elevated prices in real estate led to a lower investment rate in the Indian economy.

Public capex also could not add much to the investment rate as the new government that came to power in 2014 had no choice but to opt for fiscal discipline to address the legacy challenges of large fiscal deficits, high inflation, and a widened current account deficit. With trade and domestic investment weakening, the Indian economy grew at a rate less than its potential in the second decade, except for a couple of years when crude oil prices dropped, improved the trade balance, and supported higher growth.

The new government implemented a series of measures to lift the economy onto a higher growth path in the medium term. A calibrated liberalisation of the economy has resulted in an upward-level shift of net foreign direct investment inflows. The Insolvency and Bankruptcy Code (IBC) introduced in 2015 has successfully addressed delinquency and lowered the non-performing assets in the banking sector, setting the stage for private corporate investment to take off. The demonetisation drive of 2016 has reduced black money by improving tax compliance.

Besides, the Goods and Services Taxes (GST) rolled out in 2017 has mobilised higher revenues and unified fragmented markets to build economic synergies. The reduction in the corporate tax rate in 2019 to one of the lowest in the world has increased corporate reserves, which are being leveraged to finance higher investments. These reforms have led to a strong churning of the economy, shutting out enterprises that deviated from market principles.

In FY22, the government embarked on a large Capex programme and provided resource support to State governments to increase their Capex budget. From 1.6% of GDP in FY19, the Capex of the central government has risen to 2.7% in FY23 and is budgeted to increase further to 3.3% in FY24 — all this while containing the fiscal deficit to its budgeted ratio to GDP. The idea behind the upscaling of the Capex budget was to not only plug gaps in physical infrastructure but also to “crowd-in” private corporate investment, which was investment-ready, having repaired its balance sheet and progressed to an optimal level of capacity utilisation. Data from Axis Bank, for example, shows private corporate investment rose by 22.4% in FY23, with 15 out of 19 sectors witnessing an expansion in private capital investment.

Along with accelerating economic growth, the government has been focusing on inclusive growth, as reflected in its commitment to Sabka Saath Sabka Vikas. It has taken various steps to lift people above the poverty line. Relentless government support towards livelihood enhancement, skill development, women’s empowerment, and infrastructure development has played a vital role in reducing the incidence of poverty in India.

A report by NITI Aayog, that was released recently, showcases a remarkable decline in the prevalence of multidimensional poverty in India; 13.5 crore Indians are estimated to have escaped multidimensional poverty between 2015-16 and 2019-21, with rural areas largely driving the decline in the headcount ratio of the Multidimensional Poverty Index. Further, there has been tangible progress in rural living standards, aided by a policy focus on basic amenities. The National Family Health Survey for 2019-21 provides ample evidence of a significant improvement in an array of indicators concerning the quality of rural lives, including access to electricity, improved drinking water sources, and coverage under health insurance schemes. Various health-related indicators, such as institutional births, immunisation and health insurance coverage, have also seen an uptrend.

The government’s support for agriculture has led to fruits, vegetables, the ‘dairy and livestock products combined’, and fishery growing at unprecedented growth rates. Consequently, the share of fruits and vegetables in the food basket has increased to 19.4% in 2021. The percentage of livestock products has come to account for about 38% of the total value of agri-food. The country’s food basket is more nutritious today than ever.

As a country with a large population and a per capita GDP of nearly \$2,400, India is aware of the long road ahead to achieve high-income status and a high quality of life for a majority of its citizens. It is a vindication of the success of India's development record in a democratic polity that the steadily rising aspirations of citizens are being matched by their belief that those aspirations will be realised in their lifetime. Now, if experts realise that it is okay to acknowledge successes as it is to draw attention to shortcomings, the quality of public discourse will catch up with India's economic progress.

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