India's Economic Outlook: Optimism and Growth Potential

This editorial is based on **"India's economy, on the upswing"** which was published in The Indian Express on 17/10/2023. The article argues that India is likely to grow at a faster-than-expected pace despite the conflict in West Asia, based on four factors: near normal monsoon, government's thrust on capital spending, increase in credible borrowing, and robust new companies' registration.

For Prelims: GDP deflator, Nominal GDP, Monsoon, Scheduled commercial banks, Pradhan Mantri Street Vendor's AtmaNirbhar Nidhi (PM SVANidhi), Jan Dhan Yojana, Production Linked Incentive (PLI), Phased Manufacturing Programme (PMP)

For Mains: India's GDP Growth Potential, Factors Driving Economic Growth, Steps that can be taken to make this growth more robust and sustainable

According to recent reports, the **International Monetary Fund (IMF)** has raised India's **GDP** growth forecast to 6.3% for the year 2023-24, which is 40 basis points higher than its earlier forecast in April. However, the **Reserve Bank of India (RBI)** has kept its forecast unchanged at 6.5%. Despite the recent geopolitical tensions in **West Asia**, it is believed that the Indian economy could still grow at a faster pace than expected. The growth projection for the full year is estimated to be around 6.7%.

What is the Potential for Surpassing RBI's Growth Projections?

- While the **RBI is projecting growth at 6.5%,** tracking of the latest leading indicators suggests the possibility of the economy growing at a faster pace.
- The long-term trends suggest that whenever the percentage of leading indicators showing acceleration in a quarter crosses the threshold value of 70%, the GDP growth numbers surprise on the upside.
    - Currently, this is at 80%, increasing the possibility of growth surpassing 6.5% in Q2 FY24.
- The **nominal GDP** growth could well be in the range of 8-8.5% and given that the **GDP deflator** is currently tracking at 1.5-2%, a 6.5% or higher growth looks eminently achievable.

What are the Compelling Factors Driving Economic Optimism?

- **Monsoon:** While the overall rainfall was 6% below the expected during the **monsoon** season (due to 36% deficit rains in August), the **spatial distribution is quite even.** Out of 36 states/UTs, 29 received normal/above-normal rains.
    - The **SBI Monsoon Impact Index, which considers the spatial distribution,** has a value of 89.5, faring much better than the full season index value of 60.2 in 2022.
- **Continuous Thrust on Capital Expenditure:** During the first five months of the current year (2023), the **capital expenditure of the states as a percentage of the budgeted target is at 25%, while the Centre's is at 37%.**
    - Nearly all states are on a spending spree, with Andhra Pradesh leading the pack, spending

as much as 51% of the budgeted amount.

- **New Company Registrations:** The robust new companies' registration depicts strong growth intentions. Around 93,000 companies were registered in the first half of 2023-24 as compared to 59,000 five years back.
    - It is interesting to note that the average daily registration of new companies increased to 622 in 2023-24 (an increase of 58%) from 395 in 2018-19.
- **Credit Growth:** All **scheduled commercial banks' (ASCB's)** credit growth (year-on-year) has been accelerating since early 2022. Aggregate deposits grew by 13.2% and credit by 20% till September. In the coming months, we expect credit demand to remain robust due to the festive season.

What are the Reasons behind Growth of Credit in the Banking Sector?

- **Significant Growth in Credit:** Over the nine-year period ending in March, there has been **substantial growth in both assets and liabilities of banks** (ASCB) in India, amounting to Rs 186 lakh crore.
    - This growth is significantly higher than the previous decade, which saw an incremental growth of Rs 119 lakh crore.
    - If the **trends continue in 2023-24, the total growth for the current decade could reach Rs 225 lakh crore,** marking a 1.9-fold increase from the last decade.
- **Formalization of the Economy:** The growth in credit is attributed to the formalization of the Indian economy over the past decade. People with no previous credit history are increasingly becoming integrated with the banking system.
    - Approximately **40% of new credit accounts added in the last nine years** are from individuals who had no prior credit history.
        - This group contributes to at least 10% of the incremental credit growth.
- **Government Initiatives:** Programs like the **Pradhan Mantri Street Vendor's AtmaNirbhar Nidhi (PM SVANidhi)** and **Jan Dhan Yojana** have played a role in extending financial access to households that were previously outside the formal banking sector.
    - These initiatives, along with the aspirations of such households, are contributing to sustained credit growth.

What Steps can be Taken to Make this Growth more Robust and Sustainable?

- **Reaping the Demographic Dividend:** India has a **large and young population that can provide a huge potential workforce for the economy.** However, this also requires creating enough jobs, improving the quality of education and skills, and increasing the labor force participation, especially of women.
- **Boosting Private Investment:** Private investment is a key driver of economic growth, as it increases productivity, innovation and competitiveness. The government has taken several initiatives to improve the ease of doing business, reduce corporate tax, provide credit guarantees, and attract foreign direct investment.
    - However, more reforms are needed in areas such as land, labor and logistics to reduce the cost and risk of doing business in India.
- **Increasing Competitiveness:** India needs to **enhance its competitiveness** in the global market by diversifying its exports, improving its infrastructure, promoting innovation and digitalization, and integrating with regional and global value chains.
    - The government has announced several schemes to support manufacturing, such as Production Linked Incentive (PLI)**,** Phased Manufacturing Programme (PMP), and Make in India.
    - However, these schemes need to be **complemented by trade liberalization and regulatory simplification** to ensure a level playing field for domestic and foreign firms.
- **Promoting Green Growth:** India has **committed to reduce its carbon intensity** and increase its **renewable energy** capacity as part of its **climate change goals.** The government has also introduced green bonds to finance green infrastructure projects.
    - However, more efforts are needed to address the environmental challenges such as air pollution, water scarcity, waste management and biodiversity loss that pose a threat to India's growth and well-being.
- **Maintain Stability in the Economy:** India could maintain a **stable and low inflation rate**,

which can foster confidence and investment. India could also ensure adequate liquidity and credit availability for productive sectors, especially for small and medium enterprises. India could also develop its financial markets and institutions to facilitate savings and investment.

- **Increase Integration with the Global Economy:** India could increase its **integration with the global economy by reducing trade barriers, diversifying its export basket, and enhancing its competitiveness.** India could also pursue regional and bilateral trade agreements that can create new markets and opportunities for its products and services.
- **Promote the Key Sectors:** India could promote the **development of key sectors that have high potential for growth, employment, and innovation,** such as manufacturing, services, agriculture, and renewable energy.

Conclusion

India's economic prospects for the fiscal year 2023-24 are characterized by optimism and a promising growth trajectory. Various factors, including favorable monsoon patterns, increased capital expenditure, robust new company registrations, and sustained credit growth, contribute to this positive outlook. Furthermore, government initiatives have formalized the economy and extended financial access to previously underserved segments. To ensure the continued robust and sustainable growth of the Indian economy, a strategic approach encompassing fiscal, monetary, trade, industrial, and institutional policies is crucial. This comprehensive strategy can further unlock India's immense economic potential and support its journey towards prosperity.

Drishti Mains Question:

Discuss the key factors contributing to India's optimistic economic outlook for the fiscal year 2023-24. How can the government's policies and initiatives further enhance the country's economic growth and sustainability?

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Prelims:

Q. Increase in absolute and per capita real GNP do not connote a higher level of economic development, if: (2018)

(a) Industrial output fails to keep pace with agricultural output.
(b) Agricultural output fails to keep pace with industrial output.
(c) Poverty and unemployment increase.
(d) Imports grow faster than exports.

Ans: (c)

Q. In a given year in India, official poverty lines are higher in some States than in others because: (2019)

(a) Poverty rates vary from State to State
(b) Price levels vary from State to State
(c) Gross State Product varies from State to State
(d) Quality of public distribution varies from State to State

Ans: (b)

Mains

Q1. Define potential GDP and explain its determinants. What are the factors that have been inhibiting

India from realizing its potential GDP? **(2020)**

Q2. Explain the difference between computing methodology of India’s Gross Domestic Product (GDP) before the year 2015 and after the year 2015. **(2021)**
