Can India sustain growth at 7-8%?

Why in news?

\n\n

Ever since the **Second Advanced Estimates of National Income for 2016-17** were released at end-February 2017, projecting GDP growth of 7.1%, there have been numerous statements by government spokesmen pointing to the **limited adverse impact of demonetisation** and confidently expecting GDP growth in the order of 7.5% or higher in 2017-18.

\n\n

What is the situation?

\n\n

\n
- Several analysts note that growth of **GVA** is officially estimated to decline to 6.7% in 2016-17 from 7.8% in 2015-16.
\n
- Furthermore, if one separates out the sectors relatively insensitive to demonetisation (such as agriculture, utilities and public services) and focuses on those sectors (industry and other services) where the impact of demonetisation was expected to be significant, then even the official data show marked slowdown of value-added growth.
\n
- Thus, the growth of the latter category of “industry and other services” (accounting for about 70% of GVA) slowed from 6.7% in 2015-16 to 4.5% in 2016-17.
\n
- India’s economic growth (in GVA terms) in 2016-17 was very likely to have been significantly below 7%.
\n
- With the process of “remonetisation” largely complete by mid-April, a rebound in economic growth to 7% or higher is quite possible in 2017-18.
\n

\n\n

Can 7-8% growth be sustained in the medium-term?

\n\n

That looks increasingly difficult, given legacy problems and recent trends and developments:

\n\n

\n
- **Legacy constraints:** Include unreformed, law-distorted land and labour markets, woefully weak public education and health systems, poor infrastructure in transport, energy, water and sanitation, and little investment in science and R&D.
\n
- **Gross fixed investment:** Nation-wide stagnated last year. As a ratio to GDP it has fallen from 30% in 2014-15 to 27% in 2016-17.
\n
- Rarely has any country grown at 7% plus with gross fixed investment rates below 30%, and that too declining.
\n
- **Twin balance sheet:** A major deterrent to investment has been the growing "twin balance sheet" problems of **highly stressed public sector bank asset portfolios and overly leveraged borrower companies.**
\n
- Despite some initiatives and much discussion, a broadly viable framework for resolution has remained elusive.
\n
- Modest reductions in central government fiscal deficits over the past three years have been largely negated by **rising deficits of state governments.**
\n
- **Ex:** The recent announcement by the new Uttar Pradesh govt of a hefty Rs 37,000 crore farm loan waiver programme will weaken both the financial system and governmental efforts towards fiscal consolidation, especially if other states emulate such action.
\n
- **Judicial decisions:** They have also taken their toll of economic activity.
\n
- **Ex:** The recent ban on liquor sales near highways could have major adverse consequences for the hospitality and tourism industries.
\n
- **Exports:** India's merchandise exports have stagnated, or worse, since 2011-12, with 2016-17 expected to show $270 billion.
\n

- This is in sharp contrast to the period between 2003-4 and 2011-12, when the value of merchandise exports surged from $66 billion to $310 billion.
\n
- To sum up, for India to achieve 7-8% economic growth over the medium-term, the government will have to tackle successfully a broad range of development challenges.
\n

\n\n

\n\n

Source: Business Standard

\n