Handling the High Growth

What is the issue?

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- India may well record the highest growth rate globally.
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- However, much more is needed to create jobs and reduce poverty.
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How is the growth trend?

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- Agricultural growth may at best be equal to what it was last year - 3.4%.
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- The services sector may perform better because public expenditure will be maintained at a high level.
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- The Index of Industrial Production (IIP) for the first quarter show substantial improvement.
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- After several quarters of low growth, there was a strong pick-up in GDP in the last quarter of 2017-18.
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- If this momentum is maintained, the growth rate (2018-19) will certainly be above 7%.
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- International financial institutions have forecast a growth rate of 7.3%.
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- The Reserve Bank of India (RBI) expects it to be 7.4%.
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- Given these, it is essential to pay attention to the concerns that can come in the way of faster growth.
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What are the factors to be addressed?

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- **External environment** - The external environment is far from reassuring favourable growth.
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- Trade wars have already started and can get worse.
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- Recent tariffs decisions by US, China and many others, including India, confirm this.
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- Besides these, there are country-specific sanctions such as those against Iran.
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- These have a direct impact on crude oil output and prices.
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- **Deficit** - India benefited from the fall in crude prices earlier but this position has reversed.
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- As a net importer, India's balance of payments can get affected if crude prices rise again.
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- India's current account deficit (CAD) was as low as 0.6% of GDP in 2016-17.
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- It rose to 1.9% of GDP in 2017-18, mainly because of crude price rise.
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- India's trade deficit has always remained high.
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- In 2016-17, the merchandise trade deficit was 4.8% and rose to 6% of GDP the next year.
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- **Banking system** - RBI released its latest financial stability report highlighting a high level of NPAs.
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- The gross non-performing asset (NPA) ratio of scheduled commercial banks rose to 11.6% (March 2018).
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- The ratio for public sector banks was 15.6%.
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- The high NPA level has a negative impact on the provision of new credit.
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- In fact, credit to the industrial sector has slowed down considerably.

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- **Fiscal position** - So far in the current year, the Centre's fiscal position has been within limits.
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- The fiscal deficit position has shown improvement over the last year's corresponding period.
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- There are two aspects of the fiscal position to be paid attention to.
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- One relates to GST, as GST revenues are currently running behind budgetary projections.
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- It is also not clear how much of the refunds are outstanding.
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- Revenues may pick up in the second half but any shortfall can put fiscal position under stress.
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- The second concern relates to the impact of the proposed MSPs for some agricultural commodities.
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- The concerns with MSP hike in the absence of a healthy procurement system remains.
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- Payments could be a serious burden to government's fiscal position if market prices fall steeply.
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- This apart, there are administrative problems involved in implementing the scheme.
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What lies ahead?

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- **Deficit** - The solution is raising the export growth which has fluctuated in recent years.
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- In this context, ensuring that the rupee does not appreciate in real terms is crucial.
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- Exports have to be made competitive and exchange rate is just one element in this.
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- Improved efficiency in production and better infrastructure are equally important.
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- **Banks** - Recapitalisation of banks has become an urgent necessity.
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- This will, of course, impose a serious burden on the fiscal position.
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- But unless banks recover fast, sustaining growth of the industrial sector is difficult.
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- **Fiscal position** - Government has to assess the multifarious effects of decisions such as the MSP hike.
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- The expected growth rate of 7.3-7.4% may be reassuring but it falls short of our potential.
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- It is much below of what is needed to raise job opportunities and reduce poverty.
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- Hence a stronger push towards a much higher growth is very much the need of the hour.
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Source: The Hindu

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