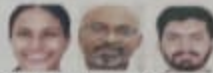


Sustaining the Strong Economic Momentum



Shreya Bajaj, Antony Cyriac & Bharadwaja Adiraju

India is navigating its economy through a world beset with multiple challenges. Although headline inflation has declined across economies, core inflation remains sticky in some countries. After more than a year of consistent tightening to tackle inflationary pressures, the monetary policies of major central banks have begun to diverge to address growth imperatives. Geopolitical conflict has frequently disrupted trade, and geo-economic fragmentation has added to the uncertainty. The April 2024 edition of the IMF Fiscal Monitor noted that governments worldwide were grappling with high debt and deficits. In this context, the Indian economy's average growth rate of around 8% in the last three fiscal years is a creditable achievement. The economy has firmly put behind the scars of the pandemic. India is one of the only two major economies whose GDP at constant (2011-12) prices is 20% above the pre-pandemic level. While this is truly creditworthy, now is the time to consolidate and further build on the gains achieved while implementing policies safeguarding the growth process. This is the overarching message of Chapter I of the Economic Survey 2023-24.

The pandemic-induced contraction necessitated a strong response to put the economy back on track. It presented an opportunity to deploy a counter-cyclical fiscal policy focused on capital expenditure in the form of the ongoing infrastructure build-out, thus positioning public sector-led capital formation as a growth catalyst. The private corporate sector, which reduced its debt burden over the last decade, also contributed by stepping up investment, aided by a healthy banking and financial system and supportive policy framework.

The pandemic also accelerated the digitalisation of service delivery across the economy. The public policy emphasis on fostering digital technology processes and frameworks significantly facilitated this profound transformation.

At this juncture, building on the economic gains realised thus far is imperative to ensure further resilience. Among the many imperatives the Survey puts forth, Chapter I emphasises the role of private investment in securing growth. The government continues to facilitate infrastructure development and address logistical challenges. However, there are limits to the continuation of expansionary public investment. The private sector must take forward the momentum in capital formation on its own and in partnership with the

government. Fostering public-private partnerships at different levels of the economy by strengthening viability frameworks, project structuring, contract management, and resolution mechanisms is the way to upgrade the capital base continuously. The quality of capital formation must also improve with a greater focus on intellectual property products, which calls for significantly higher private R&D investment.

Macroeconomic stability played a key role in safeguarding growth amid external challenges. Inflationary pressures, which had moved their head in the aftermath of the Russia-Ukraine conflict, have been addressed through a combination of monetary tightening and administrative interventions that included, among other things, trade policy calibrations, buffer stocking, government and disposal of essential commodities and specific initiatives for subsidised retail distribution of pulses,

wheat and rice. As a result, headline retail inflation now trends well within the Reserve Bank Monetary Policy Committee's tolerance band, and core inflation has declined steadily.

Fiscal prudence has played a key role in ensuring low and stable

while borrowing costs.

The realisation of buoyant tax

revenue due to strong economic

activity and compliance gains,

combined with restrained revenue spending and increased capital expenditure,

has ensured that the government stays

on the glide path of reducing fiscal deficit. A

consistent improvement in the

government's fiscal

metrics has led to a revision of the

outlook to "positive" by S&P Global

Ratings, the first in 13 years. S&P has

indicated that continued commitment to fiscal

consolidation would lead to a credit rating

upgrade over the next two years.

Despite the challenges posed by

slow export growth, India's external

account is sound, with comfortable

forex reserves and a stable rupee. While

forex reserves are enough to cover

around eleven months of imports, the rupee is

one of the least volatile among its emerging

market peers. Even as high-frequency

indicators signal strong economic activity in the

first quarter of FY25 and structural reforms of the

previous decade mature, some headwinds remain. Spatial or overall

disparity in the monsoon may affect the farm sector.

A flare-up in global conflicts may lead to a spike in the

inflation rate and increased global economic

uncertainty. Adverse developments in global financial

markets due to high valuations may have spill

overs onto the domestic economy. On balance, considering

India's GDP is close to the levels warranted by its pre-pandemic

trend, the Survey assesses that the growth momentum is

robust and projects real GDP growth of 6.5-7.0% in FY25.

Shreya Bajaj and Antony Cyriac are from Indian Economic Service. Bharadwaja Adiraju works as consultant in the Ministry of Finance



ANURAG

India is one of the only two major economies whose GDP at constant (2011-12) prices is 20% above pre-pandemic level