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THE GROWTH DECELERATION PROBLEM CANNOT BE SKIPPED

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Public Finance, Taxation & Black Money incl. Government Budgeting

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Finance Minister Nirmala Sitharaman at a press conference in Delhi, after the Budget | Photo Credit: ANI

The much-anticipated Budget for 2023-24 has been presented. The Budget speech began with a self-congratulatory note: that India has successfully overcome the troubles that came with the COVID-19 pandemic, to a large extent, by ensuring the free food distribution scheme for 800 million people and other ongoing food security programmes. And, it added, India has fully recovered from the output contraction after one year to emerge as one of the world's fastest growing economies. In fact, while commenting on the Economic Survey that was presented on the day preceding the Budget, Finance Minister Nirmala Sitharaman reportedly said that the economy can now get on with the growth trajectory that it was charting before the outbreak of the pandemic in 2020.

So, what was the economic situation like before the pandemic? It was an economy in decline for the entire decade of the 2010s — perhaps contrary to the Finance Minister's perception. Real average annual GDP growth rate in the 2010s, that is, net of inflation, had decelerated 5%-6% from 7%-8% in the previous decade, that is, the 2000s. If the professional criticisms of GDP estimates are valid, its annual growth rate is perhaps lower at 4%-5% than official estimates.

More seriously, India has de-industrialised prematurely since the mid-2010s, with a steep fall in annual output growth rates, from 13.1% in 2015-16 to negative 2.4% in 2019-20 even before the pandemic struck. Deindustrialisation is accompanied by falling aggregate fixed investment rates and domestic savings rates by 4 percentage-5 percentage points of GDP, compared to that of the previous decade of the 2000s. Never in post-independent India has the economy witnessed such a reversal in crucial aggregate parameters.

The Budget's vision and expenditure priorities need to be viewed in this context. The Finance Minister's speech rightly emphasised the role of infrastructure and public investment as virtuous since such investments crowd-in private investment. The Budget seeks to raise capital investment outlay to 3.3%, the highest during the last three years. If the grant-in-aid to States is included, the ratio could be up to 4.5% of the outlays. While this is welcome, it is not clear on what specific sectors and schemes this is to be spent.

The Budget's extension of the interest-free loans of a 50-year tenure to States for infrastructure investment is also welcome. However, their utilisation has been mixed at best, as the conditions seem onerous on poorer States. There is, perhaps, a need to engage with States to improve their utilisation.

Capital expenditure on railways is proposed to be enhanced to 2.40 lakh crore, nine times what it was in 2013-14. This is also welcome, but we need to know what this means in real terms or as a proportion of budgetary outlays. Moreover, without knowing the nature of the proposed expenditure, its effectiveness cannot be assessed. For instance, if the railway investment is on much-needed modernisation of rail tracks and rolling stock, it would enhance efficiency. However, if the spend is on station modernisation or other such 'glamorous' projects, it may add little to productivity.

The government of the day has all along favoured infrastructure investment over directly productive investment in agriculture and industry, whose share in gross fixed capital formation (GFCF) rate (that is, as a proportion of GDP) has declined. However, evidence shows that the share of infrastructure real GVA and GFCF has hardly improved over the decade of the 2010s, as in estimates reported by the Reserve Bank of India. Therefore, there is a need for caution in accepting the budgetary numbers at their face value.

Premature deindustrialisation and the consequent growing dependence on Chinese imports are serious challenges to India in following an independent path of national development. The government's flagship initiatives 'Make in India' (launched in 2014) and Aatmanirbhar Bharat Abhiyan (launched in 2020), are meant to overcome these shortcomings. The "Production Linked Incentive (PLI) Scheme (launched in 2021) was to give incentives for such investments. However, the Budget has hardly furthered these efforts, or had an assessment of how they have performed. The Budget speaks in glowing terms of how the phased manufacturing programme in the mobile phone assembly industry has succeeded in boosting exports. While the headline numbers may be true, they hide the fact that imports of the kits of mobile parts or (kits) have also gone up proportionately as domestic value addition is minimal. Careful research shows that backward integration to produce components and sub-assemblies has made little progress.

Editorial | **Budget gives more to the affluent than to the poor**

Another piece of evidence that shows rising import dependence on China is the growing trade deficit with that country — going up from $57.4 billion in 2018 to $64.5 billion in 2021. The Budget, regrettably, has little to say about the growing threat of structural dependence on China.

The Budget mentions rising bank credit growth as a positive sign of investment revival. Again, while the headline is correct, the share of the credit accruing to industry has barely inched up, with most increase accruing to personal loans, which may add to luxury (imported) consumption, and not boost the economy's productivity capacity.

One of the reasons for private long-term investment lagging is the lack of access to long-term credit, as is widely acknowledged. In 2021 the government promoted The National Bank for Financing Infrastructure and Development (NBFID) with substantial equity investment. Unfortunately, the Development Financial Institutions seem to have made modest progress in boosting industrial and infrastructure investment. If the Budget is serious about boosting private investment it has to ensure better performance of the NBFID. However, the Budget has little to say about the much publicised initiative.

In sum, the Budget's renewed commitment to investment-led growth is well taken. However, the investment magnitudes mentioned (without details) seem to come up short. The Budget seems

to fail to grapple with the problem of the decade-long growth deceleration in the 2010s, the unprecedented fall in investment and savings rates compared to the previous decade and premature de-industrialisation since the mid-2010s. Without appreciating these longer-term constraints and finding their solutions, it is perhaps hard to make India Atmanirbhar Bharat.

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