Source : www.livemint.com Date : 2022-01-02

IT'S HARD TO AGREE WITH ARVIND SUBRAMANIAN'S SUSPICION OF INDIA'S GDP RECOVERY

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Industry & Services Sector incl. MSMEs and PSUs

Dr Arvind Subramanian, a former chief economic adviser (CEA) in the ministry of finance, has warned, in a lecture he recently gave at the Indira Gandhi Institute of Development Research (IGIDR), Mumbai, against over-optimism on economic recovery on the ground that India’s national income accounts rest on shaky legs and, even on their basis, the economy has barely recovered to the pre-pandemic level. To his credit, he said robust tax growth is an optimistic indicator of possible economic vigour.

The Department of Economic Affairs has a who’s who page, whose dropdown menu is, perhaps, an unwitting giveaway as to the government’s institutional regard for economic advice: On it, the CEA squeezes in between Carpenter and Computer and Printer. Perhaps that accounts for some of the wide divergences between the sage wisdom of the pre-Budget Economic Surveys, prepared by erudite CEAs, and the actual policies announced in the Budget. In any case, Subramanian’s scepticism on the soundness of economic recovery at present deserves our scepticism.

Whatever the merits of Dr Subramanian’s dissatisfaction with the new series of GDP data, with base 2011-12, these would have no bearing on the most recent trends in the Indian economy. Under the old and new methodologies of computing national income, the rates of nominal GDP growth were compatible. Differences in the measures of inflation used to deflate nominal data to obtain real data led to different estimates of real growth. It is possible to overstate how misleading the new GDP series is, therefore, even without resolving the finer points of the methodological dispute.

Advance tax collections have grown 90% so far this fiscal year. For several months, GST collections have been consistently high, above 1.25 trillion. Tractor sales in October 2021 were higher than in October 2019, showing a resilient rural economy. However, automobile sales are yet to catch up because of a shortage in semiconductor chips. The demand for work under the rural employment guarantee scheme slackened in November from a year ago, indicating an increase in real economic activity, necessitating less reliance on a dole. Exports have been robust, imports even more so, with capital goods imports showing double-digit growth in October over the level in October 2019. “High-frequency indicators such as electricity demand, railway freight traffic, port cargo, toll collections, and petroleum consumption registered robust growth in October/November over the corresponding months of 2019," observed the Monetary Policy Committee at its meeting in December. These indicators offset the slowdown in the core sector growth, whose growth came down to 3.1% in November, from 7.5% in the previous month.

Now, Dr Subramanian sets much store by high-frequency indicators to make his claims of overestimated GDP. However, the same high-frequency data now suggests robust recovery.

World growth is on the upswing, the basis for policy rate correction and incipient withdrawal of quantitative easing in the rich world. So a growing world economy is good news for India’s growth story as well.

Overall, the Indian economy should get back to normal growth, which would be aided by proactive measures to boost investment, including stepping up government spending and accelerating the pace at which pieces of the active market in corporate debt that India needs are being put together. Even if the banking sector is now better capitalised than in the past, the bulk of fresh infrastructure investment should be financed not so much by bank loans as by issuing corporate bonds with some credit enhancement on the government's part. The giant investments lined up in green hydrogen, and other renewable energy bodes well for sustained investment growth.

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