

Despite Global Pressures, Indian Economy Continues to be Resilient and Confident

Indian economy is currently passing through a difficult phase as growth has slowed and inflation has remained high. The entire world economy is facing the headwinds and Indian economy is certainly not off limits. A panel of top economic advisors to the Prime Minister has recently penciled in GDP growth of 6.7% for this fiscal year, scaling down its original forecasts but nevertheless swimming against the tide of sharply lower projection by independent forecasters. But, notwithstanding the tremendous pressure of an adverse external environment, our economy today is more resilient and confident. India is placed better, as the world economy is growing by just 2% , while the country is still growing at above 6%. As such, creating a negative impression is unfair to the inherent strength that our economy has shown in the past. Despite current but temporary slowdown, the Indian economy, which is the third largest economy in the world in terms of purchasing power, is going to touch new heights in the coming years. As per reliable independent estimates, by 2035 India would be the third largest economy of the world just after US and China. It will grow to 60% of size of the US economy. India is on an advantageous position over many nations now because of its large domestic market, its robust investment-to-GDP ratio and demographic advantage. The so perceived present negative developments should not cloud the fact that the average annual growth rate had been 8.3% over the seven year period beginning 2005-06. Two decades of steady economic reforms have contributed to improvement in average income and consumption levels in both rural and urban areas and there is a new found dynamism in some of the most backward areas, bringing them into national economic mainstream.

Yet there are several gaps that need to be bridged. The fiscal and current account deficits stand at uncomfortably high level. The Government needs to urgently curb subsidies and take steps to check the current account deficit and unleash critical reforms such as allowing foreign investment in multi-brand retail and aviation, and give a push to infrastructure spending. The kind of world that we are moving into is essentially a world in which, it will not be possible for a country to reach its full economic potential, if it is not able to compete globally with others in the same position. These issues have to be addressed if the country is to achieve a sustained high growth rate. There is a need to fast-track the creation of high quality infrastructure and to extend green revolution to the entire country. Education and health services have to reach the last man at the earliest. Much has been done, a lot more remains to be done.

In his first address to the nation as the President, Shri Pranab Mukherjee has rightly called for making the Indian economy a launching pad for the "second freedom struggle" to eradicate hunger, disease and poverty. The country's per capita Gross Domestic Product would increase from the current level of \$1,600 to \$8,000-\$10,000 by 2025, only if the country grew at 8% to 9% per annum.

And the Indian economic climate is gradually improving. The head of Prime Minister's Economic Advisory Council (PMEAC) former Reserve Bank of India Governor C Rangarajan has rightly said that after the 'disappointingly weak' first quarter, significant improvement is expected from the second quarter onwards because of positive policy developments. The PMEAC expects the farm sector to grow 0.5% this year even in the face of poor monsoon, and manufacturing expanding 4.5% in spite of 0.7% contraction in the April-June quarter.

For the government to bring about financial discipline, it means that we have to think differently about what exactly the role of government should be. We have to get away from the notion that all problems are solved by increasing expenditure. We have to bring in a modern tax system that is conducive to economic efficiency, that ensures that rates of taxation are moderate and, therefore, do not take away economic incentives. Finally, an area of major importance for the future functioning of the economy is the area of the financial sector. None of the changes that we are trying to bring about in the economy can really be effectively managed if the financial sector is not modernised, because economic re-structuring is about changing economic signals pushing resources into areas that are more efficient, into sectors that are more competitive, to support firms that are more capable of expanding. This can only be done if the financial sector is capable of responding to these signals.

In this regard, the Chartered Accountants, as the backbone of the Indian financial system and facilitators of fiscal prudence and financial discipline, can play a pivotal role in boosting the growth. The current situation demands that all the forces having stakes in the Indian economy join hands for national and global benefits.

-Editorial Board

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