

## Challenges of Indian Economy and the Way Ahead

**E**conomy is the method by which we prepare today to afford the improvements of tomorrow. This saying by 30<sup>th</sup> American President Calvin Coolidge has been successfully lived by India in the past decade. The \$1.3 trillion Indian economy remains irrefutably robust even in present times of global slump. As per majority of estimates, it will march ahead on the path of growth at a rate of around 6% even in the face of formidable challenges. Several recent economic reports glowingly predict that by 2015, India will start outpacing China's annual GDP growth rate. However, the instant but seemingly distant dream is to take the country into a double-digit growth trajectory. But this dream is quite realisable, provided India unleashes its full potential and dares to challenge the challenges which have been restricting Indian growth engine from going full throttle. And there are positive indications to that effect as after going through a gloomy phase in 2012, the Indian economy is poised to return to a optimistic growth in 2013-14.

Economy does not lie in spending money sparingly, but in spending it wisely. As such, given the present economic realities, Indian economy may have to walk a tight rope this year. There are some immediate concerns to be taken care of—viz to keep growth rate high and inflation rate and fiscal deficit low. Towards that end, India needs investor-friendly policies to nudge the entrepreneurs to invest more. Driving investments has to continue as a key area of priority with focus on measures for sectors such as infrastructure and others that benefit agriculture and employment generation. Domestic and foreign investments are not an option but an economic imperative for the government.

But the main challenges of our economy are to achieve 'inclusive growth' and eliminate 'economic inequalities'. Benjamin Netanyahu rightly says that the right combination is between a free economy and social policy that addresses the needs of society and creates equal opportunity. Today, as many as 37% of people in India live below the poverty line, says the Tendulkar Committee report. According to World Bank estimate, 41.6% of India falls below the international poverty line of \$1.25 a day.

High level of illiteracy is another big challenge. Even in a time of fiscal austerity, education is more than just an expense. Shortage of skills required for sustained growth is yet another daunting challenge. Increase in students entering the higher education is merely 5%. Government has identified a skills gap in between 240-250 million persons in the next ten years. Current vocational and technical training schools unfortunately only have the capacity to absorb 1.1 million students a year.

Poor infrastructure with a huge number of families lacking basic amenities is another grey area which calls for urgent attention. Infrastructure sector, which has a multiplier effect on the economy, is also under serious strain with reducing investments in research and development.

Our budget deficit and big current account deficit limit the scope for increasing investment in public services like health and education. So, in order to make substantive further fiscal correction this year, the government has to put in even more efforts than it had assumed it needed to. Therefore, it is hoped that the deficit target of 4.8% for 2014 is comfortably reached.

What is needed is to seriously heed to the issues related to regulation and moving more quickly on economic reforms, by introducing new corporate governance norms, an area on which Ministry of Corporate Affairs is actively working on. We in India need reforms that can actually raise our sustainable long-term growth rate. These have to come in areas like better targeting of subsidies, making projects in infrastructure viable so that they attract capital, raising the productivity of agriculture, improving healthcare and skill-creating education, bringing the parallel economy under the tax net, implementing fundamental reforms in taxation like GST and the Direct Tax Code and finally easing the myriad rules and regulations that make doing business in India difficult.

Mr. Montek Singh Ahluwalia, Deputy Chairman of Planning Commission, rightly says that the growth of an economy depends upon three main factors: Availability of capital, Availability of appropriately skilled labour, and Productivity of the economy to convert labour and capital into final products.

It is hoped that Union Budget 2013-14, which would have been already presented by the time this issue of the journal reaches the readers, ultimately proves effective in taking all these complex challenges in stride and helps propel India into double digit growth with all inclusive growth, stable prices, improved infrastructure, more and more skilled workforce, a more rationalised tax regime and better fiscal discipline and consolidation. And to help our Government's efforts to this effect, our basic credentials remain high. Indian economy is, in many ways, better placed than many other nations to withstand global economic turmoil. India's resilience results from the fact that the bulk of India's GDP is domestic demand driven.

Even though Budget 2013-14 may not be a panacea of all of our economic ills, it will set the outline for the economy for the near future. A detailed analysis of various important aspects of the Budget 2013-14 will be published in next issue of this journal

### -Editorial Board

ICAI- Partner in Nation Building