

Forward March of Economy despite Hurdles

Economy is the method by which we prepare today to afford the improvements of tomorrow. This saying by 30th American President Calvin Coolidge is being successfully lived by India in recent times. Our Economy, which is the tenth-largest in the world by nominal GDP and the third-largest by purchasing power parity, remains irrefutably robust even in the present times of irregular global growth.

With green shoots of the Indian economic revival growing thick and fast under the horizon of optimism, the International Monetary Fund has projected that India will overtake China as the fastest growing emerging economy in 2015-16 by clocking a growth rate of 7.5 per cent, helped by its recent policy initiatives, pick-up in investments and lower oil prices. The recent Economic Survey has also projected the growth at 8-8.5% in 2015-16 and double-digit in the coming years, while Global rating agency Fitch recently acknowledged that "dynamism" is back in the Indian economy. According to NITI Aayog Vice Chairman Shri Arvind Panagariya, our economy is expected to grow at 8-10% for the next 15 years. If the economy actually grows at 8-10% in rupee terms, in dollar terms it would be about 11-12% and that will turn India into an \$8 trillion economy from the current \$2 trillion in the next 15 years.

What complement these projections are an inflation rate at only 5.2 per cent, current account to less than one per cent of the GDP, foreign inflows at over USD 50 billion, rising foreign exchange reserves of \$ 335 billion, and booming capital markets. This is also reflected in a relatively stable rupee which is less affected by global influences than other emerging market currencies. As such, presently, being one of the brightest spots in global economy with restored faith for foreign investors, a sustained double digit growth trajectory is no longer a distant dream.

With opportunities come challenges. As such, the road ahead for the Indian economy is also riddled with challenges and realisation of a series of healthy projections will depend on actual implementation and translation of reforms into higher growth. As thoughtfully singled out by the Finance Minister in his recent Budget speech, these come in the form of 'agricultural income under stress,' 'weak private sector investment in infrastructure,' 'decline in manufacturing,' 'resource crunch in view of higher devolution in taxes to states,' and 'maintaining fiscal discipline'.

Another area of concern is negative growth of exports, which fell 21% in March, the steepest monthly decline in almost six years.

We must understand that consolidating fiscal deficit is what establishes the credibility of any government. Deducting the subsidies is not a bad option to go on the consolidation track. Expenditures on subsidies should instead be directed towards productive investments such as education, infrastructure, health and other areas which could enhance growth. Further, domestic and foreign investments are not an option but an economic imperative for the government.

A major macro-economic problem faced by India in the last 25 years has been that in spite of reasonable growth, poverty, malnourishment, unemployment *etc.* have persisted because of inequitable distribution of income. As the economic survey 2015 notes, the employment elasticity of production has been low across all sectors and further, there has been a jobless growth in the organised sector of the economy.

The main challenges of our economy are to achieve 'inclusive growth' and eliminate 'economic inequalities'. 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. According to World Bank estimate, 41.6% of India falls below the international poverty line of US\$ 1.25 a day.

We in India need reforms that can actually raise our sustainable long-term growth rate and ease the myriad rules and regulations that make doing business in India difficult. In a major reform, India needs to move towards full capital account convertibility to become a leading global economy as the fuller convertibility would facilitate rapid growth through higher investment and improved efficiency in the financial sector through greater competition.

Quite clearly, while the bigger picture is highly positive, there are several areas that need attention. The instant dream is to take the country into a double-digit growth trajectory. 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. Here, the accountancy profession, which has strong presence in every quarter of the economy, can play a crucial role in helping the Indian economy turnaround steadily. ■

-Editorial Board ICAI – Partner in Nation Building