Editorial

Economic Survey - 2016-17: A Bright Ray of Hope

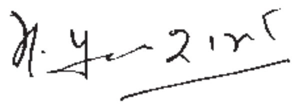
The growth trajectory outlined in the economic survey, presented on February 26, 2016, estimates 7.6% annual growth rate for 2015-16 for the country. Thus, the Indian economy is poised to grow at the highest rate in the world. The Central Statistics Office has also corroborated the growth estimates to be 7.6 per cent for the current fiscal year vis a vis 7.2 % for the previous year. However, despite this uptick in growth in 2015-16 over 7.2 % in 2014-15, the prospects for the coming fiscal 2016-17 are a bit dampening, projecting a lower real GDP growth rate in the 7-7.75 per cent range. Two fiscal challenges which are likely to complicate the task for the Finance Minister in 2016-17 and beyond, are the Seventh Pay Commission recommendations for enhancement of pay scales and allowances of the government employees, and the urgent need to ramp up public investments to address a pressing backlog of infrastructure needs of the country. Still, after a 7.2 per cent economic growth attained in 2014-15, the expansion in the economy estimated to be at 7.6 per cent in the current fiscal is quite heartening. India would be the fastest growing economy in the world. Yet, last year's "over-optimism", espoused in last year's Survey could not come true in 2015-16; last year it had projected higher real GDP growth for the current financial year and for 2016-17. The Central Statistics Office's estimates of growth, given now for this year are 7.6 per cent, much lower than the 8.1- 8.5 per cent projected in the last Survey. Yet, looking at this even marginal upturn in the economy, the chief Economic Advisor of india (CEA) has referred to India as "a haven of stability" in a gloomy international landscape, in the survey.

But, he has also spelled out his concerns for possible currency turmoil in Asia, including in India too, after China's recent devaluation of the Yuan. Basically, the silver lining visible for our economy with respect to growth rate does not appear to have emerged out of any policy endeavors but from the core and inherent structure of our economy, where more than 50 percent of our people are agriculture-based. So, their income and purchasing power do not come from secondary or tertiary sectors. It solely comes from agriculture and our agriculture stays unruffled from the tremors of any external or internal turbulence. Otherwise, the survey lists out a series of problems in the secondary as well as tertiary sectors, largely emanating from our policy endeavors. One of it is the twin balance sheet problem or TBS problem. It is about the impaired financial positions of public sector banks and some corporate houses, being one of the most critical short-term challenges confronting the economy. This twin balance sheet challenge, according to the survey is the major impediment to private investment in the country and a full-fledged economic recovery. According to the CEA, this challenge would require in response four Rs: Recognition, Recapitalisation, Resolution and Reform.

Among other challenges, the survey has also flagged the non-approval of the game-changing GST bill and the lack luster performance in disinvestment, which fell short of targets, including that of achieving strategic sales. The next stage of subsidy rationalisation is also a challenge. But, GST and disinvestment propositions would have many long term repercussions.

Inflation is well expected to decline to a range of 4.5 per cent to 5.0 per cent in the 2016-17 fiscal, within the RBI's target. The current account deficit is also expected to stay low at 1.0 per cent to 1.5 per cent of GDP. But, with respect to the trade account deficit, not much can be hoped. The Survey has expressed concerns very rightly that the $143-billion Information Technology-Business Process Management sector is also getting impacted by increased protectionism. According to the report, the "alarming trend" of increased protectionism has been resulting into barriers to free movement of skill and data. The survey has also very honestly noted that free trade agreements implemented by India so far have pushed up imports more than exports. "FTAs have led to increased imports and exports, although the former has been greater… Increased trade has been more on the import side than on the export side. It is because India has effected larger tariff reductions than its FTA partners," it said. Since the mid-2000s, India's FTAs have doubled to about 42 today. So now there is a need to be cautious in negotiations on India-EU free trade agreement.

The Economic Survey 2016-17, has also recommended raising of resources for recapitalising public sector banks by carefully leveraging the assets of the Reserve Bank of India and other regulatory institutions. But, how far can it be done is a big question. The survey has also asserted that the government would keep the fiscal deficit within the target of 3.9 per cent of GDP in the current year. But, then, another question arises that from where the resources for development would come. Looking towards a growth trajectory of 7.6% India could go somewhat more aggressively for monetization of resources.



(Prof. Bhagwati Prakash Sharma)

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