# India's Growth Story
# Recent growth trends: Cause for concern or jubilation?

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# Plan of the paper/presentation

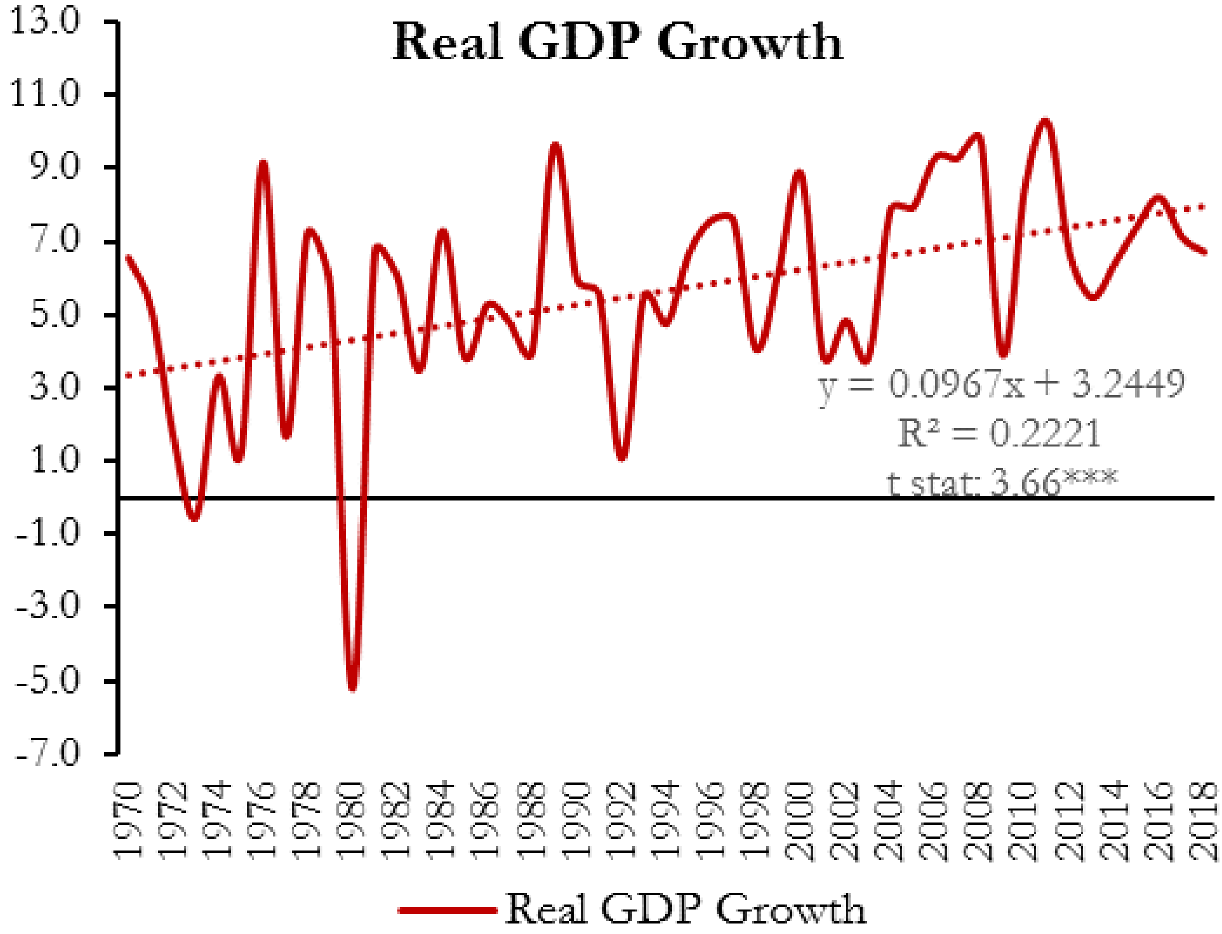
(i) India's long term growth (last 40-50 years)

(ii) Growth dynamics in the last decade and a half (since 2003)

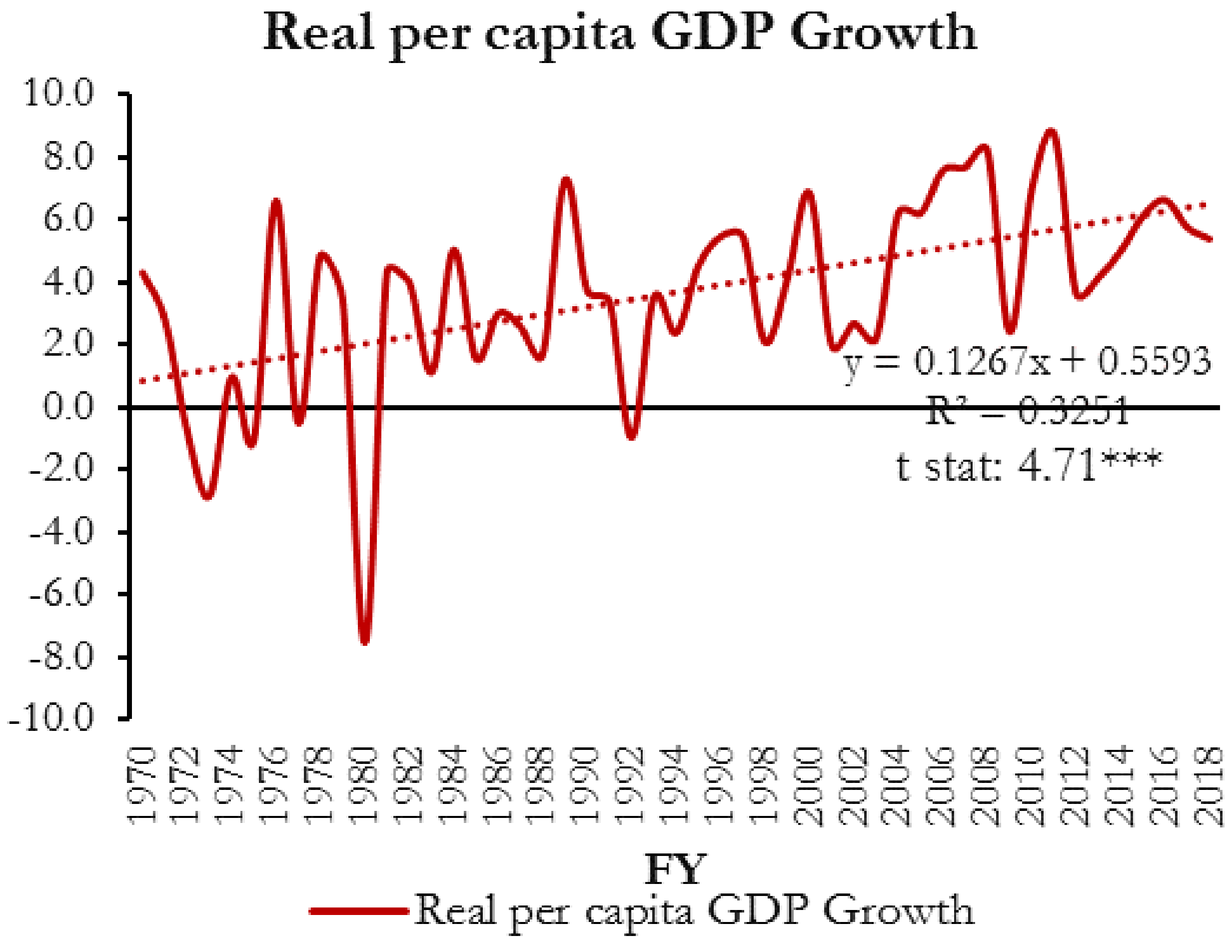
(iii) Recent economic developments

(iv) Lingering and emerging challenges and policy priorities

# Long term growth has consistently accelerated and stabilized—True across sectors and states



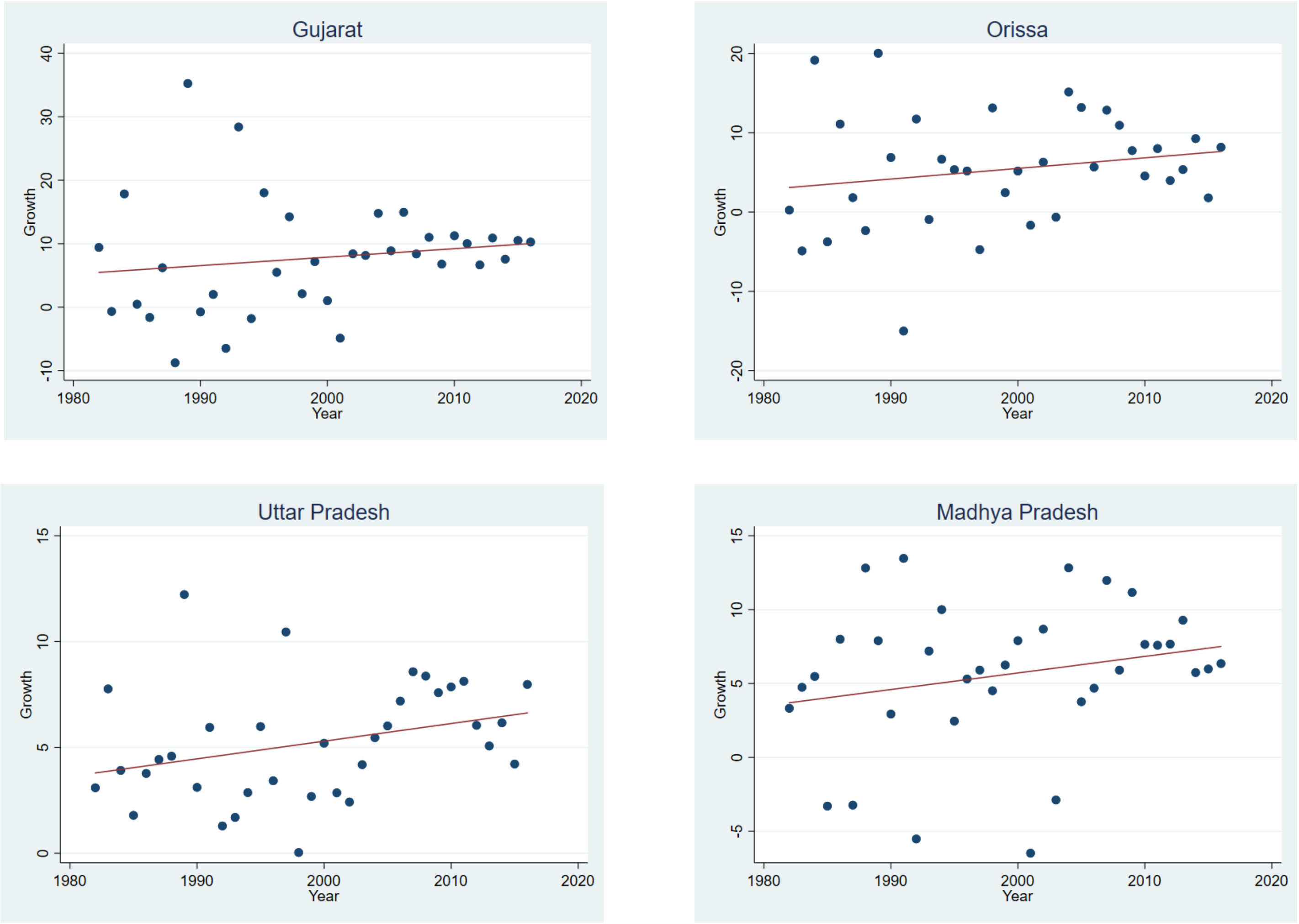
# Acceleration has been faster in per capita income



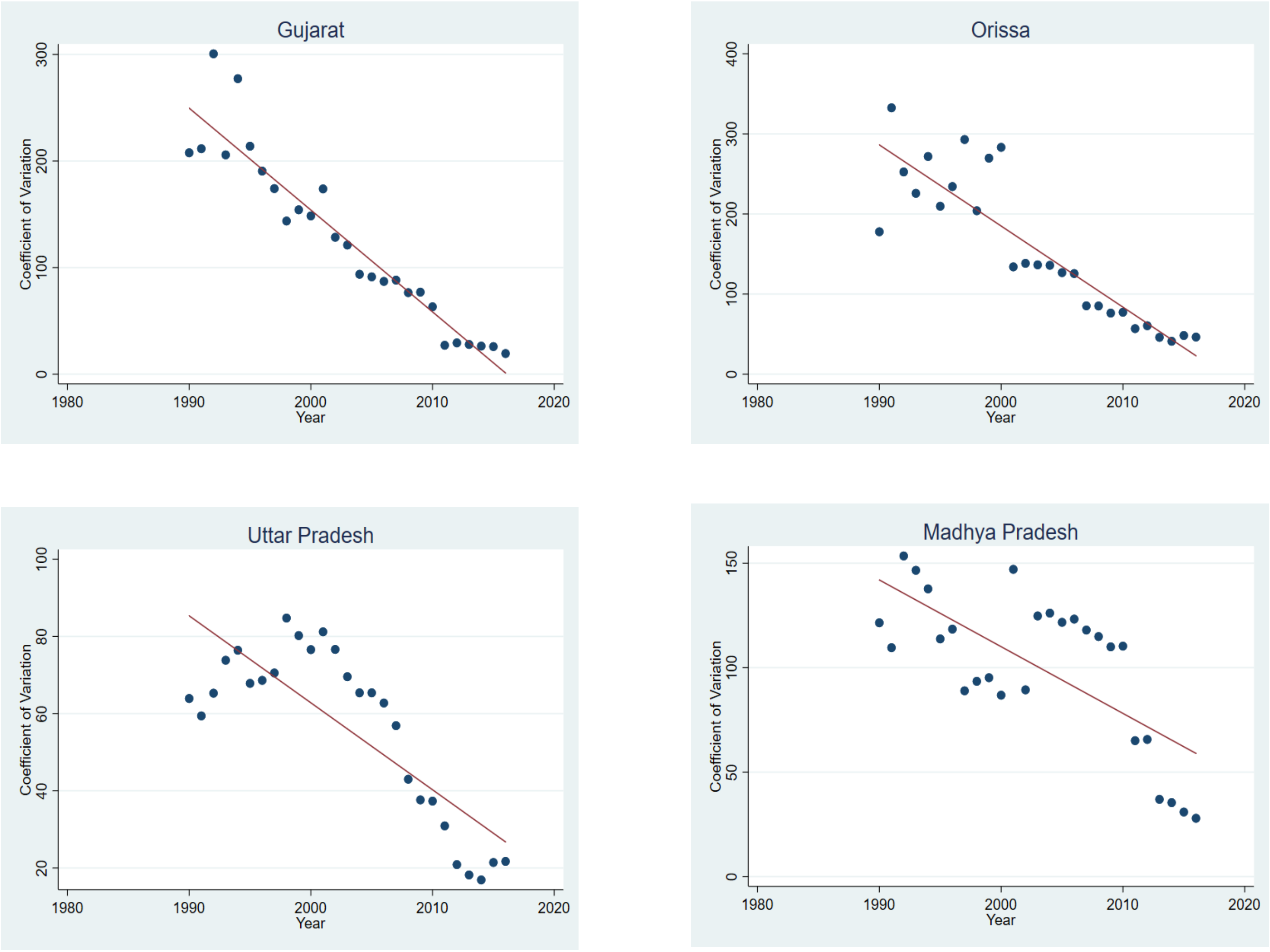
# Acceleration and stability across sectors: Agriculture, Industry and Services

- Agricultural growth : has become more stable, no definite acceleration.
- Services growth: has become more stable, fastest acceleration.
- Industrial growth: too has become more stable, some acceleration

# Inter state experience: growth has accelerated across states



# Inter state experience: growth has become more stable across states



# Growth has diversified too

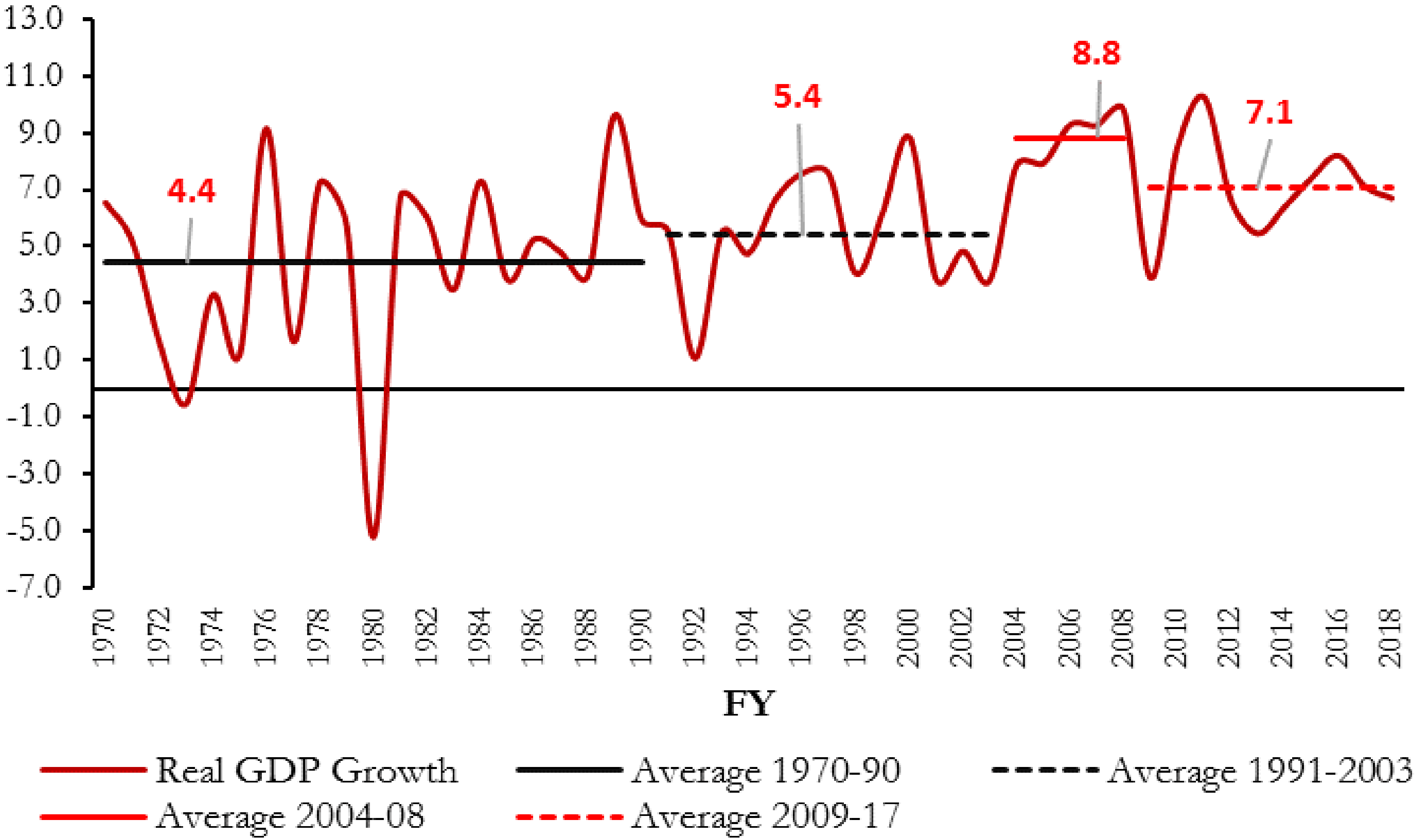
Consumption, Investment, and Exports

- Acceleration in their contribution to growth over long run
- Share of consumption in GDP has declined, of investment and exports increased

Contribution of factor inputs and productivity growth

- A balanced narrative: TFP has increased slowly, as has the labor productivity (Bosworth, Collins and Virmani, 2007; Bosworth and Collins, 2008)

# (ii) Growth rates in the last decade and a half: Parsing the long run to understand when the perceived slowdown started



# (ii) A distinct cycle in the Indian economy around the global financial crisis: High growth rates in 2003-08, and a slowdown thereafter

Growth faster than before in 2004-2008; and somewhat faster than in many other emerging markets.

Prominently reflected in investment and credit growth, coincided with rapid inflows of capital. Features of unsustainable boom (very rapid growth of investment, credit and infrastructure) ?

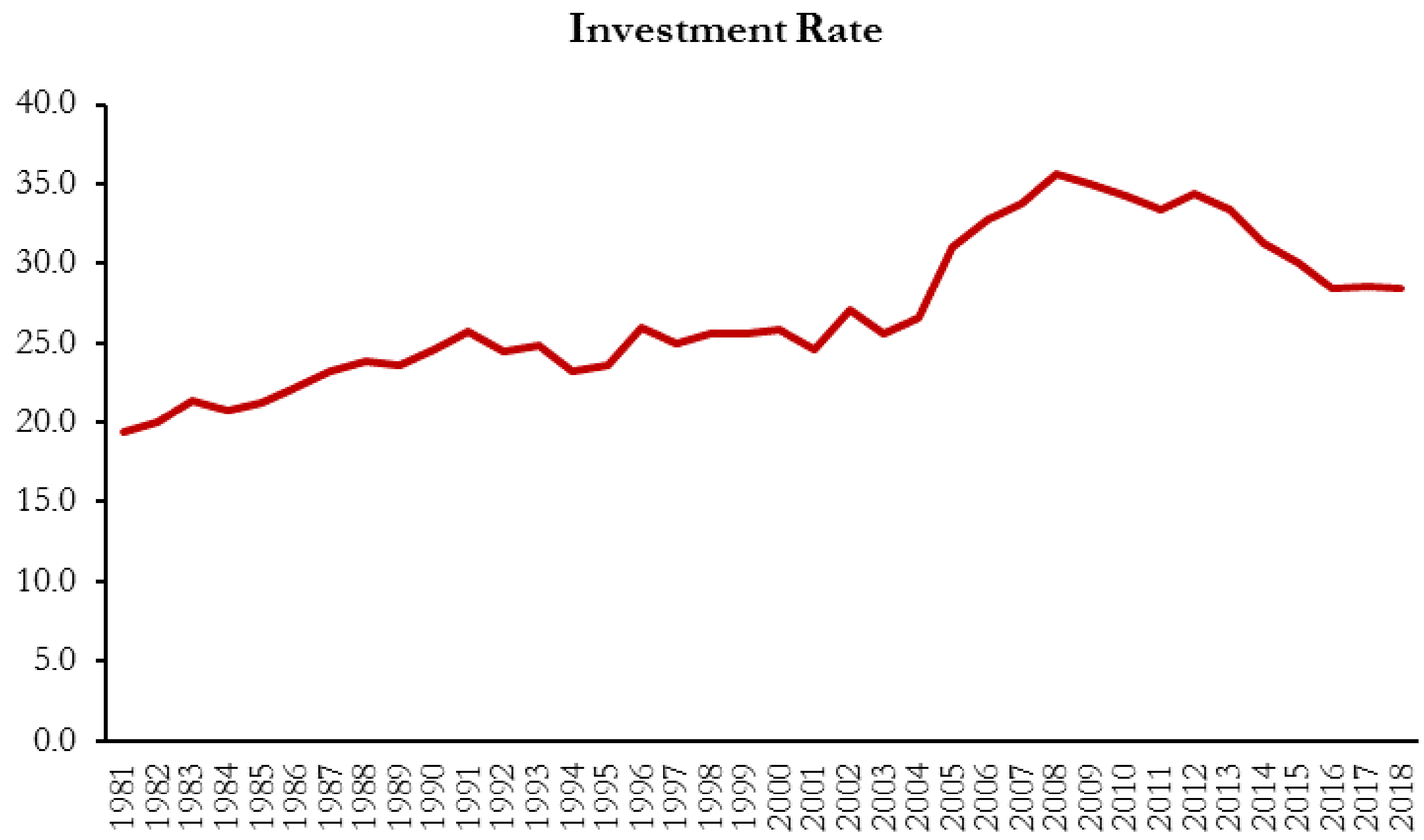
- External factors clearly contributed to it (Shankar Acharya; Mohan and Kapur); India specific features too—impact of economic reforms (Shankar Acharya; Arvind Panagariya)
- The policy response consisted of increased spending, monetary policy easing, tax rebates, regulatory forbearance in the banking sector, evergreening. Coincided with a pre election spending spree.

# Slowdown since 2008-09

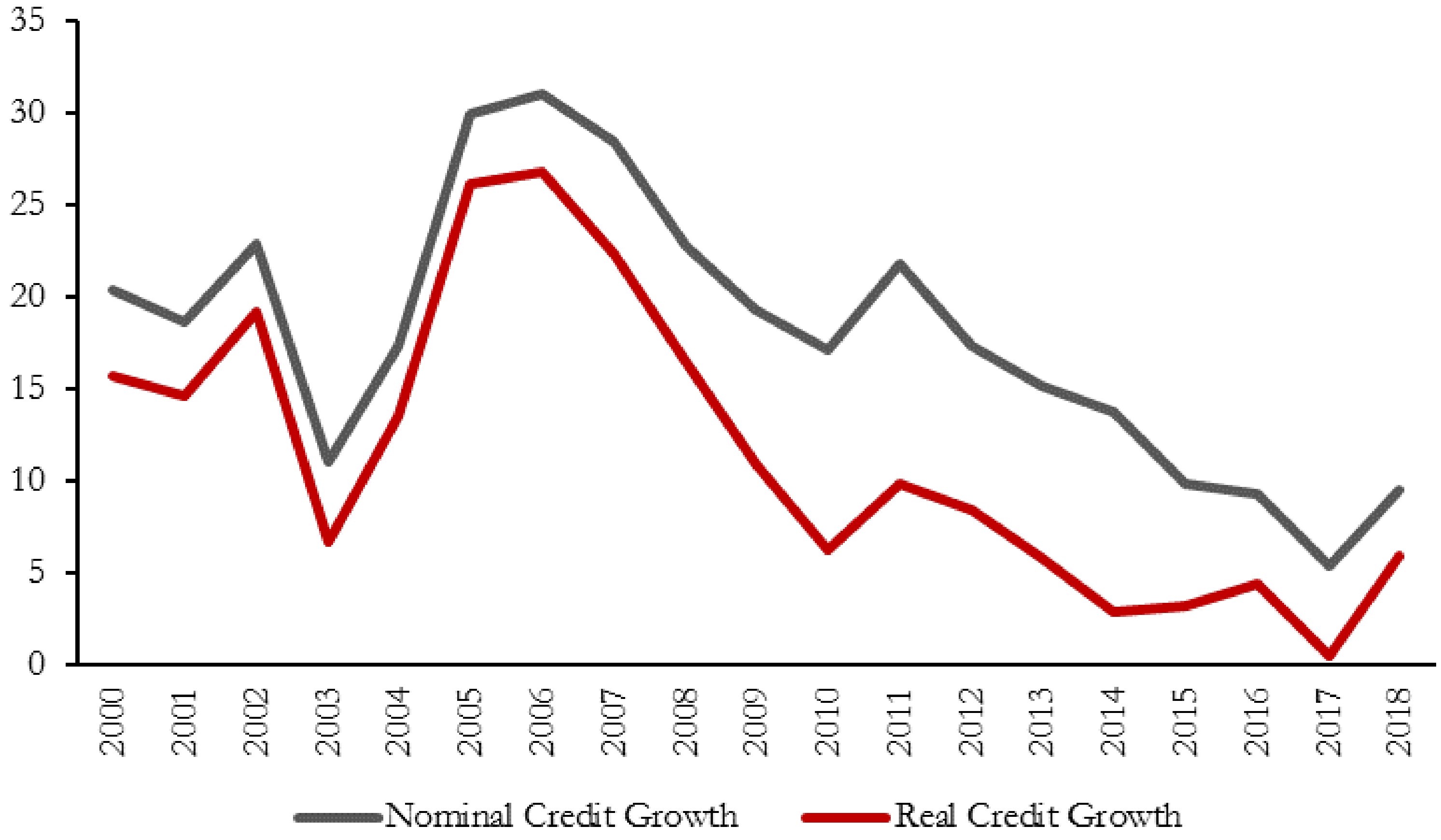
- Slowdown in India coincided with global financial crisis.

- Subsequent investment slowdown and credit slowdown sharper in India than in other large emerging markets—related to the extent of increase in prior years and the specific policy mix during 2008-09 and thereafter.

# Investment rate has been slowing after peaking in 2007-08



# Credit growth has been declining after peaking in 2007

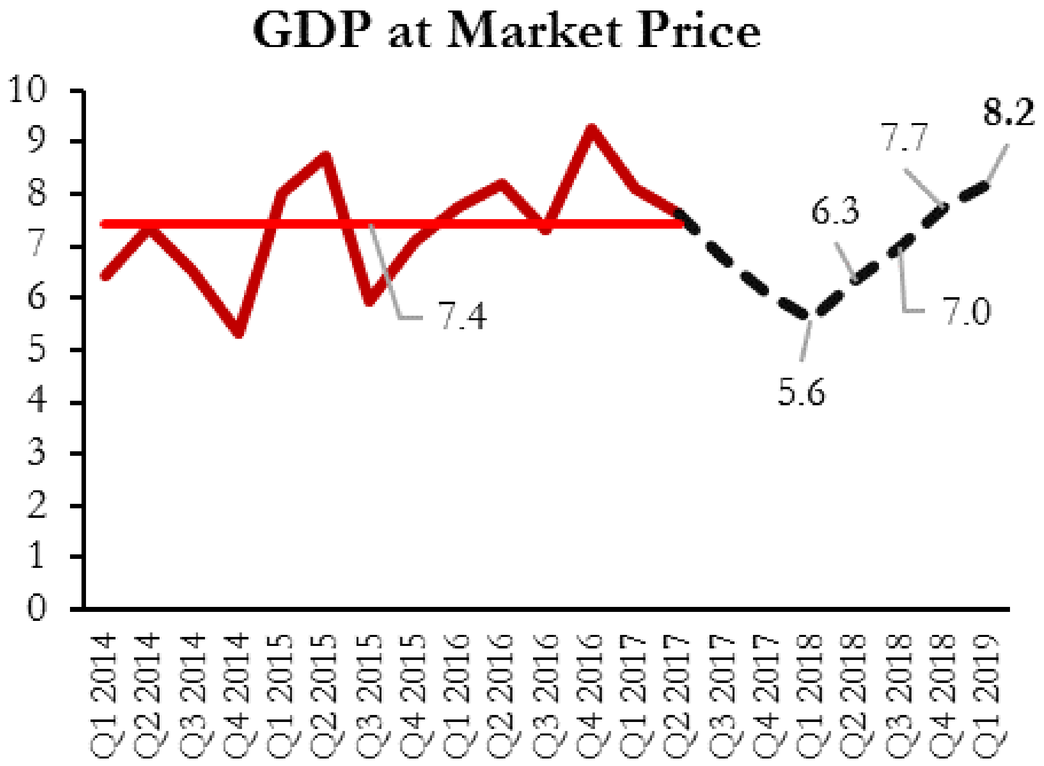


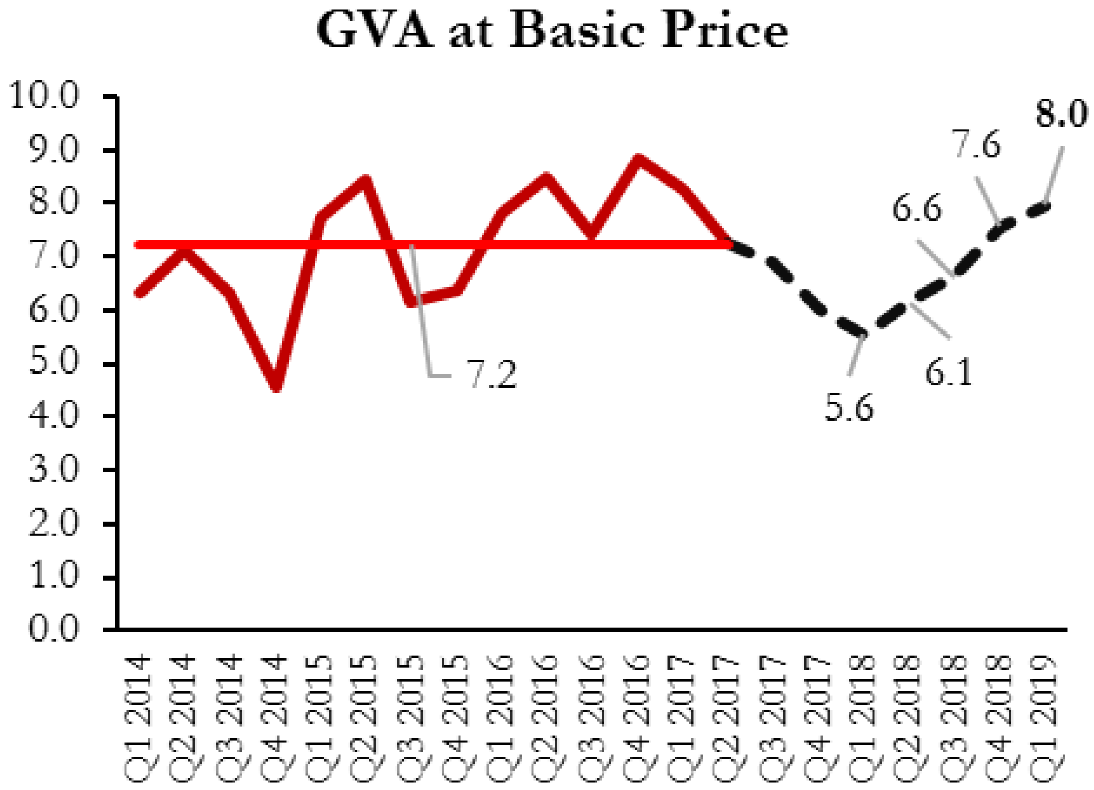
# Exports and trade as percent of GDP have been declining since the global financial crisis


# (iii) Recent Economic Developments—last few quarters

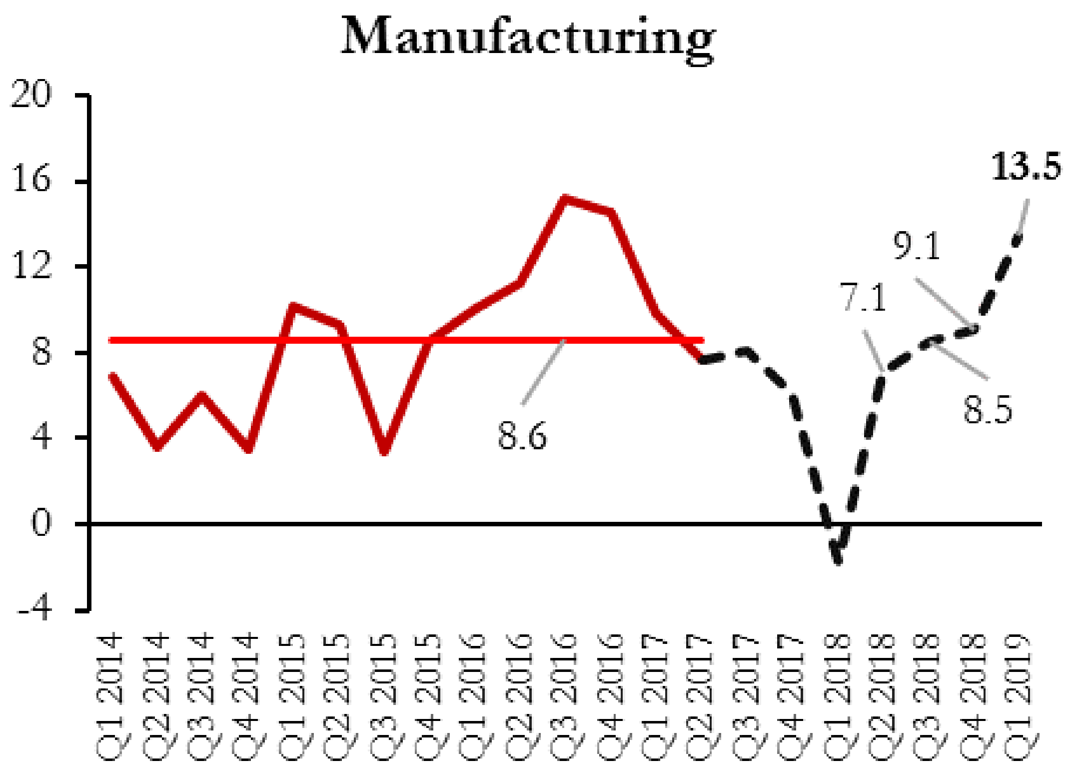
- Demonetization and implementation of GST had an impact on growth when it declined below 7 percent
- Growth temporarily decelerated to 5.6 percent in Q1, 2017-18; but rebounded to 6.3 percent in Q2, 2017-18; 7.0 in Q3, 2017-18, 7.7 percent in Q4, 2017-18, and 8.2 in Q1, 2018-19
- High frequency indicators such as trade, credit, investment, IIP, PMI, point to a continuing rebound in the economy

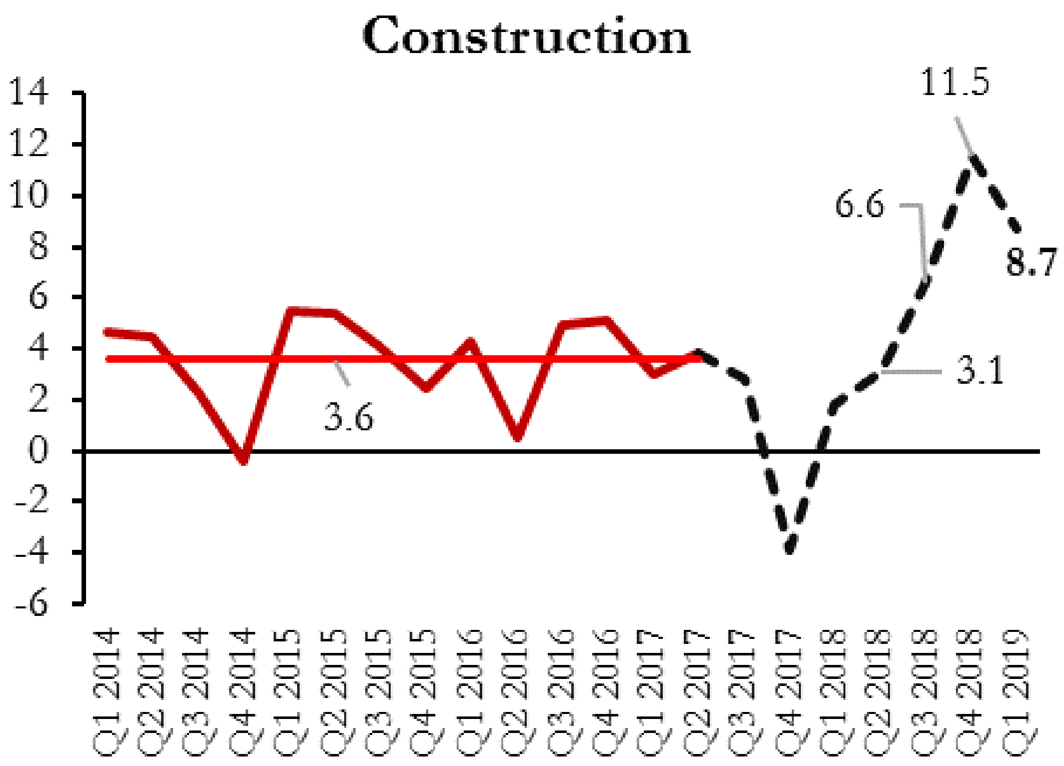
# Continuing rebound…



# Continuing rebound……. (contd.)



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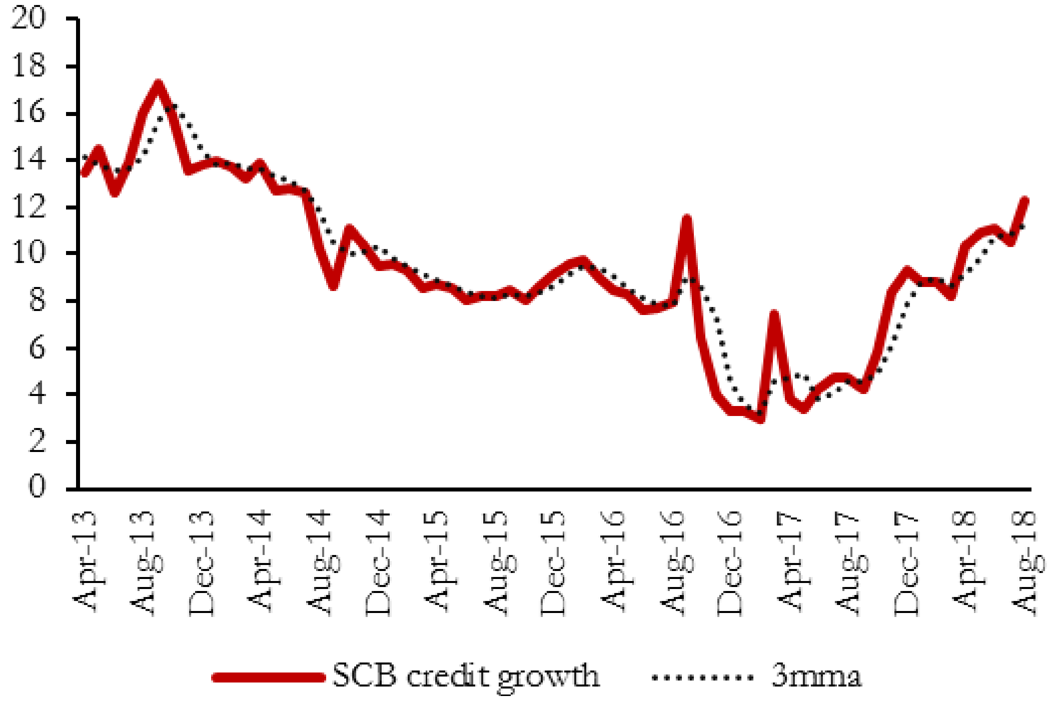


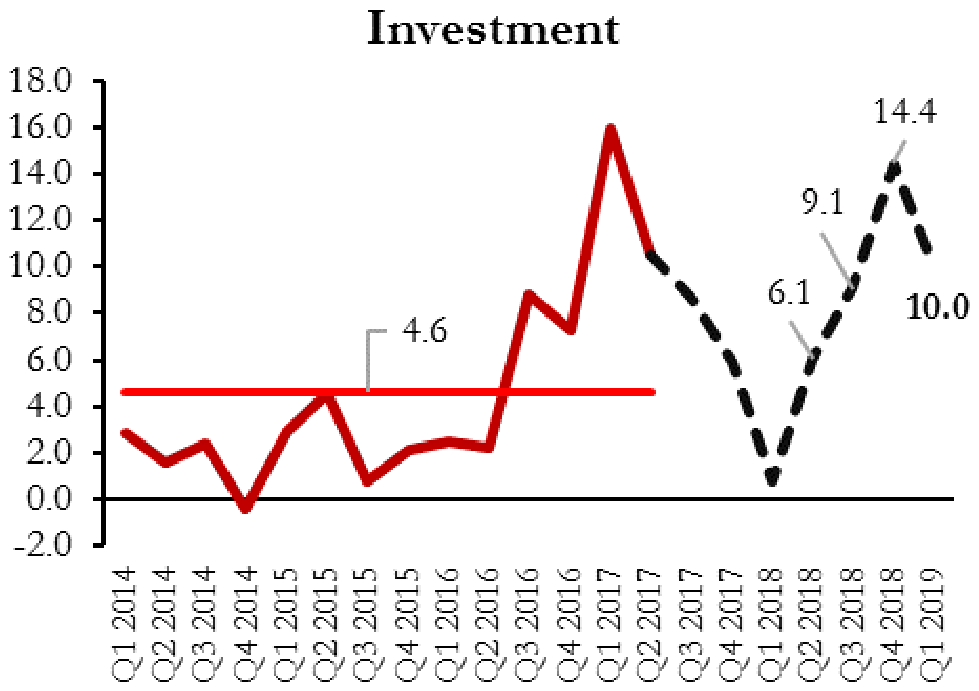

# Challenges: some existing ones have persisted, and new ones have surfaced

<u>Existing challenges:</u>

Investment cycle

Banking sector

Exports revival (when global trade sentiment is subdued)

<u>New challenges:</u>

- Oil prices increased
- US monetary policy is being tightened
- Global trade environment is turning protectionist
- Emerging Market sell off earlier this year as a result of the above
- Non bank financial sector: liquidity vs asset quality issues

# Summary

- India's growth has been credible over the long run: accelerated, steadier, diversified, balanced.
- Growth averaged 7 percent in the last decade, as growth decelerated after the pre global financial crisis boom.
- A slowdown below that was seemingly transitory and now signs of revival.
- Growth at higher levels would require a supportive global economy, reversing declining trends in investment and exports; an efficient and resilient financial sector; and a continuing reform momentum.

Thank you