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Growth with Stability, Inclusion & 8%+ Growth

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India Habitat Centre, New Delhi
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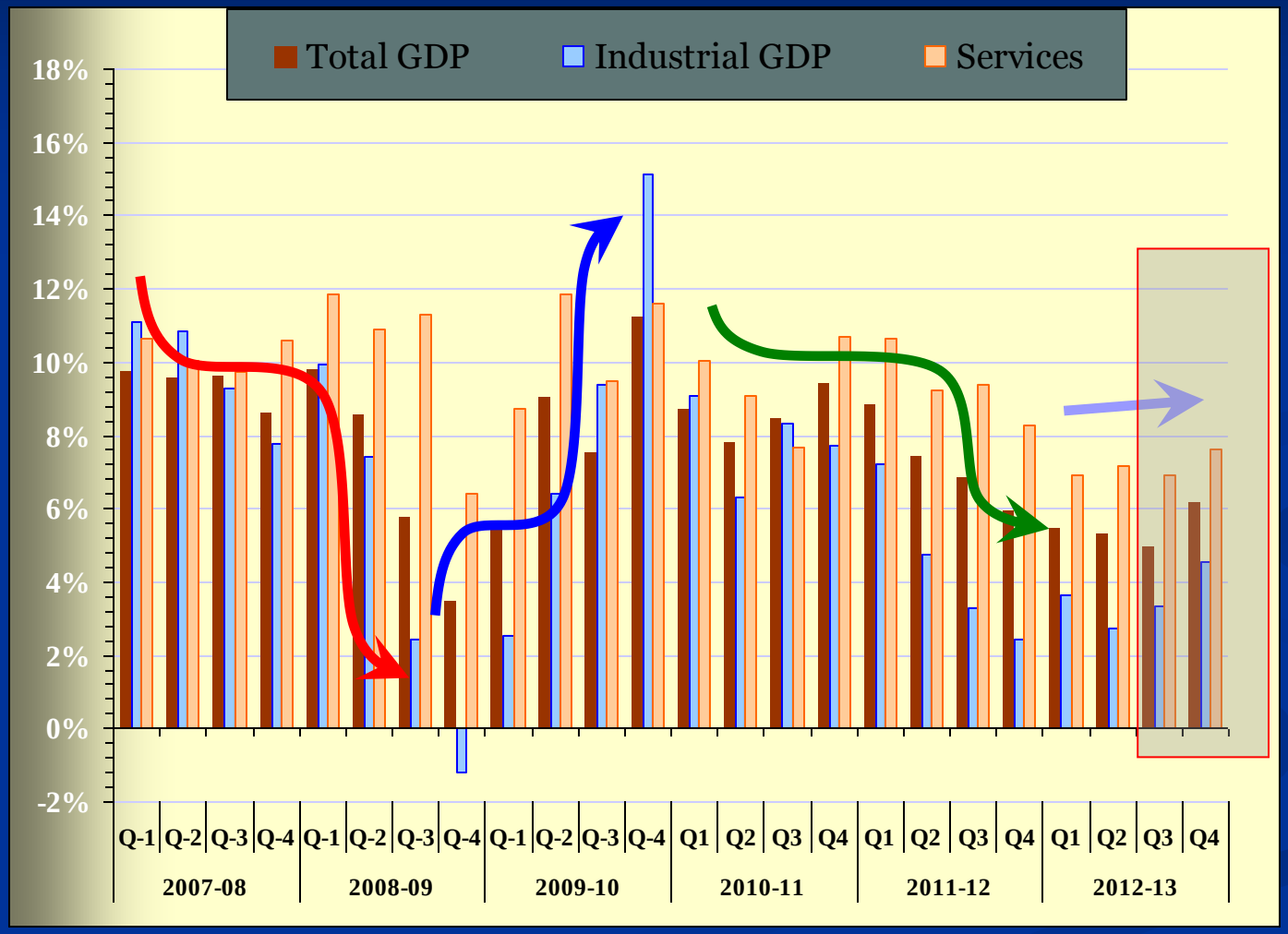
Key Issues of Concern

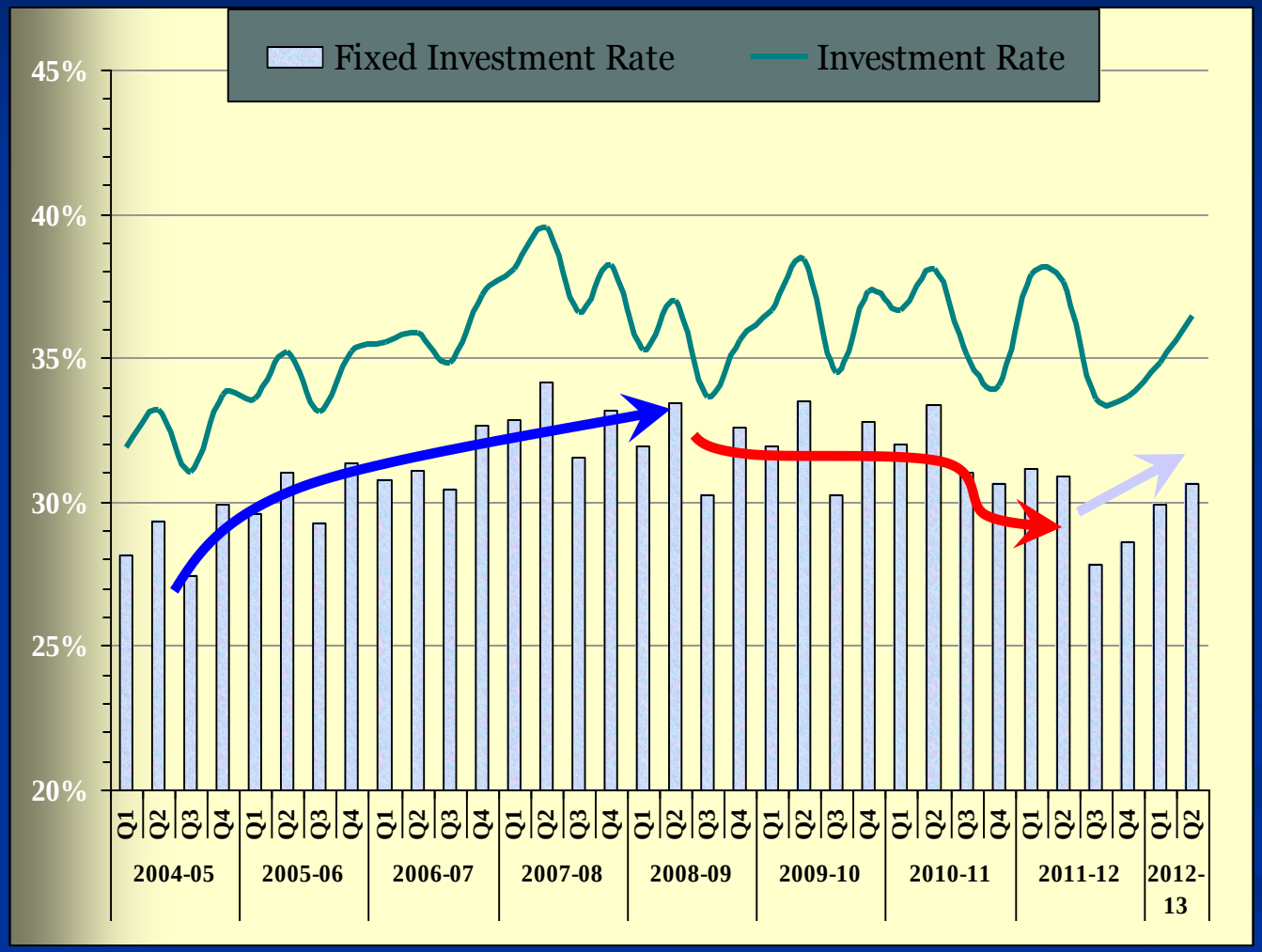
- Much quicker than expected recovery after global Crisis
- Then, a drawn-out slowing down of the economy
- Recovery in output growth was sharp, but that in the pace of investment was not as pronounced.
  - However, data shows that GFCF (peak 32.9% in 2007-08) was 31.7% on both 2009-10 and 2010-11. Now around 30%
- High inflation, persistence of large financing gaps in Central government and a much larger than desirable expansion in CAD have surfaced
  - All of these are unwelcome developments

Quarterly GDP Growth Rates



Recovery far more rapid than expected, followed by unexpected deep & persistent slowing of growth

Quarterly Investment Rates

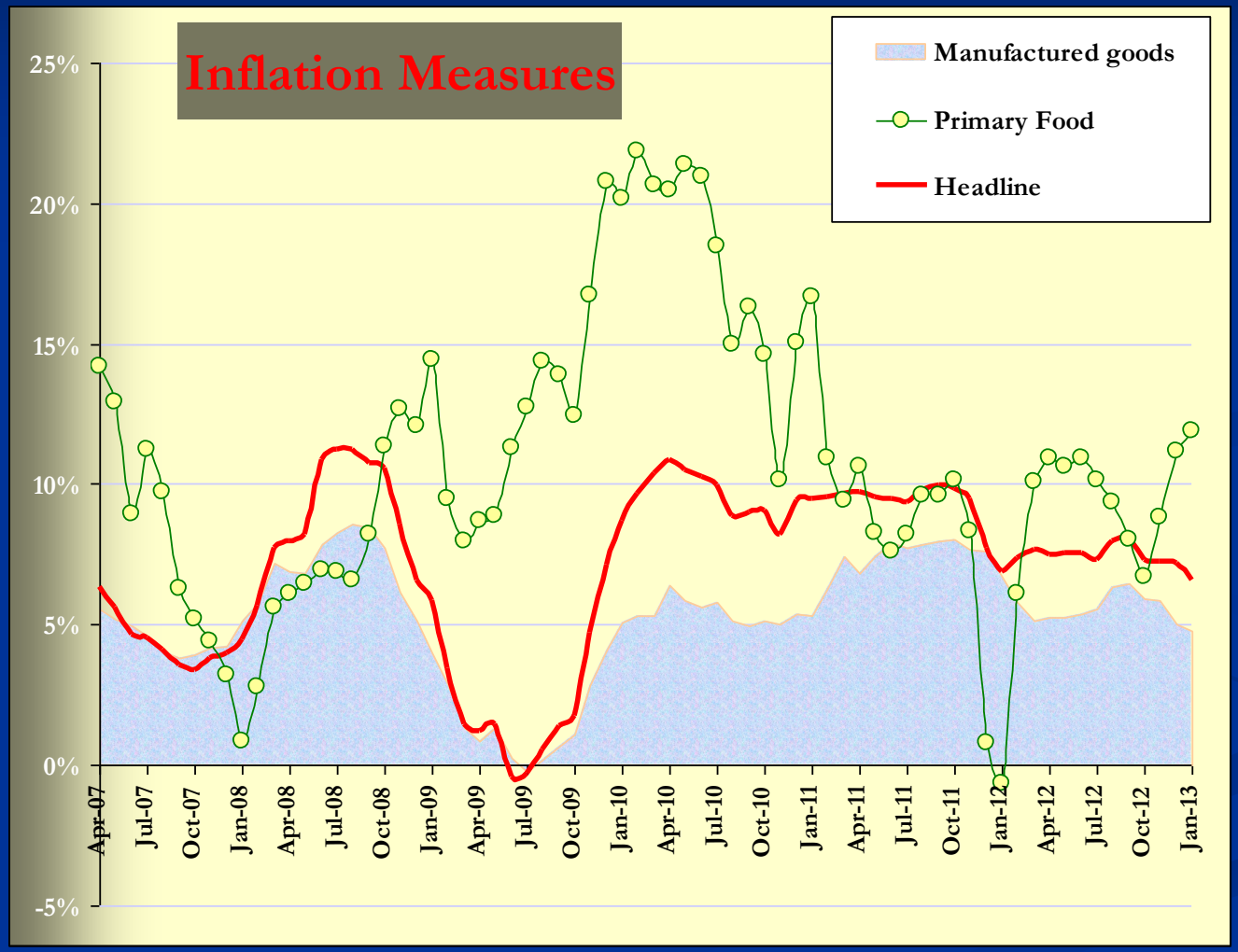


Fixed investment slowed a bit, but not by that much. More so in recent period

Inflation added disruption …

- Impact of high and persistent inflation is strongly negative for growth.
- The sharp pick up in inflation into double digit levels lasting three years has resulted in
  - Lower corporate margins
  - Eroded real disposable income of consumer
  - Tightened monetary policy
- Political problems in recent years made matters worse

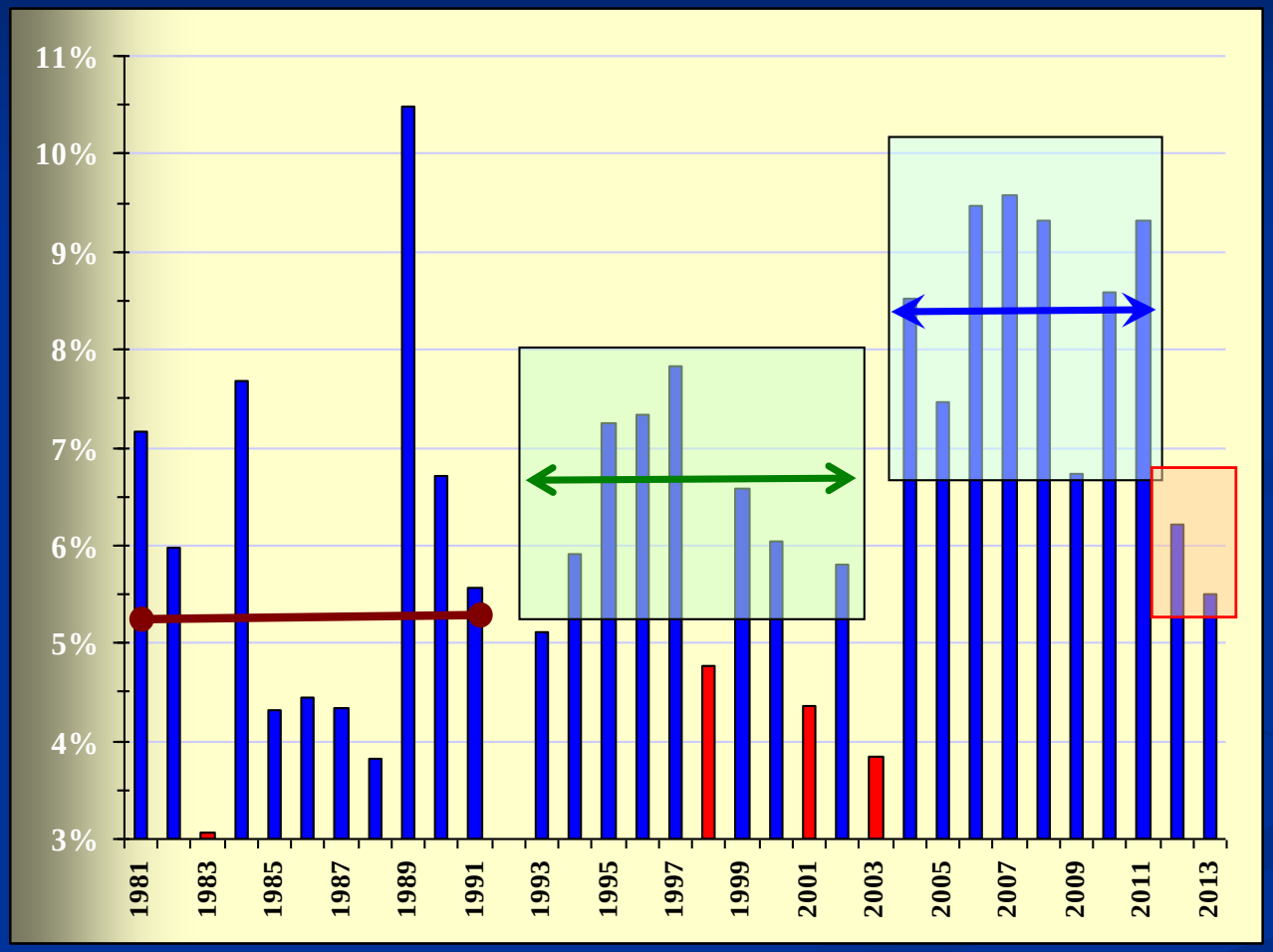
Inflation for 36 months …



Surge in food prices in 2009 due mostly to the weakest monsoon in 28 years. It became generalized later. Some easing seen now

The Break-out in Savings & Investment Rates as %GDP

Variability & Shifts in GDP growth

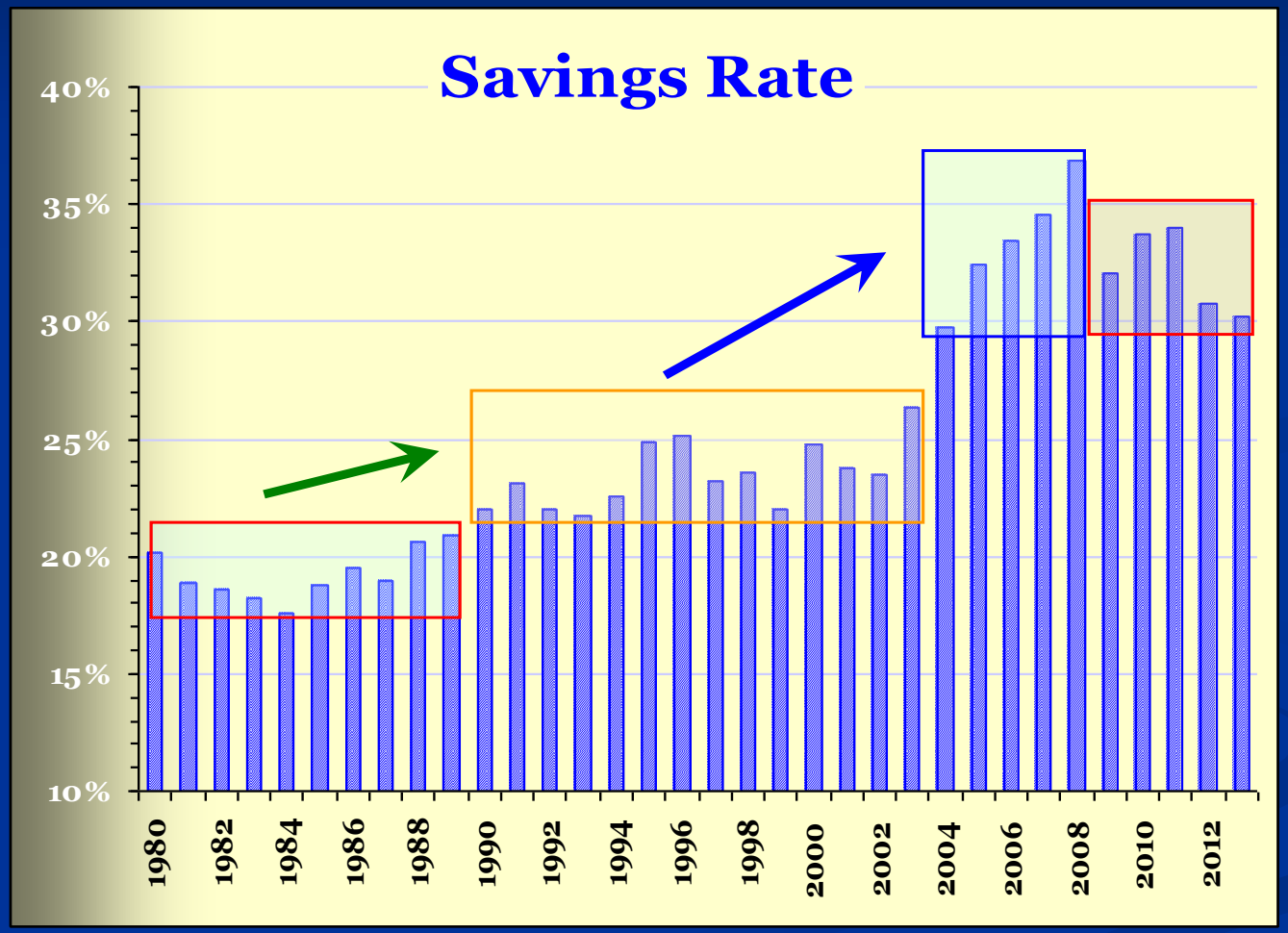


Growth an outcome of multiple factors. Hence, plenty of variability but this has reduced in recent years

Structural changes …

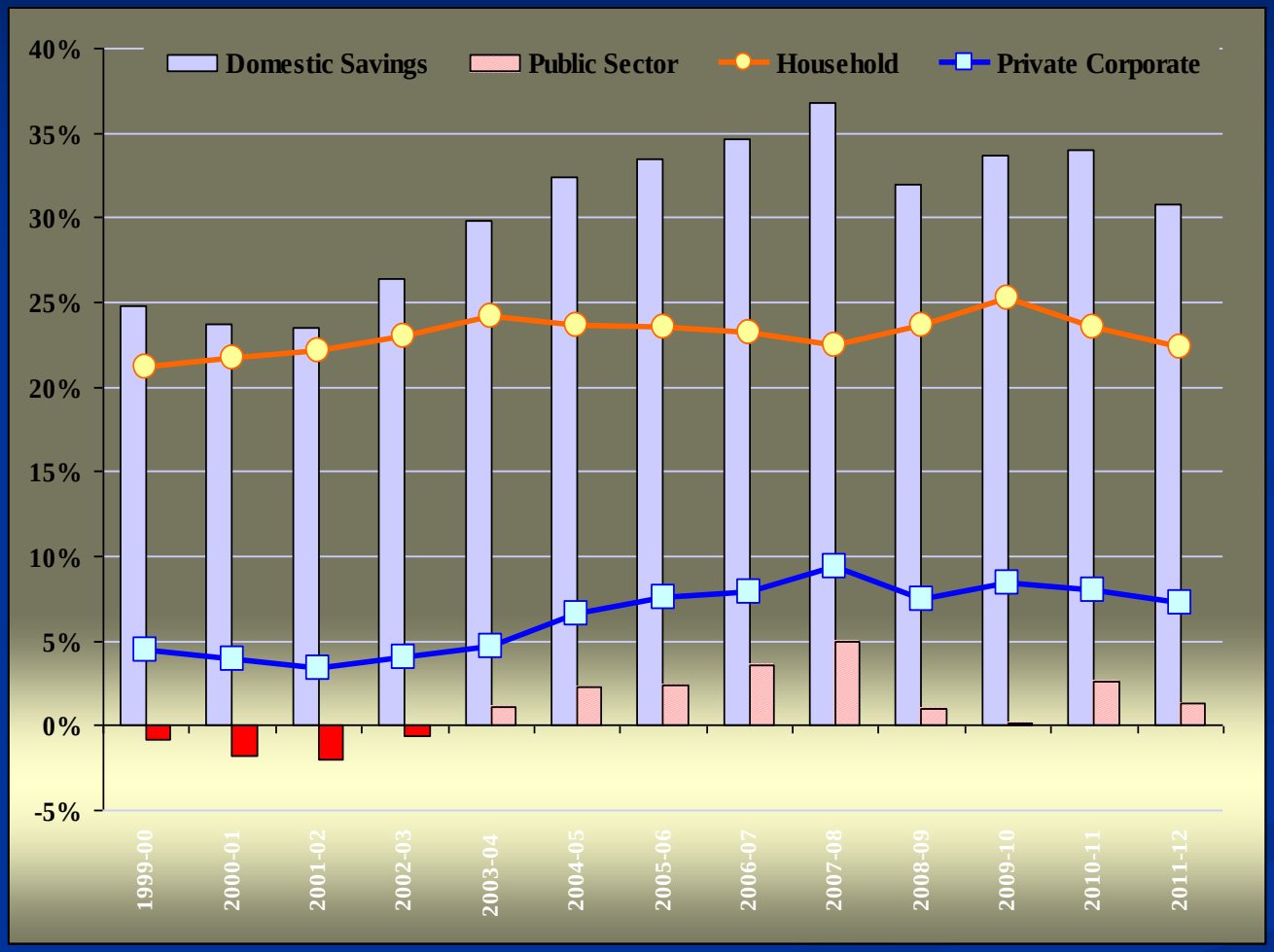
- Massive change in policy framework post-1991
- Large shifts in investment rates, including fixed capital formation
- Counterpart change in domestic savings rates
- Lower inflation
- Large changes in micro-level elements in corporate character, banking & in markets
- Larger private capital flows stabilized the BoP

Savings rate moves into new levels



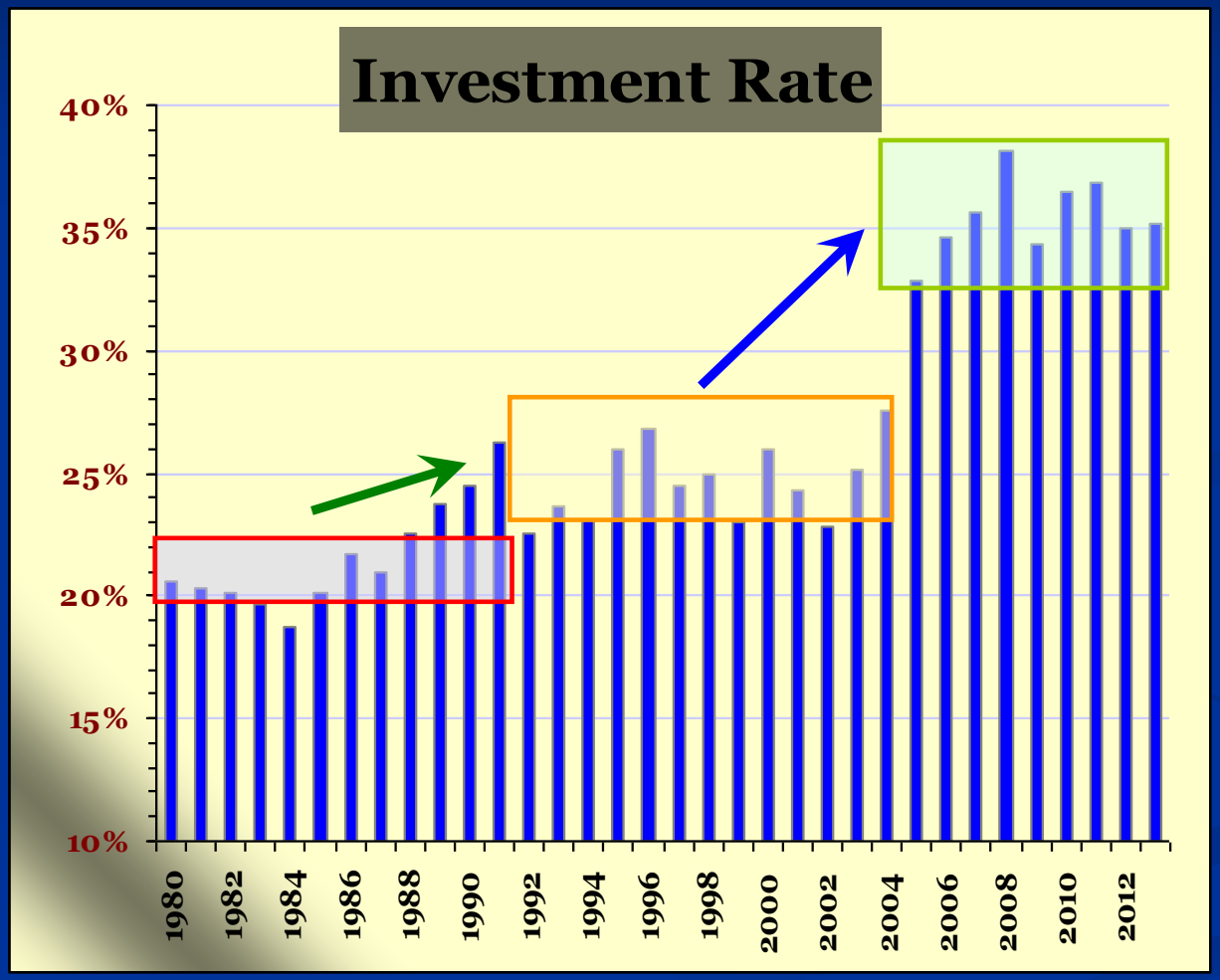
Clear and meaningful shift in domestic savings rates

Components of Savings



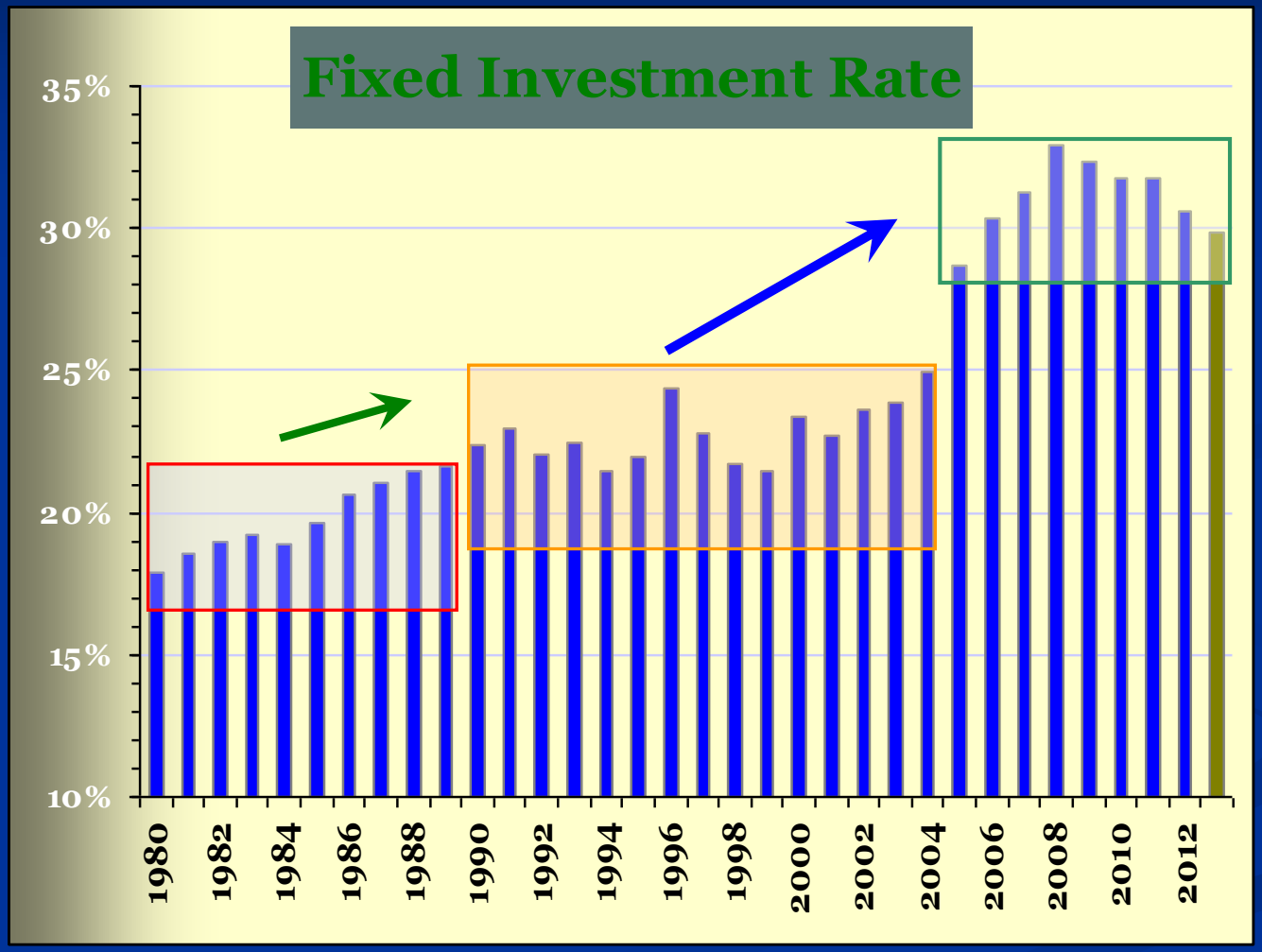
H/hold savings has settled at 23 to 25%. Fall in public sector savings main factor in pushing savings down savings rate. Weaker co. profits contributed

Aggregate Investment picture



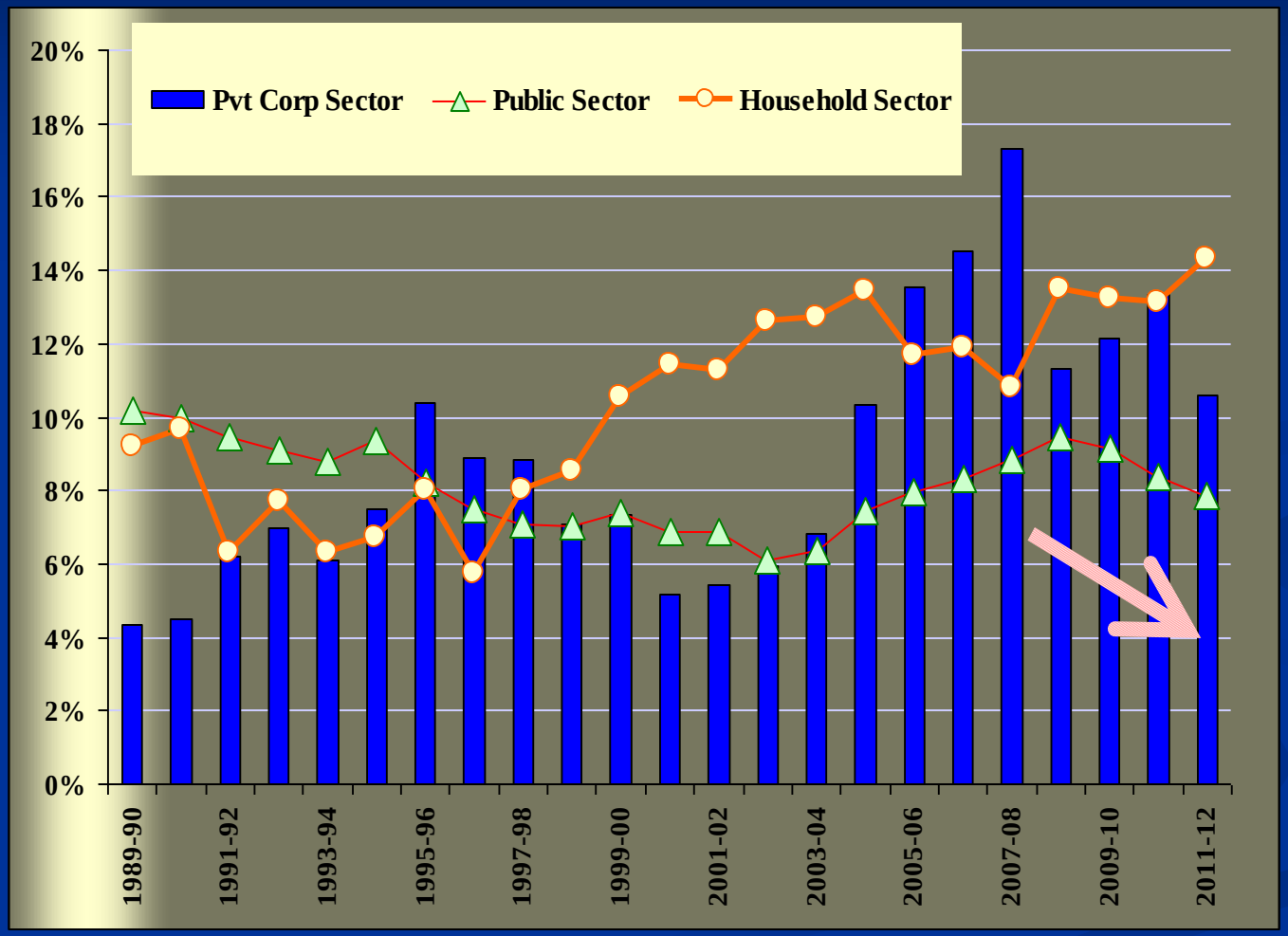
1. Investment has shifted massively
2. Presently, GDCF still substantial at ~35% of GDP. But this is a bit misleading

The Fixed Investment Picture



Because disposition of that investment is less helpful to lifting growth. But it is still in the breakout region

Fixed Investment–Where is the fall?

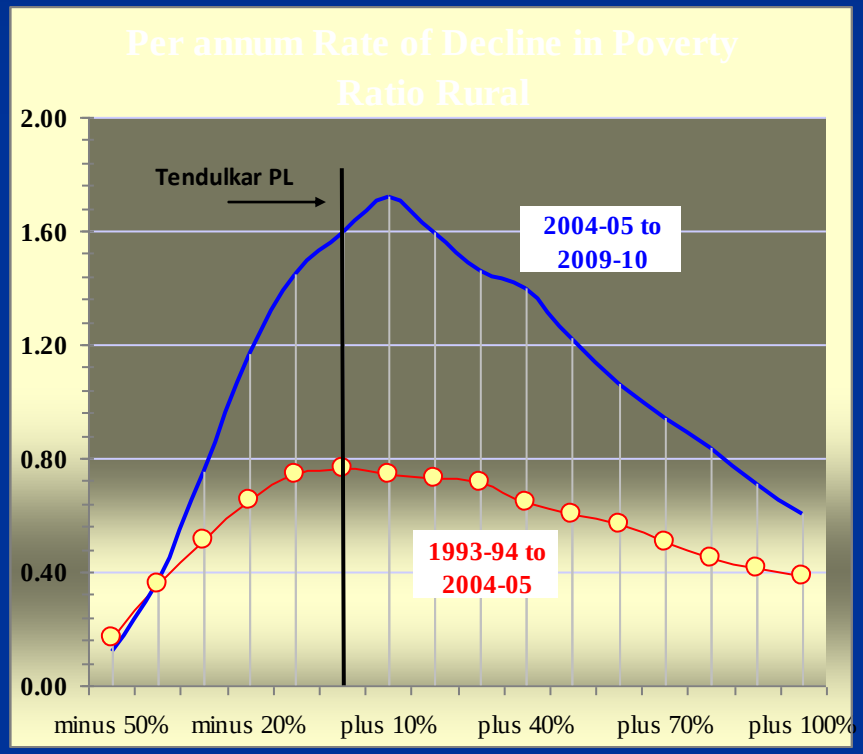


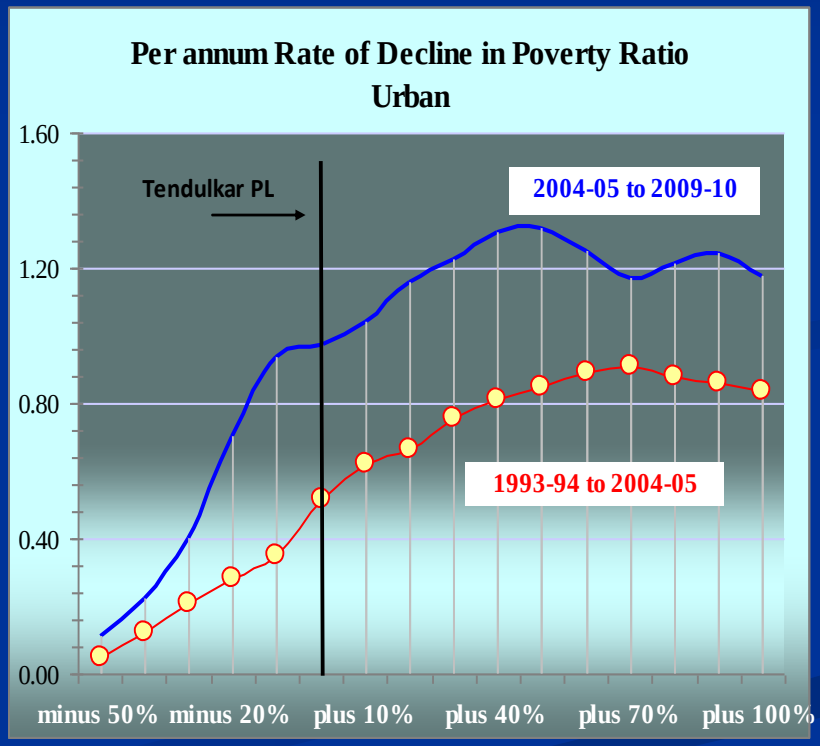
Largest decline in private corporate sector, but also a marginal one in the public sector

Inclusion Issues

Rate of Decline in Poverty Ratio

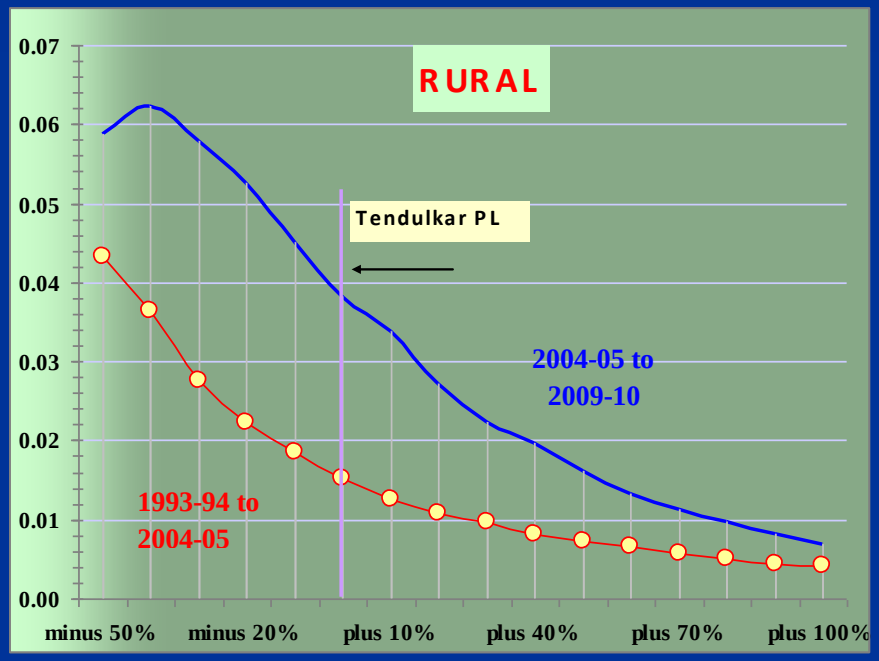
Comparison of two time periods

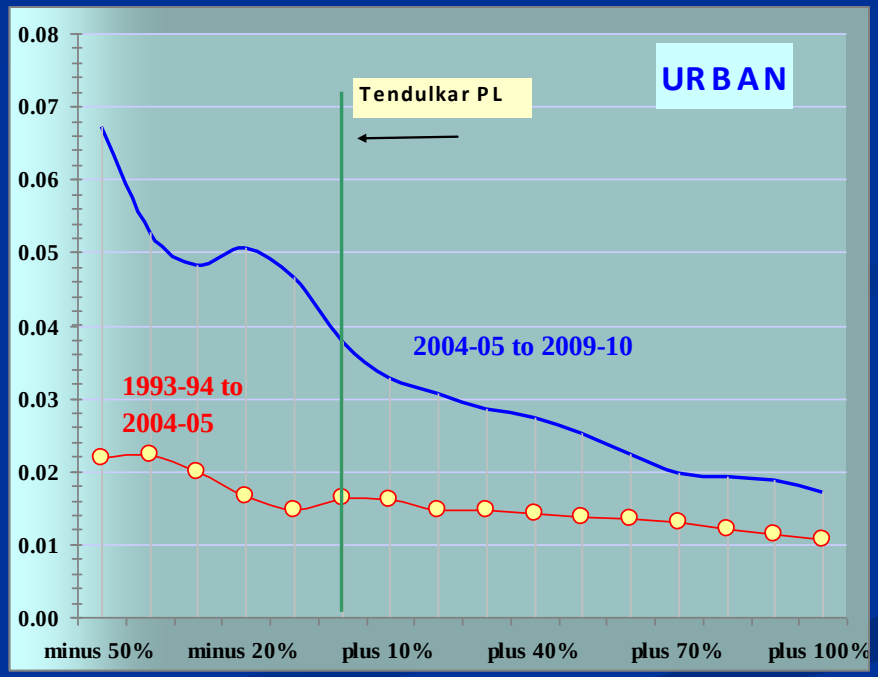




Rate of Decline in Poverty Ratio

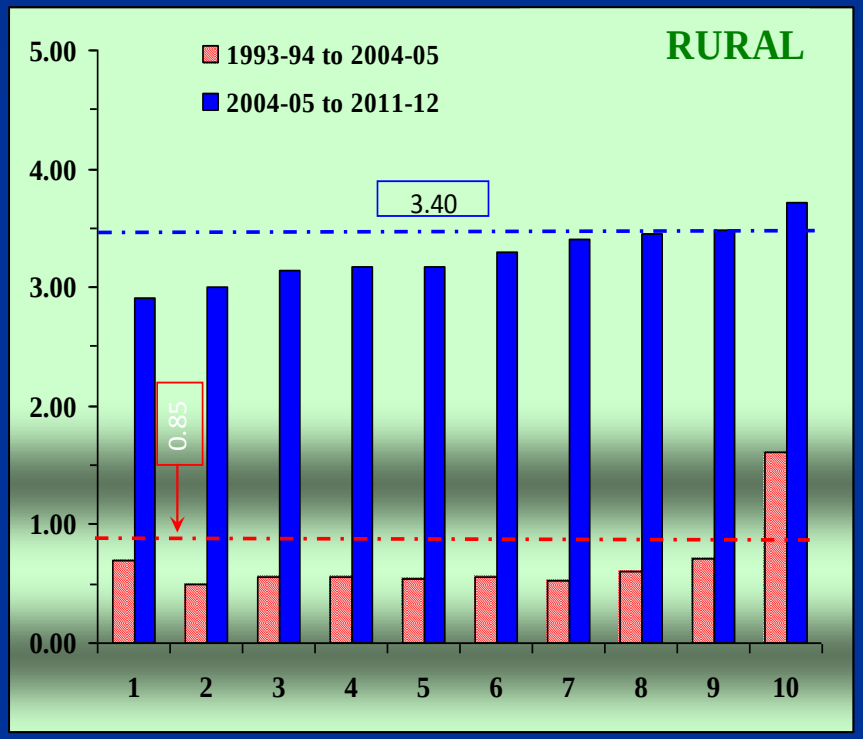
As per cent of previous period Poverty Ratio

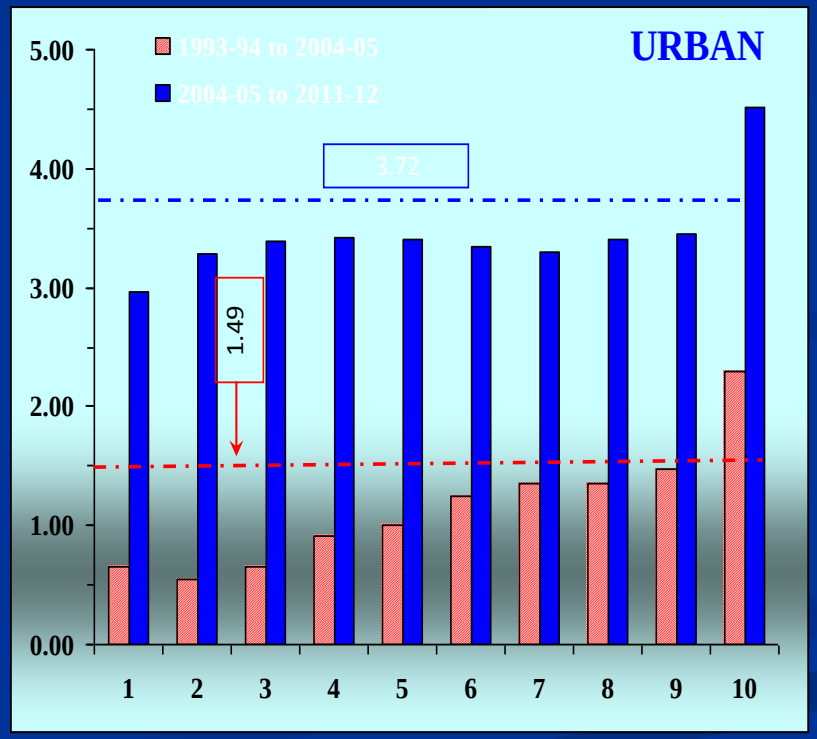




Rate of Increase in MPCE (URP)

Two periods 1993/94 to 2004/05 and 2004/05 to 2011/12





Path towards restoring 8%+ GDP growth rate

Issues therefore are …

- Between 2007/08 and 2011/12, the rate of fixed investment has dropped:
  - By about 3 percentage points of GDP overall
  - By the 4 percentage points for the private corporate sector.
- Basic challenge is therefore to create conditions where this slippage is remedied in the next two years.
- To do this we need supportive policy, timely decision-making and effective & streamlined implementation of these decisions

… and correct erosion in savings

- Fall of 6 ppt of GDP in savings rate between 2007/08 to 2011/12
- Of this 3.7 ppts was in public sector
  - Of which 2.5 ppts in in government administration
- Private corporate savings eroded by 2.2 ppts
  - Most of which was in 2010-11 and 2011-12. Corporate margins a function of restored growth, price & exchange rate stability
- Large decline in net financial savings of households – down by 3.6 ppt of GDP

The problem . . .

- India is a supply constrained economy.
- Autonomous demand creation is substantial
- Keeping the supply in line with demand expansion however is a big challenge
- Therefore, inflationary pressures consistently plays a potent role in the Indian economy and is invariably destabilizing

Point of Intervention

- The infrastructure space is the vital one as it defines the principal supply bottlenecks
- Then again, physical infrastructure
  - Involves government in diverse manners
  - It is also an area where government is able to intervene through many channels
- Therefore restoring the slippage in the fixed capital formation rate is (a) vital and (b) essentially a story of facilitating higher private investment in infrastructure

Sectoral approach ….

- Largest chunk of infrastructure is in power. What do we need to do?
  - Clearances
  - Fuel supply
  - Transmission
  - Finances of Elect. Dist Coms, SERC and tariff revision
  - Financing
- Likewise for roads, ports, airports, railways and urban municipal infrastructure

Macro side progress & task ..

- Linked to bringing Central govt.'s financing gap to ~5% of GDP in 2013/14 which will set it back on the path of consolidation
- Better tax revenues and substantial containment of expenditure, especially oil subsidies – required
- Tighter fiscal stance will (a) release more domestic savings for Capital formation; (b) improve anti-inflationary stance; (c) improve investment climate
- Work to reduce the demand for gold as an asset

In Summary ….

- With a weak-*ish* global economic environment and in the **absence of shocks**, we can hope to return to 8%+ growth, provided we:
  - (a) are able to restore slippages in infrastructure investment and (b) get on *re*: pillars of macro economic stability
  - That is years 2013, 2014 . . .
- In a more favorable climate where conditions in the US & Europe improve, we can expect to build upon this foundation to target 9%
  - That is 2015 onwards ….

So what does the 12th Plan look like?

- Short-run – in a weak global environment, but strengthened domestic activity and a recovery in investment in physical infrastructure:
  - Fixed investment rises slowly to hit 31% in second year of Plan period and up to 32% in the third year
  - Main agency of improvement in corporate sector including PPP.
- Medium-term – with recovery in global situation after 2014 and a more solid base at home, we can look to growth of 9% in the last two years of the 12th Plan.
- Average of 5 years can thus be around 8%, pulled down by the unexpectedly weak outcome in the first year

Thank you