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Growth Story: An Overview of the Indian Economy

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INTRODUCTION

India has achieved much in the last two decades of the reform period. The country is now a $ 1.8 trillion economy, the fourth largest in the world. However, a lot remains to be done for achieving all the economic, social, and environmental goals of the nation. In the post-reform period, India has done well in some indicators such as economic growth, exports, balance of payments, resilience to external shocks, service sector growth, significant accumulation of foreign exchange, information technology (IT) and the stock market, and improvements in telecommunication.

What are the recent trends in Gross Domestic Product (GDP) growth? The trend rate of GDP growth in the last 20 year period has been more than 6 percent per annum. The growth rate was nearly 9 per cent per annum during 2003-04 to 2007-08 and 9.3 percent per annum during 2005-08.

After achieving unprecedented growth of over 9 per cent for three successive years between 2005-06 and 2007-08 and recovering swiftly from the global financial crisis of 2008-09, the Indian economy has been going through challenging times that culminated in lower than 5 per cent growth of GDP at factor cost at consist prices for two consecutive years, i.e. 2012-13 and 2013-14, sub- 5 per cent GDP growth for two years in succession was last witnessed a quarter of a century ago in 1986-87 and 1987-88. Persistent uncertainly in the global outlook, caused by the crisis in the Euro area and general slowdown in the global economy, compounded by domestic structural constraints and inflationary pressures, resulted in a protracted slowdown. The slowdown is broadly in sync with trends in other emerging economies, but relatively deeper. India's growth declined from an average of 8.3 percent per annum during 2004-05 to 2011-12 to an average of 4.6 percent in 2012-13 and 2013-14. Average growth in the emerging markets and developing economies including China declined from 6.8 per cent to 4.9 per cent in this period (calendar-year basis). What is particularly worrisome is the slowdown in manufacturing growth that averaged 0.2 per cent per annum in 2012-13 and 2013-14.

SECTORAL GROWTH TRENDS

Aided by favorable monsoons, the agriculture and allied sectors achieved a growth of 4.7 per cent in 2013-14 compared to its long-run average of around 3 per cent (between 1999-2000 and 2012-13). However, in some other sectors, slowdown has been more pronounced and protracted. Mining and quarrying activities have decelerated since 2011-12. Two prominent components of mining, coal and crude petroleum, have stagnated in the last three-four years. Subsequent to an average growth of 7.1 per cent in coal production during the four-year period 2006-07 to 2009-10, its growth declined to an average of 1.6 per cent during the next four years ending 2013-14. The compound annual growth rate (CAGR) of crude petroleum was 1.2 per cent during 2004-05 to 2013-14. As coal and petroleum are universal intermediates, the slack in their production impacted the economy adversely.

Table 1
Growth in GDP at Factor Cost at Constant Prices (per cent)

Sector	*2007-08*	*2008-09*	*2009-10*	*2010-11*	*2011-12*	*2012-13*	*2013-14*
Agriculture forestry & fishing	5.8	0.1	0.8	8.6	5.0	1.4	4.7
Mining & quarrying	3.7	2.1	5.9	6.5	0.1	-2.2	-1.4
Manufacturing	10.3	4.3	11.3	8.9	7.4	1.1	-0.7
Electricity, gas & water supply	8.3	4.6	6.2	5.3	8.4	2.3	5.9
Construction	10.8	5.3	6.7	5.7	10.8	1.1	1.6
Trade, hotels, transport, storage & communication	10.9	7.5	10.4	12.2	4.3	5.1	3.0
Financing, insurance, real estate, & business services	12.0	12.0	9.7	10.0	11.3	10.9	12.9
Community, Social & personal services	6.9	12.5	11.7	4.2	4.9	5.3	5.6
GDP at factor cost	9.3	6.7	8.6	8.9	6.7	4.5	4.7

Source: CSO

The last two years were particularly disappointing for the manufacturing sector, with growth averaging 0.2 per cent per annum. The decline has been quite broad based, as per data from the index of industrial production (IIP). Decline in the growth rate for basic goods continued for the third year in succession in 2013-14. Output of capital goods declined for the third year in a row staring 2011-12. Contraction of 12.2 per cent in the consumer durables segment was observed in 2013-14. Only intermediate and non-durable consumer goods revised higher growth rate in 2013-14 vis-à-vis 2012-13. Following close to double-digit growth between 2004-05 and 2011-12, the construction sector lost momentum in the last two years. Taken together with the trends in capital goods, the slowdown in construction activity reflects subdued business sentiments.

The data on manufacturing growth during the last two years need to be interpreted with care, given the possibility f revisions by the CSO. The initial estimates of value added in manufacturing sector are based on more detailed data from the Annual Survey of Industries (ASI). For examples, as per the National Accounts Statistics, the growth rate of manufacturing for 2011-12 was revised to 7.4 per cent in the second revised estimates from 2.7 per cent estimated earlier as ASI data for 2011-12 became available only in the second half of 2013.

The slowdown in services, in particular the internal trade, transport, and storage sectors, could be attributed to the loss of momentum in commodity-producing sectors. The moderate revival in the global economy may have helped the growth in business services. Bank credit grew by 14.3 per cent in 2013-14, indicating buoyant activity in financial services.

EMPLOYEMENT

Slowdown in employment growth has been a serious concern in recent years. As per National Sample Survey Office data, the number of persons in the workforce (usual status) increased from 398 million in 1999-2000 to 458 million in 2004-05, an increase of nearly 60 million (nearly equally divided between the agriculture and non-agriculturesectors) or 15 percent in five years. This increased further to 473 million in 2011-12, an increase of 15 million or 3.3 per cent over a span of seven years.

There was a decline in the workforce in the agriculture and allied sector by over 36 million between 2004-05 and 2011-12. On the other hand, the number of persons in the workforce in the non-agriculture sector increased by 51 million with industry and services contributing nearly 31 million and 20 million respectively. The table below gives the share of different sectors or the sector composition of the workforce (employed) by usual principal and subsidiary status (UPSS).

Decline in the share of employment in agriculture has been observed in most countries in their development process. Within industry, the bulk of the employment increase was accounted for by construction with an increase of nearly 25 million increase in employment in the services sector between 2004-05 and 2011-12 was more or less uniformly accounted for by an increase in the trade, hotels, and restaurants sector (4.7 million); transport, storage, and communications (5.4 million); financing, real estate, and business services (5.3 million); and community, social and personal services (5 million) (Rangarajan, Seema, and Vibesh (2014).

Table II
Share of Major Sectors in Total Employment (Per cent)

	1999-2000	*2004-05*	*2011-12*
Agriculture & allied	59.9	58.5	48.9
Industry	16.4	18.2	24.3
Services	23.7	23.3	26.9

Source: Rangarajan, Seema, and Vibesh (2014).

INPUT FLOWS IN THE ECONOMY

One of the ways to study inter-sectorial linkages is by examining the inter-industry input flow matrix. The table below has been constructed from the latest available input-output tables (2007-08) released by the CSO. The information, though slightly dated, could be indicative of the state of inter-sectorial linkages.

Table III
Inter-industry Input Flows In The Economy (In Per Cent)

	Agriculture and allied sector input	*Industrial sector input*	*Service sector input*
Agriculture & allied	55.3	7.7	7.5
Industry	21.4	68.2	45.1
Services	23.3	24.1	47.5
Contribution to Total Inputs in the Economy (In Per Cent)			
Agriculture & allied	11.8		
Industry	59.6		
Services	28.6		

Source: Internal calculations based on the CSO's input-output tables.

The upper panel of the table implies that out of the total input requirement of the agriculture and allied sector, 55.3 per cent was contributed by the sector itself, while industry and services accounted for 21.4 per cent and 23.3 per cent respectively. More than two-thirds of the total inputs required by industry came from industry itself, while nearly one-fourth were from the services sector. Over half the inputs for the services sector came from the industrial and agricultural sectors. The table highlights the importance of the industrial sector in sustaining economic activity in the services sector. As is evident from the lower panel of the table, the agricultural sector accounted for 11.8 per cent of the total inputs employed in the economy, while the industrial and services sector accounted for 59.6 per cent and 28.6 per cent respectively. Hence a sustained recovery in the industrial sectors us at the heart of a sustained growth recovery.

INFLATION

The average headline WPI inflation moderated to a four-year low of around 6 per cent in 2013-14 after averaging 8.6 per cent in the previous three years, with the contribution of the non-food segment moderating significantly on the back of the fall in global commodity prices. However the pressure from domestic food items remained elevated. WPI inflation remained below 5 per cent in the first quarter of 2013-14. However, higher inflation in vegetables and cereals led to a spike, with headline inflation reaching 6.6 per cent and 7.1 per cent respectively in the second and third quarters. With some moderation in cereals inflation declined to 5.4 per cent in the last quarter of 2013-14. Inflation in non-food manufactured products remained benign throughout the year and moderated to a four-year low of 2.9 per cent in 2013-14. This indicates that the underlying pressures of broad-based inflation may have somewhat eased.

BALANCE PAYMENTS

India's Balance of payments (BoP) position improved significantly in 2013-14, particularly in the last three quarters. The stress on BoP observed during 2011-12 as fallout of the crisis in the Euro area and inelastic domestic demand for certain key imports continued through 2012-13 and the first quarter of 2013-14. The CAD rose sharply to a high of US$ 88.2 billion in 2012-13, surpassing unsustainable levels of US$ 78.2 billion. After being at perilously unsustainable levels in 2011-12 and 2012-13, the outcome in 2013-014 was mixed: high levels of CAD in the first quarter followed by gradual correction thereafter; broadly adequate financing through capital flows till May 2013; a sharp correction 2013. The correction in June-August 2013 was on account of market fears of an imminent tapering of asset purchases by the US fed. The subsequent surge in flows owned to the special swap windows incentivized by the RBI for non-resident deposits and the overseas borrowing programme of banks.

SECTORIAL ISSUES: GROWTH STORY

In what follows, major sectorial issues and developments are outlined. These developments have fed into the macroeconomic scenario that has been presented in the previous sections.

Table IV
Sectorial Share in GDP (Per cent)

Sector	*1999-2000*	*2007-08*	*2012-13*	*2013-14*
Agriculture & Allied	23.2	16.8	13.9	13.9
Industry	26.8	28.7	27.3	26.1
Mining & quarrying	3	2.5	2	1.9
Manufacturing	15	16.1	15.8	14.9
Registered Manufacturing	9.2	10.7	11.2	NA
Unregistered manufacturing	5.8	5.4	4.5	NA
Services	50	54.4	58.7	59.9
Trade, hotels, transport and communications	21.2	25.9	26.9	26.4
Financing, insurance, real estate and business services	14.5	16.1	19.1	20.6
Community, social, and personal services	14.4	12.4	12.8	12.9

*Sources:*Calculated from National Accounts Statics, CSO.

AGRICULTURE AND FOOD MANAGEMENT

Substantial strides in agricultural production have been made in the last few years. There was an increase of around 40 lakh in overall area coverage under food grains in 2013-14 as compared to 2012-13. A record food grains production of 264.4 million tones is estimated in 2013-14, as per the third Advance Estimates, indicating an increase of more gain 20 million n over the average production during the previous five year.

Horticulture production is estimated at 265 million tonnes in 2012-13 and for the first time has exceeded the production of food grains and oilseeds.

INDUSTRY AND INFRASTRUCTURE

As per the latest GDP data, the industry sector registered a growth of 1.0 per cent in 2012-13 that slowed further to 0.4 per cent in 2013-14. The key reason for poor performance was contraction in mining and deceleration in manufacturing- and mining-sector GDP declined by 0.7 per cent and 1.4 per cent respectively in 2013-14. The underlying cause for this has been the deceleration in investment particularly by the private corporate sector during 2011-12 and 2012-13.

As per IIP data, mining output contracted for the third successive year in 2013-14, declining by 0.6 per cent. Natural gas production plummeted mainly owing to decline production from the KG-6 basin. Electricity generation increased by 6.1 per cent in 2013-14 as compared to 4.0 per cent in the previous year, mainly on account of sign cant capacity addition in recent years.

Like industry, services also slowed during the last two years.

The deceleration in growth was particularly sharp in the combined category of trade, hotels & restaurants and transport, storage, and communications. However, robust growth continued in financing, insurance, real estate, and business services.

SERVICES SECTOR

The services sector has emerged as the fastest growing sector of the economy and the second fastest growing in the world, with a CAGR of 9 percent, behind China with a CAGR of 20.9 per cent during the period from 2001-2012. Services have also contributed substantially to foreign investment flows, exports, and employment. The share of the service sector in employment and employment . The share of the services sector in employment increased from 19.7 per cent in 1993-94 to 26.9 per cent in 2011-12.

HUMAN DEVELOPMENT

India with a large and young population has a great demographic advantage. The proportion of working-age population is likely to increase from approximately 58 per cent in 2001 to more than 64 per cent by 2021.

According to the United Nations Human Development Report (HDR) 2013, India with a human development index (HDI) of 0.554 in 2012 slipped down the global ranking to 136 from 134 as per HDR 2012. India is in the medium human development category with countries including China, Egypt, Indonesia, South Africa, and Vietnam having better overall HDI ranking within the same category. The existing gap in health and education indicators in India as compared to developed countries and many developing countries calls for much faster spread of basic health and education. Life expectancy at birth in India was 65.8 years in 2012, compared to 75.1 years in Sri

Lanka and 73.7 years in China. The expenditure on social services by the govt. at a percentage of GDP has increased from 6.8 per cent in 2008-09 to 7.2 per cent in 2013-14 (BE) with expenditure on education increasing from 2.9 per cent t5o 3.3 per cent and on health from 1.3 per cent to 1.4 per cent.

PRIORITIES FOR REVIVING GROWTH

With the twin deficits reasonably under check, the macroeconomic outcomes of slow growth nd inflationary pressures require immediate attention. Short-term stabilization apart, the focus of policy should be on wide-ranging structural reforms to ease supply-side constraints and sector-specific incentives to boost demand. Some specific priorities, with the objective of restoring growth, are outlined.

- Revival of investment is crucial for raising the growth rate. This required acceleration in project clearances and streamlining of implementation procures, apart from sector-specific investment policies.
- Over the medium term, structural reforms that boost productivity are crucial for sustaining higher growth.
- Linked to efforts at investment revival are policies needed for rejuvenating growth in manufacturing, which has significant backward and forward linkages. Simplification of tax policy and administration, repeal of archaic laws that govern market access, expansion and entry/exit of firms, revamp of the dispute resolution mechanism for commercial disputes, etc. would lend greater predictability to policy. An environment of policy certainty, continuity, and transparency, will help boost business sentiments further.
- Strengthening macroeconomic stability, a non-negotiable instrument for stable and faster growth, is predicated on fiscal discipline, manageable current account balance, and price stability. Policy challenges include:

1. Keeping fiscal deficit in check without compromising on capital expenditure;
2. Maintaining the CAD in the range of 2-2.5 per cent of GDP. This may turn out to be challenging if non-oil imports revive upon growth revival and oil prices harden. Therefore, policies that help in sustained export growth remain relevant.
3. Stepping up efforts to further reduce inflation not only to counter the direct macroeconomic consequences but to provide leeway to the RBI for monetary easing and to counter external challenges more effectively.

- To harness the demographic dividend, the non-agrarian sector must generate employment. With the agrarian sector still employing the bulk of the workforce, policy attention needs to be focused on the rural non-farm sector, manufacturing sector, and labour-intensive segments of services.

- Physical and social infrastructure, both urban and rural, that can accommodate and fuel robust growth, is central to regaining and sustaining economic momentum.
- Sustained and high overall economic growth is possible with the farming sector growing at around 4 per cent per annum. This requires a boost to investment and productivity in the sector, crop protection and insurance, and a fresh look at polities towards procurement, marketing, transport, storage, and processing.

WHAT NEED TO DO

After big bang reforms in the early 1990s, India followed a gradual approach in policymaking during the reform period. Now, second generation reforms have to be undertaken. There is a need to have measures in order to have a medium-term sustained growth of 8 to 9 per cent in the next two decades. High growth is also necessary for inclusive growth. We should move towards achieving faster, more inclusive and sustainable growth. A lot of progress has been made in all the sectors in the post-reform period. But, among others, there are five disappointments which are inter-related: (1) Slow infrastructure development; (2) Failure in increasing the labour-intensive manufacturing sector; (3) Not taking advantage of demographic dividend sector; (3) Not taking advantage of demographic dividend by enhancing vocational training and skills; (4) Slow social sector developments and; (5) Governance failure. These need the attention of policymaking.

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