Economic Survey's proposal for high growth—divestment & decriminalisation

Economic Survey shows sharp decline in FDI. Govt must improve tax stability

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Chief Economic Adviser V Anantha Nageswaran at a press conference on the Economic Survey 2024-2025. | PIB India/ YouTube

The Economic Survey for 2024-25 presents a balanced view of the state of the economy. While there are upsides to growth, there are strong and prominent downsides as well. Keeping in view the global uncertainty, the Economic Survey projects the economy to grow in the range of 6.3-6.8 per cent in the next financial year.

After a marked slowdown in investment in the first half of the current year, the survey sees signs of recovery in private investment in the remainder of the year. The transformation of green shoots to sustained investment pick-up, improvement in consumer confidence and rise in corporate wages will be key to the pick-up in growth. However, to achieve the goal of Viksit Bharat by 2047, the economy needs to grow at eight per cent on a sustained basis for at least a decade. The survey makes a strong case for amplifying the deregulation agenda and exhorts the private sector to take the investment baton forward.

An upturn in India's credit cycle

Noting marked shifts in India's credit-GDP gap (the difference between the credit-GDP ratio and its long-term trend), the survey points to the commencement of a new phase in India's credit cycle. The credit-to-GDP ratio showed a sharp rise during the early 2000s—a period of credit boom. Post the onset of the global financial crisis, the ratio remained static at around 50 per cent. Post the recovery from the Covid-19 pandemic, an upward trend is visible in the credit-GDP ratio. With credit growth exceeding growth in nominal GDP, the survey notes that the credit-GDP gap is closing. The gap which was (-) 10.3

percent in Q1 of FY23 is slowly inching towards the positive territory, while being still below the trend line. Although the survey rightly notes that recent credit growth is sustainable, the trajectory of the credit-GDP gap needs to be watched in the coming quarters for any signs of potential overheating.

Liquidity in corporate bond market needs a boost

The survey expresses concerns over the relative under-development of the debt market. As a percentage of GDP, the size of India's corporate bond market is abysmally small at 18 per cent, as opposed to 80 per cent in Korea and 36 per cent in China. Dominance of the private placement route, scant issuance of bonds by non-financial sector firms, high entry cost, information asymmetry are some of the often discussed and acknowledged problems of the corporate bond market that are mentioned in the survey. The survey points to the prescriptive nature of regulations in limiting access to the bond market for smaller players. While these problems are well known, not much has changed on the ground in improving the depth and liquidity of the corporate bond market.

Reforms in the corporate bond market cannot be considered in isolation. Progress should be made towards simplifying and harmonising the bond market infrastructure and regulation with the mainstream financial market infrastructure and regulation respectively. This will help market participants reap the benefits of economies of scale.

Amplify the deregulation agenda

The regulations inadvertently incentivise firms to remain small. This is antithetical to India's long-term economic growth prospects. Small firms are unable to access institutional capital, skilled talent, technology benefits and remain outside the supply chain. Employment generation is the biggest casualty in this setup. While steps have been taken to incentivise firms to grow, through the Jan Vishwas Act, there are several provisions in various other legislations that merit an assessment for decriminalisation and revision of fines and penalties. In summary, the survey makes a case for fast-tracking the divestment, decriminalisation and divestment agenda to promote employment and sustain high growth.

Private sector must take up the investment baton

The survey notes that despite constraints such as general elections and heavy monsoons in many regions, infrastructure creation has been on course this year. However, to sustain an 8 per cent plus growth, a continued and accelerated pick up in capex is needed. Given the budget constraint, public capex alone will not be sufficient to meet the growing requirements of a climate-resilient and modern infrastructure, hence greater participation from the private sector is needed.

It also makes a case for coordinated action from all stakeholders—governments, financial market players, project management experts—to step up private sector participation. While the survey focuses on the

de-bottlenecking and facilitatory mechanisms, these are primarily supply-side initiatives, private sector players would like to see a sustained pick up in demand before embarking on a sustained increase in capacity utilisation. Global uncertainty and unfavourable tax treatment in some sectors also deter greater private investments.

Pay heed to net FDI numbers

The sharp decline in net FDI owing to large repatriation needs careful consideration. Volatile FDI flows have implications for a sustainable level of current account deficit for India. If lesser FDI flows into India become a regular feature, then the size of a "sustainable current account deficit" would have to be much lower. India would have to manage with a lower current account deficit. This would be an undesirable state in a country where domestic savings need to be supplemented with foreign capital. Multi-pronged efforts thus need to be made to improve the flow of FDI into the country. This implies that more work to improve policy certainty and tax stability.

Tackle food inflation

The swings in tomato and onion prices and the persistent production deficit in pulses and oilseeds are responsible for the stickiness in food inflation. The pre-budget document emphasises the role of supply-side interventions such as developing climate-resilient crop varieties to enhance yield. Robust data collection and systems to monitor prices, stocks, and support to storage and processing facilities are critical to ease food inflation. The budget could announce measures towards improving storage infrastructure and tackling supply-side constraints.

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