

The Economy At Three

Three years of the NDA government have seen substantial and all-round improvements

Arvind Panagariya



Few disagree that when the present government took office three years back, the economy had been in great difficulty. Going by the new GDP series, growth had fallen to 5.6% in 2012-13 and 6.6% in 2013-14 compared to 8.3% during the preceding nine years. Inflation and the current account deficit were high. There was deep paralysis in decision-making, infrastructure projects were stuck in all areas, corruption scandals had been breaking out all around and investors were terrified of retrospective taxation.

Today the decision making process has been unblocked, infrastructure building has gained momentum, corruption has been reined in and fears associated with retrospective taxation have been assuaged. As a consequence, growth has been restored. The economy grew 7.2% during 2014-15, 7.9% during 2015-16 and 7.1% during 2016-17. Alongside, inflation has dropped from 8% during the first four months of 2014 to below 4% currently. Foreign direct investment during the three financial years of the government has summed to \$156 billion with the flow during 2016-17 alone being a record \$56 billion.

These indicators do not reflect the full potential of the economy created by the policy initiatives of the government. There are lags between the introduction of new policies and realisation of their full impact. It was many years of reforms, first under Prime Minister Narasimha Rao and then under Prime Minister Atal Bihari Vajpayee, that eventually translated into the 8.3% annual growth for nine years beginning in 2003-04.

On macroeconomic front, the government has steadily brought fiscal deficit down from 4.5% in 2013-14 to 3.5% in 2016-17 and has adopted the target of 3.2% in 2017-18 and 3% subsequently. It has also introduced inflation targeting, which has been central to holding down inflation. The exchange rate has been managed prudently. In 2013, in an episode that has come to be called "taper



Uday Deb

tantrum", rupee had massively depreciated just at the possibility of an interest-rate hike by the Federal Reserve of the United States. In contrast, it has been entirely unscathed recently despite substantial actual interest rate increases by the Fed.

A key focus area of the government has been governance. The list of measures includes the end to bureaucratic paralysis, streamlining of environmental clearances, improving the ease of doing business, self-certification of true copies of diplomas and degrees, repeal of 1,175 redundant laws, close monitoring of projects, ranking of states in health, education and water, end of plan and non-plan distinction in the budget, merging of the railway and national budget and advancing of date of budget presentation to cut delays in disbursement of funds to ministries and states. During the three years, there has not been a single allegation of high-level corruption.

Several key reforms have been introduced through new laws. Early legislations in this category included those relating to the auctions of coal

Today the decision making process has been unblocked, infrastructure building has gained momentum, corruption has been reined in and fears associated with retrospective taxation have been assuaged

and mineral mines. Later on came big-ticket items such as the Aadhaar Act, Insolvency and Bankruptcy Act and various Goods and Services Tax (GST) acts. The government has also moved steadily ahead on the foreign direct investment (FDI) front opening defence to FDI, raising the FDI cap on insurance to 49%, and permitting 100% FDI in marketing food products.

Closure of sick public sector units (PSUs) and privatisation of healthier ones that do not serve a public purpose have returned to the active policy agenda of the government. Surprising many sceptics, Cabinet has already approved the plans for the closure of nearly a

dozen sick PSUs. Privatisation has not moved at a commensurate pace but it too has made progress with the Cabinet giving a go ahead on 20 PSUs. The government is also proceeding with the listing of currently unlisted PSUs in a time-bound manner.

Rural development and social spending have acquired new vigour with empowerment replacing entitlement as the underlying philosophy. Rural electrification has greatly accelerated with every village set to receive electricity by May 1, 2018. Per-day rural road construction has accelerated to 133 km during 2016-17 compared with 73 km during 2011-14. Within a short time, two crore below poverty line (BPL) rural households have received LPG.

Housing for all initiative has received huge impetus with 10 million new rural houses to be constructed by 2019 in rural areas alone. Use of Aadhaar verification has led to the elimination of ghost and multiple accounts in the Public Distribution System (PDS), LPG distribution and MGNREGA wage lists. Asset construction under MGNREGA has significantly improved.

Finally, in the true spirit of federalism, states have emerged as equal partners of the Centre in development. Some states have reformed central laws in areas of labour and land acquisition on which the Centre has had difficulty moving ahead. Others have swiftly moved to reform tenancy laws through modern land leasing laws. Yet others have pioneered the spread of digitisation and e-mandis. Nearly all are experimenting with new ways to rejuvenate agriculture and vigorously promoting the Swachh Bharat Mission.

In sum, while many problems remain to be solved in a complex and vast economy such as ours, today, there are good reasons to be optimistic that in the years ahead India will emerge as the third largest economy in the world. When a courageous prime minister and numerous imaginative and hard-working chief ministers work together to take the economy forward, success cannot be far from the country's grasp.

The writer is Vice Chairman, Niti Aayog. Views are personal