

ECONOMIC SURVEY 2018-19

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Shifting gears

Professor Krishnamurthy Subramanian released his first Economic Survey in which he has outlined an investment driven path to US\$ 5tn economy by 2025. The reforms undertaken in the last 5 years along with new set of reforms outlined in the report will go a long way in achieving the ambitious target. Notably, the Survey also reiterates that fiscal prudence will drive real interest rates lower and thus lead to higher savings rate to achieve the virtuous cycle of growth. We believe the Survey sets the agenda for next phase of reforms by the government.

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Shifting gears: Economic Survey has given a blue sky scenario for a US\$ 5tn economy by 2025 which requires GDP growth of 8% compared with 7.5% increase seen in the previous five years.

Investments to drive growth: While growth was driven by consumption in the last five years (now at 59% of GDP), the Survey has identified investments as the key driver of growth citing example of East Asian countries which entered into a virtuous cycle of high savings, investments and exports.

Last 5 years reforms: The government has successfully implemented structural reforms such as Insolvency and Bankruptcy Code (IBC) and Goods and Services Tax (GST). The decline in investment rate is also related to increase in non-performing loans (NPLs). With recapitalization and now decline in NPLs, banks are in much better position to kick-start the investment cycle. Tax compliance has and will continue to improve with implementation of GST.

Proposed reforms: The Survey has pointed out need for key reforms such as 1) legal reforms to clear the backlog of pending cases and improving contract enforcement (India ranks 163 in contract enforcement in World Bank's Ease of Doing Business report), 2) labour reforms to promote investments as seen in Rajasthan, 3) reduce the cost of capital, 4) incentivize MSMEs to invest and benefit from economies of scale.

Fiscal roadmap: The Survey reiterates government's commitment to fiscal prudence and following the revised trajectory of fiscal glide path. This calls for government to maintain its fiscal target of 3.4% of GDP in 2019-20. This will enable decline in real interest rates and thus higher savings to kick-start the investment cycle.

KEY HIGHLIGHTS

- US\$ 5tn economy by 2025
- Investments to be the key driver of growth
- Policy reforms for enabling private investments



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