Economic outlook for India: Short and Medium Term

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Recovery from pandemic was robust but …

Confusing signals now

Real GDP growth is accelerating but …

Nominal growth is sharply decelerating

Is short-term growth surging or decelerating?
Large swings in GDP deflator driven by wholesale price index (WPI)…

..that accords high weight (1/3rd ) to food and fuel

As a result, fuel and food price shocks are amplified that probably …

Understated growth last year and overstating now
Is short-term growth surging or decelerating?

Most other high frequency indicators point to deceleration

\[ \text{yoy growth; } \% \]

- Bank Credit: FY22/23 14.4, FY3/24 15.4
- Non-oil tax revenue: FY22/23 18.0, FY3/24 2.8
- Non-oil goods exports: FY22/23 11.8, FY3/24 6.9
- Services export: FY22/23 26.7, FY3/24 22.2
- Services import: FY22/23 -2.8
Drivers of Cyclical Growth

- Recovery from the pandemic was driven by surging exports, especially services, and government investment

- Outlook remains cautious
  - Oil prices are rising
  - Global economy is soft, reflected in weakening Indian exports even of services
  - Agricultural outlook is uncertain because of erratic monsoon
  - Labor markets are soft

- International investors are optimistic: India will be added to JP Morgan’s Emerging Markets Bond Index
Medium Term Potential: The Major Achievements

• India has made rapid strides in:
  
  • Strengthening infrastructure (road, rail, ports and air)
  
  • Building technology platforms for delivery of government services and private sector entrepreneurship
  
• Bank balance sheets have strengthened
  • NPAs have declined from a peak of 11.2% to 3.9%

• Macroeconomic conditions are broadly stable
India took limited advantage of China vacating export share in low-skilled exports post-Global Financial Crisis (2010-2019).

Since mid-2010s, low-skilled manufacturing exports have been weak.

India’s global market share in exports of textiles and clothing (%)

Source: WTO
Global services opportunities—unlike manufacturing—are expanding.

India’s exports have surged recently, gaining global market share.

Services exports are diversifying to include Global Capability Centers.

Source: WTO
Government investment has risen but private investment has not so far

Despite the China opportunity—and the APPLE move—overall FDI has declined

India is promoting national champions
There is a renewed belief in inwardness.

Tariffs have increased (as have targeted production subsidies).

India has stayed out of major regional agreements, including RCEP.

Most recently, import licensing is being contemplated.

Source: WTO
Conclusions

• Economy is decelerating as key driver of growth—exports—has weakened

• Geopolitics and domestic achievements have created new medium-term opportunities

• But realizing them will require strengthening policy and institutional environment in two key areas:
  • Maintaining a level playing field for domestic and foreign investors
  • Reversing inwardness

• There is no inevitability from the likely decline of China to the sustained rise of India