



PIIE PETERSON INSTITUTE FOR
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Economic outlook for India: Short and Medium Term

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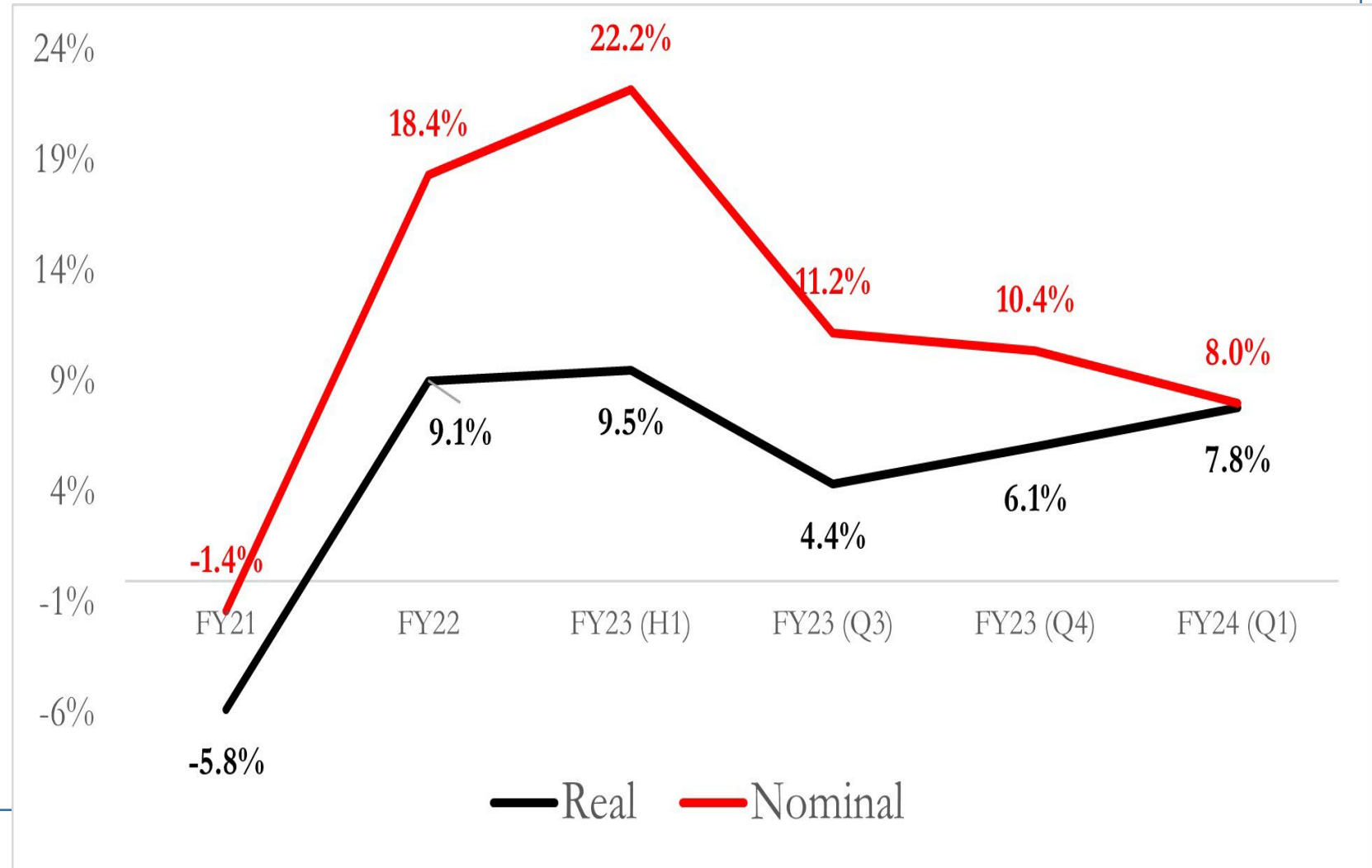
Is short-term growth surging or decelerating?

Recovery from pandemic was robust but ...

Confusing signals now

Real GDP growth is accelerating but ...

Nominal growth is sharply decelerating



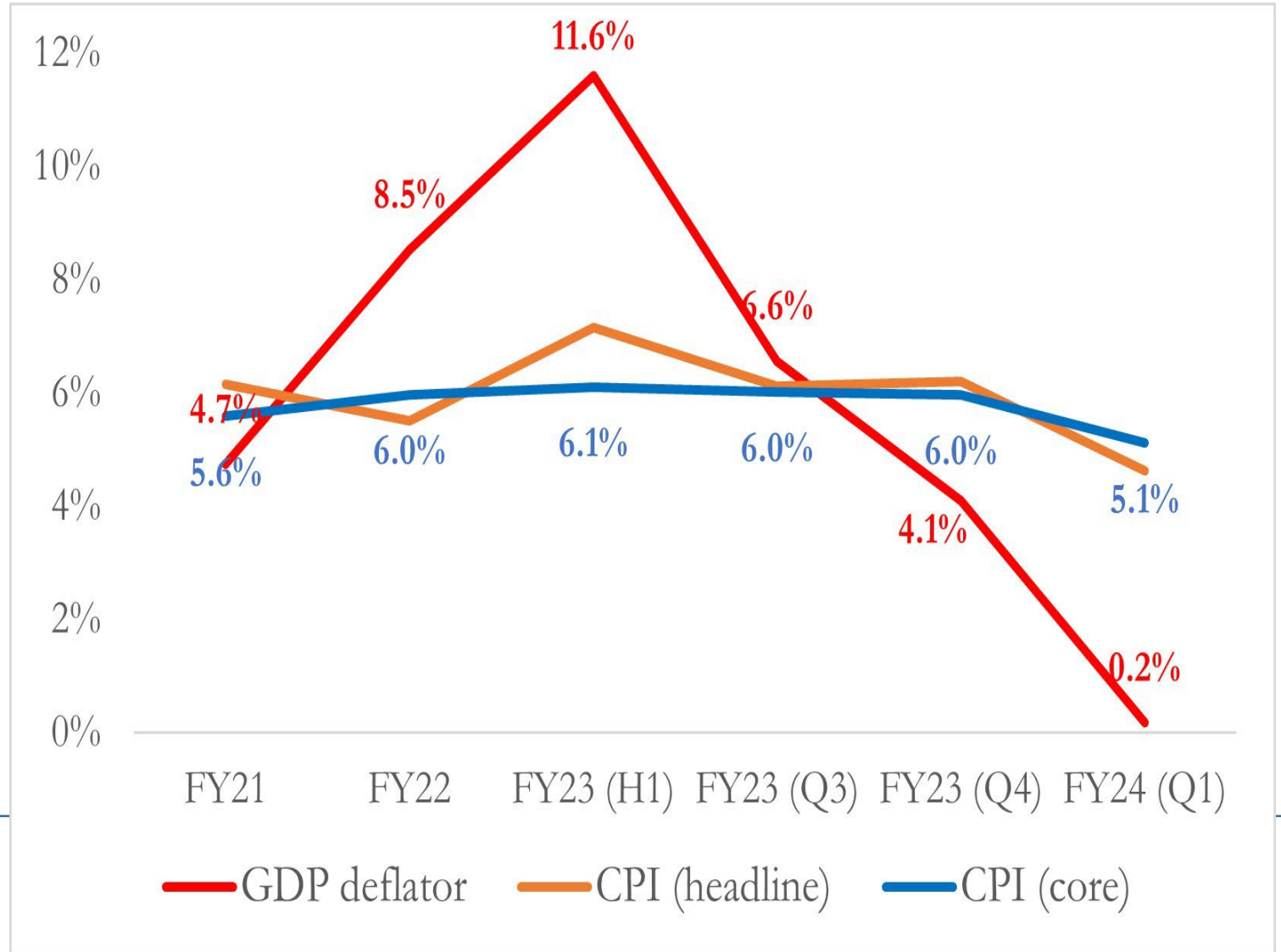
Is short-term growth surging or decelerating?

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 ...

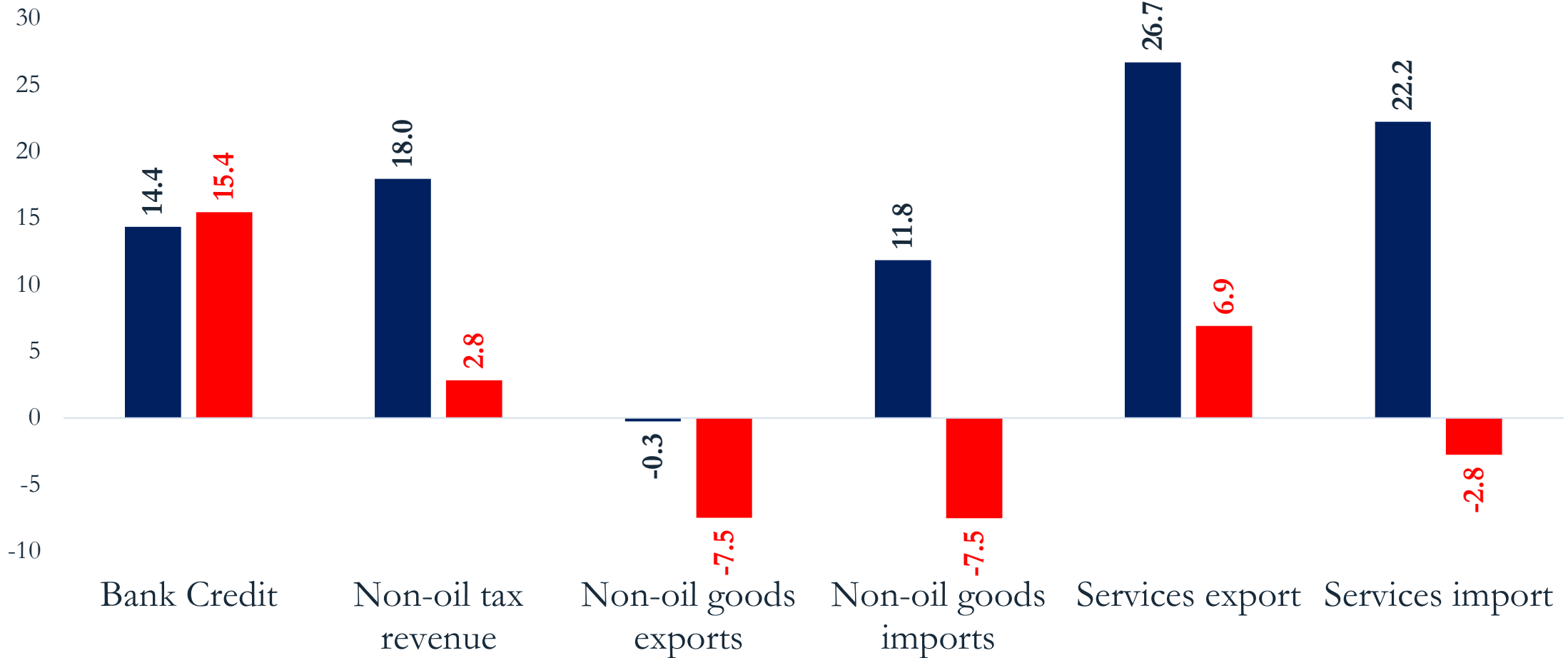
Understated growth last year and overstating now



Is short-term growth surging or decelerating?

Most other high frequency indicators point to deceleration

yoy growth; % ■ FY22/23 ■ FY23/24 (latest available)



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

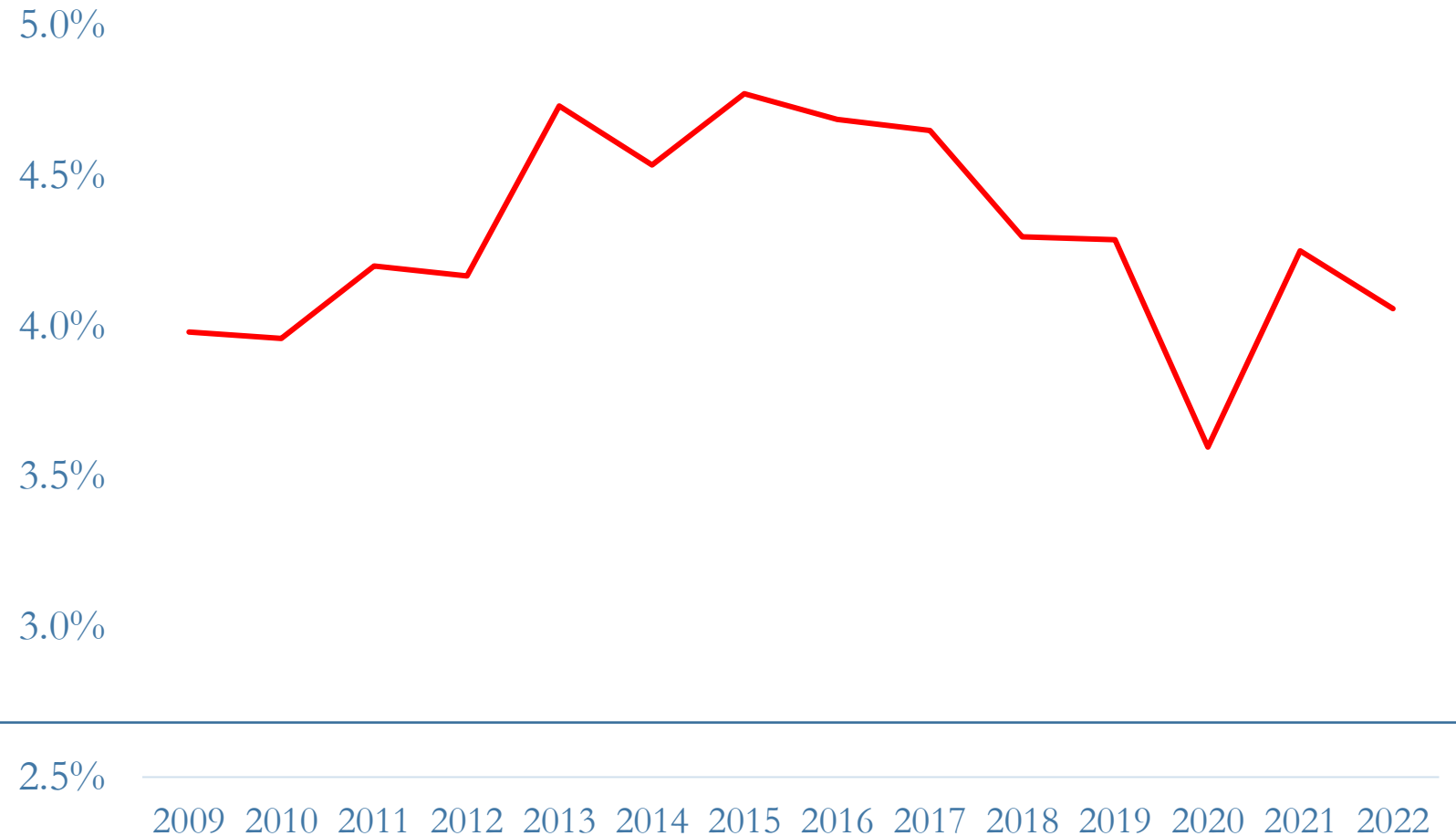
- India has made rapid strides in:
 - Strengthening infrastructure (road, rail, ports and air)
 - Building technology platforms for delivery of government services and private sector entrepreneurship
- Bank balance sheets have strengthened
 - NPAs have declined from a peak of 11.2% to 3.9%
- Macroeconomic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

The Opportunities: Low-Skilled Manufacturing

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

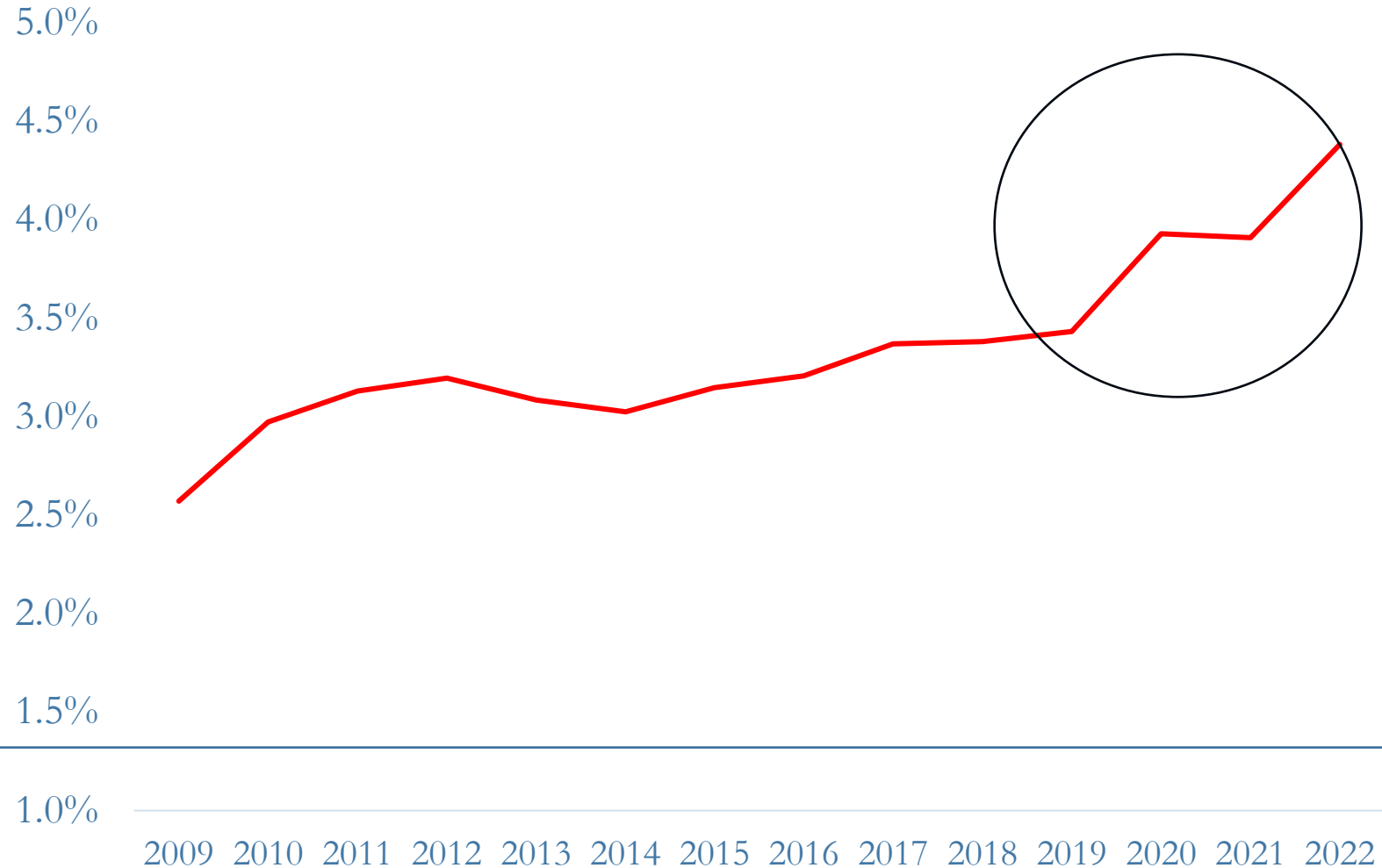
The Opportunities: High-Skilled Services

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

India's global market share in exports of commercial services (%)

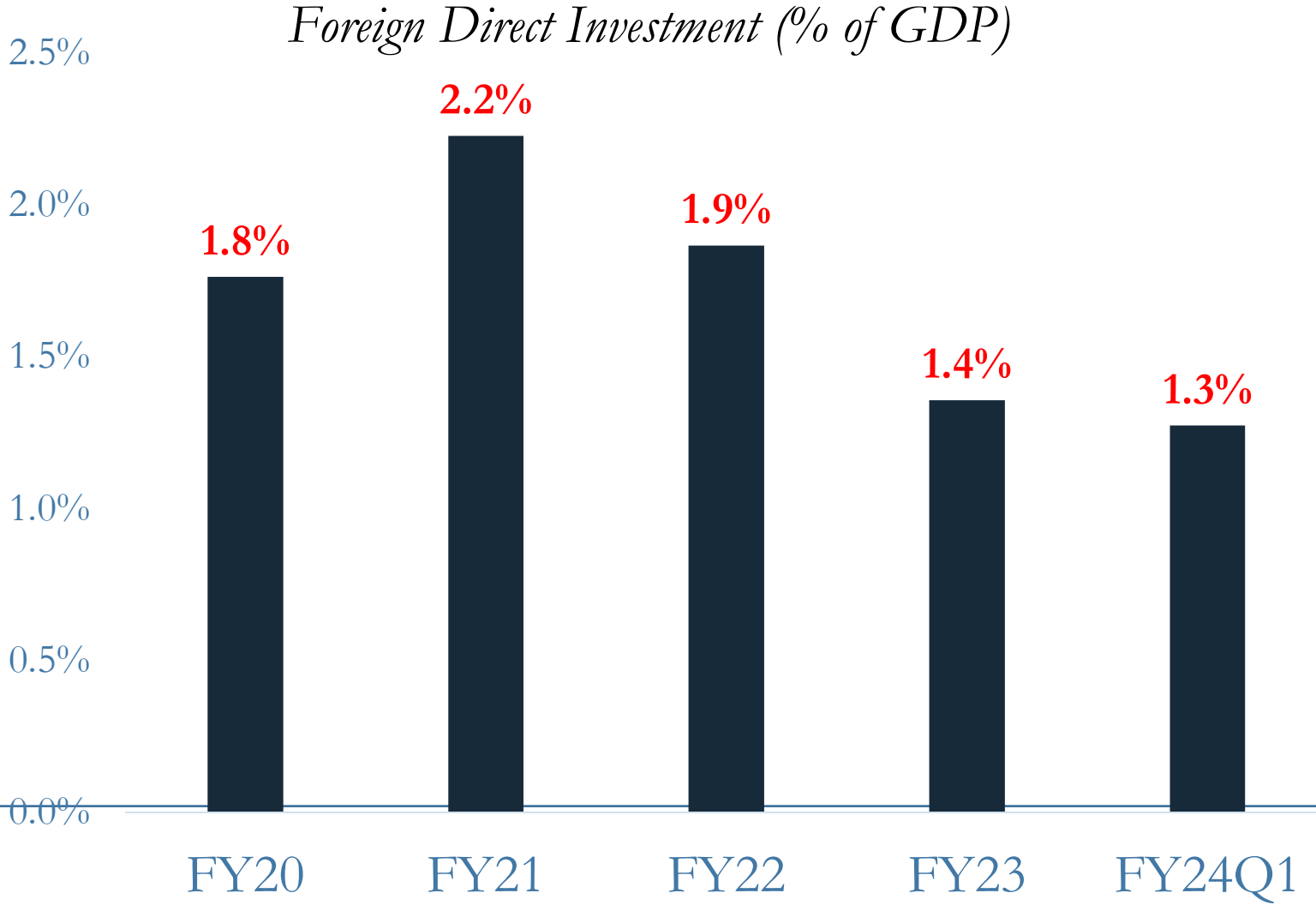


Policy Response: Rule of Law and Level Playing Field

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



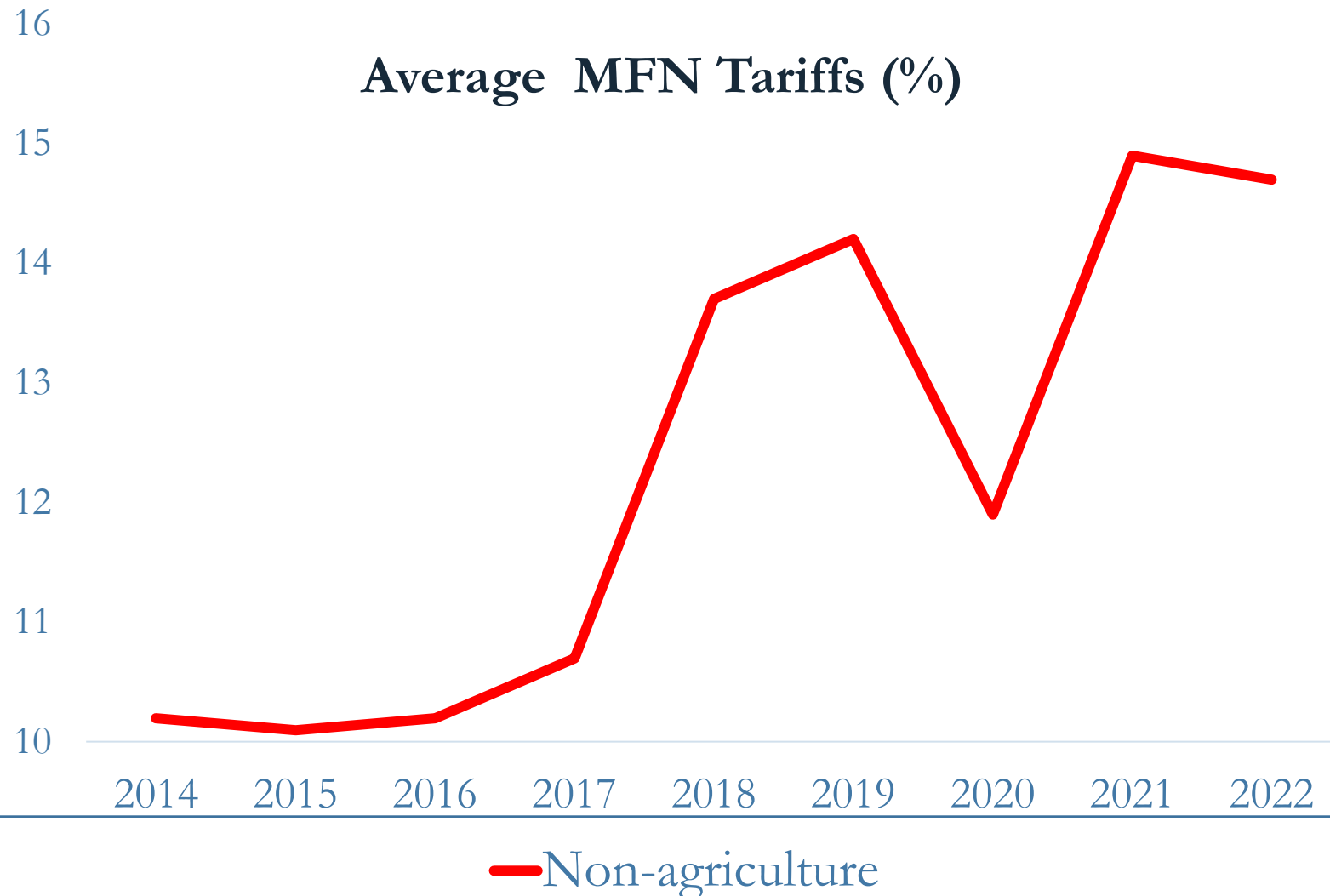
Return of Inwardness

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



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