Economic Outlook of India

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The COVID-19 recession was highly unusual for many reasons:

1. Deepest recession in five decades
2. India’s growth rate was lower than global growth rate for the first time in 40 years
3. Coincided with the longest spell of growth slowdown since independence (2016-20)

Source: CEIC, IMF WEO, ICRIER staff estimates
India’s economic outlook: Three broad scenarios

Real GDP growth (%), 1980-2026

Baseline
Optimistic
Pessimistic

Source: CEIC, IMF WEO, ICRIER staff estimates
Average growth assumptions under the three scenarios

Average Real GDP growth (in %)

- **Optimistic**: 6.9%
- **Baseline**: 5.3%
- **Pessimistic**: 4.4%

If Covid-19 episode is excluded, these numbers would be 7.5%, 6.4% and 5.3% respectively.

Source: CEIC, IMF WEO, ICRIER staff estimates
Broad narrative underpinning the three scenarios

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<th>Optimistic</th>
<th>Pessimistic</th>
<th>Baseline</th>
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<tr>
<td>• Well-poised to take advantage of post-covid recovery</td>
<td>• Reforms are <em>pro-business and not pro-market</em>; rising concentration in key industries</td>
<td>• Strong post-covid recovery, but durable decline in potential growth</td>
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<td>• Reform credentials strongly established</td>
<td>• Crisis in the informal economy</td>
<td>• Global supply chain problems; limited fiscal space; unresolved problems in the financial sector</td>
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<td>• Well-positioned to take leadership role in the new economy (Disruptive Technology and Decarbonized Economy)</td>
<td>• <em>Centralization of power, funds, decisions, and weakening of institutions</em></td>
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<td>• Political stability and continuity in policy</td>
<td>• The triple challenges of <em>authoritarianism, cronyism, majoritarianism</em></td>
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*Source:* Based on speeches and presentations of Krishnamurthy Subramanian, Arvind Subramanian, Raghuram Rajan, IMF WEO (Oct 2021), World Bank GEP and India Economic Update and newspaper op-eds

Note: The *italicized* phrases are not of the author or ICRIER staff but are direct quotes from experts mentioned in the Source.
To project the future, one needs to better understand the recent past.

1. Why eight consecutive quarters of growth slowdown?
2. Was it cyclical or structural?
3. Was it caused by external or domestic factors?

Source: CEIC, IMF WEO, ICRIER staff estimates
Unraveling the puzzle of investment slowdown

- Slowdown has been slow, steady and persistent
- It’s a puzzle, because in recent years, India’s doing business ranking has steadily improved, infrastructure quality has been upgraded, pace of privatization has picked up and entrepreneurship has been encouraged
- Could it be cyclical, affected by series of one time shocks?
  - Global Financial Crisis (2008-11); Taper tantrum and Fragile 5 (2013-14); Demonetization (2016-17); implementation of GST (2017-18) and Covid 19 pandemic (2020-21)
- Could it be structural, permanently affected by external factors (rise of China) and domestic issues (such as quality of institutions and political and social issues affecting the country)?

Source: CEIC, IMF WEO, ICRIER staff estimates
Can India engineer an investment turnaround?

- Some ground for optimism in the short-term: record FDI; stock market at an all time high
- Disruptive changes such as demonetization and weak implementation of GST are unlikely to be repeated
- Past mistakes such as retroactive taxation and slow pace of privatization are being dealt with
- The impact of supply side reforms and infrastructure upgradation will be felt with a lag
- While India didn’t sign RCEP, it is simultaneously negotiating FTAs with 8 countries and EU, making it an attractive place to produce and sell to the rest of the world
- Strong macro fundamentals, remapping of geopolitical landscape and political stability are the pluses

Investment/GDP (%), 1980-2026

Source: CEIC, IMF WEO, ICRIER staff estimates
Summing up

• Following a catastrophic Covid-19 pandemic, India’s economy is experiencing a robust and rapid recovery.

• But there is an intense debate on whether India can return to the 8% golden growth period or go back to the pre-Covid slow growth phase of around 5%?

• The key to this prognosis is whether India can breakout of its investment pessimism? Can animal spirit be rekindled?

• There are good arguments on both side of the story: historical data and cross-country evidence would push us to accept the baseline/pessimistic outlook, while the hope of a breakthrough would provide the impetus to embrace a more optimistic outlook.
Thank You!

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