The government must pull out all the stops for the economy to gather speed as quickly as possible

From Emotion to Motion

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It is imperative that the Indian economy grows at a faster pace in the current year. The new numbers on national income brought some cheer, even though analysts continue to be sceptical about the veracity of the numbers. There are, however, signs that investment 'sentiment' is picking up. To sustain it and convert 'intensions' into 'actuals', a rise in growth rate becomes essential. Only then will a virtuous cycle of higher growth and investment be set in motion.

Pill for Instant Relief

The government's focus must be on actions bringing about an immediate recovery. There are medium-term challenges. We need to raise the savings and investment rate, along with improving the productivity of capital. Sectorally, agriculture and infrastructure need special attention. After several years of high inflation, we have achieved a degree of price stability now. The current account balance is also under control helped by the decline in the price of crude oil.

On fiscal consolidation, the government is moving in the right direction, even though the pace may have to be quickened. In the drive for growth, we should not sacrifice stability concerns. This is the lesson we have to learn from our own experience in the late 1980s.

There are three things on which the government should focus. First, the easiest way to achieve a higher growth rate in the short run is to see that projects underway are completed in time and output begins to flow out of them. While the investment rate has fallen from the peak it had reached in 2007-08, it is still high enough to give us a rate of growth higher than what we had seen in 2012-13 and 2013-14. One reason for the rise in the incremental capital output ratio can be the delay in completion of various projects. Recognising this, the earlier government had set up a Cabinet Committee on Investment to speedily clear projects.

The Economic Survey provides detailed analysis of 'stalled' projects. It estimates the stock of stalled projects as a percentage of GDP to be around 7%. It also estimates the number of stalled projects in the government and private sectors to be at 161 and 585 respectively. The Survey mentions that clearing the top 100 projects by value will address 83% of the problem of stalled projects.

The government must address immediately the problems being faced by the stalled projects in the government sector to ensure immediate benefit. For medium-term growth, we must raise the investment rate and more new projects must come on-stream. An RBI study finds that the total project cost of new investments in the corporate sector has fallen from ₹5,563 billion in 2009-10 to ₹1,340 billion in 2013-14. So, there is a compelling need to step up the investment rate in the economy. However, in the short run, the answer to raising the growth rate lies in the speedy completion of projects in progress.

When private investment 'sentiment' is weak, the standard prescription is to enhance public investment. Perhaps this approach has validity in the Indian context today. Some of the key infrastructure segments, such as coal, power, roads and railways, lie largely in the public domain. A major thrust in these areas in terms of public investment will have a salutary effect on the economy.

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Let's get on the virtuous cycle of higher growth and investment

Solution: Public Investment

The Budget recognises this. It mentions that an additional investment of ₹70,000 crore will be made from the central funds and resources of central public sector enterprises. A clear statement indicating the extent of investment to be made by the public sector enterprises and ministries is needed. This should be monitored periodically and that report made public. This will serve two purposes: one, to make the different entities accountable; two, to inspire confidence in investors that public investment is moving according to schedule.

The third area that requires attention is governance. Good governance has many dimensions such as accountability, transparency and efficiency. The immediate focus could be on improving the delivery system. The various programmes announced in Budget 2015 must be implemented within a fixed timeframe. Failure to do so will lead not only to disenchantment but also to weakening of investment sentiment.

According to the acceleration principle, it is the positive change in output that induces investment. That is why to sustain the climate for investment, the economy must keep moving fast. Our performance between 2005-06 and 2007-08 clearly indicates that we have the potential to grow in a sustained way at 9%. We should get back as quickly as possible to that phase of high growth.

There are key areas in which structural changes are needed. Reforms are a continuing process. Basic reforms are accepted and they succeed when the economy is in a deep crisis or when it is booming. We are not in a crisis as we were in the early 1990s. Reforms now will succeed only when the economy achieves a high growth and is in a position to take care of any dislocations caused by reforms.

The focus now must be to let the economy gather speed as quickly as possible, eschewing all controversies.

The writer is former governor, RBI