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Is India a Miracle Economy? Or Is It Just Smoke and Mirrors?

“Curiouser and curiouser” sums up India’s economy today.

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OPINION

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"Curiouser and curiouser" sums up India's economy. There is little or no credit, tepid business and consumer confidence, exports are struggling, and yet gross domestic product (GDP) grew by a healthy 7.7 percent in the January-March quarter, and is seen rising by 7.4 percent in fiscal 2018-19.

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If you read the Reserve Bank of India's (RBI) 6 June rate-rise announcement and study a host of leading indicators, it is a 'six of one and half-a-dozen of the other' situation. The RBI said manufacturing, capacity utilisation and investment are starting to rise. Private consumption, fuelled by robust rural demand, has also risen after a bumper harvest.

Yet the RBI's business and consumer sentiment indices show a downward trend. Here's what the central bank said:

> **As per the early results of the Reserve Bank's April-June round of the industrial outlook survey (IOS), activity is expected to expand at a lower rate in Q1:2018-19 due to a**

> **significant rise in input prices and perceptions of softening domestic and external demand conditions … The May 2018 round of the Reserve Bank's survey of households reported a significant rise in households' inflation expectations of 90 basis points (bps) and 130 bps, respectively, for three-month and one-year ahead horizons.**

Like Alice, it is disorienting to step through the looking-glass. An international economist told me no country in post-war history has ever enjoyed GDP growth of over seven percent without an accompanying export boom. Has that happened?

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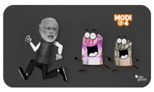

Struggling to Reach 2013 Levels

Our exports grew by a whopping 37.5 percent in 2010-11, when GDP grew 8.91 percent. We have never had it so good since then. Exports totalled USD 314.41 billion even in 2013-14, which we are regularly reminded was the worst of the UPA's ten years, but have failed to reach that level during the

Narendra Modi government's four years, only reaching USD 302.84 billion in 2017-18, when our current-account deficit widened to 1.9 percent of GDP from 0.6 percent in 2016-17.

The trade deficit widened to USD 160.0 billion in 2017-18 from USD 112.4 billion in 2016-17. Remember, oil prices were low during much of the past four years.

Rising oil prices can also distort our perception of reality. In May, for instance, total exports grew 20 percent to USD 28.85 billion, largely because the value of our petroleum product exports surged by 104 percent. But exports of products that are labour-intensive (and therefore good for job creation) fell: gems and jewellery by 6.5 percent, and ready-made garments by 16.6 percent.

That is in tandem with falling bank credit to businesses that are fighting to emerge from the slowdown.

RBI data shows that gross bank credit to industry stood at Rs 26.99 trillion at end-March, up a miserable 0.7 percent from Rs 26.79 trillion a year

This is not surprising: burnt by bad loans, banks would rather lend money to farmers to buy tractors as they chase the dream of doubling their incomes in the next four years. Even here, though tractor sales rose 22 percent in 2017-18, riding on a good monsoon, to 7.11 lakh units, it was the first time in the Modi government's tenure that they crossed the 6.34 lakh tractors sold in 2013-14, the worst UPA year.

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Rivers of Milk – on Our Highways

Agricultural economist Ashok Gulati noted recently that the agriculture sector grew by only 2.5 percent annually between 2014 and 2018, and that agri-exports in 2017-18 were at USD 38 billion compared with USD 42 billion in 2013-14.

Farmers who cannot get a good price for their produce are rising in revolt and earlier in June, staged a ten-day nationwide protest, dumping milk, vegetables and fruit on highways.

Three years after Modi launched the electronic National Agricultural Market (eNAM), only 585 of the country's 7,500 mandis have signed up.

The government promises a minimum support price of 150 percent of a farmer's cost of production, but also clamps curbs on storage and exports even when there is an output glut, as in pulses.

How about manufacturing? The Index of Industrial Production (IIP) grew by just 4.3 percent in 2017-18 after 4.6 percent in 2016-17. Other leading indicators are equally glum. Manufacturing PMI (purchasing managers' index) fell in May to 51.2, reflecting slower output. And the Index of Eight Core Industries, a key chunk of IIP, grew just 4.3 percent in 2017-18 after 4.8 percent a year earlier. Manufacturing accounts for less than 17 percent of India's GDP.

Most economists agree that we need to aim to raise manufacturing to at least 25 percent of GDP if we want to vault into double-digit growth. The politicians say we ought to recognise that India is never going to be a manufacturing colossus like China and will be driven mainly by services. Is this a safe bet to make? Not if you look at the services PMI, which shrank in May to its lowest level in three months, sinking to 49.6, which means a contraction, on weak demand.

As Alice said: “If I had a world of my own, everything would be nonsense. Nothing would be what it is, because everything would be what it isn't. And contrary wise, what is, it wouldn't be. And what it wouldn't be, it would. You see?”

(Chaitanya Kalbag is an award-winning journalist and has worked in several countries over more than 43 years. He was Editor, Asia with Reuters News Agency, Editor-in-Chief of Hindustan Times, and Editor at Business Today. He can be followed @chaitanyakalbag on Twitter. This is an opinion piece and the views expressed above are the author’s own. ***The Quint*** *neither endorses nor is responsible for them.)*

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