THE NEEDLE'S EYE A $5 trillion economy is a stretch. Do we have the running legs?

Here's the Stuff of Legend

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In 2018, India's per-capita GDP was $2,015.60, according to the World Bank. This makes sense — our economy is currently sized at $2.7 trillion, and our population is around 1.35 billion. This is considerably behind the US ($62,641), and not even a fourth of China's $9,770.80.

The Bank's data show that India's GDP per capita grew by 5.9% in 2018 over 2017. That was the slowest since 5.14% in 2013. Growth in per capita GDP during Modi 1.0 tells the story: 6.19% in 2014, 6.8% in 2015, 6.99% in 2016, then 6.04% in 2017 (post-demonetisation).

Like all good CEOs, Prime Minister Narendra Modi sets stretch targets. We have been challenged to hit $3 trillion in GDP in fiscal 2019-20, and the New India goal is to be a $5 trillion economy by 2024-25. About time, too: India is projected to be the world's most populous country by 2025, with at least 1.45 billion people. Our per capita GDP, if we hit the $5 trillion mark, will be around $3,600.

Steep Climb Ahead

Finance minister Nirmala Sitharaman said in her Budget speech last Friday, "In purchasing power parity (PPP) terms, we are, in fact, the third largest economy already, only next to China and the USA." That is true in PPP terms — although, at $9.33 trillion, we are considerably behind China at $22.54 trillion and the US at $18.22 trillion.

India's PPP per capita GDP (measured in 2011 dollars) rose to $6,899 in 2018 from $1,886 in 1991, when economic reforms began. Many economists believe PPP is a better gauge of an economy's strength.

You could argue that a $5 trillion economy is the minimum we should aspire to, given our size and population. Right now, India is just about at the level of lower middle income countries in PPP terms (average $6,777). Ahead of India are a large number of countries, notably China ($16,187), the US ($55,681), Canada ($44,051), France ($39,556), Germany ($45,959) and Japan ($39,294). Even Sri Lanka ($11,955) looks better off than us.

Undaunted, like Miss Adela Quested in E M Forster's A Passage to India, we will continue on our fateful climb to the upper Marabar Caves, leaving behind the mirage stirred up by 'professional pessimists', as the prime minister put it.

The Economic Survey drew a pragmatic blueprint for the next five years. "To achieve the objective of becoming a US $5 trillion economy by 2024-25, India needs to sustain a real GDP growth rate of 8%," it says. "International experience, especially from high-growth East Asian economies, suggests that such growth can only be sustained by a 'virtuous cycle' of savings, investment and exports catalysed and supported by a favourable demographic phase."

How are we doing on those metrics? Household savings rates have declined steadily over the recent past — to 17.2% in 2017-18 from 23.6% in 2011-12. Our overall savings rate was at a weak 30.5% in 2017-18 from a high of 37.8% in 2008. Private investment is still moribund. Our trade deficit is rising on the back of weak export growth.

The 2019-20 Budget, short on numbers, is not likely to set off a frenzy of investments. Even the ambitious fiscal deficit target of 3.3% of GDP was revealed by Sitharaman after her speech.

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On a wing and a prayer

How will the government finance its expenditure, including a ₹70,000 crore capital infusion into still-struggling public sector banks (PSBs) and a six-month credit guarantee for crisis-hit non-banking financial companies (NBFCs), as well as its agriculture and social-welfare plans? Gross tax revenue (GTR) would have to grow in 2019-20 at more than twice the pallid rate of 8.4% in 2018-19. The GTR was hit by lower receipts from both GST and direct taxes.

The Taxmen are Coming!

Gross government borrowings are projected at a whopping ₹7.1 trillion, surging from ₹5.7 trillion last year. "Simultaneously delivering on fiscal consolidation and raising incomes will be extremely challenging for India's authorities, particularly since growth is likely to remain weak over the coming year," Moody's Investors Service said.

One senior economist told me the unrealistic numbers are untenable. "The tax authorities are being given unrealistic targets that will lead to tax terrorism," he said. "The spending ministries are being given allocations that they cannot spend."

A pliant RBI has been more than happy to help. It has cut interest rates three times this year, and it purchased 60% of last year's government bond issues in the open market. Now, the government is waiting expectantly for the Bimal Jalan Committee Report next week, which might be the Open Sesame it needs to access the central bank's huge reserves.

Still, the government's plans to borrow as much as $10 billion through sovereign bonds overseas, combined with optimism that both the RBI and the US Federal Reserve might trim interest rates, has received a thumbs-up from bond markets. The yield on the benchmark 10-year government bond has fallen to around 6.54% (it hit 8% last year), narrowing the real interest rate, that is, the gap with inflation, which is around 3%.

But things are going to get worse before they get better. This year's monsoon will be deficient. Even if banks start to lend again, private investment revives, and an NBFC shakeout takes place, we are looking at two more years of pain. Will we achieve 7% GDP growth this year, and vault to 8%-plus in the remainder of Modi 2.0? That would be the stuff of legend. Right now, it is legerdemain.

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