For 'INDIA' and BJP, 2024 Election Merits Deeper Reflection on Indian Economy

August 28, 2023

The two of the largest emerging markets aren't firing all engines in their respective growth stories. Amidst a weakening Chinese economy, India's own economic position, as part of a large emerging market economy with a demographically positive employment base, offers greater optimism than some of the other emerging markets and the more industrially advanced nations.

The BJP government at the Centre, in its last nine years of elected term, has often harped on this signaling message to project 'positive optimism' and 'strength' for those betting big on India's rising growth potential as against other nations. Decoupling efforts by foreign investors and firms from China did offer a bleak potential for many to invest in the growing potential of the Indian market, however, not all has been going right in the state of India's economy.

As we get closer to the 2024 Lok Sabha election cycle, it's quite plausible to hear a lot more hype over reality around what the Narendra Modi government did right in making India a 'shining' star amidst a darker universe of struggling, recession-affected, debt-ballooned economies.

> A closer look at the Indian economy's own macro numbers, however, paints a different picture.

GDP Growth Rate and Gross Fixed Capital Formation

There is more cause for trouble and skepticism than optimism. Yes, India's potential is massive, but on evidence, we don't see much optimism or hope in the current government's handling of the economy and the direction of policy-craft for the economy's medium-to-long term vision.

India's GDP growth rate, in the past decade, hasn't really picked up but rather seen a declining trend since the post-demo shock effect of 2016. The COVID-induced nationwide lockdown caused a deep vertical fall in India's already slowing growth rate, and the recovery ever since then has observed a 'K-shaped' pattern, with an unequal trajectory, whereby, some income groups (with access to more factor resources) have made more wealth/money than those positioned at the mid-and lower bottom of the pyramid.

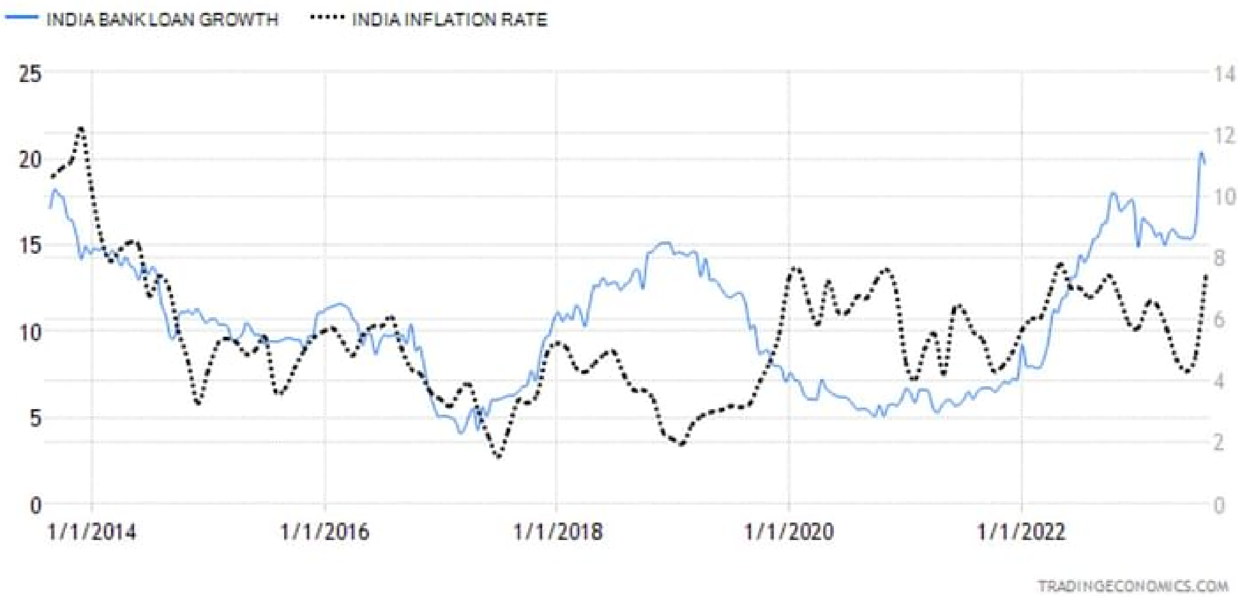
Source: [Trading Economics]

Gross Fixed Capital Formation (GFCF), an indicator that is critical for reflecting the productive capacity and (private) investment scenario for an economy, has been on a volatile-declining trend trajectory for India post-2021.

> A higher volatility in GFCF also reflects a weak investment demand and lower capacity utilisation for firms. While services have done reasonably well in the post-pandemic recovery scenario, industrial production and manufacturing growth remain woefully inadequate, in creating 'good' jobs and a better growth environment.

Bank Loans and Inflation

A positive data point from a bank and financial growth point of view is the gradual rise observed in the overall bank loan credit growth, which amidst the NPA crisis, was seen declining from 2018 onwards. The increase in loan growth or supply of loanable funds may be aiding the volatile rise of GFCF numbers, but a lot remains unclear on the 'realised growth potential' as much of these numbers hasn't actively contributed to a sustainably higher growth trajectory.



At the same time, a rise in loanable funds will be a consequence of the nature of monetary policy anchored by the RBI and the fiscal policy of the central government. So far, amidst rising inflation, higher interest rates (that affect borrowing-lending patterns) will negatively affect the ability of banks to provide cheaper credit to the private sector (assuming there is demand for such credit).

> If we look at the numbers more closely, India's core inflation rate has remained higher than the bank loan growth from late 2019 onwards till mid 2022, and since then, loan growth has jumped higher than the inflation rate.

Over the last few weeks though, a higher inflation rate has been threatening the banks' abilities to continue providing more credit under the RBI's status quo (in interest rate). On food inflation, price patterns have remained extremely volatile (reflected by a higher variance from mean) and made the basic household consumption basket more expensive for the average income-earning citizen. This isn't a recent phenomenon.

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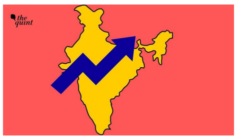
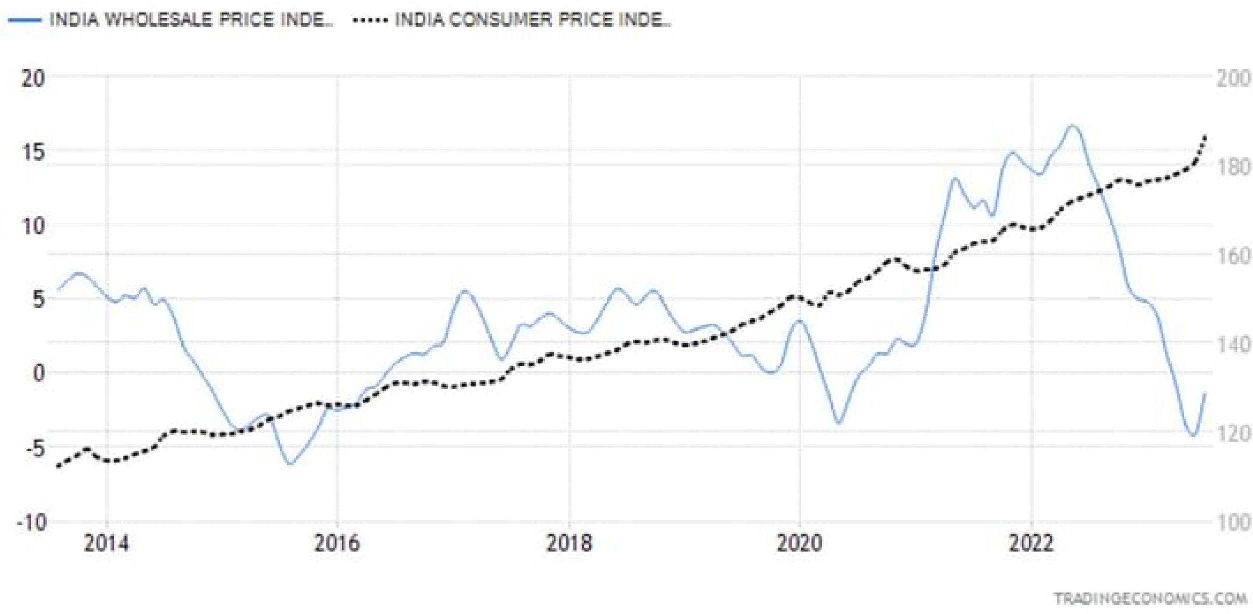


CPI, WPI, and Trade

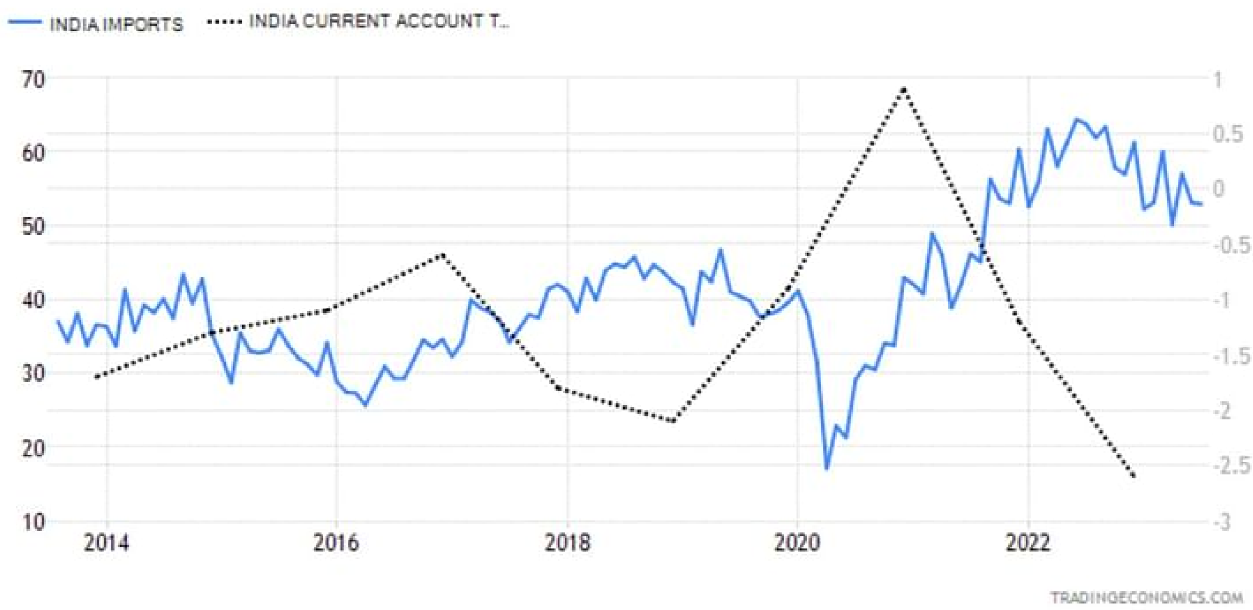
In breaking down the core inflation trends; CPI has continuously gone up since 2014 under the Narendra Modi government amidst stagnating and falling incomes for the middle and lower income/consumption classes (see here).

> While the rural economy tatters and drags itself in almost a recession-style slowdown, price rise has made the situation for low-income earners worse.

It is also severely hurting the ability of India's urban middle-income earners to save, which is essential for creating liquid deposits with banks (who ultimately use deposit capital for designing their credit instruments and credit creation power).



The WPI (Wholesale Price Index), on the other hand, is sharply declining from post 2022, which signals a deflationary spiral accentuated by a demand-side problem affecting the manufacturing/industrial sector. Private Firms are finding less reason to be 'optimistic' (contrary to the PM and FM's optimistic rhetoric on India shining) and aren't investing big capital towards new production capacity when the foreseeable demand for consumer and capital goods isn't picking up as expected.



On trade, exports have risen but at the cost of imports. The current account to GDP levels worsened to what they were prior to 2014 (before the BJP came to over). This reflects a failure in India's industrial and trade policy to pivot towards areas where it was competitive and comparative advantage. This author has repeatedly argued the potential for India’s rapidly growing service sector to not only contribute more to exports but also to jobs and overall growth (see here).

3 Key Challenges for Post 2024 Election Scenario

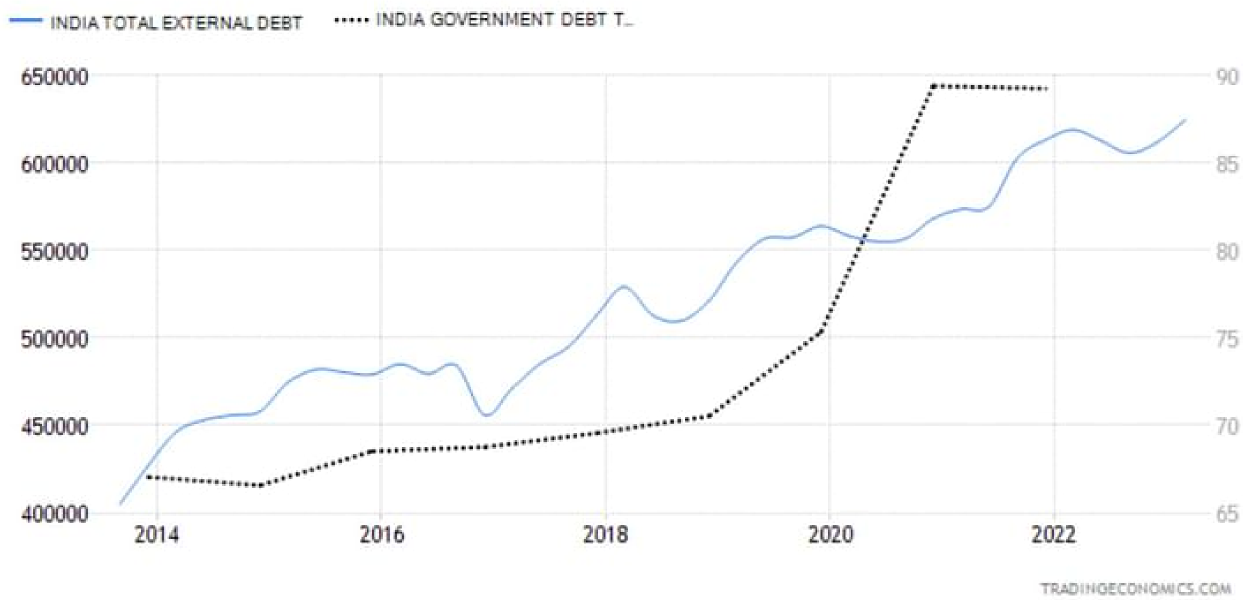
Getting into the pre-election cycle, if one had to identify three principal challenges for the next government (whoever that may be) in terms of prioritizing economic governance and social cohesion (as a precursor need for a healthy economy), it would relate to the following three:

- Boosting the macro-employment rate for all
- Raising private investment across sectors in a sustainable way (especially in labor-intensive, job-creating areas
- Tackling the high variance in core and food inflation, while managing the rising government debt for a fiscal consolidation plan that may actually work

India’s tryst with a jobless growth era has only been prolonged in all of the Narendra Modi government’s elected terms. Growth in good-paying jobs (in the organized sector) hasn’t happened at the expected rate or pace, nor has been part of the priority for the government to address this in its fiscal-and budgetary allocations.

> On the contrary, a rising government capex has come at the cost of lowering allocations for job-security-based welfare programs like MGNREGA. States have limited resources and tools to channelize resources towards worker-intensive growth plans or create jobs by their own fiscal interventions.

A lot of change has to come and be driven by the Central government, which under Modi-Sitharaman, has failed to even acknowledge that ‘job creation’ (and high unemployment) has been a challenge. A job-focused social security plan is also one of the most immediate needs of the hour.



Point number three on debt concern needs closer attention. At a time when the central government spending is proliferating (as % to GDP), and the government continues to squeeze the fiscal autonomy and borrowing capacity of the states (particularly those with an opposition government in power), the overall external debt borrowings and the Government Debt to GDP numbers are a cause of concern. It not only raises questions on the ‘effectiveness’ of a pre-designed fiscal consolidation plan but also on the viability of the BJP government’s spending preferences.

> One may continue seeing the Central government spending more on PLI at the cost of spending less on welfare programs, and nutrition schemes, along with other social capital needs: healthcare, and educational spending, but, with a rising government debt concern (when growth is low), the fiscal space for the government to do more-both on capex and welfare may shrink in immediate years (after the election).

A narrative-control exercise adopted by subjugating critical data and independent critique on the Indian economy may do little good for any government in power that seeks to work for the benefit of its citizens for the next ‘24 years (2047’) or ‘1000 years’. In the last nine years, not only has the state of Indian policy witnessed abrasive democratic regression, a rise in communalization and demonization of ethnic minorities, loss in public institutional autonomy and centralization of power by the Centre, but also seen a worsening picture in the growth potential of the Indian economy.

At least on the economic front, the BJP government (to come back to power), and the Opposition (to defeat the BJP), in the electoral battle for 2024, may both, require a clear, cohesive, economic plan and theory of economic change to address the structural woes plaguing the current state of the economy (with a medium to longer-term vision), while offering more than *hollow optimism* and *rhetorical hype*.

(Deepanshu Mohan is a Professor of Economics and Director, Centre for New Economics Studies (CNES), Jindal School of Liberal Arts and Humanities, O.P. Jindal Global University. This is an opinion piece and the views expressed above are the author's own. ***The Quint*** *neither endorses nor is responsible for the same.)*

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