Sustaining Higher Growth

What is the issue?

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- NITI Aayog is preparing a **15-year vision and a seven-year strategy document,** and has circulated a three-year action agenda.
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- The goal of transforming India and attaining the desired level of economic and social outcomes will require **higher and sustainable growth** in coming years.
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What are the advantages of higher growth?

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- **Higher growth is the best way of lifting standards of living,** as has been demonstrated by China in recent decades.
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- It will will not only create employment, but will also generate higher revenue which will help increase government spending without disturbing the budgetary balance.
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- Attaining and sustaining this level of growth is feasible, but will need policy action on various fronts.
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- As things stand today, in order to push both potential and actual output growth, policymakers would do well to focus on at least **four broad areas.**
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What are the four areas of focus?

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- **Strengthening macroeconomic fundamentals:** It is a prerequisite for

sustained higher growth.
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- India has made significant progress over the last few years on this front, and all efforts should be made to attain the medium-term fiscal and monetary policy targets.
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- The **N.K. Singh committee** has proposed a new fiscal architecture that will reduce the level of total debt stock with steady reduction in fiscal deficit.
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- On the monetary policy side, the RBI's rate-setting committee is targeting 4% inflation on a durable basis.
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- Continued progress in both these areas will help strengthen economic stability.
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- **India will need higher savings to sustain higher growth.** A stable macro environment should augment savings and investment.
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- **Fix the banking sector:** It is now well accepted that high levels of NPAs—particularly in public sector banks—are a drag on investments and growth.
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- The sector needs a fresh road map in the short to medium term that not only addresses the current problem, but also provides the necessary checks and balances for the future.
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- For a durable solution, **the government should reconsider its role** in the sector.
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- Further, India also needs a **lively corporate bond market** as it will provide an alternative source of financing and reduce the pressure on the banking sector.
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- **Improve conditions in land and labour markets:** In order to sustain higher growth, the government will need to make it easier for businesses to acquire land and hire labour.
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- The government should work on creating a flexible labour market, which will allow businesses to take advantage of economies of scale.
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- A number of projects are stuck because of land acquisition problems. Reforms in these markets would **require greater coordination between the Centre and states.**
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- **Review its own functioning and change:** It will allow the market to attain its full potential.
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- For instance, it will need to withdraw from commercial activities through privatization and focus on strengthening regulatory capabilities.
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- Policymakers need to constantly **work on multiple levels** in order to create enabling conditions that will allow the Indian economy to develop at a rapid pace and achieve long-term goals.
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Source: Live Mint

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