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# The Fastest Growing Major Global Economy in the World

*India remains one of the fastest growing emerging market economies driven by key structural reforms, normal monsoon and reduced external vulnerabilities. The Q3 GDP estimates of 7 percent growth indicate that the key domestic risk of demonetization has not undermined the growth momentum and growth prospects for 2017-18 remain bright. The article seeks to examine the key reform measures undertaken by Government of India to maintain the growth momentum.*

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On February 28, 2017, India's quarterly estimates of Gross Domestic Product (GDP) growth rate have projected the Q3 GDP estimates at 7 percent. India remains one of the fastest growing emerging market economies driven by key structural reforms, normal monsoon and reduced external vulnerabilities. Inflation has declined from 6 percent in July 2016 to 3.4 percent in December 2016. The Government has continued to adopt the path of fiscal consolidation and the Reserve Bank of India has maintained an accommodative monetary stance. The current account deficit remains manageable and international reserves standing at US$360 Billion are at their highest levels. External vulnerabilities remain subdued. It also appears that the post-November 8, 2016 decision to withdraw the legal tender character of all Rs. 500 and Rs. 1000 notes and the re-monetization initiative has not undermined the growth momentum.

The macroeconomic scenario looks quite bright with the Union Budget adopting a fiscal consolidation path having achieved the fiscal deficit target of 3.5 percent of GDP in 2016-17 budget. Fiscal deficit is projected to further decrease to 3.2 percent of GDP in 2017-18. The revenue deficit is envisaged to reduce from 2.1 percent of GDP in 2016-17 to 1.9 percent of GDP in 2017-18. Continued progress in reforms provides a healthy environment for a marked improvement in medium-term prospects.

The Union Budget 2017 has identified the external uncertainties around commodity prices, especially crude oil, and signs of retreat from globalization of goods, services and people as pressures for protectionism as future challenges. Further the Union Budget noted that the US Federal Reserve's intent to increase policy rates in 2017 could lead to lower capital inflows and higher outflows in emerging market economies. That said, the economic risks are titled on the downside. With the key domestic risk of currency exchange initiative being successfully negotiated, the prospects for significantly stronger growth in coming months have brightened.

The transformational reforms launched by Government in 2016 include the passage of the Constitution Amendment Bill for GST and the progress in its introduction, demonetization of high denomination notes, enactment of an insolvency and bankruptcy code, amendment to the RBI Act for inflation targeting, enactment of the Aadhar bill for disbursement of financial subsidies and benefits. Further the Union Budget has made major reforms in merger of the Railway budget with the Union budget and the removal of plan and non-plan classification to facilitate a holistic view of all allocations for sectors and ministries.

Demonetization is likely to have significant long-term benefits. These include increased flow of financial savings, greater formalization of the economy, greater digitization and transparency. The surplus liquidity in the banking system will lower borrowing costs and increase the access to credit. Stringent efforts are being made to clamp down on illicit financial flows. The availability of cash has been quickly restored with prudent monitoring of the pace of re-monetization of the currency counters.

Astute food management and price monitoring by the Government has helped to contain inflation. A number of measures have been taken by Government to control inflation and restore price stability. The steps taken include, increased allocations for the price stabilization fund, creation of buffer stock of pulses, announcement of higher MSPs to incentivize production, imposition of export duties and reduction of import duties on certain commodities.

In 2016, amongst the significant steps for monetary management and financial intermediation is the amendment in RBI Act. This amendment provides for an inflation target to be set by Government in consultation with the Reserve Bank of India once every 5 years. It also provides for a statutory base for constitution of an empowered monetary policy committee (MPC). The Government has fixed an inflation target of 4 percent with a tolerance level of +/- 2 percent for the period 2016-2021. The RBI has maintained an accommodative policy stance, which is duly reflected in the money markets.

The performance of the banking sector continues to remain subdued. The asset quality of banks has deteriorated further with non-performing assets ratio of scheduled commercial banks increased to 9.1 percent. Credit growth to industrial sector remains persistently below 1 percent and non-food credit growth has remained sluggish. The Government has given a strong policy push for cleaning up bank balance sheets by the new bankruptcy code. That said, there remain elevated corporate sector risks and heightened levels of non-performing assets in public sector banks continue to pose risks to banks' soundness.

The Union Budget has reiterated its deep commitment to fiscal consolidation. Such a commitment is critical for lowering the cost of credit to private sector and help price stability. The fiscal consolidation strategy envisaged further subsidy reforms. Significant efforts in this direction have been made with the oil subsidies and Aadhar linkages for better targeting of subsidies. There has been considerable progress on structural reforms with continued efforts to reduce poverty, increase financial inclusion and further trade liberalization.

To conclude it can be said that the Indian economy is growing strongly and remains a bright spot in the global landscape. The prospects for the Indian economy for the year 2017-18 are expected to get a boost from the accommodative monetary policy stance and the unleashing of domestic trade and consumption as the economy gets remonetized to the required levels.

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