

## **India – Will the Elephant Start Dancing Again?**

Lecture by Dr. Duvvuri Subbarao  
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India's growth slow down to less than 5% on an annualized basis this past quarter might seem abrupt, but it's been a long time in coming. All through Modi's first term in office, the economy was firing on a single engine – public and private consumption. That lone growth driver too has now petered out, triggering a perfect storm and raising fears that India might slip into a low growth spiral, said Dr Duvvuri Subbarao, former governor of Reserve Bank of India, at a lecture on “Will the Elephant Start Dancing Again?” at the Centre for the Advanced Study of India at the University of Pennsylvania.

Putting India's growth trajectory over the last two decades in perspective, Dr. Subbarao said that a remarkable confluence of fortuitous circumstances at the turn of the century – a combination of structural, global and cyclical upturns coming together - put India on an impressively fast growth trajectory, triggering expectations that India might follow the path blazed by China. That optimistic scenario didn't last as things started falling apart beginning 2010: projects got delayed, investments soured, bad loans mounted, and the financial sector was severely distressed.

It was this structural downturn that Modi inherited when he first came into office in 2014; but contrary to hope and expectations, he seemed disinclined to invest his formidable political capital to implement politically difficult structural reforms. The economy slugged along regardless, riding on sheer luck - low international price of oil, a benign global environment and good monsoons. Now, barely into his second term as prime minister after a resounding poll victory, Modi finds that the economy has run out of steam and the original sin of halting reforms has caught up with India.

In a growth slump like this, there will be enormous pressure on the government to open the money spigots and boost public spending to stimulate the economy. That, according to Dr. Subbarao, will be inadvisable simply because the government has no fiscal space. The true fiscal deficit is already much higher than the government admits; worse, it's very unlikely that the government will be able to stay within this year's budgeted fiscal deficit target. If on top of this, the government resorts to further borrowing to unleash a stimulus, it will impair what is already a tenuous investment sentiment.

Dr. Subbarao contended that any stimulus now, whether by the government or by India's central bank, will at best be a palliative. It may even distract attention from the more substantive agenda of reviving investment and improving the productivity of the economy. What is needed is structural reforms focusing on the real sectors of the economy, and governance reforms to inspire investor confidence.

Dr. Subbarao emphasized that Prime Minister Modi should pay special attention to preserving the integrity of India's institutions of governance and accountability to reassure investors that doing business in India is a promising proposition.

As prime minister, Modi arguably has more political space than any of his predecessors. He should use this historic opportunity, eschew his political and social agendas and declare unequivocally that repairing the economy and putting it on track for a 5 trillion-dollar output will be his single point agenda. That will be sure to turn the sentiment around for India and set the elephant dancing.