Q2

Do you agree with the view that steady GDP growth and low inflation have left the Indian economy in good shape? Give reasons in support of your arguments.

UPSC Civil Services Mains 2019 · GS III · 10 marks · Indian Economy

Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment.

Core demand of the question

- Take a clear position on whether steady GDP growth and low inflation meant the Indian economy was in good shape around 2019
- **Give reasons:** growth quality, jobs, investment, finance, and rural demand
- Keep a 10-mark length

Revision summary

CPI near 4 per cent under the MPC was a real gain after 2016.

A stretch of 7-8 per cent GDP did not survive as strength once 2018-19 slowed.

PLFS unemployment near 6.1 per cent showed job-thin growth.

IL&FS and NBFCs, weak capex, and rural demand were the missing tests.

PM-KISAN and investment revival were needed; two headlines were not enough.

Introduction

Headline **GDP growth** in the mid-2010s looked steady, and **consumer inflation** after the **2016 flexible inflation-targeting** law sat inside the **Reserve Bank of India** band of **4 per cent plus or minus 2**. Those two numbers are necessary for macro health. They are not sufficient. By **2018-19** investment, jobs and rural demand were already signalling stress.

Body

What the two indicators did show

- Inflation targeting, with the **Monetary Policy Committee**, anchored **CPI** near the 4 per cent target for several years, which protected real wages from a 2013-style spike and cut the old fiscal-monetary clash.
- Growth in the **7-8 per cent** zone for a stretch raised India's weight in world GDP and kept **fiscal math** easier than in a recession.
- Low inflation plus growth is the textbook **soft-landing** story. It is why some commentators said the economy was in good shape.

Why that view is too thin

- **Growth slowed into 2018-19 and 2019: auto sales, Index of Industrial Production**, and private **gross fixed capital formation** weakened. A high past average does not mean the latest quarter is healthy.

• **Unemployment** in the **Periodic Labour Force Survey (2017-18)** was reported near **6.1 per cent**, the highest in decades of comparable NSS series. Jobless growth is not a good shape for a young country.

• The **IL&FS** default (2018) and **NBFC** freeze showed that cheap CPI inflation can sit beside a **credit crunch** in shadow banking. Banks were still cleaning **non-performing assets**.

• **Rural distress:** weak wage growth, stressed **Mandi** prices for several crops, and household demand for two-wheelers and FMCG slowed. **PM-KISAN** (2019) was itself an admission that farm incomes needed a cash floor.

• **External and investment climate:** a high **current-account** comfort from cheap oil can mask weak **export competitiveness**. **Make in India** had not yet lifted manufacturing's share of GVA toward the stated 25 per cent.

• **NITI Aayog** and **Economic Survey** both warned that potential output needs investment, not only a GDP print. Twin balance-sheet stress had not fully cleared.

Balanced position

• One should **not** agree that steady GDP and low inflation had left the economy in good shape. They left the **macro anchors** in better shape than in 2013. The **real economy** - jobs, credit, and rural demand - was not.

Flow diagram

Headline GDP plus low CPI -> Macro anchors better

Headline GDP plus low CPI -> Quality of growth

Quality of growth -> PLFS jobs gap

Quality of growth -> NBFC IL-FS credit stress

Quality of growth -> Rural demand and capex

PLFS jobs gap -> Not yet good shape

NBFC IL-FS credit stress -> Not yet good shape

Rural demand and capex -> Not yet good shape

Conclusion

Low inflation and a run of decent GDP are strengths of the RBI-Budget framework. They did not, by 2019, mean the economy was in good shape. Jobs, NBFCs, private investment and farm incomes had to improve, through credit repair, public capex, and schemes such as PM-KISAN and Make in India that actually raise demand and factory output.

Facts & figures

Inflation target

RBI Act amendment 2016: 4 per cent CPI with a 2-6 per cent tolerance, decided by the Monetary Policy Committee.

PLFS 2017-18

Unemployment near 6.1 per cent, the highest in the comparable NSS employment series in decades.

IL&FS 2018

Default that froze NBFC funding and showed financial stress beside low CPI inflation.

PM-KISAN 2019

Income support to landholding farmer families; a Budget response to weak farm cash, not a victory lap.

GFCF

Private gross fixed capital formation stayed soft relative to the mid-2000s boom, so growth was less investment-led.