

# **The Eight Per Cent Solution**

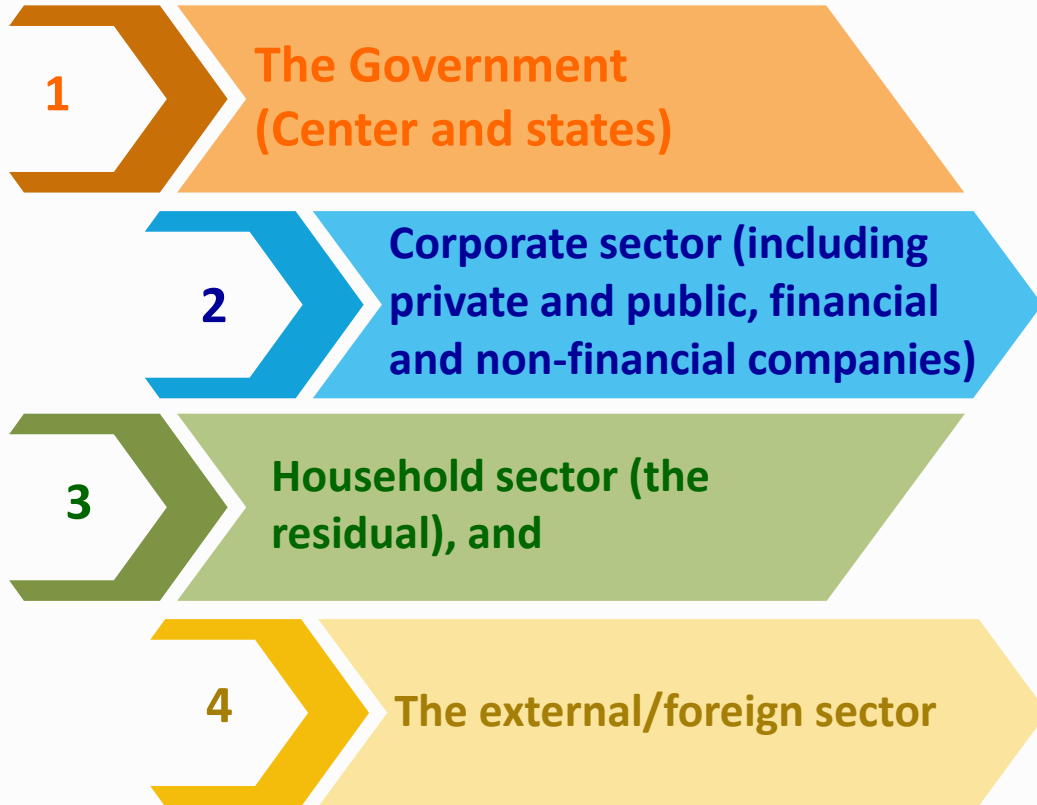
## **A Strategy for India's Growth**

**Nikhil Gupta**

Email id: [nikhilgupta.gipe@gmail.com](mailto:nikhilgupta.gipe@gmail.com)

# What constitutes an Economy? Four participants and three activities

## Four institutional participants, namely



## Three activities, namely

Consumption (Government and households)

Investments (all three domestic participants),

Foreign trade



## Seven key learnings & lessons to remember

---

- ❖ #1: Differentiate between the gross and net impact of a policy. The latter is relevant for the economy
- ❖ #2: Financial savings are different from physical investments, and there is no concept of financial investments in the national accounts
- ❖ #3: Remember the 'Theory of Everything' identity in economics, which says:  
***Total investments = Domestic savings + Current account deficit***
- ❖ #4: The corporate sector is much bigger than listed companies
- ❖ #5: Targeting fiscal deficit in isolation is likely an ineffective strategy
- ❖ #6: No external policy works without affecting the domestic equilibrium
- ❖ #7: Cross-country comparisons may be exciting but could be of limited utility

## Four key findings

---

- ❖ Indian household sector's financial position has weakened dramatically in the 2010s decade
- ❖ Listed companies strong, but aggregate corporate sector has weakened
- ❖ Fiscal consolidation means weak growth in government spending in the 2020s decade
- ❖ Exports are unlikely to be the new growth driver, given other discordant economic policies

## Gazing into the future: Possible outcomes

---

- ❖ For the household sector, only two possible scenarios:

- a) they may continue to prefer consumption over savings, adding on more debt, or
- b) they change the course and build-on their (financial) savings.

The former could lead to faster growth for a short period of time (like 2010-15) and the latter may lead to slower growth followed by high sustainable growth (say, 2000-07)

- ❖ Assuming unchanged deficit targets (7%/6% of GDP by FY26/FY30), fiscal spending growth will be slower than the pre-2019 period.
- ❖ Could corporate investments and exports offset weak consumption growth? Unlikely without a vision and plan to achieve this.

## Eight key recommendations: Accept 2020s as the Healing decade

---

- ❖ India's gross domestic savings (GDS) must rise, led by higher household savings, higher corporate profits and lower fiscal deficit.
- ❖ Only two ways to achieve higher household savings: lower consumption and/or higher income growth. The more the share of financial savings, the better it is
- ❖ Although household leverage is low in India, its debt service ratio is very high. Must find ways to extend the maturity, as lower savings constrain to reduce interest rates materially
- ❖ Serious deliberations are required to push corporate investments – how to make it more profitable?
- ❖ The fall in fiscal deficit must be in line with lower household financial savings. Higher financial savings will help to keep interest rates low.
- ❖ Hope for an export-led growth may be a futile exercise unless the domestic demand is suppressed and substituted with external demand.

## ...continued

---

- ❖ To mitigate the risks emerging from a volatile global economic environment, RBI must distance itself from the currency markets and focus primarily on domestic government securities markets.
- ❖ An investment rate of 32-33% of GDP must be enough to achieve 8% growth with an improvement in efficiency. But it is highly uncertain and not a substitute for the strengthening of financial positions.



**Thank You**