# Seminar

# World Bank Bi-Annual Flagship Economic Reports: South Asia Development Update and India Development Update

Centre for Social and Economic Progress
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**Welcome Address:**

**Laveesh Bhandari**

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**Chair:**

**A.K.Bhattacharya**

Editorial Director, Business Standard

**Presenters:**

**Franziska Ohnsorge**

Chief Economist for South Asia, World Bank

**Dhruv Sharma**

Senior Country Economist, Macroeconomics, Trade and Investment, World Bank

**Discussants:**

**Renu Kohli**

Senior Fellow, CSEP

**Amrita Goldar**

Worked on Energy, Environment and Climate change projects

**Closing Remarks:**

**Auguste Tano Kouame:**

Country Director for India, World Bank

**Know more details:** https://csep.org/event/world-bank-bi-annual-flagship-economic-reports-south-asia-development-update-india-development-update/

**Watch the video:** https://youtu.be/KWuTlkznNsU

*The following is an edited and revised transcript of the event. It has been generated by human transcribers and may contain errors. Please check the corresponding video for the original version.*

**Laveesh Bhandari:**

Good morning, it's great to have all of you here at the presentation on the World Bank's India and South Asia update. First of all, may I request everyone here to switch off their mobile phones. Thank you. The Indian economy has done well under the extremely difficult circumstances that included a pandemic unlike ever seen before. A war that has laid havoc in the commodities, trade and energy prices. And a sequence of extreme weather events that have been with increasing in frequency and causing more and more damage. Yet there is much that could go wrong in the days ahead. The banks research will help both India and the larger south Asia region better negotiate in the days ahead. I am especially glad that we are having this conversation at CSEP whose research spans macroeconomics, energy, climate finance, sustainability, health, trade, competitiveness, amongst other areas. Our foreign policy team has been working closely with researchers across south Asia on a multitude of issues facing India and south Asia. The centre for social and economic progress facilitates in depth policy, relevant research and conversations around it. Our objective is to enable evidence-based recommendations to the challenges facing India and the world. We draw on the expertise of our researchers and research network, experience of industry stakeholders and civil society and extensive interactions with policy makers to inform our work. I am glad that we have an excellent panel today to present and discuss the findings from the World Bank. A.K. Bhattacharya at present is the editorial director at business standard, a leading business newspaper of the country. He is based in New Delhi. He has been an economic journalist since the last four decades. He has served as the editor of business standard earlier. He was the editor also of the Pioneer and has worked at the financial express and economic times. He is a distinguished fellow at the Ananta Aspen centre, a think tank with global affiliation and a member of economic affairs, Council of the Confederation of Indian industry. It's a much longer introduction. We have a long panel and each of the panellists have a long introduction. So, with your permission, let's welcome AKB he is fondly known here. I am really glad that you could take the time out to chair today's proceedings. Franziska Ohnsorge is the World Bank's chief economist for South Asia. In this role she is responsible for leading the research program on key economic issues in South Asia and to inform the policy debate and the World Bank lending. Before starting this presentation, she was the manager of the development economics vice presidency where she spearheaded the flagship global economic prospects support. Prior to joining the bank Franziska Ohnsorge worked in the office of the chief economist of the European bank for reconstruction and development. And at the international monetary fund. Here research has been featured in peer review journals as well as policy publications and has covered a range of topics in international macroeconomics, finance, debt and financial crisis, inflation and so on. Her work has been widely cited including in the economist, the Wall Street Journal and the Financial Times. And she holds a PhD from the university of Toronto. Welcome. Dhruv Sharma is a senior country economist with macroeconomic, trade and investment practice of the World Bank. He is the lead author of the India development update. And will present the key findings today. His work covers macroeconomic policy analysis and modelling. His work also includes providing analytical support to the Ministry of Finance and finance departments at the state level. Previously Dhruv worked in the World Bank's Indonesia office, as well as with the Australian treasury. Dhruv received his Bachelor's in economics and PhD from the university of Sydney. Auguste Tano

Kouame took over as the World Bank's country director for India on August 2022. A national of Côte d'lvoire he most recently served as the World Bank's country director for the republic of Turkey. Prior to this he served as the director in the World Bank groups independent evaluation group. He also held positions as practice manager in the macroeconomics and fiscal management practice of the bank. He has held positions of sector manager for economic policy, as the chief economist for MENA region, he has also served as assistant to the World Bank group president. He holds a graduate degree in applied economics from ENSAE Paris. And a PhD in economics from EHESS Paris. He has attended a program in economic management at Harvard university. Welcome. Our panellists include Dr Renu Kohli and Amrita Goldar. Amrita has over 15 years of experience working on energy, environment and climate change projects for the government and non-government agencies. Many of her projects are with central government ministries and agencies that shape India's negotiation and standpoint at international forum. Her ongoing projects include understanding battery waste management linkages to sustainable EV supply chains, designing a critical mineral policy for India, studying the impact of renewable energy and efficiency policies. She has been awarded a PhD degree in economics from the centre for economic studies and planning at JNU. Her doctoral thesis focused on bilateral investment agreements and their impact on India bound FDI. Welcome Amrita. Last but not the least, our own Dr Renu Kohli. She is an economist and a research practitioner with experience on macroeconomic policies and issues. She has previously worked with the RBI, the IMF and think tanks including ICRIER and the IEG. Her work has focused on financial sector liberalisation, capital flows and exchange rate management in emerging markets. She has been published in referee journals such as the review of development economics, journal of development studies, journal of Asian economics, Oxford University Press, IMF working papers, RBI staff papers and so on. Dr Kohli has a wider engagement with the private financial sector and investors through talks, presentations and consultations on Indian macroeconomic policies. She has also served as an independent director on the boards of NCML and NFIN. Thank you Renu. Welcome. May I now request AKB to lead. Thank you.

**A K Bhattacharya:**

Very good morning to everybody here. Let us start the proceedings without much ado. We have two excellent reports to discuss. And two excellent discussants who will sort of decipher it for us. So, let me start the proceedings with Ohnsorge. We have 30 minutes. 15 minutes for you and 15 minutes for Dhruv Sharma.

**Franziska Ohnsorge:**

Thank you very much. It's a pleasure to be here. And to be joined by this distinguished panel. And you, thank you very much for making the time in joining us. So, this region is doing better than the rest of the world. These are difficult times for the global economy. I will structure my remarks around four questions. First what's the outlook for south Asia? Second how can south Asia's fiscal risk be addressed? I'll show you that this region has larger than other regions, fiscal challenges. Third, what might energy transition bring? What might it need to kindle, accelerate the energy transition? And what might be the implications for labour markets. So let me start with the outlook for the region. As you can see here in left the chart that the region is doing better than other regions in the world. So, the golden diamonds show you growth in south Asia for the next three years '23, '24 and '25 as well if you extended the chart, it would look the same. And the blue bar shows you the growth rates in all the other regions. This region is doing better than all the other regions. But there is always a catch, right? This is still a slowdown. It's a slowdown compared to pre pandemic averages and that's what you see in the chart on the right for all the countries in the region the World Bank called South Asia. You see in the blue bars the growth rate we expect over '24 and '25 and you see in the golden lines what growth used to be, the pre pandemic average. And you can see for every single country, what the next few years will bring is slower growth than what we got used to before the pandemic hit. And its not just slower growth than what we got used to before the pandemic hit, it's also slower than what is required to meet the authority's own goals. Most countries in the region have a goal of achieving high income status within a generation. And for none of these countries is the current growth rate sufficient to achieve this goal. The gap differs by country but for none of them the current growth rate is sufficient. What is holding up growth in the region at the moment is structural factors and cyclical factors. So, strong potential growth, strong fundamentals will always play in for the next few years in the region's favour. There is rapid working age population growth especially compared to other regions. There is also lot of potential for catch up for productivity. Simply because per capita incomes are still very low. They are about 120th for the region as a whole. 120th of the level of the advanced economies. And one fifth of the average emerging market and developing economy. So, that can be a driver for growth. There are also currently cyclical factors that play in the region's favour. Because the region is so closed, we get back to that, because the region is so closed it does not get affected by slowdown that is happening in the rest of the world as much as other emerging markets, developing country regions. And also, currently there is a bit of rebound effect from these severe recession in some of the crisis struck countries. So, this year, next year, growth is still lifted by, a little bit by these structural factors. And then trend growth will take over again. These are the baseline growth forecast. That is if nothing goes wrong. And there are many things that can go wrong. There are several things that can go wrong. There is a slowdown in China that could happen. There are natural disasters that can go here. And then there are fiscal challenges. So, let me start with a slowdown in China. We have done a scenario where we assume that the real estate troubles in China will become much more virulent. And you will have a slowdown in China to just around 2%. So, that is very low growth. That's kind of on par with the pandemic. That is very, very low growth. But remember its coming from a low base. Currently the World Bank is projecting China's growth at somewhere around 4½%. So, a further slowdown, the weaknesses in the real estate sector in China could trigger a further slowdown. And here the chart on the left shows you what that would mean. What the spill overs would be other emerging markets and developing economies including south Asia. You can see, simply because the region is fairly closed, the impact on south Asia would be about half of that of other emerging markets and developing economies. So, the average emerging markets and developing economy would fall by about a percentage point, if you exclude China. South Asia would slow by about half a percentage point. It really is quite insulated. So, that's one risk. Another risk is of course the perennial risk of natural disasters. This region is particularly exposed to natural disasters. Just to illustrate that we have the chart on the right. 60 million people per year on an average have been affected in some form or other by natural disasters in this region. This 60 million people are an average per year. These things unfortunately don't come reliably every year so you can plan for them. They come with massive impacts one year and there's a couple of years nothing happening, then there is another big disaster that affects millions of people. So, its very difficult for policy makers to plan for these things. But this is a serious risk for any policy making in the region and more than in other regions as you can see here. Now this third risk is risk arising from weak fiscal positions. There the region really stands out. This is what this chart shows you here. On average government debt 86% of GDP, that's higher than in any other developing country in the Asia. You can see here in the red bars on the left, they show you the 86% of GDP average debt in the region. And for EMDEs is somewhere around 75% of GDP. So, it's much higher debt. Not only is it much higher, its grown much faster since 2010 which is what we have called a fourth wave of debt i.e., 2010 to current. One of the reasons for this high debt build up is simply the revenue weakness. It's quite extraordinary how weak revenues are around the regions. It's not just around the region that revenues are below the average. Bhutan is _ (cut in audio) as they were going to be. So, word spreads very quickly. You can see in the chart on the left that in every country other than India there are more pollution intensive than green jobs. The golden bars are the shares of pollution intensive jobs and the blue bars are the share of green jobs. In every country other than India there are more pollution intensive workers than green workers. And even in India 9% of workers are in pollution intensive jobs. As the energy transition really gets going, some of these will have to look for new jobs. So, it's up to the governments to make that happen. And these workers are different from others. They have specific characters that may not make it so easy for them to move into different jobs. And that's what the chart on the right shows you. The probability that a worker with secondary education or tertiary education has a pollution intensive job… a worker in a pollution intensive job is less likely to have a secondary or tertiary degree. A worker in a pollution intensive job is more likely to have an informal job. These are exactly the most vulnerable workers who may be looking for new jobs. Its really up to government to create jobs, just generally improve job creations so these people can find new income earning opportunities. Also, to help these people move geographically and help these people move across sectors and just facilitate movement in general with things like better matching mechanisms, digital platforms, infrastructure… government is investing very heavily in infrastructure that helps people move. Portable social benefits. I know there are programs here done by the labour ministry to try and make benefits portable. These are exactly the kind of things that these workers will need to be able to move into new jobs as the energy transition gets under way. So, there's lots more detail in each of these chapters and I invite you to look at the website as well. Thank you very much.

**A K Bhattacharya:**

Thank you very much for making this presentation and staying more or less in time. I think the outlines is very clear. And now move to Dhruv for India update.

**Dhruv Sharma:**

Good morning, everyone. Thanks for having me today. Look forward to a good discussion afterwards. Let me get started with the India development update. This is a bi-annual report that the team here based in the country produces. It provides our assessment of recent developments as well as out outlook for India's economy. So, just let me start with a quick discussion on the key messages in our report. Starting with the global context, you have got that from Franziska's presentation as well. Global conditions are challenging. They were challenging last year as well. And some of those challenges remain including elevated price pressures, monetary policy, the monetary policy tightening cycle that we saw last year, rates and cost of borrowing still remain high in many parts of the world at the moment but despite these external challenges India's economy grew strongly last year. It was one of the fastest growing economies. Our expectation is that India will continue to remain one of the fastest growing countries this fiscal year as well. We do have a moderation in our forecast relative to last year. But as I said if you place this in context with other major economies and also in the context of global growth trajectory that is set to slow, India is doing quite well. I will come to some of the reasons we have or you know that underpin our forecast in a moment. But two areas that I will point out right now is strength in the services sector as well as infrastructure investments as the key policy focus of the government. And will spend a moment on that in a few minutes as well. In India food prices pressure keep the headline inflation elevated. That of course, has implications for consumption growth and monetary policy as well. Our expectation is that the current account deficit will narrow. And another key message from our report is that the government's commitment to fiscal consolidation will remain. We have seen for the past couple of years the government is quite committed to reducing the fiscal deficit. And our expectation is that we will continue notwithstanding the fact that we have elections in the country next year as well. When we think about fiscal policy, when we think about what is going on with India's public debt to GDP ratio, our expectation is following what happened during the pandemic when public debt to GDP ratio sure rose quite sharply just below 90%. We are expecting it to stabilise around 82% over the next few years. From a sustainability perspective we are not concerned but there are some things that I would like to point out in a few moments, worth noting when it comes to thinking about debt to GDP. Let me go straight to a quick summary of the most recent data that was released. This data was data covering the first quarter of this particular fiscal year. And what we saw was underlying strength in the economy. GDP grew 7.8%. and that was largely as a result of robust domestic demand. Consumption which makes up about 60% of India's economy and investment which makes up another 30% both of these components of GDP performed quite well. You can think about GDP from an expenditure perspective and also from a production perspective and I mentioned services a moment ago. Services grew quite strongly. Growing above their long-term average trend growth of the last few years. And we are expecting that strength in services to continue. There's a story when it comes to services on the export side as well. And how India's export of services has changed over the last decade. What is the underlying strength in the economy? What did that translate to in terms of labour market outcomes? We saw a spike in unemployment as one would expect during the crisis of the past couple of years. Since then, we have seen unemployment rates decline and the decline has been broad based across the males, females and the youth as well. When we think about labour market outcomes, we also pay attention to worker population ratios. And the increase in worker population ratios across categories, across males, females and youth, there was an increase in that. And it was largely actually driven by an increase in unpaid family work. And the reason I am mentioning this is while I pointed to resilience and strength in the economy, there are still challenges when it comes to the labour market and in particular what is going on with India's labour force participation rate. There's is a small box in our report where we look at job quality as well. And what we have noted is that the job quality perceptions that males and females have is also very different. The job quality index that we look at takes into account things like compensation, hours worked, contracts and there's a growing divergence between what males perceive as satisfying jobs and what females feel, and theirs is also a divergence in rural and urban areas. Suffice to say that… may be not suffice to say, but I will mention that females regularly report poorer job satisfaction and job quality than males do across urban and rural areas. Let's now turn for a moment to inflation. We saw over the course of the last six seven months headline inflation come down within the central bank's comfort range. So, that comfort range is between 2% and 6%. What drove the recent spike above that range was largely food prices becoming elevated as a result of bad weather and supply chain disruptions. Our expectation is that those price pressures on the food side are temporary. As a result, our forecast for this year is still for inflation to be just below the upper end of the RBI's threshold. We expect inflation to moderate over the couple of years over our forecast horizon. Core inflation was sticky for almost two years over the course of the pandemic and then started to gradually decrease. A large part of that reduction or moderation in core inflation was due to a reduction in transport and communication costs. We've seen a spike recently but again we are expecting overall headline inflation, core inflation to be closer to what the central bank is comfortable with. Now, let me just turn to spend a moment on food price pressures. Naturally one would expect monetary policy to come into play when prices are elevated. And that's particularly the case if there are challenges on the demand side. In this case India central bank has held rates steady since early this year. So, after raising rates by 225 basis points over the course of last year in an attempt to contain some of the price pressures, they have held them steady and they have consistently pointed to the fact that their belief is that the price pressures that we are seeing which are elevating inflation are transient in nature and driven by supply side issues. So, what the government has done in response to elevated inflation is introduce measures to boost supply in the market of key commodities. They have increased procurement to raise their buffer stocks, they have increased access to the common pool which allows to increase supply in markets, and they are also allowing farmers to sell directly. Hoarding prevention measures have also been put into place. And export bans, temporary export bans have also come into place for things like onions and non-basmati rice. In order to increase supply, some import duties of key commodities such as pulses have also been introduced. Now, whenever we think about these measures particularly on the supply side and when we are thinking about restrictions to trade, we typically like to have a time horizon on these. Because the cost of this is of course not free. To a certain extent we are comforted by the fact that the government is saying that these are temporary and once prices stabilise and once perhaps some of the volatility that we are seeing in prices eases the expectation is that these measures will be removed. As I said the monetary policy committee has held rates and they are focusing very much on supporting growth and they have also made a point of saying it will be very much data dependent, their next move. The health of the financial sector is something that we follow quite closely. Especially given a few years ago there were concerns about a number of things including the non-performing assets ratio. Non-performing assets have fallen and in a positive development they have fallen across all categories. Private sector, public sector, foreign banks as well and this is largely as a result of an economy that is bouncing back but also some of the reform measures that the government introduced over the past few years, including starting with the asset quality review that was conducted towards 2016-17 and then of course the introduction of the insolvency and bank bankruptcy code as well. There are always challenges when you introduce new policies and these policies are being refined further. But this is a bright spot and the development in the banking sectors, across the corporate sector, we are seeing very, very healthy profits as well being recorded on a quarterly basis. Indian firms are doing particularly well and we have seen that translate into the performance of the stock market as well. Credit growth, I am going to spend a moment here because I mentioned at the start of the presentation that there was robust domestic demand. And one of the drivers of growth over the past couple of years has been investment growth. And we are expecting investment growth to be robust over the course of next couple of years as well. We are seeing that translate into higher credit growth. Last two years there was concern that credit growth was tepid, it wasn't matching what needed to be dispersed in terms of credit to grow the economy. But we are seeing that change over in the past year or so. Again, a positive development here especially in light of the fact that the banking sector is a lot healthier now as well. Let's turn to the external sector. I mentioned challenging external environment at the start of my presentation. Major trading partner growth for India has eased. So, the EU, the US, ASEAN and China, all major trading partners for India. Growth in those regions has softened. In particular what we have seen in the Europe and also China. These have hurt India's exports and as a result the trade deficit has widened. Imports have also slowed but not to the same extent that exports have collapsed. The slowdown in imports hasn't been as severe particularly because investment and demand for capital India as a net capital importer has remained quite strong actually. One bright spot when we think about India's external performance has been the performance of services exports. They have done quite well. Other export categories have not done so well. And in fact, over the last ten years the export of high-tech goods has actually increased. India's share of high-tech goods exports has increased by 10% points. For medium tech exports, share has remained somewhat stagnant. And the share of exports that are comprised of low-tech goods has actually fallen. It has fallen by 7 or 8 percentage points from just under 50 to around 49. Now, that's a story that's interesting as India tries to move up the value chain but at the same time other countries are doing quite a bit as well. So, in terms of global shares India's share globally of high-tech good exports is still quite low. Its only moved up from 0.6% points to 0.8% points. Even though in India the share of exports has increased by 10% points. So, it's something to pay attention to, a positive development but perhaps something more can be done in that space. Foreign portfolio flows surged over the last several months. This is the reflection of India's growth which has been quite strong as well as investors seeking higher returns. Risk adjusted returns and India still offers quite an attractive proposition. Once you take into account that Europe, China, other major economies aren't perhaps doing as well as they were several months ago. We speak about foreign portfolio inflows, equity flows. These are all flows that can come in and out of the country very easily. So, you do see a lot more volatility there. On the foreign direct investment side, the story is slightly different. Yes, there has been an improvement. But in FDI as a share of overall GDP is still quite low. It is only about 1.6% of GDP, the pre-pandemic level was slightly higher than where we are now. This is interesting for two reasons. One many large countries typically do have a low share of FDI as a share of GDP. But India is still comparatively or relatively lower than others. And secondly the recent announcements over the past year or so about 'make in India' with production linked incentives, what does this really mean? This is an interesting discussion to have. Let me finally turn to the fiscal side. I mentioned earlier we are expecting that commitment to fiscal prudence to continue. Our projections for the fiscal deficit are for it to more narrow, we are expecting the general government deficit to come down from 9.6 to 9 to 8.7 and then gradually head down to around 8%. The general government deficit is of course combined with states and our expectation is that the state's fiscal deficits will be around 3% given that's what their rules are. So, when it comes to debt India's debt as I said earlier is expected to stabilise around 82% of GDP. I mentioned earlier that we think India's debt is sustainable. But I also mentioned that there were two things to consider. The servicing costs in India are quite high. Relative to other emerging market peers. So, debt servicing costs in India are about 5% of GDP. Across other emerging market economies, they are about 3% of GDP. India's effective interest rate is also a little bit higher. It's about 6.5% versus about 4.5 across other large economies as well. So, from a debt servicing perspective India can do better.

But from an overall sustainability perspective especially given we have robust projections for growth, India is ok. When we think about where the consolidation effort is happening, its primarily on the expenditure side. The withdrawal of support measures that were put into place after covid they are being gradually withdrawn and current spending is also being looked at very closely. The revenue performance story in India is the one that is dominated by GST collections. GST has done particularly well. But that is just one aspect of revenues, right? You have other taxes as well to consider and perhaps again when we think about challenges and opportunities, that is where India policy makers could look at a bit more closely. Finally, what does this all mean for our projections. It means as I said, we have got 6.3% for this fiscal year and an average around the 6.5 mark for the next few years. This projection is underpinned by strong investment growth. We see consumption moderating and perhaps picking up towards the end of our forecast period. And we are seeing the global challenges being reflected in our exports numbers and imports number as well. We see exports only pick up towards the end of that cycle. Mainly because our expectation is perhaps global growth and major trading path growth might improve by that state as well. Inflation I mentioned we expect that to come down within the central banks comfort range. From 5.9 this year to about 4.5 and then 4 in the next couple of years. I have already mentioned what is going on in the fiscal side. So, I am going to pause now and I am hoping I kept within the time limit.

**A K Bhattacharya:**

Thank you very much. I think we had two excellent presentations. The first one was on south Asia. It's doing better but too many challenges and the second one was on India, where slightly it's more hopeful, very positive on fiscal consolidation, even on inflation management. So, you have a slightly tonal quality which is different from the first in the second. So, therefore I will with these introductory comments I will hand it over to Renu and you take 10 minutes. And then Dr Goldar takes another 10 minutes.

**Renu Kohli:**

So, I am not going to waste any time. Let me just have a number of remarks on the India update. And lesser ones on the south Asia ones. So, without much wastage of time I will shoot straight. Broadly I agree with some of your assumptions or projections for the near term which is the deceleration of consumption. I agree with that. I am more guarded on private investment and even for this year recovery and the year forward into the medium term. I agree with the fact that there is the capacity for investments in terms of improvement and deleveraging and improvement of banks and corporate balance sheets have improved. But then you have to see ahead as to what the aggregate demand is. And your own projections show that the external demand is projected to slow down. There are other indicators which I saw in the development update, for example, the slack in the labor market is enormous. Because real wages have either been stagnant or falling. And much of the stagnation and the decline comes from the non-farm real wages. And that testifies to the extent of the slack in the labor market. The second indication of where this slack could be coming from is the segment in services on the GVA side which is this trade transport hospitality etc. etc. which is the largest biggest segment. Segment which provides non-farm jobs, urban as well as even in the rural areas. Jobs like logistics or trade, transport etc. Now the recovery in this segment actually if I look at it relative to pre-pandemic levels its just 4% above in real terms and compared to that the construction sector has risen about 19% above pre-pandemic levels. So, whatever little bit of job creation might be happening it seems is that there is a bit of discordance that I find in your optimism or maybe optimistic assumptions about services sector growth because if we see its largely construction, some see construction is part of industry, some see its part of services but overall, that and the financial sector which is not so great of a services provider. So, that is one thing. Then if we see the base of the aggregate demand the marginal propensities to consume are the biggest at the lower income levels and these are the low income daily informal job creation which happens there. So, that is one aspect. On the external side again, the external demand is seen to be slowing. So, one of the main things if we see India's historical trend of private investment then there is a close core movement between capacity utilization and manufacturing segment and the rate of private investment or growth of private investment. So that is it. And the third thing is to look at financing side. I think that tells us something. To merely be looking at bank credit growth as an indicator of robust demand is incomplete. Because we have look at the overall, there is a huge enormous amount of credit substitution from the non-bank domestic sources. External financing has actually pretty much dried up because with negative outflows on the commercial borrowing side last year. And that is directly to do with the adverse turn in the global environment rising interest rates and continuing depreciation pressures of vulnerable. It is no longer remunerative for domestic firms to borrow abroad. So, there is going to be given the large levels of government borrowing, one of the question is that we are looking at quantities, but what is happening to prices. There's no upward pressure upon interest rates or Domestic interest rates. So, that is the question and does that tell us that private demand or domestic demand may not be as robust as we commonly perceive from high frequency indicators. So, let me just move to the public debt side which is public investment. I think its fairly evident its run out of steam. It's been supporting propping growth for the last seven eight years. Effectively since the collapse of private investment in 2012-13. So, what we are finding, what we are seeing is the multiplier effect for whatever reason is either not evident or it's not great. Although regression coefficient shows us two or whatever the value of 2, but the fact is that it isn't big enough to generate enough consumption because consumption is continuously decelerating much before covid as well. And private investment is not coming back. So, it could be to do with efficiency of public investment that is there or the capacity. But public debt, one is, a lot of decline has been driven by nominal GDP. Which is exactly your report says for south Asia as well. That's correct. But going forward because of the extreme price collapse in the wholesale price index, nominal GDP is going to decline, so, I am afraid that's going to be a very big constraint on public spending. About fiscal consolidation I think it's important to look at actuals and where does this commitment come from. Commitment isn't enough for fiscal deficit and if you see last year's FY 23 correction, more of it is commitment and there are two main drivers: where it comes from and as you mentioned that one of it is the withdrawal of pandemic support measures. But the second was from price corrections. Fertilizer subsidy. So, that's not structural. There is no structural consolidation and rather on the other side we find that subsidies or welfare spending under various schemes is actually going on increasing. Then third, if we look at the NHAI debt, that is huge. It's more than 3.6 trillion. So, where is the public investment going to come from? It has no legs, no steam left anymore. And it is a huge concern as to where is growth going to come from in the period ahead in the medium term. I have one or two remarks on the external sector. Just looking at the Q1 figures, I think there is reason to be concerned about that because the aggregate services has gone up roughly year on year in the first quarter. The increase is about 4 billion more. It's essentially driven by business services. But then if we see on the other element of the current account there is also a 2 billion outflow which is on net income side. And remittances are essentially flat. Remittances also move with global GDP growth in the respective countries where they come from. So, there could be a financing issue at some point or huge net FDI decline, but that's not a main stay. So, the dependency on the fickle or the short term pot money is increased extensively. And given that the exchange rate is depreciating and India is trying very hard not to raise interest rates he yield differential has narrowed so much, it's going to be a tough walk. Of course, the CAD could be pruned because if growth declines then imports would also decline. So, you have both scenarios where exports and imports both sort of come down together. And the current account deficit is kept in check. Now the outlook bit. Here I have a major question which is that one of the benchmarks that can be used to look at the medium term growth outlook is to visualize or to assess as to where we see the level of output. Do we see it at the same level as pre-pandemic level? Or do we see it somewhere below lower that is a trend decline. And then it is distribution of course. That is where it is located. So, I don't know what the World Bank's pre-pandemic potential output assumptions were. But I think in this one I read that it's between 6 to 6.5%. So, you see growth is seen, real GDP growth is seen somewhere slightly below potential output in FY 24 and FY 25. So, that means that you don't perceive or foresee any kind of permanent output destruction due to the pandemic. But if you see that in FY 20, that is the first pre-pandemic year, growth had dropped to 3.9% with causes that are still remaining mysterious after a three year long slowdown. So, no one knows whether it was structural or cyclical and where it came from, that is a huge rebound. But typically, if you see in deep recessions there is a V shape recovery and then growth reaches a peak. Because it is a V and then it's either a decline or it settles at a lower trend and that is a permanent trend, but rarely is it seen that there is a rebound or sometimes there is a W. But there is another dip. So, let's see about that. Finally on the debt bit I am running out of time. On the debt bit on South Asia, that is a concern. You are optimistic about India, how it has grown. But there are always incipient pressures and technically India may not default because 95% of its debt is domestic, but we have problems on that. And in a way any kind of exchange of maturity of debt rollover is technically indicates the inability at that point of the economic cycle to meet one's obligations. Green jobs I am a little surprised that 9% only are non-green or pollution intensive. All the rickshaw pullers, everybody works in very high dust pollution and all that and a lot of jobs are there. So, overall, my one remark before I end because I am getting these suggestions from AKB, which is that south Asia debt problem, yes, it's a huge problem and coming as it does because the past history is so discouraging of debt resolutions or any kind of fresh thing. Maybe coming from the World Bank as it does its time to give it a thought or something given China's intransigence on debt resolution. Have some kind of another second HIPC or whatever. At least for the low and some of the middle income countries. Otherwise, global economic growth is not going to happen in the way that we visualize. Or for that matter the green transition. Thank you, that's all.

**A K Bhattacharya:**

I think many interesting points to which we will come back later. May I request Amrita to…

**Amrita Goldar**

It's always a good idea to start with some disclaimers. I am by profession an energy and climate change economist. So, that will be my vantage point of discussing the two reports: both the reports, so the key word there is update. So, in terms of providing a snapshot view of the economy, I found both reports to be extremely rich in terms of the coverage of issues. Some of the topics again, I read with a lot of interest. Specifically, the one on political budget cycles as well as the cost of sovereign debt defaults with a lot of interest but professionally, not technically qualified to talk about it or give very insightful comments. But where I am coming from and specifically my topic would be related to issues of mitigation, adaptation, climate loss and damage etc. So, what I am going to do is to put my interventions or comments into three broad buckets. And these sort of follow the order in which they appear in the report as well. The first comment that I want to make and this is something that was shown in the presentation also, about how climate change is a key risk to the region. Very important point to mention and the inclusion of both energy transition as well as climate change take the report one step up. In the sense that in addition to providing a snapshot view, it becomes forward looking as well. Because you are not only talking about what is happening right now, you are also focusing on what could potentially happen in the future and you are taking that into account. Which is I think a plus in my books. Some points that I wanted to mention and again relating to this. Yes, the region is extremely at risk, very vulnerable to climate threats. But something that I found in the report because you have these sections that go from one to the other. And you have a section which discusses the climate risks for most of the countries in the region. and the very next section talks about public investments being strategically placed, how it can be made effective. How it can lead to high quality infrastructure that can crowd in private investment. These are pertinent points. but something that I found missing and that might be considered for maybe the next iteration is maybe a reference made to resilient infrastructure. And how that presents an excellent opportunity. So, there is and I would quote another World Bank study which is I would say for me a benchmark of sorts, which is called 'lifelines' and it looks at four essential infrastructure systems. Power, water supply sanitation, transport and telecommunication. This report also talks about facilitative infrastructure which is basically these four infrastructures itself. So, the point here that I want to underscore and probably want to highlight in my discourse is that, despite the flagging of debt to GDP ratio as an important issue that the South Asian region needs to think about, the point that is not discussed very often is that the cost or the incremental cost of making infrastructure resilient is not very high. Actually, this study found that the incremental cost is only 3%. So, it will not add to burden a lot. But in terms of the benefits that you recoup in terms of maybe benefits of not having your business disrupted, not having households that have to sort of incur a lot of losses, specifically people living in the informal settlements. So, the benefits could be as much as 4$ to 1$ spend on resiliency. Its amazing. So, I think for this report also because it's making the connection, this link between resiliency or resilient design of infrastructure and the vulnerability of the region needs to be sort of woven into the narrative. And just maybe I am belaboring the point a little bit, also something that could be mentioned and when I was reading through the report, there is a mention of co-benefits. Again, when we go for resilient infrastructure, there could be mitigation benefits also. So, there is a lot of discussion on nature-based solutions, how that could be the answer. You have mitigation benefits that come as a co-benefit. So, in my books it's a win-win strategy that needs more people talking about it, more people emphasizing it. The second part that I want to talk about is this piece on recruiting firms for energy transition. Really interesting, I want to sort of commend the authors, because I was looking through the econometric modelling was done, so, they take different modelling techniques, different country standpoints and sort of meld it all together. In fact, there were some sections where the authors had mentioned that it was one of the first kind done for the South Asia region which is excellent. But there were some points that I wanted to highlight. First is, based on my understanding or our ground level understanding of how energy efficiency is progressing. So, we very recently, when I say we I mean the ICRIER team, when we did a study on green steel. Green steel is all that commanding heights, backbone of the economy, everything. So, when we talked about them, about why you are not going in for energy efficiency because that is in the MAC curve or the marginal abatement cost curve one of the negative cost options, they said that most of gains that could be made have already been made. So, where do you go? So, the next quantum leap would either come in for new technologies, that the report also mentions or involving the MSME sectors. That is, I think a big missing gap that I saw. So, the econometric framework that is there accounts for size but what would really interest me as a reader is maybe parsing of the data and just wanted to highlight that the authors have done an excellent job, so they are looking at a large panel data of ASI, so, the annual survey of industries from 2001 to 2008. So, its no mean feat. So, I know what sort of hard work is required for it. But the point is that if you pass off the data to look at the big guys and the small guys, I have a feeling the story is going to be very different. So, that needs to be highlighted. The second point is that most of the large guys are already covered. You have the Path scheme, you have the newly rolled out carbon credits schemes, it is the MSMEs that are going to be the problem. Not the problem but at least the people who will have the greatest cost if you want to follow the energy transition pathway. And Indians by default are extremely cost conscious. So, how would that come about and Franziska, in her presentation has given us cost effective measures that could work for a country like India. But there are some asks, if the author so feel that could be included maybe in later iterations. So, first question that I would want to pose to the authors is, is it possible to look at rather than a static vision of what led to energy efficiency gains, but rather decomposing the energy efficiency gains into gains from investment augmentation. So, obviously if a company or a firm goes for high-tech investment, high tech plant and machinery versus labor skilling. So, if a delta X marginal impact could be computed that would be excellent. Because then you are sort of unravelling the puzzle. Because there are some gains from labor skilling, some gains from labor productivity etc. and there are some gains from just capital intensive heavy investment driven energy efficiency gains. The other thing that I wanted to talk about is that it is possible again as a wearing my researcher hat it is difficult to do this with ASI. Now ASI is extremely tricky for people who worked with it because with panel data it only covers enterprises that have 100 plus workers. So, you might lose on the really small guys. So, 100 plus employments for units that are sort of recorded every year, but for smaller guys they maybe are recorded once in every three years. So, difficult to do. But at least for a smaller set so, this is again a suggestion for firms employing 100 to 250 employees. So, this is one part of the tale. This is maybe the medium to the… not the micro ones but small to medium enterprises. If this can be shown, it would be really good. My next point is with respect to information behavioral nudges. Specifically, this Bangladesh experience, it was really very thought provoking. This issue of geographical proximity to adopters the exposure effects as the reporter calls it, really interesting and it sort of started my own sort of thinking on the same that I better work on this further. So, maybe there could be a Goldar __ paper very soon on the same topic. And the last point that I want to make is about the green jobs definitions. Sorry to be a little critical here. But the way that this energy transition piece ends does not naturally or organically lead to the green jobs piece. Now, why I am saying this is because the green jobs definition I felt was a little too diffused. You are covering a lot many. So, when you are talking about energy transition in my head you are talking about renewable energy, we are talking about energy efficiency, we are probably talking a little bit about forestry, but the report covers green jobs in a more diffused manner. It covers repairs, recycling, yes, environmental protection also, which might make the results a little hard to decipher in my opinion. Same thing goes for polluting jobs as well. Because polluting jobs you are covering not just enterprises that are emitting GHGs but also enterprises that are spewing out local pollutants. The usual socks knocks etc. so, again, a little diffused. So, what I would wish for is if this could be made a little streamlined, it flows very naturally where you are talking about energy transition, the cost in terms of just and equitable transition and you are talking also about the jobs, the jobs that are getting created and the jobs that are getting lost. So, it all balances out in my head. This issue about gainers and losers, I think it is a very important point. So, there is a spatial dimension to energy transition. Not all states or not all subnational governments would win. So, how would the losers be compensated and how can the winners adjust to this new normal of high RE, high energy efficiency jobs. Because you have these sort of, I think, this is a call to arms to all urban folks there. Because you have these cities that are bustling with new labor that is coming in from the states that have suddenly lost their jobs, their livelihoods that are coming into your cities how do you plan for the same. And for energy efficiency specifically which I deem might be more localized, how you train the existing folks. So, skilling, reskilling, up skilling is going to be the buzz words which might sort of be the key point here. I will sort of stop here with some shameless self-promotion. ICRIER also is doing some work on this. Because we are looking at a multi-region input output table. Trying to bring in a state level CG model looking at labor mobility. In fact, for our works, we are focusing on certain resource rich states that are doing well with respect to both RE as well as energy efficiency jobs. So, for our work we have focused on Rajasthan, Gujarat, Tamil Nadu, Karnataka, Andhra Pradesh, Maharashtra, Madhya Pradesh and Telangana. And we are sort of focusing on how the skill labor or skilling policies need to come about at a subnational level. So, hopefully by November we will have our work ready also. And I welcome you to that. So, last, I will end with sage advice from a senior colleague at ICRIER, he said – Amrita, soon there will be no economists, there will only be climate change economists. So, take that as you will. So, I finish with that.

**A K Bhattacharya:**

Thank you very much. Amrita. Wonderful. I think we had two responses from our discussants, very perceptive. And it will be very unfair on my part if I don’t give an opportunity to both Franziska and Dhruv to respond to some of the questions that are discussed and raised. And if I may, I will add two or three of my points which will probably add and amplify to what Renu has pointed out. One is that there was this sense that the government supply measures have worked. But are there income costs associated with those supply measures? And what is the actual… if they had worked in terms of keeping prices, there is also the cost consequences in terms of farmers income. Now, how does that get squared up? That is number one. Two is the fiscal consolidation commitment which Renu has already raised some doubts on is also riding a lot more on the states. It is not so much loaded in favour of the centre. So, is there something that we need to look at? And finally, I would say that the big elephant in the room is oil and I don’t know whether we have looked at the oil prices and how it is going to impact the prices. So, I will first ask Franziska to respond to some of the questions of extra cost on energy transition, green jobs and then go to Dhruv to respond to the question that I raised.

**Franziska Ohnsorge:**

Thank you. Great discussion. Thank you very much. I want to go back to one thing that Renu mentioned on the private investment weakness. This is something that doesn't just affect India. You see it around south Asia. Literally every country where we can find the data has had private sector investments growth slowing from the pre-pandemic average. In some countries like India, it's been offset by very strong public investment. But India is not the only one. The question is then of course like you are mentioning how long can that be sustained and what is the collateral damage that comes with it. The growing borrowing cost etc. Then I want to get back to several of the points that Amrita mentioned. So, thank you very much. Very good points. This infrastructure, resilient infrastructure is really an important part of the energy transition. Now, I have to confess the energy transition is a vast topic. We are taking this one sliver of firms, but there is a major public sector component to it that of course we are completely disregarding here. What we are saying is that firms have their bit to do and government can prop them. But government has its own role and that is where resilient infrastructure comes in. So, we will be back. We are still working on it. You mentioned also the co-benefits and I wish I had mentioned them actually in my remarks because those are really important. This is not just about the energy transition. This is about reducing reliance on fuel imports just as much. You were mentioning oil prices. It's a major vulnerability for many parts of the region. They are all importing oil. So that is one of the benefits of energy transition, just having… (Comment by Renu Kohli not clear). Yeah, but at least it's a different kind of import. When you import a solar panel from China like Germany does all the time, all the solar panel comes from China. It's a one-off capital investment and then the running doesn't constantly require imports. So, you can go for a little while without even if your border suddenly closed, you can go for a little while because you have the capital and you are generating your own energy. Whereas if you constantly every month you need energy imports it's a different kind of dependence on the outside world. So, one benefit of the energy transition is actually reducing this dependence. Another benefit is job creation. What we find in the ASI data is that actually the firms that have been improving their energy intensity more than the medium, those are the ones who created more jobs. What they seem to have done is they have become more efficient in one dimension energy efficiency and they have invested that into job creation. So, we are hoping that this is a broader pattern that then applies to others as well. The third is of course simple productivity gains. With productivity gains comes growth. Of course, the pollution and all that is a motivating factor. But there are actually four co benefits to this. This energy transition it's not just about energy transition. You're perfectly right on the big firms or small firms. The problem is the small firms. The big firms they are the ones that lead us, they are implementing new technologies, they have access to technology. They can import it. They can interact with and buy it. They can invent it, they have research departments. The big firms are fine. The issue is the small firms. And that's where we hope our RCT, randomised control trial gives us some hope. Because we deliberately picked 500 little firms. Little leather industry, sewing firms, in Bangladesh and we found that they catch on very quickly. Once they realise there's some profit to be had, they catch on very quickly. It's just that investing in that first bit of information is costly. So, if one of them discovers the information with a new meter and new motor, the others immediately they act. They need profits. And finally, the gainers and losers. That's an important dimension. It's not just the type of workers that are concentrated or pollution intensive jobs are not just concentrated among a certain type, vulnerable type of work. Pollution intensive jobs are also concentrated geographically. More than green jobs. And there you are right. What we do in the chapter is a stock take, because that's all the data allows us to do. So, to do something more forward looking, we looked at all the past regional structural transformations. So, the obvious one is resource booms. Happens around the world, happens in China, and happens in India, happened in India in the 90s. Happened in well, structured transformation, maybe not resource boom. But structural transformations happen around the world and there is a big literature around it where you can actually extract lessons. And what we find is that a resource boom, what we are hoping is happening in these is green, in these regions that can really leverage green technologies, the resource boom brings big employment gains, a rush of migration into the region, doesn't do much for wages. Because there is this massive influx of labour. But it does generate employment. A resource bust, like what might happen to the regions who that rely heavily on pollution intensive jobs, a resource bust comes with lasting employment losses and earnings losses. And they really last. That's the difference to a boom. A boom gives you transitory gains while the boom lasts and then its over. And then comes a really lasting loss of employment and wages. Lot of workers never manage to escape it. There is a whole generation of workers who is lost when there is a resource bust. Not just in US, in the coal areas, not just in Europe, but even in places like China for example. Very hard to manage. It's a big task for governments to at least let people vote with their feet or help them out so that you don't get stuck in this past. That's it.

**A K Bhattacharya:**

Thank you. May I turn to Dhruv?

**Dhruv Sharma:**

Thank you for the very thought provoking points that you raised. Let me split it up so that in the interest of time into three things. Let me start with your point about consumption and perhaps the fact that the headline numbers maybe masking some of the challenges and I think we would agree that there is a K shape recovery. Growth in consumption is largely being driven by higher income earners. Our tapering story of consumption is largely driven by the fact that we expect that the pent-up demand to wain now. Of course, this is implications for poorer households particularly in rural areas. I agree with the overall thing that the numbers are masking what is going on in terms of composition. Construction sector is doing very well. Yes, you pointed out that as well. The real estate sector, there is signs that is also recovering. Capacity utilisation has actually increased when it comes to hospitality and travel sectors as well. Not as high as it could have been or it was before. But increasing. So, there is a two phased recovery if you like. Certain sectors doing quite well and very well in fact and others not doing so well. And sometimes the headline numbers don't really show that and a point taken about perhaps in the text we can bring out some of these nuances especially perhaps in the next edition. You spoke briefly about the fiscal side as well. You mentioned multipliers. So, we did some work on multipliers. We actually estimated the public infrastructure investment multiplier to be in the range of between 2 ½ and 4 ½. So, that basically means for every rupee that the government spends on infrastructure GDP could increase by 2 ½ and 4 ½. I know that is a very large number and there are several challenges when it comes to estimation and so on. But if you look at the literature it's not far off. In fact, it is not far off from what the RBI itself has done, when it comes up with this research. Where the challenge is and you noted this in your remarks, is that it's the quantum. Public share of infrastructure… public investment is still very low. You need the private sector to step in. and our empirical work shows that in many emerging markets and this includes India in fact, that there is actually a crowding in effect. So, having the public sector step in when it comes to infrastructure investment could actually crowd in private sector involvement. And yes, there are still challenges. And we know that there are challenges for the private sector to step in, it's not only about the public sector stepping in, but it's also about broader reform, access to longer sources of financing is critical when it comes to these longer-term projects. And that perhaps is an area where India could improve. Going to domestic sources, asking for 30 – 20 year loans, whatever. That could certainly be an area that we could see improvements in. On the states side, there is still space for… there is still some scope for states to do more. In fact, yes, there is a limit of 3 and they can go up to 3.5% on the fiscal side, but last year we saw them, the deficit number to be 2.7%. So, states are constantly close to or underperforming when it comes to that side. There are several reasons for this including capacity to spend and execution, a whole host of challenges. But perhaps a discussion for later. So, a little bit of scope there. You mentioned concerns when it comes to fiscal consolidation. You mentioned NHAI. So, look, consolidation is happening even though the NHAI spending has been brought onto budget. So, even though it's been brought on to budget we are still seeing consolidation. So, perhaps our comfort in the consolidation story is partly because of that reason as well. Finally, I know we are short on time… the other big question was about potential growth. Where we see India? So, you are right, we see India around the 6% mark right now. You could always argue that it should be closer to 7, closer to be 8 or its less than that and where the pressures will be absorbed if India is going at potential, there is not much room to go faster, otherwise prices will increase. But we also in addition to thinking about India, India's growth prospects in the short term, we also think about India's growth prospects in the longer term. And there perhaps some more interesting story emerges. If India's aspirations of becoming a high-income country is to be met, by 2047 India would like to be a high-income country, then it needs to grow at 8. So, there this whole question about potential comes into play as well. But the real question is how India goes from 6 to 8. And one point I'd like to also note is our estimates of potential also takes into account the learning losses that have occurred over the past few years. What has gone on the labour side of the economy and these are impacts that will have a longer-term impact on potential growth. But that is dispersed over the medium to long term horizon. So, the real question is how India goes from 6 to 8 I feel. It's a provocative question and it's also interesting because there are so many different things that India could do. I mentioned female labour force participation. That's of course one important aspect of that conversation. If you are not utilising a large proportion of your population to get from 6 to 8, it's going to be very difficult. On that slightly sombre note I am going to pause.

**A K Bhattacharya:**

Thank you. Laveesh, can we take 5 more minutes. Because we are behind schedule. Such a wonderful audience here. Some questions from them to the panel here. We would love to have them and get them addressed. Please identify yourselves and ask your question.

**Laveesh Bhandari:**

With your permission, I think we should have a longer Q&A. we can take 10 to 15 minutes.

**A K Bhattacharya:**

Thank you. So, questions from the floor.

**Audience:**

… Gave an interview in the economic times, they were talking about India being able to achieve 8% growth. And when the question was asked to him, he said it can be done. How do you think it can be done? Number one. Number two is question to Franziska. Question which is an issue which arose and this is something which is troublesome is the deficit from the states. As of today, states are all in kind of rush to get freebees and most of the states, not all, are in quite sort of deep trouble, I would say, fiscally. So, how do you think it is going to impact in the overall sense as we go along? And how does it relate to the other factors which we have been talking about? Thank you.

**A K Bhattacharya:**

Will take 3 questions at a time and then get them answered. Mr Bhagwati.

**Audience (Jaimini Bhagwati)**

I would agree that getting prices right is basic to any kind of sustained economic endeavour. I noticed, this is to both the presenters, I noticed that you spoke about domestic interest rates. Nominal interest rates. But I may have missed it, but I did not see any reference to rupee's external price, which is nothing but its exchange rate. Now, we all know that exchange rates can quickly get political because the US treasury watches, it puts countries on what it calls an exchange rate watch. Some 7 years ago, I've done a study and looked at total factor productivity. Given that our… our meaning Indian rupee nominal interest rates are way higher than most developed country currencies, one would expect, not that Fisher's theorem, interest rate parity would hold on ex-post basis, it only holds on an ex-ante basis. You would expect the rupee to steadily depreciate. Both nominally and in real terms. I am not convinced. The only reason it could not happen is if our productivity is much higher than that of developed countries. I have looked at some OECD numbers and I looked at some other numbers. There is nothing to show that Indian productivity is much higher than that of developed countries. So, I would posit that this is something that the World Bank should do on its own. Build up its own database and its own numbers on TFP and then assess whether a country's exchange rate is where it should be. Because this is one of the important factors in terms of our external balances. Getting our exchange rate right. And my understanding and I will stop here, is that the rupee is at present about 10% overvalued at a minimum.

**A K Bhattacharya:**

Third question before we come to the panel.

**Audience (Vinod Saigal):**

Vinod Saigal is my name. Where does the aviation sector come into this? Because there is going to be rapid growth and it is going to impinge on all that has been said. Comments? Thank you.

**Franziska Ohnsorge:**

Thank you. I think the first question was mostly… sorry, deficits and states. How should they adjust? I think this is actually better answered by Dhruv.

**Dhruv Sharma:**

So, let me start and I don't often get an opportunity to do this. But I am going to ask Auguste also come in for one of these things. It's on the Larry Summer's point. We are spending some time internally to look at how India can go from 6 to 8. In short one of the things that I mentioned earlier about female labour force participation is certainly an important part of that. India's labour force participation rate, whichever way you cut the numbers and look at them, it is lower not only in absolute terms but relative terms too. How you can get labour force participation rates for females to increase, there is a whole host of things. One thing to note is that its not only the social dimension that we should be considering. It's also the economic dimension. So, there's an economic cost of not having females in the labour force. I mentioned in my presentation that the worker population ratio for females had been increasing. But this is largely as a result of unpaid work. So, we have demand side problems, we have supply side problems and all of these need to be addressed holistically. One simple policy solution, well, it is not simple, but one thing that the government could consider and it has been considered in many countries is to think about what hurdles are there for females entering the workforce. I can give you one example which is transport. Simple thing is having safe and secure transport to even get to work. Evidence from other places where they have done experiments adding something as simple as lighting at bus stops which makes it safer for females to transport because not everyone is taking their own personal transport to work. So, I use the word simple, but its not simple. Suggestions like this could help. Increasing infrastructure investment, we have already talked about, that has gains in the longer term. We are hoping that some of the investments that are being made over the past few years and those are very large numbers, will eventually have payoffs when it comes to growth as well. And the question about… you mentioned total factor productivity. You also mentioned that productivity of course… I will give you one example. Productivity in the agriculture sector is still quite low. And the agriculture sector is a large part of India's growth story as well and it hasn't done well. There is still room to improve when it comes to productivity as well. On Larry Summers specifically, I am going to pass to Auguste. Because I understand that you met him recently. So maybe you've got…

**Auguste Tano Kouame:**

Maybe I will keep that for my closing remarks in the interest of time.

**A K Bhattacharya:**

Anything about the aviation sector?

**Dhruv Sharma:**

To be honest I don't have any specific information about the aviation sector other than a lot of the investments that are being made more recently is to improve connectivity and reduce logistics costs. So, we are seeing a lot more flights to second tier cities. We are seeing a lot more happening, airports being built there as well. And that is all part of the growth story in terms of numbers I don't have them at the moment.

**Audience:**

How does it impact what you discussed today?

**Dhruv Sharma:**

Look, one of the biggest costs that India faces and this is something that World Bank president has also made remarks about, is about logistics costs. Improving, reducing logistics costs which in India, my understanding is about 13 or 14% of GDP, if you reduce those, you boost trade, you boost incomes, and all of these things have spill over effects that are positive for India's growth. In real GDP terms as also on per capita terms as well. And integration into regional and global value chains of course as well, all part of that story.

**Audience (Amarjeet Sinha):**

Thank you. Amarjit and I dabble in the social sector. I would like to raise an issue on the 6 to 8 bit which was mentioned in the end. Because a lot of what you said before that, we've heard the responses of the discussants as also your comments. And more or less the picture is there. But in the context of what's been happening in India, I just want to understand on the 6 to 8 movement that you said at the end. How do you expect this to happen? I think I have very fundamental four simple issues which are emerging from where we've been able to reach so far in India. How chronic poverty is not that much a challenge as it was say 15 years ago as UNDP's report pointed out. So, basically, I could see four areas where perhaps some nudge through evidence based research work of this kind can help. One is the challenge of how do you create quality employment with respectable wages and incomes. And that what is it that needs to change, needs to come out clearly. Similarly on the human capital deficits. There is silence on the human capital deficits even in the medium term. I think it's a big, big issue. We don't seem to be addressing the quality of incomes and the respectable wages issue adequately. The third which is related again is the decentralised governance and financing reforms for quality outcomes in the public goods so to say. Education, health, legal system and so on. These have implications now for the 6 to 8 even in the short run. Because these seem to be sectors where we have not given the attention we needed to. So, a nudge in these studies on where, how do we move from 6 to 8. And the fourth point I wish to make is with regard to the reforms that we need whether it to do with food fertilizer subsidies, whether it is to do with the MSP challenges, the entire governance of subsidies and where possible changes are.

**Audience (Hyun Hee Ban):**

Thank you very much. My name is Hyun Hee Ban, chief of social policy, UNICEF India. Thank you so much for bringing the point about learning loss and also Mr Sinha has also alluded to the importance of human capital. Because we have a lot of evidence that shows if you invest in the early years from 0 to 6 where we call it the cognitive capital, there is a huge social and economic return. And I know that World Bank has in the past also been working on this and continue to work on this. I just wanted to point out a recent study that UNICEF did. They compared the spending patterns of 84 countries in low income and middle-income countries. And high-income countries spend much higher around the ages of birth including preschool and they have seen huge gains and we also allude to the importance of… you mentioned female workforce, labour participation, the importance issue of investing in care economy. So, affordable child care, family friendly practices and you have seen this in many countries including like in Norway where they invested over a 50 years period quality and affordable child care and family friendly policies like parental leave and maternity and child grants. They have seen multiple, multiple increases in GDP growth. So, I think it is a very important policy recommendation to make. Second point is around Franziska, thank you for bringing the point about the climate risk and the importance of looking at social protection systems. I think in addition it is critical if we look at three sectors of growth. We often even in the G20 they called the green economy, digital economy and the care economy. I think for that transition I think social protection for informal workers especially in the context of India where I think 80% of women are in the informal workforce, I think is critical and I think that could be a key policy recommendation that should be highlighted further. Let me stop here. Very informative presentation. Thank you.

**Audience (Anupam Khanna):**

My name is Anupam Khanna. I worked for 30 years at the World Bank and all before joining NASCOM. But the last decade in India, now I am back in Washington focusing more on technology, China, US. So, based on that, let me just start with the question I have on the first one. Because your thing rests on three pillars. The analytic framework depends on three sets of numbers. One was the China slowdown which you took as the first risk. And secondly your parameters regarding energy efficiency and labour market, two things. Number one, what is your slowdown scenario for China, is it closer to Adam Pearson who is already in the middle versus Nick Lardy, who thinks that the whole narrative has overstated the risk of China. Actually, slowdown is not that much. But I think the implications are different. The energy thing, your parameters, if the way you use the parameters and the labour market ones, change dramatically the framing of the question. Just to give you one example. What even large firms versus small firms there is this issue of actually is it energy efficiency that's creating it or its other. Most of the evidence, most of the studies show it's only the firms which have the resources then go into it. That is why when they are expanding, they do it. So, the framing of the issue becomes totally different. So, I just want to maybe today focus on the first one. For Dhruv, how is this… having spent more than 30 years and associated with __, how is this report different than what an IMF would produce? I am very glad that you mentioned the K shape recovery. Because I think I was stunned on that there was no mention of it. If there is no mention of it in the US, no mention of it in China and most developing countries. But then on the technical side also in terms of investment drivers etc. etc. it goes and Amrita and Renu, both mentioned, what are the drivers of the investment? Let me demand, it's not at all clear. Just another one, a key factor you are talking about services. Having spent many years in NASCOM, the fact is that the whole service revolution thing gets totally changed and distorted in terms of framing policy unless you disaggregate between modern and traditional services and within that between different categories. Let me just talk about… you can't talk about services, it makes no sense. You have to disaggregate them.

**A K Bhattacharya:**

Franziska, you want to address?

**Franziska Ohnsorge:**

Just very briefly on the productivity and the exchange rate, so, we will come back but our preliminary results already show India has actually grown. At least labour productivity has been very strong. And that is just arithmetic because of the high growth rate and weak employment growth. So, in some sense, there is a success story here. But we will come back with details. On your exchange rate misalignment, it's a very important issue especially for countries that are managing their exchange rates. For other countries the policy implication is very difficult. Because it really goes back to fiscal. If you exchange rate is misaligned but you exchange rate is floating, then it's all about fiscal policy essentially. Hence the emphasis and all our work on fiscal policy. In some sense we are working on it. We are just not formalising it in this framework.

**Audience (Jaimini Bhagwati):**

But you are very careful to __ your remarks not to say whether rupee is overvalued or not.

**Franziska Ohnsorge:**

You are the better judge. I haven't…

**Audience (Jaimini Bhagwati):**

World Bank should have a view on that. But anyway…

**Franziska Ohnsorge:**

I want to get back also to the aviation question. That's one topic that keeps coming up in the context of the energy transition. Because aviation sector struggles to become more energy efficient. But that's the beauty of these market-based regulations. They set a price on energy on pollution in this case. Pollution of different types. Pollution PM 2.5 or pollution of greenhouse gas and it is some sense encourages some firms that can easily cut their pollution and then sell the permits in some form or other to another aviation industry that cannot easily cut the permits. But that's why it's so important to see how policy steers the energy transition. It really needs to be market based by having prices on things, prices on pollution. It could be carbon trade regimes. I think Gujarat is trying one of these. It could be subsidy reform, it could be carbon taxes in other countries, I think even China is putting in place some carbon tax. Chile has done it. It is not just an advance economy thing. So, even emerging markets can put in place carbon taxes and regimes at work. But you are right. It's a critical then to allow for things like the aviation industry, it's very important that whatever regulations put in place is market based. I do want to come back to the questions on the China scenario. The baseline is a slowdown. A gentle slowdown to 4.4 or 4.3% over the next couple of years. It's gentle but its below potential growth for China what we think as potential growth. The scenario is a steep slowdown. So, that's how we split it. It's a very steep slowdown.

**Audience:**

That is the critical one.

**Franziska Ohnsorge:**

Yes. For the risk that's the one exactly. That's a very steep slowdown but it's a tail risk. It's a very steep slowdown that would then have global implications. Your question on the energy efficiency. So, yes. In part that could be because of the type of firms, but we do control for the most obvious things. It's a result of regression where we control all the firm's characteristics that we have data on. So, size for example what you mentioned is a control. So, it is even controlling for size. The ones who have cut energy intensity most are the ones who have created more employment. But you are right. There might be residual factors that we can't control for.

**Dhruv Sharma:**

They were very easy questions to answer. I am glad that Franziska took some time to answer. Let me try and give you an answer on investment first. What are the drivers there? In terms of disaggregated drivers, real estate sector, the construction sector and public investment. These are the just shorter-term drivers of growth. In the long term what we see as drivers of growth is improved financial intermediation, improved availability of credit and also the government's own manufacturing push. And so, of course we won't necessarily see these right now. Okay. But this is over a period of time. India's share… investment as a share of GDP has actually been increasing. And yes, there probably will be an upper limit to it. Maybe 35% or so. But it has increased. And India's investment growth has actually is growing faster than its long-term trend. Yes, in our projections it is coming down as a trajectory. But it is growing much faster than it has over a longer period of time. So, these might not show up immediately as I said, you can differentiate between two sets inter temporary. We are doing some work on the services side. Your point about services is well noted. There is traditional market services and modern market services and the story there is is different. And we are hoping next time around we might actually be able to delve a little bit more into that. If I may indulge and side step, how are we different from the IMF. I mean, look, we produce our analysis, we have slightly different forecasts every now and then and we may not always agree on certain things as well. And so, how is it different from the IMF, I think they will be releasing their world economic outlook next week. So, we will find out then.

**Audience:**

… Pakistan gets all its cotton from here. But the cotton has to leave Bombay, get out on the sea, then they have to pay through Dubai. Why can't we just exchange? Similarly, Bangladesh. Bangladesh really lives on exports. It is a very good exporting country. But it has one port, Chittagong. And the others are very small and can't take big ships. Now, there was a time when we thought of letting them use Visakhapatnam. But hardly anything comes to Visakhapatnam now. Why don't we give them port facilities? Sri Lanka is bankrupt. And prices there have fallen to a half. Now, when I last went there the prices there were one third of what they were here. In other words, today they may be one sixth. And yet hardly any Indians are going there as tourists. Why on earth not and why don't we promote it. So, there are all sorts of opportunities within a thousand miles of us which we don't even take.

**A K Bhattacharya:**

I think a quick answer from Dhruv…

**Franziska Ohnsorge:**

You are right. This region really stands out among other emerging market developing economy regions. How little interconnectedness there is? And how high the transport costs are. The trade costs. So, on average in this region, south Asia, average trade costs are equivalent of 140% tariff. Whereas in other countries trade costs, not just tariffs, not the logistics etc. in other countries on the order of 120%. This region is one of the second highest, it has the second highest trade cost among all emerging market and developing regions. It also has… something about this region that leads to this restrictiveness. If you look at… you talk about trade. But look at capital flow. Same story. The capital controls on inflows and outflows are above the emerging market and developing economy average. This region is just much closed.

**A K Bhattacharya:**

Ok, I think we have come to the end of this excellent discussion. Now my request to Auguste to make his closing remarks. And propose a vote of thanks.

**Auguste Tano Kouame:**

Thank you very much AK. I actually wanted to start with a vote of thanks so that if between now and when I finish some of you leave, at least I'll have a chance to share my thanks with you and my own remarks are really unimportant at this point. I really would like to thank Laveesh for your kind opening remarks and also your kind partnership with us to do this here at CSEP. I actually think that this is something we should do more of. I think every now and again its good to come out here and use your platform to share some of our findings and some of our struggles too, as you can see, we don't have all the answers but we would like to share with a broader audience. What we are working on and how can we benefit from input. Thank you also AKB. That's the best way of referring to you. For your excellent chairmanship of the session. Renu and Amrita, thanks so much for your comments and for your provocative comments. Especially sharing with us first where we perhaps need to be more careful with our assumptions. And also sharing with us what we can work on together and what you are working on coming up. So, now we will make sure that we all look at your work on environmental economics in the case of Amrita and make sure we all retrain ourselves, actually reskill ourselves as environmental economists. Thanks also to my colleagues Franziska and Dhruv for your excellent presentation. It was always… I have heard this presentation several times. But I always learn something new whenever I hear it again. Again, thanks for the audience and for your patience and for being here. To CSEP colleagues in addition to Laveesh, thank you very much for hosting us and we look forward to working with you again. My own remarks would be a bit brief. Because I know we are really out of time. I would like to focus on what I noted as risks. Because I think one of the first things, I heard is that we may sound too optimistic. So, I think we don't emphasise risks enough. Our forecast is good because the region is doing well, India is doing well in the very difficult global environment. But yes, indeed there are risks. One risk you heard as mentioned and especially in Franziska's presentation is the risk of high debt. If you are going to continue growing, you will need financing. Especially if you are a developing country. And if your debt level is already high in an environment where interest rates are also high, may pose a challenge going forward. Even if you have the best intention to consolidate fiscally and create more space on the public sector side. Its still very challenging. So, we are aware of those risks. I just wanted to mention that. And there is virtually no country in the south Asia region that has very comfortable space to finance a lot more growth without putting more pressure either on the fiscal deficit or debt or interest rate or risk of crowding out private sector. The second risk that we talked about which we maybe talk about more is the risk of the green transition. It is risky. It is something that we all need to do, the world need to shift toward. The green up production system, but it is risky for various reasons. Some people will be left behind, some people will be losers, there are cost issues, there are regulatory issues, there are many challenges. But those challenges should not encourage us to walking away from the green transition. We need to embrace it, work harder and incorporate the risk in policy making so that they can be reduced. The third risk I noted is a risk we don't talk about at the bank which is the risk of optimism bias. Some of you told us we are too optimistic about fiscal consolidation, we are too optimistic about assumptions on consumption picking up or we are too optimistic about private investment picking up, we are optimistic about even the financial sector. Yes, there is that risk of optimism bias but the good thing is that we revise our forecast regularly. So, whenever we see that we becoming too optimistic we revise them. And this time we maintained our forecast in the case of India to 6.3 because we think we got it right. And in fact, some other forecasters also revised their forecast to come closer to ours. So, we think we are in the right place in terms of optimism bias, but if we think we going forward based new data we can correct our forecast. The fourth and largest risk is of course, the global challenges or global environment is a very risky place to be today. Larry Summers talked a lot about it. In fact, his ‘talk the talk’ he gave here a few weeks ago was called, the title was ‘the world is on fire’. It is a very difficult global environment and that I won’t label that as risk, but I wanted to also say that there are opportunities to global challenges. The G20 told us that in fact if we come together as a global community, we can fix some of these challenges. Maybe geopolitical tensions are very difficult. But they can be fixed, right? Some of the global issues we see, if there are more coordination among central banks, maybe we can even work on the high interest rate environment and create dynamism for growth in some part of the world where growth is possible. But we haven’t banked much on it. I will bank a lot on growth in emerging market economies. You know, there are in Latin America, in Africa, there are pockets of growth that we can bank on. Those could become markets for countries that want to go there. They could become export market for India, for even Europe and US. So, I think as a global community we need to bank more on growth for others, not just focusing on growth for us, because growth for others is also good for our own growth as individual countries. There was a question on this 6 to 8. It’s a tough one. We can have a whole other session on it. It reminds me of the book that is called ‘from good to great’. I don’t know whether you are familiar with that book. So, for India 6 is good actually. In the world in which we are today, growing at 6% is good. You are growing at potential. Your potential is not that low. It’s one of the highest growth rates among large economies at least. Last year India 6.2% was the second highest growth rate among… 7.2, yes last year India 7.2% growth rate was the second highest growth rate among G20 countries. It was twice the average for emerging market economies. So, India is doing pretty well. Its good. But India needs to be great, right? Because India wants to become a developed country and therefore that requires 8%. So, the 6 to 8 to me is like going from good to great. And what will it take to get to great. It takes exceptional effort. That’s what the book tells us actually. You can’t just rest on your laurels. You can’t just do business as usual. You have to be very adept and alert at seizing opportunities and building on your strengths. And actually, you have to be able to use the market to come with you, use the global market in the case of India. So, a few things very quickly. Working with the rest of the world to create a better environment, something if I was India I would focus on. India has shown through the G20 presidency that India can do that. So, work with the world to create this environment that would create a benign global environment. Second work on domestic factors, work on capital. Your capital is a big factor for growth. But not just public investment, private investment is also very important. So, use public investment to crowd in private investment. And use reforms to facilitate private investments. And make private investment come in very quickly because we can’t wait for too long. Because the more you grow at 6%, in a few years the more you need to grow at more than 8% for the remaining years. So, don’t delay the 8% growth rate too much. Get to it quickly so that by 2047 you have reached the final goal of becoming a high-income country with less need to grow at 10% in the future years. You also need to work on human capital. Human capital is also an important factor in creating growth. For us and there was a question raised earlier on that how is this the lowest hanging fruits for India. India has the largest population. It’s a very good natural endowment and India has a well-educated population thanks to investment in education and health in the past. So, now is the time to use it. Male labour force participation is not as high as in the rest of the world. It’s around 60%. In the rest of the world, you can see 70 to 80%. I will talk about female labour force participation in a moment. Even on the male side there is a need to get more people to work. Then on the female side it is India is far behind other countries. India’s female work force participation is 25%. We estimate that if India were to increase that female labour force participation to just 50%, which is the average for India’s income group, which alone will add 1% to India’s GDP growth. And if India were to increase female workforce participation to match male labour workforce participation, that is the new 70% that could add another 1% to GDP growth. So, you get your 8% just by working on the human capital side and by leveraging the natural endowment and investment that has been made already on health and education. So, it is possible. Coming back to Larry Summers point. It is absolutely possible. But it cannot be taken for granted. It will take work. And the final aspect of what it will take on the production side is productivity. Talk about GFP. GFP is actually __ in India. But it can be higher. It can potentially reach 3 ½ % pretty easily by working on the first institutions that interact with the producers. So, making things agile, making it easier to do business and to produce and to sell and import and export, that will increase productivity pretty quickly. Work on infrastructure that connect markets to production centres. Work on logistics. Use some of the public investment to facilitate logistics to reduce cost of… frictional cost basically. In how you move things goods and people around. I will stop here, but the point is it is possible to go from good to great. But it will take efforts. With that let me thank everybody again and its really a pleasure. Thank you.