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This is India's moment — Narendra Modi must not waste it

Eswar Prasad

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The prime minister should use his political capital for bold economic reforms, writes Eswar Prasad



This should be India's moment. The country has the highest growth rate among major economies. The International Monetary Fund describes it as a bright spot in an otherwise mostly dismal world economy. Narendra Modi, prime minister, basks in the resounding

mandate he received at the polls two years ago from a population desperate for a sign of economic revival.

Yet two years into Mr Modi's tenure, his government continues to avoid many hard choices. India could come to rue a missed opportunity to implement a more ambitious reform agenda.

Sceptics question whether the economy is really growing at the official pace of 7.5 per cent. Even government officials agree that newly revised data collection procedures present a picture at odds with other figures.

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Still, India has good growth momentum. The fall in world oil prices has been a boon, reducing the budget and current account deficits. India is not likely to be hit hard by either a growth slowdown in China or a US interest rate increase. Domestic and external circumstances could not be more favourable.

To be fair, his government has accomplished a lot.

Macroeconomic stability is at hand. Mr Modi has supported the Reserve Bank of India's struggle against inflation. He has largely maintained budget discipline and made progress on financial inclusion.

Access to the formal financial system gives the poor the feeling that they have a shot at sharing in the benefits of reforms, rather than merely bearing any costs of dislocation. The government has emphasised better public governance as well, although the fight against corruption is not being executed with any great vigour.

However, unless Mr Modi builds quickly on these foundations, India's moment of glory could be shortlived. For all the positive economic data, private investment remains tepid as businesses are not convinced that the economy is on the right path.

What India really needs are bold reforms to make growth more durable. The list of such reforms is long and includes reducing labour market regulations, unshackling businesses from red tape, fixing the banks, developing capital markets and improving infrastructure.

Given the size of his mandate, Mr Modi ought to lay out a vision of where he wants to take the country and use his rapport with voters to build broad support for a reform agenda. He has argued that he would rather accomplish things than set out a grand vision that he may not be able to deliver. But words as well as ideas have power and he needs to use his political capital to push for economic reforms, rather than using it to advance his party's social agenda.

He could learn a lesson or two from Beijing. Although China is hardly a paragon in this area,

its government has created effective narratives that rally public support for reform and break down opposition. The plan to reduce inequality and the attempt to make the renminbi an international currency are examples. The concrete measures encompassed by these plans, including reform of state enterprises, financial market development, capital market reforms and liberalisation of the services sector, would all be good for the economy, even if the grand objectives are not achieved.

Rather than gloating about Indian growth, Mr Modi needs to make an aggressive push to reform the economy when the going is good. No one expects an overnight transformation. But a clear sense of where he wants to take the country and a willingness to expend political capital would go a long way in building momentum for the reforms that India desperately needs.

The writer is a professor in the Dyson School at Cornell University and senior fellow at the Brookings Institution

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