ECONOMIC DIGEST

(January 2020)

1. Economic and job market slump: IMF and the NDA's magic mirror syndrome-FE

Almost exactly a year ago, the IMF's chief economist Gita Gopinath, was bullish on the Indian economy. The IMF, in its WEO (Jan. 2019), projected a growth rate of a very healthy 7.5% for 2019, and an even better 7.7% for 2020. ..India's projected growth for the current fiscal year was downgraded sharply to 4.8%, and 5.8% is predicted for FY21. 80% of the projected 1% reduction in the IMF's forecast for global growth is attributable to India…Gopinath pointed to the crisis in the financial sector, especially non-bank financial companies, and worsening business sentiment... As early as the fall of 2018, there were warnings about a looming crisis in India's shadow banking sector in major domestic and international publications… the looming shadow banking crisis was not in the context of a healthy financial system, but one with large stocks of non-performing assets at major banks and non-bank financial institutions…The ultimate loser is the average Indian, whose life prospects have considerably worsened by poor economic growth and stagnant job opportunities.

2. Food for Expediency-EPW

A substantial rise in consumer food price inflation to 14.12% in December 2019, the highest ever in the past six years, has driven the retail price inflation in this country. However, with the core inflation rate still not overshooting the RBI's medium-term target of 4(+/- 2) %, speculations hover as to whether the RBI monetary policy committee will go for another rate cut in the coming month. This is a policy dilemma for the central bank not only because the overshooting inflation is resting on the back of undershooting growth and the fragile fiscal state of the economy, but more because the moot issues regarding the government's key economic estimates, such as the fiscal deficit, largely remain unresolved.

The CAG has flagged discrepancies in the central government's fiscal deficit estimates for the past two years, stating that the current figures have been kept at a 1.5% to 2% low by not including the government's off-budget borrowings from public accounts, such as the National Small Savings Fund (NSSF). Such off-budget expenditure stands at ₹ 1.5 lakh crore in 2019–20, and alarmingly, about three-fourths of the incremental off-budget expenditure are on account of under-recoveries in food subsidies of the Food Corporation of India (FCI).

Despite India's food subsidy bill almost doubling within a span of six years, only a part of it is earmarked in the union budget documents, e.g., the 2019–20 Union Budget had provisioned food subsidy at₹ 1.84 lakh crore, while the overdues of the FCI are already at₹ 1.86 lakh crore. For these burgeoning overdues, however, the current government has been continually leveraging the balance sheet of the FCI—converting food subsidy into credits/borrowings (from the NSSF) through book adjustments—and running the corporation into a debt-trap situation. Consequently, since the past three years, the FCI's off-budget borrowings from the NSSF have been on the rise, constituting nearly 70% or more of the corporation's incremental debt burden in 2018–19.

While window dressing of subsidies is nothing specific to this government, never before had it been at such a scale, and that too for artificially repressing a vital economic indicator like the fiscal deficit. Not only is the efficacy of any inflation-targeting policy decision based on such distorted figures questionable, but it also brings to the fore the political intentions of the current government for inflation—especially food price inflation—management. As always, this time as well, the issues of agricultural supply management are relegated to the background by the standard causality argument of "crop damages" caused by excessive and unseasonal rains hitting supplies, and that the inflation will ease out once the new harvest comes in. This argument can hold some water for horticulture crops like onions that saw an almost 200% rise in price in November and December 2019, sparked by a poor rabi harvest last year, but may not find traction in explaining the price inflation of wheat and other cereals.

With the government currently stocking much higher quantities of cereals at the FCI than the buffer norms—45.8 million tonnes of wheat as against the buffer norm of 27.5 million tonnes and nearly double the amount of rice vis-à-vis the buffer norm of 13.5 million tonnes, as on July 2019—India is now a cereal surplus economy. Why then the inflation in cereal prices? Is this artificially created by the government through its irrational stocking practice? Some fundamental concerns are triggered at this juncture.

First, with the economic costs (including procurement and storage of grains) of the FCI being 12 times or more than the (ad hoc) allocation cost of the grains through the public distribution system—₹ 35 per kg versus ₹ 3 per kg for wheat, and ₹ 25 per kg versus ₹ 2 per kg for rice—higher stocks would imply higher subsidy bills. Second, and in tandem with the first, ad hoc releasing of the stocks will not bring about any major changes in the situation, beyond short-run political benefits to the ruling government at the cost of a ballooning subsidy bill. Third, in this context, off-budget borrowing can serve various politically expedient purposes. It has enabled the government to showcase a consistently low share (below 1%) of subsidies in national income, thereby diverting public attention from two critical facts: the FCI's tipping financials, and the country's (grossly) underestimated fiscal deficit.

When harnessing an inefficient supply system can be of such convenience, why will a government even try to resolve the supply bottlenecks in agriculture? Among other things, the rhetoric of doubling farm income and diversifying to high value agriculture can earn some brownie points with the electorate, whereas implementation of the recommendations of diversification of the Shanta Kumar Committee Report 2015 in the water-stressed, cereal-intensive states of the country may not be alluring for the same reason. Simultaneously, what more can a "consumer-friendly" government desire if a staggering food price inflation can be veiled by an overall "permissible" rate of inflation? But, herein, the proponents of the consumer friendliness of this government must recall that the "illusion" of this acceptable limit of inflation potentially rests upon the savings of the common consumers, which the government is unduly misemploying for its own gains.

3. RBI chief: government must continue reforms, announce fiscal measures- Reuters

Monetary policy has its limits and the Indian government will have to use fiscal measures and structural reforms to revive demand and support the sagging economy. The economy is projected to grow 5% in the fiscal year due to end in March, its lowest growth rate in 11 years. The RBI had used the space that was opened up by the moderation in inflation early last year and started loosening monetary policy after having recognized the imminent slowdown in growth even before it was confirmed by data. “Monetary policy, however, has its own limits,” RBI Governor Shaktikanta Das said. “Structural reforms and fiscal measures may have to be continued and further activated to provide a durable push to demand and boost growth”. Potential drivers of growth like prioritizing food processing industries, tourism, e-commerce, start-ups and efforts to become a part of the global value chain could give a significant push to the economy. “The government is also focusing on infrastructure spending which will augment growth potential of the economy. States should also play an important role by enhancing capital expenditure which has high multiplier effect”. FM is widely expected to include stimulus measures for small businesses and non-banking finance companies as a cut in corporate tax rates and rate cuts by the central bank have failed to revive growth. RBI, which has cut interest rates by a combined 135 basis points in five moves since February last year, kept rates on hold at its last review in December. It is expected to maintain sit tight on Feb. 6 also.

4. 4. India needs to clock 9% growth over 5 years for a $5 trillion economy: Rangarajan-BL

India cannot achieve its aspirational goal of becoming a $5-trillion economy by 2024-25 unless it sustains a growth rate of about 9 % per annum. Rangarajan said: “$5 trillion is a good aspirational goal. But please understand that a $5-trillion economy in a matter of 5 to 6 years cannot be achieved unless the economy grows in a sustained way between 8 and 9 %. “It has to be closer to 9 % because today the Indian economy is $2.7 trillion. So, $5 trillion means almost doubling the size of the economy. And that is possible only if the economy grows at 9 % per annum in a sustained way for 5 to 6 years.” The country is nowhere near the goal because, according to the IMF forecast, India’s GDP growth in 2020-21 and 2021-22 is expected to be 5.8 % 6.5 %, respectively. “And I also must say that even if India reaches $5 trillion economy, the Indian per capita income will still be only about $3,600, up from today’s $1,800. And even then India would still be described only as a middle income country. “And if we really aspire to become a developed country, which means a per capita income of $12,000, it will take 22 years from now on if we grow at a sustained rate of 8 to 9 per cent per annum,” he said.

Three key issues for Budget— decline in the growth rate, fall in the investment rate and the stress in the financial system. Referring to the simultaneous fall in growth rate and investment rate, Rangarajan said if the govt. was going to increase its expenditure, and the fiscal deficit goes up, then the increase in expenditure must go into capital expenditure. Increasing the government expenditure only to raise revenue expenditure is a bad idea. “There is evidence to show that non-defence capital expenditure has a reasonably good high multiplier. Therefore,… increase the government expenditure but make sure that the additional government expenditure must go only into capital expenditures”. NPAs have accumulated due to the exuberance banks have shown over the years. This led to increased expenditure (in the form of providing recapitalisation for PSBs) for the government. The government must clearly define the extent to which it can own the banking system.

5. Union Budget 2020: What FM Can Do To Pull Economy -Outlook

In the past seven months, Union FM has announced more policies than what were included in her first budget in July 2019... Sitharaman has her task cut out—Asia’s third largest economy is struggling against headwinds of a prolonged economic slowdown that has seen thousands of job losses amid backbreaking setbacks across sectors. Against an ambitious target of making India a $5-trillion economy by 2024, the government has predicted a GDP growth of around 6 % in 2019-20, the slowest in 11 years.

From the FM’s perspective, the tasks are simple. She has to put more money in the hands of consumers, as she did for India Inc when she slashed corporate tax from 30 per cent to 22 per cent a few months ago. She has to initiate steps to enhance public investment and incentivise private investments, as the regime did with the recent decision to spend Rs 102 lakh crore on infrastructure over the next five years. She needs to force banks and NBFCs to loosen their purse strings, as the RBI did when it consistently reduced interest rates to kickstart the sputtering economy. The challenges are apparent. Any move to cut taxes and provide a stimulus package to help consumption will put pressure on government revenues, which may be lower than previous budget estimates. An increase in public spend will hike the fiscal deficit, and fuel retail inflation, which is the highest since 2014. The private sector is riddled with negative thoughts, and the farm sector is depressed. The financial sector is scared to lend. Sentiments, rather than action; a stable vision, rather than knee-jerk reactions, may prove to be more crucial.

Spending-led growth

Tax relief for the middle and lower classes can be in the form of lower (or zero) tax on long-term capital gain, and the removal of the dividend distribution tax. The former will put more money in the pockets of millions of families, and the latter is a demand from the companies. As a government official explains, “When we increased tax exemption for up to Rs 1,50,000 in PPF in 2014, it impacted the household savings enormously. So, taxpayers can look forward to some tax relief to ease consumption and spending.” What is urgent is the need to enhance farmers’ incomes. To double them, as the government envisages, in the next few years requires a mix of huge export incentives on agriculture products, and higher minimum support prices (MSPs) for the produce. Sources say that the formula to calculate MSP may be changed to boost incomes.

They add that fertiliser subsidy may be given before the sowing season to the farmers. To help them to market their products, Budget 2020 may provide more money for 10,000 FPOs (Farmer Producer Organisations).

Farmers have suffered despite a huge jump in allocations to the agriculture ministry—from Rs 31,063 crore (2014-15) to Rs 1,30,485 crore (2019-20). Even the hyped PM-ASHA scheme, which was meant to ensure income security for the farmers, hasn't worked. In the past three seasons (two kharif and one rabi) most farmers received money that was less than the respective MSPs. The scheme wasn't beneficial because of low expenditures and allocations. The demand from the industry is to treat corporate and non-corporate entities similarly. Right now, while the -former pay a lower 22 per cent tax, the impact on the latter, which includes proprietorship, partnership, and limited partnership, is over 30 per cent. This distinction needs to go, and it will provide a fillip to small and medium businesses. In turn, this will encourage such firms to invest more, or pay higher dividends to their shareholders, which can increase consumption. This will allow the Indian rates to be comparable to the lowest in South Asia and South-East Asia.

Investment-led growth

In December 2019, the government unveiled an ambitious plan to spend Rs 102 lakh crore on infrastructure projects by 2024-25. The amount was double the expenditure in the past six years. Public spending, i.e. by the Centre and states, was to comprise 78 per cent of this spending. However, there were no details for two months. Budget 2020 may provide hints and details, says Jayant Mhaiskar, CMD, MEP Infra. This is critical because the infra sector constitutes several components. Elisa George, partner, KPMG India, says, "A revamp of the existing PPP (public-private partnership) paradigms, models and regulations will be crucial to revive infra investments." George feels that more needs to be done to cut down red tape barriers and improve the logistics architecture. Lack of clarity on different PPP and other models of infrastructure projects and inconsistencies in regulations haven't helped the sector as expected.

To kick-start private investment will be a problem area. This is due to a vitiated overall business climate. As Tata Sons' chairman, N. Chandrasekaran, recently said, "We need supervision, we don't need suspicion. And we have suspicion. All our rules start with suspicion." In response to this scathing remark, the FM explained, "The government doesn't want to see every business house with suspicion. It is not our intent. My first attempt, which continues even today, is to decriminalise everything to do with companies law or related laws." However, mere changes in laws and rules will not help. What is needed is a transformation in the mindset of the civil servants…The lack of trust is reflected in the foreign investment inflows. Although the government has hiked FDI limits in several sectors, foreign investors haven't shown much excitement. Although India was among the top ten recipients of FDI in 2019, as per a UN report, more needs to be done. Budget 2020 may hike FDI limits in the insurance sector. It may ease technical FDI issues related to round tripping, i.e. take advantage of tax havens to route money out and bring it back. But these moves will prove to be controversial and contentious.

Lending-led growth

The RBI reduced interest rates several times, but is now constrained by high inflation. The banks too are under pressure because of huge bad loans, and wish to lend only to safe companies and projects. No one wishes to take risks. This is seen in the manner in which they have dealt with bad loans. Most banks, including the SBI, wrote them off, rather than recover them. Publicly, the banks maintain that write-offs do not imply that they gave up on recoveries. In practice, the recoveries are minimal. Under the new insolvency code, bankers agreed to huge haircuts, i.e. accept very low percentages of unpaid loans from the new buyers of companies. Only in rare cases, did they recover sizeable percentages. Only in exceptional cases did they get more than what was owed to them. In addition, as the RBI found, several banks, including SBI, under-reported their bad loans to hoodwink the regulator, and boost profits. Clearly, their balance sheets are not as strong as they seem. The reasons are obvious: lax risk management systems, politicisation, economic slowdown, and not-so-robust judicial mechanism. Hence, there is a need to revive the failing NBFCs. Several options are available to the FM. She can address the asset-liability mismatch in this segment, and tighten rules related to corporate governance. She can - initiate a government-driven lending avenue for the NBFCs, so that the former need to borrow less from the banks. Alternative lending modes, like chit funds, despite the controversies, can be made more attractive. All that Budget 2020 has to do is to treat chit funds' dividends the same way as NBFCs' interest under the GST regime.

Gayathri Parthasarathy, national head, KPMG, offers more technical options. She says that securitisation of short-term assets like gold loans and consumer loans can impart higher and much-required liquidity. The government can treat lending by banks to the NBFCs on a par with the former's priority sector lending portfolio. "In less developed rural areas, where NBFCs disburse loans in cash, the tax on cash withdrawals can be withdrawn, and refunds to loss-making NBFCs can be processed faster," she adds.

Stimulus-led growth

One of the debates today is whether Budget 2020 can offer an overall stimulus package, or at least a curtailed one for several afflicted sectors like auto and housing. The latter is more likely than the former; the latter is also what the government can do at this juncture. The immediate fallout of a stimulus and public investment will be a higher fiscal deficit, which will raise inflation. Hence, while there may some fiscal slippage, says Abheek Barua, chief economist, HDFC Bank, who expects the FM will "consolidate the fiscal deficit to 3.4-3.5 per cent of GDP". This is indicated by the finance ministry's decision to cap spending by the various government departments in this quarter (January-March 2021). "It is a clear indication of the official stand. It means that a major fiscal stimulus is pretty much ruled out in Budget 2020," Barua adds. Hence, there may be no radical departure from the previous budgets. In fact, Madan Sabnavis, chief economist, CARE Ratings, says that the Centre has already done enough. "Budget 2020 can help only in a limited way," he adds. Economists like Sabnavis contend that the private sector and the states need to take over from here. Instead of Centre's fiscal deficit, the states' limits can be enhanced beyond the 3 per cent of respective state's GDP for one year. The thrust has to also come from the private sector. Only in such a situation, explains Sabnavis, can both investment engines fire together. At this stage, some economists felt, the government can only lend support to the private firms and states. The reason is that the Centre's finances are in dire straits.

In the first eight months of the current fiscal, the total revenue was Rs 9.83 trillion, or only 50.1 per cent of the annual target. More trouble is ahead as the estimated disinvestment receipts are likely to fall short of the target. At present, the government has managed 55-60 per cent of the estimates, according to government sources. The sale of the ailing Air India, and the cash-rich BPCL can help, but only if the government's stakes are sold within the next two months. Subhash Chandra Garg, former finance secretary, agrees that fiscal performance in 2019-20 was quite weak. He predicted a huge shortfall of Rs 2 lakh crore, plus or minus Rs 25,000 crore, in the annual tax collections. Apart from the slowdown, a major reason is the lacklustre performance of GST, which, according to media reports, is hampered by a proliferation of fake invoices, shell and shelf companies, and tax evasion across the whole distribution chain.

6. Budget 2020: Can the Indian government spend its way out of the slowdown?

During an economic slowdown, a recession, or a depression for that matter, economists become *one trick ponies*. Most of them go back to John Maynard Keynes. Keynes's major contribution to economics was explaining the Great Depression of 1929. He explained the situation prevailing at that time, in large parts of the Western world, somewhat like this: when stock prices and commodity prices fell in 1929, across large parts of the Western world, a certain section of the population started to cut back on its expenditure. If a single person cuts back on his expenditure, it makes tremendous sense. But if a significant section of the population cuts back, there is a problem — the logic being that one person's spending is another person's income. If a substantial section of the population cuts its spending, the income of another section of the population is impacted. This section could include big businessmen or even the corner store down the road. This is because the expenditure of one person was the income for another. When expenditure is reduced, incomes fall, leading to a further reduction in expenditure. This slows down economic growth, or leads to the "contraction" (recession) or "huge contraction" (depression) of the economy. So, what was the way out of this situation?

Keynes suggested that during times such as the Great Depression, cutting interest rates to low levels would not tempt either people or businesses to borrow because of the tight economic situation. One way out was cutting taxes so that people would have more to spend. But the best way was for the government to spend more money, and become the *spender of the last resort*. Also, it did not matter if the government ended up running a fiscal deficit in doing so. Fiscal deficit is the difference between what a government earns and what it spends.

Keynes came up with this prescription sometime in the mid-1930s. While he was expounding on his theory, it was already put into practice by Adolf Hitler, who had deployed 1,00,000 workers for the construction of the Autobahn, a nationally coordinated motorway system in Germany that was supposed to have no speed limits. By 1936, the German economy was chugging along nicely, having recovered from a devastating slump and unemployment in the aftermath of the First World War. Italy and Japan had also followed a similar strategy. These countries had not bothered about their fiscal deficits, because they had hoped to pay them off by waging war. Very soon, Great Britain would end up doing what Keynes had been recommending. Great Britain had more or less done away with both its army and air force after the First World War. But the rise of Hitler led to a situation where massive defence capabilities had to be built within a very short period of time. The prime minister at the time, Neville Chamberlain, was in no position to raise taxes to finance defence expenditure. Instead, he borrowed money from the public.

By the time the Second World War started in 1939, the British fiscal deficit was already projected to be around £1 billion, or around 25 % of the national income. The deficit spending, which started to happen even before the Second World War, led to a boom in the British economy — especially in the south of England, where ports and bases were being expanded and ammunition factories were being built. This left very little doubt that the economy worked the way Keynes said it did. Keynes was not an advocate of a government running high fiscal deficits all the time. He essentially believed that during recessions or depression, trying to balance the budget, or ensuring that income matches expenditure, was not the best thing for a government to do. In a recessionary environment, chances were that the government's income would fall because of lower tax collection. The only way to balance a budget would be to raise existing taxes, introduce new ones, or cut expenditure. Any of these measures would squeeze the economy further.

Keynes believed that on average, the government budget should be balanced. This meant that during years of prosperity, governments should run fiscal surpluses; that is, its income should be more than its expenditure. But when the environment is recessionary, governments should spend more than what they earn, even running fiscal deficits. But over the decades, politicians and economists, took one part of Keynes' argument and ran with it. The idea of running deficits during bad times has become permanently etched in their minds. However, they forgot that Keynes had also wanted them to run surpluses during good times.

Reading India's economic slowdown

India is currently going through an economic slowdown. The economic growth in 2019-20, as measured by the growth in the gross domestic product, is expected to be at 5 percent in real terms (adjusted for inflation) and 7.5 percent in nominal terms (not adjusted for inflation). Economic growth has slowed down primarily because private consumption has slowed down.

…Private consumption in 2019-20 is expected to grow at 9 percent, the slowest in nearly a decade and a half. This is happening primarily because of a slowdown in income growth. Take a look at Figure 2, which basically plots per capita disposable income growth over the years in nominal terms. Figure 2 makes for very interesting reading, given that this is where the heart of the Indian economic slowdown lies. Income growth in 2019-20 is expected to settle at 6.7 percent, the slowest since 2002-03. Hence, after adjusting for inflation, 2019-20 will barely see any increase in disposable income. In this scenario, it is not surprising that consumption has taken a backseat. In nominal terms, private consumption forms about 60 percent of the Indian economy. Hence, a slowdown in private consumption has essentially ensured that the overall Indian economy has slowed down as well. Of course, it is important to clarify that we are not in a recession. A recession happens when economic growth contracts for two consecutive quarters, or periods of three months. While India is not in a recession, income growth and consumption have slowed down dramatically in 2019-20. In this scenario, politicians and economists, have gone back to Keynes and have asked and/or recommended *fiscal expansion*, or the government spending significantly more money in 2020-21 than it has in the past.

The idea is that individuals and private corporations are not spending money. In this scenario, the government needs to become *the spender of the last resort* and drive the economy forward. The trouble is that this has already been happening over the last two years…In 2019-20, the government expenditure in the economy is expected to grow at 14 percent, the fastest among all the constituents of the budget — the other constituents being private consumption expenditure, investment, and net exports (imports minus exports). Govt. expenditure has grown fast even in the past two financial years as well and propped up economic growth.

This increase in government expenditure doesn't fully show in the fiscal deficit of the central government and the fiscal deficits of the state governments, because a lot of government expenditure in recent years has been off-budget borrowing. If we were to add the fiscal deficit of the central government, the fiscal deficits of the state governments, the off-budget borrowings of the government, and the borrowings by the public sector (like loss-making companies getting bank loans simply because they are owned by the government), the public sector borrowing requirement comes to close to 9 % of the GDP. The central government's budgeted fiscal deficit for 2019-20 is expected to be at 3.3 % of the GDP. This is nothing *but a joke* that the central government is playing on itself…If we subtract the government expenditure from the GDP, what remains is non-government GDP growth. The difference between GDP growth and non-government GDP growth has been in positive territory over the last few years, which means that the overall GDP is growing faster than non-government GDP. So, the overall economy is growing faster than the non-government part of the economy. In 2019-20, the overall economy is expected to grow by 7.5 percent and the non-government part by 6.7 percent, leading to a difference of 80 basis points. One basis point is one-hundredth of a percentage. This has been the story over the last two years also, i.e., the govt. expenditure has been pumping up the economy over the last few years. Also, despite the govt. expenditure, the private part of the economy continues to grow slower than the overall economy, which is never a good sign given that it forms around 90 % of the economy. The government expenditure growth clearly hasn't seeped into the private part of the economy and helped in its revival. Any genuine economic revival will not be possible unless this part of the economy revives.

… In 2019-20, the government expenditure is expected to grow by 14 %. Let's say in 2020-21, the government expenditure grows by 20 percent or more (for it to be significantly more than the growth in 2019-20). What happens then? The last time government expenditure grew by more than 20 percent was in 2008-09 and 2009-10, when it grew by 20.3 percent and 25.6 percent, respectively. This clearly had a huge impact on economic growth with the economy growing, in nominal terms, by 15.5 % and 19.9 % in 2009-10 and 2010-11, respectively. The easy spending policy of the government led to double-digit inflation that the country had to battle for more than a few years. The government going overboard on spending can cause higher inflation, as a greater amount of money in the hands of the people chases the same set of goods and services. This is never a good thing because it hurts the poor the most (especially food inflation). This inflation ensured that the real economic growth collapsed to 5-6 % in the years to come, post 2010-11. It was as if the government had brought forward economic growth by spending more in particular years, only to have to bear the cost of it in the years to come. The period also led to public sector banks accumulating a huge amount of bad loans, something for which the economy is still paying. There is no such thing as a free lunch.

Secondly, the net household financial savings have been falling over the years. "Net household financial savings" refers to the investments that households make in fixed deposits, insurance policies, mutual funds, etc, minus the liabilities they accumulate. Why are they important? Because it is these savings which help the government finance the fiscal deficit. If the central government decides to increase its expenditure in the 2020-21 budget, the question is: where will that money come from? More than likely, the government will have to borrow that money.

…Net household financial savings have fallen over the last few years. It happened for a very simple reason: the income growth has slowed down. This has led to people having to either borrow or spend a greater proportion of their income to keep the consumption going. This has now started to break down. The data for net household financial savings is available only until 2017-18. But given the even slower growth of income in 2019-20, the situation could only have worsened. In this environment, if the government decides to spend more and borrow more, it will end up leaving less money for everyone else to borrow. Hence, interest rates will either go up or continue to remain high. The interest rates at which banks have lent money have more or less been flat over the last two years because of the fall in net household financial savings. So, increasing government expenditure by a huge amount will only add to the problem and push up interest rates. And as long as interest rates are high, the corporate sector will not be interested in borrowing and expanding. (high interest rates are not the only reason holding the corporate sector back.) One way out of this is the government being able to raise the revenue required to finance the added expenditure. This cannot be earned through higher taxes — that would defeat the entire purpose. But if the government decides to sell assets (shares in public sector entities, and the land and other physical assets), then the situation might be different. But the scale at which this will have to be done has never been attempted before. And the government's past attempts at selling public sector entities have been lackadaisical. The govt. cannot do much in the budget to revive the Indian economy. The govt. budget is, ultimately, a financial account. And financial accounts, ultimately, are financial accounts and nothing more. Keynes's formula doesn't always work, at least not in the way it should.

7. India's Economy Seems to Be Shaking Off a Slump-Bloomberg

India's economy appears to be shaking off a slump, as activity in the services and manufacturing sectors expanded for a second straight month in December. The so-called animal spirits signaled the economy may be taking a turn for the better, as five of the eight high-frequency indicators tracked by Bloomberg News came in stronger last month. The dominant services index rose to the highest level in five months in December as improving new work orders helped boost activity. The seasonally adjusted Markit India Services PMI index climbed to 53.3 from 52.7 in November, helping post a strong end to the calendar year. India's manufacturing PMI also rose -- to 52.7 from 51.2 a month ago -- boosted by the fastest increase in new orders since July.

8. India Ratings projects country's FY21 GDP growth at 5.5%-BT

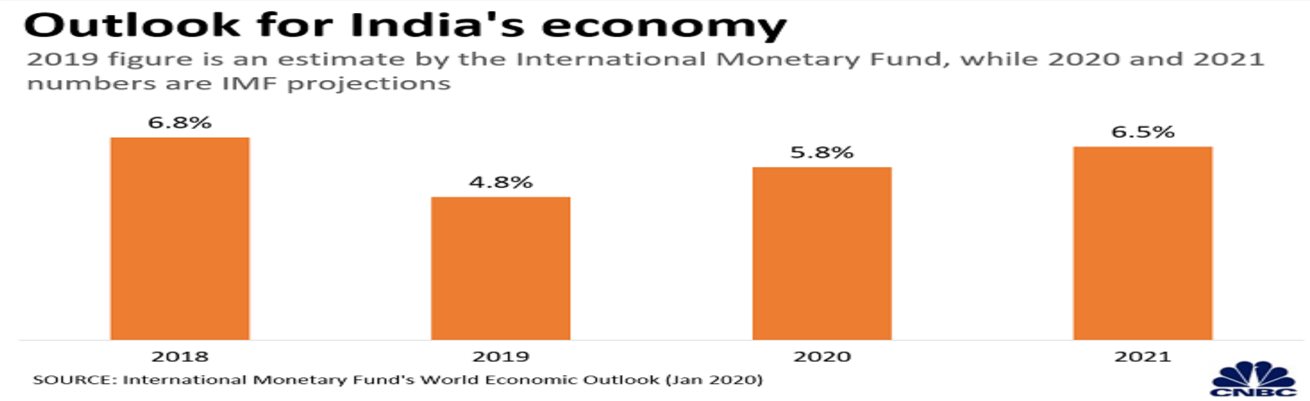
Following the IMF's downward revision of India's growth forecast, Ind-Ra placed India's GDP growth rate in 5% bracket. Ind-Ra pegged the Indian economy to grow at a 5.5% rate in FY21 (2020-21), which is marginally higher than the 5% GDP growth rate estimate for FY20 (2019-20). Sunil Sinha, Ind-Ra said, "Although we expect some improvement in the financial year 2020-21, the risks will persist and will lead to the Indian economy being stuck in a phase of low consumption and low investment demand." On January 20, the IMF had lowered India's growth estimate for 2019 to 4.8 % from 6.1 % it had projected in October on the back of a sharp decline in consumer demand, stress in the NBFC sector and sluggish credit growth. It also expects growth to be 5.8 % in 2020 and rise to 6.5 % in 2021. In its WEO (Jan.20), IMF expected growth to pick up over the course of the next two years with monetary and fiscal stimulus as well as subdued oil prices. Meanwhile, Sinha said, "A strong policy push by the government is required to revive the domestic demand cycle and catapult the economy back into a high growth phase. But with global trade under stress, exports have been hit across the world, dampening impact on India's exports. This too is playing its role in bringing India's GDP down." Ind-Ra also assessed that the rupee too will witness further devaluation on the back of prevailing global economic conditions. Although the government announced several measures recently to boost demand and revive the economy, these steps will help only in the medium term. With the Union Budget coming up, Ind-Ra expects the fiscal deficit sliding to 3.6% of GDP (budgeted 3.3%) FY 21 on account of slippage in tax plus non-tax revenue, even after accounting for the surplus transferred by the RBI. "With government's tax revenue collections dipping year on year, it leaves the government with little room for stepping-up expenditure". India is faced with three major risks: Inflation: After lying low, food inflation has re-emerged and is eating into savings of individuals. NPA rising in the banking sector: With the banking sector grappling with major structural and NPA challenges, the coming year too will witness the economy wading through difficult times. Private corporate investment missing: The idea of government alone fixing the economy will not be sufficient for India. The need of the hour is for the private corporates to invest to kick-start the economy. The government through its policies needs to ensure that corporates start investing quickly.

9. RBI to hold rates on inflation concerns, fiscal boost likely:Poll-Hindu

Rising inflation is expected to keep the RBI from cutting rates again until late this year, while an expansionary federal budget due next month attempts to put a floor under rapidly-slowing growth. Last month, a rate cut at the Feb. 4-6 meeting was a close call but with the latest inflation print showing a sharp increase - accelerating to its highest in more than five years and above the upper band of the RBI's target range - the RBI will be forced to stay on the side-lines despite the Indian economy expanding at its weakest pace in over six years in the July-Sept. quarter and the poll of nearly 65 economists showing a sharp cut to the growth outlook for this fiscal year. “Our expectation is that there might be higher inflation prints at least until April beyond which you could see some moderation,” said Sakshi Gupta, HDFC Bank. “Given this trajectory, it would reach a stage where inflation prints are going to become more comfortable for the RBI, we expect them to seize that opportunity and cut to support growth”. All economists said growth would gradually pick up in the next six months and a majority said inflation would moderate. “A sharp pullback in credit caused growth to slow dramatically in 2019. But fiscal and monetary policy have been loosened, this should lead to a gradual recovery in investment and household spending,” said Shilan Shah, Capital Economics. While the RBI was the most aggressively dovish major central bank in Asia, slashing rates by a cumulative 135 bps last year, it paused unexpectedly in Dec. on inflation concerns. The RBI could extend that pause - keeping its repo rate on hold at 5.15% at its February meeting and until at least Oct.

10. Indian industrialists aren’t too worried about IMF growth downgrade-CNBC

Some of India’s top business leaders are not too pessimistic about the country’s growth prospects in the coming years, despite a recent prediction downgrade from the IMF. The IMF marked down India’s growth projection for 2020 by 1.2 percentage points from its October forecast — for 2020, the IMF expects Asia’s third-largest economy to grow by 5.8% before jumping up to 6.5% in 2021. Last year, India’s economic output slowed to 4.5% in the three months that ended in September, marking the slowest pace of expansion in six years.



In a bid to ignite the economy, India slashed its corporate tax rate last year. During the first term, his government undertook demonetization and the introduction of GST. Measures were also undertaken to reform India's bankruptcy laws while the central bank made efforts to clean up the country's debt-laden public banks. Some of those measures left many SMEs reeling. Insufficient job creation, weakness in corporate earnings and profits, low levels of private investments, and a crisis in the financial sector took some steam out of the economy and growth slowed. Recent indicators, including industrial production figures, factory activity data, auto sales, and bank credit, point to a gradual reversal in the slowdown. The government is expected to announce spending measures to boost demand, despite a probable widening of the fiscal deficit.

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