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INDIA AT 75 - ISSUES, CONCERNS AND ROADMAP AHEAD

16 June 2022

“India is the cradle of the human race, the birthplace of human speech, the mother of history, the grandmother of legend, and the great grandmother of tradition. Our most valuable and most artistic materials in the history of man are treasured up in India only!” Mark Twain

MACROECONOMIC BACKDROP

The worst is clearly behind us post the COVID 19 pandemic and India is once again on a high growth trajectory. However, there are heightened geopolitical dynamics in the wake of the Russia-Ukraine war, the high fuel prices, elevated logistics cost and interest cost, volatile capital flows and exchange rate volatility and the scramble for safe haven and the attendant correction in asset prices. The emergence of newer variants of the pandemic and monkey-pox also threw a spanner in the Indian growth story.

The present challenges include enhancing the share of manufacturing in India’s GDP vis-a-vis average in low and middle-income countries; adequately capitalizing on the inherent labor and skill cost advantages to develop large-scale labor intensive manufacturing; simplifying complex land and labour laws; providing productive employment and to absorb out-migration of labour from agriculture; and strong macroeconomic fundamentals including low and stable rates of inflation and a falling fiscal deficit. There is thus a compelling need for structural reforms to drive economic reforms and balanced and inclusive growth.



In the steadily burgeoning literature on economic development in general and the transformation of the developing economies in particular, it is widely agreed that there is a strong case for broadening the process and accelerating economic development and making it more equitable. There is also a compelling need to accelerate the process of ease of doing business and reduce the cost by structural transformation while addressing the concerns of health, education and employment.

There are several other concerns, viz., 6.7-6.9 per cent fiscal deficit, 3 per cent Current Account deficit, sticky CPI inflation of over 6 per cent, the Rupee trading at 78 to the US Dollar, decelerating growth and high unemployment. These aspects need a revisiting of the policy options and structural reforms to meet 'the revolution of rising expectations' of India's growth odyssey.

The RBI's recent Annual Report stressed addressing supply-side bottlenecks, calibrating monetary policy to reduce inflation and boost capital spending. Inflation has been partly offset by removing customs duty on imports of raw cotton, reduced fuel taxes, rising exports steel duty, restricting sugar exports, etc. but these measures have a limited impact of about 60 bps on the inflation rate.

The RBI warned that the higher risk appetite of Nonbank financial companies (NBFCs) led to "their size, complexity and interconnectedness" posing a "potential threat" to India's financial stability. The RBI reduced regulatory arbitrage of large NBFCs making them almost on par with banks in regulatory oversight.

Considered in a proper historical and comparative perspective, India has recorded impressive achievements over the years. India at 75 provides an occasion for us to introspect, to find out what we have achieved during the years of consolidation and where do we go from here?

IMPORTANT DRIVERS

The IMF's revised global growth in 2022 from 4.4 per cent to 3.6 per cent, WTO's revised global trade from 4.7 per cent to 3 per cent, India's decelerating quarterly growth - 20.1, 8.4, 5.4 & 4.1 per cent - need an accent on manufacturing, investment, exports and employment.

Some of the important drivers for India at 75 are to

- → Accelerate GDP growth rate in a inclusive and sustainable manner to about 8 per cent during 2018-23.
- → Investment rate to be raised from 29 per cent to 36 per cent of GDP by 2022-23.
- → Increasing total exports from USD 478 billion in 2017-18 to USD 800 billion by 2022-23.

Most segments of the infrastructure, viz., roads, power, etc. have developed rapidly, e.g., the energy use in India has doubled since 2000; half the total installed generation capacity is in private sector; & India provided electricity to nearly 50 million new users every year. Similarly, power availability in rural areas rose from about 12:30 hours daily in 2015 to 21:09 hours, and 23.41 hours in urban areas; coal import dependency of the power sector is likely to rise moderately in near term.

These are important policy prescriptive findings, which have implications for the process and pattern of economic growth and structural transformation in India.

AREAS OF CONCERN

There are several areas of concern, including the real and challenging concerns of close to 7 per cent fiscal deficit, 3 per cent Current Account deficit, sticky CPI inflation over 6%, ₹ trading at 78 to the \$, decelerating growth and high unemployment need revisiting policy options and structural reforms to meet rising expectations of India's growth odyssey.

The inflationary WPI and CPI spiral causes concern with WPI & CPI inflation rising to 14.55 per cent & 6.95 per cent, respectively, in March 22. The Government of India slashed fuel taxes, subsidised gas cylinders, capped sugar exports & permitted duty free import of 20 lakh tonnes of crude soya-bean oil & sunflower oil. But high inflation concerns continue to persist.

ROLE OF BANKS

At the time of nationalisation of banks, there were 8,262 branches -22 per cent rural with deposits of ₹ 4646 crore and advances of ₹ 3,599 crore. There was a concentration of deposits and advances to certain sectors, groups and areas. Since then, the number of branches swelled to 122,976 as at end-March 2021 with deposits of ₹ 1,61,86,588 crore and advances of ₹ 11595762 crore. Banks have also acted as a catalyst to economic development and structural transformation, promoted savings, capital formation and industry, generated employment, supported, helped in applying monetary policy and fostered balanced development.

Major changes in banks in the last 75 years include nationalisation in 1969, 1980, liberalisation in the 1990s, PSB Amalgamations and rescue of Private Banks 2020's-Yes bank, Lakshmi Vilas Bank, etc.

The emerging role of banks has evoked considerable discussions. The RBI stressed banks need to support growth while being wary of credit behaviour of entities, whose loan accounts were restructured during Covid19 to arrest slippages. With unwinding measures, some restructured accounts may be insolvent. This is why a strengthening of regulatory & supervisory framework is on. Financial inclusion implies both access to and usage of appropriate, affordable, and accessible financial services-deposits, advances, insurance, remittance, digital payments and financial inclusion in India-JAM Trinity, New Bank Licenses, Jan Dhan Yojana and Mudra Bank have pioneered the financial inclusion movement. Banks and telecom operators complete the JAM trinity in synergy with the DBT model for implementation.

The IBC, 2016 marked a paradigm shift. While IBC fell short of expectations, it led to improved recovery ethics and enabling recovery environment.

ROADMAP AHEAD

Some of the basic elements of the growth strategy ahead include raising investment rates to 36 per cent by 2022-23; raising India's tax to GDP ratio from the present level of 17% to at least 22 per cent of GDP by 2022- 23; need to rationalize direct taxes for both corporate tax and personal income tax, and ease tax compliance burden.

Higher public investment in housing and infrastructure will create large multiplier macro-economic effects. Government should exit non- strategic central public sector enterprises (CPSEs) to attract private investment and contribute to the exchequer, enabling higher public investment. Macroeconomic stability should be achieved through prudent fiscal and monetary policies. Lowering government's debt-to-GDP ratio will reduce the relatively high interest cost burden on the government budget and will also improve the availability of credit for the private sector in the financial markets.

Promotion of exports and manufacturing require a renewed thrust on the logistics sector needs for it to be made more efficient, rationalization of power tariffs structure to ensure global connectivity and competitiveness of Indian industries; easing of labor and land regulations particularly speedily implementing Fixed Term Employment (FTE) by States; strengthening of the governance and technical capabilities of Export Promotion Councils (EPCs) by subjecting them to a well-defined, performance-based evaluation.

Closer ties with emerging economies of South East Asia particularly Cambodia, Laos, Myanmar and Vietnam and physical infrastructure and measures to facilitate seamless cross-border movement of goods in the North-East region would help accelerate integration and promote exports.

Presenting the Union Budget on February 1, 2022, Mrs. Nirmala Sitharaman said: "... we are marking Azadi ka Amrit Mahotsav, and have entered into Amrit Kaal, the 25-year-long leadup to India@100. Hon'ble Prime Minister in his Independence Day address had set out the vision for India@100." The FM said the core areas of focus would be all-inclusive development, promotion of digital economy and fintech, energy transition, climate action, and relying on a "virtuous cycle" kicking off from private investment with public capital investment helping in the endeavour.

Prime Minister Narendra Modi called his government's governance model "people-centric" rather than "government-centric" that prevailed eight years ago and gave the message to public offices to take reform initiatives to the intended beneficiaries rather than waiting for people to come to them.

The 'Jan Samarth' portal, an initiative of the Union finance ministry, is a one-stop gateway for a dozen of the government's credit-linked schemes. It's a first-of-its-kind platform, which directly connects beneficiaries to lenders. The main purpose of 'Jan Samarth' portal is to encourage inclusive growth and development of various sectors by guiding and providing them with the right type of government benefits through simple and easy digital processes. The portal ensures an end-to-end coverage of all the linked schemes. The government's AKAM plan rests on five pillars – "freedom struggle, ideas at 75, achievements at 75, actions at 75, and resolve at 75".

We are reminded of the stirring words of Iqbal, who said,

Saare jahan se achcha Hindostan hamara hum bulbule hain iski ye gulsitan hamara

Gurbaat mein ho agar ham, rehta hai dil watan mein Samjho wahin hain ham bhee, dil ho jahan hamara

Parbat wo sabse uNcha, ham saya aasman ka wo santari hamara, wo pasban hamara

Godi mein khelti hain iski hazron nadiya gulshan hai jinke dam se rashk-e-janan hamara

Aye aabroo-e-ganga! woh din hain yaad tujhko utra tere kinare jab kaarwan hamara

Mehzab nahi sikata aapas mein bair rakhna Hindi hain hum, watan hai Hindostan hamara

Unan-o-Misr-o-Ruma sab mit gaye jahan se Ab tak magar hai baaqi naam-o-nishan hamara

Kuch baat hai ki hasti mit ti-nahi hamari SadiyoN raha hai dushman daur-e-zaman hamara

Iqbal! koi marham apna nahi jahaN mein Mahoom kya kisi ko dard-e-nihaN hamara