

Poised for a leap

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"Fundamentals of Indian economy are sound. Growth is on the horizon."

If you look at the global markets for investors today, two big blocks will come to mind immediately — India and Africa. Unsurprisingly, these emerging markets have attracted maximum foreign investment over the last two decades. India, being the bigger of the two, remains a hot favourite with foreign investors. Narendra Modi's India has received \$250 billion FDI in the last six years, which is equal to the foreign investment in the 14 years prior to 2014. At present, the confidence appears to be slightly low in the Indian corporate world, which can be attributed to their concern over the global economy, where the GDP is likely to come off by over 60 to 70 bps.

Contrary to what detractors are saying, the RBI made a responsible gesture by handing over a big surplus of Rs 1.76 lakh crore to the government. It is in the national interest because it will support the government with the ammunition not only to combat the potential economic slowdown but also help spur investment and sectoral stimulus

The government is making an all-out effort to put the economy back on the eight percentage plus growth rate. But the private sector appears to have shown little appetite to fight shoulder-to-shoulder with the government. Our private sector and indeed the economists across the ideological spectrum were aware that Modi-1 was about laying the foundation for a robust, modern economy. It was going to be a bit bumpy, but very fruitful in the long run.

Many claim there is a feeling of fatigue in the world's sixth leading economy after a long run of high growth. Even at the forecasted rate of 6.30 per cent, the Indian economy continues to be the fastest growing among the top global economies. The not-so-impressive growth rate of 5.8 percent in one quarter shouldn't lead to fears. Yes, there is a slowdown. But we have not entered uncharted territory.

Modi-1 had inherited a largely informal, cash economy with a burgeoning, chaotic unorganised sector. Of course, India had changed beyond recognition following the reforms of the 1990s, but large parts of the economic activity had remained ensconced in the past. The Modi government embarked on game changing plans to formalise the economy. Demonetisation and GST were the two bold changes the government had to make in the national interest.

Another factor that has contributed to the slowdown is less-than-normal rainfall in the recent past (thankfully, this year the monsoon is good). Unfortunately, this factor is generally overlooked in the debate. The elections may also have contributed to the slowdown. Forced by the code of conduct during the elections, the government

was unable to spend on schemes or announce big reforms. As a result, the growth in capex had slipped to 2 per cent from the previous quarter of 12 per cent and impacted in GDP by around 80 bps. India's slowdown is also firmly linked to the global trend and the ongoing US-China trade war is not helping matters.

It will be a great service to your country if you do not panic. Our economy is on a very sound footing. Our macro indicators are all good. Consider this: Forex reserves are an all-time high at \$491 billion; CPI inflation is tracking at 3.2 per cent and has remained below the 4 per cent mark for nearly 12 months. Core inflation has also decelerated meaningfully in the last 12 months. Gross FDI flows remains robust tracking at close to 2.4 per cent of GDP on a 12-month trailing basis.

PMI manufacturing and services for July saw an improvement compared to a slowdown in previous month. This is encouraging and it suggests that the economy has shown improvement and also accelerated the job creation. The juggernaut of the Indian economy has generated so much energy over the years that a strong momentum has been in motion for the last few decades. It's continuing to propel the economy forward. The government was not exactly sitting idle before Finance Minister Nirmala Sitharaman announced a series of welcome measures at a press conference last week and reiterated her resolve to fix the problem at another meet on Tuesday.

Government spending is going to pick up following the good monsoon. Consumption will rise as we are entering the festive season. Growth will come. It will come from improving exports, from investment and from disinvestment. The government is encouraging private investment, as announced in the budget. The foreign investors' shares have been increased. It is bound to attract more investment from abroad. We believe that government can exceed the disinvestment target for the year, which stands at Rs 1.14 lakh crore.

The forecast is not exactly gloomy for the next quarter and beyond, but yes, it's not in double digits immediately. With PM Modi's continued focus on reforms, credit flow and ease of doing business and with his infectious optimism, it's very likely that we will achieve the \$5-trillion mark by 2024/2025 assuming we hit the average GDP of 7.5 per cent and rupee-dollar remains stable around 70.

GS World Team...

Symptom of recession in India

Why in discussion?

- Recently, Union Finance Minister Nirmala Sitharaman said that Indian economy is better than the whole world. Nirmala said that Indian economy is far better than countries like America and China.
- She said that due to the US-China trade war and currency devaluation, there has been a very volatile situation in global trade.

What did she say?

1. Violation of Corporate Social Responsibility (CSR) rules will be seen as a civil case, it will not be classified as a criminal case.
2. The Finance Minister said about the tax reforms related to ending harassment of taxpayers, now

all tax notices will be issued through the centralized system. The Finance Minister said that from Vijayadashami the Income Tax Department will start faceless scrutiny.

- Taxpayers will not be harassed. Government is sensitive about tax. She says that GST returns and refunds will be made easier in the coming days.
- 3. Government banks will get a capital of Rs 70,000 crore immediately. So that banks will be able to issue cash of up to five lakh crore rupees in the market.
- 4. All pending GST refunds of Small and Medium Enterprises (MSME) so far will be paid within 30 days; Future refund cases will be settled within 60 days. The same definition of MSME will be created.

5. Banks have decided to pass on the benefit of reduction in repo rate to the customers; Introduced repo rate or external standards based loan products. Banks will make loans for home and vehicle cheaper.
6. Government will soon bring the scrap policy of old vehicles. Vehicles purchased by BSIV Technology will remain in operation for the entire period of registration until March 2020.
7. Sitharaman announced that the government will also provide additional cash assistance of Rs 20,000 crore to the housing finance companies through the National Housing Bank, taking the total support amount to Rs 30,000 crore.
8. To make the loan process easier, the government has decided to simplify the Aadhaar rules and make necessary changes in the money laundering law.
9. The government withdrew the exorbitant tax surcharge imposed on them while meeting the demand of foreign portfolio investors (FPIs). Finance Minister Nirmala Sitharaman made this announcement. In this case the pre-budget situation has been restored.
10. Government abolishes angel tax.

It has been estimated that there has already been a loss of at least 0.1% of GDP in this trade war. Consumers in the United States are suffering the brunt of the increased tariffs on Chinese goods, leading to an inflationary situation in the country.

Corporate Social Responsibility (CSR)

- As we know companies use natural resources to create a product, promote pollution and fill their pockets; But various people living in the society have to bear the loss of this severe pollution; Because of the productive activities of these companies, they have to use polluted air and water. But these affected people are not given any direct compensation on behalf of the companies.
- It is for this reason that it has been made mandatory for companies all over the world, including India, to spend some part of their income for the welfare of those who have been facing inconvenience. This is called Corporate Social Responsibility (CSR).
- Who comes under the purview of Corporate Social Responsibility in India?
- The rules of Corporate Social Responsibility (CSR) in India are applicable from April 1, 2014. According to this, companies whose annual net worth is Rs 500 crores or annual income of 1000 crores or annual profit of 5 crores, then they are required to spend on CSR.
- This expense should be at least 2% of the average profit for three years. As per the CSR rules, the provisions of CSR do not only apply to Indian companies, but also to the branch of a foreign company in India and the project office of a foreign company.

What is the economic slowdown?

- When there is a continuous decline in the production of goods and services at the international level and the GDP is in a downward growth for at least three months, this situation is called world economic slowdown.

US-China trade war impacts global economy

- The slowdown in Chinese imports has resulted in losses to some countries (especially South Asian countries), which depend on China for various finished goods and 'supply value chains', including various components.
- This will be a setback especially for those countries in Africa and South American region who export raw materials to China.

Expected Questions (Prelims Exams)

1. Consider the following statements regarding Economic Slowdown-

1. Continuous decline in the production of goods and services internationally is called Economic Slowdown.
2. When the GDP is in at least three months of down growth, it is known as Economic Slowdown.

Which of the above statements is/are correct?

- (a) Only 1
- (b) Only 2
- (c) Both 1 and 2
- (d) Neither 1 nor 2

Expected Questions (Mains Exams)

- Q. India is one of the emerging markets that has attracted world's foreign investment in the last two decades. In this context, discuss the efforts made by the present government in its first term and in view of the present slowdown and the efforts being made to bring the economy back to more than eight percent growth rate. (250Words)**

Note: Answer of Prelims Expected Question given on 29 Aug. is 1 (d)

