

INDIAN ECONOMY : AN OVERVIEW

Employment News

May 28 - June 3 2016 **K.R. Sudhaman**

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A lot of positive developments have taken place to the Indian Economy during the last two years. Many of these developments have gone unnoticed because of the tepid global growth particularly in some of the advanced economies in Europe and in China. The Indian Economy might not be growing to its full potential as yet but none can deny the fact that a derailed economy during the last few years has been put back on rails.

The economic slowdown has bottomed out and the economy is on revival mode and surging towards high 8-10 per cent annual growth in the coming years. After slowing down to less than five per cent during the last years of previous regime, India's GDP grew by 7.6 per cent in 2015-16 and 7.2 percent in 2014-15, making the country fastest growing economy in the world after China slowed down to less than 7 per cent annual growth in 2015. Annual inflation, as measured by the wholesale price index (WPI), fell to -0.9 percent in January 2016. High growth and falling inflation is unprecedented in recent Indian economic history.

The fiscal deficit has been contained below 4 per cent of GDP and Current Account Deficit is less than 1.5 per cent of GDP. Foreign Exchange Reserves are beyond \$350 billion and growing. India received highest Foreign Direct Investment at over \$50 billion in 2015-16, which has happened for the first time in putting the Indian Economy on a sweet spot when most of the other major economies are not doing all that well. Systemic reforms have happened in the last couple of years, whose impact might not be felt immediately but over a period of time it would certainly cut down wasteful expenditure and subsidies would become more targeted and social schemes more effective. Of course, one cannot say for sure Indian economy is out of the woods as yet in view of the external factors arising out of difficult global economic situation and some domestic bottlenecks impeding rapid growth.

Agriculture, badly hit by poor monsoon during the last two years coupled with infrastructure constraints are some of the factors that needed to be addressed and the Union Budget this year has rightly caught the bull by the horn so that consumption demand picks up particularly in rural areas and more jobs are created by pushing investments. The economic survey shows that fixed capital formation has fallen to 29.4 percent of GDP in 2015-16 from 30.8 percent in 2014-15. Agriculture has grown by merely 1.1 percent this year



after -0.2 percent growth last year with food grains production stagnating at around 250 million tonnes for the past two years. Exports and imports have fallen by 17.6 and 15.5 percent, respectively, during this year. The Railways reported a mere 1 percent growth in freight volume in 2015-16 over last year.

Growth in bank credit has ranged between 9 to 11 percent in the last two years in contrast to an average annual growth of over 20 percent in the last decade. Banks are unwilling to lend owing to a pile up of bad debts, with stressed advances accounting for over Rs.

8.5 crore, i.e. almost 7 percent of GDP. Conscious of these problematic areas of the economy, the Budget has made an honest attempt to deal with many of the pressing issues. To begin with it has taken number of steps to boost sagging farm sector to deal with rural stress. It has taken several steps to ensure infrastructure investments get a fillip particularly investments in railways, highways, ports, airports, metro rail projects in various cities, development of smart cities, rural housing and power generation particularly renewable energy. Massive investments in infrastructure are the key to kickstart the economy and this was happening when global commodity prices are low.

This would help the economy reduce costs on projects because of falling prices of steel, cement, oil and other commodities. India is endowed with 300 days of bright sunshine in most parts of the country and rightly Solar power generation has been given special thrust by the government. The government has stepped up solar power generation target five fold to one lakh mw by 2022. Presently solar power generation is around 5000 mw and necessary ground work has been prepared to ensure at least 10,000 MW power generating capacity is added in the next one year which is likely to go up to 15,000 to 20,000 Mw annually in a couple of years. Some States like Maharashtra, Tamil Nadu, Andhra Pradesh, Telangana, Karnataka, Rajasthan and Gujarat have leap frogged in this area. One of the major achievements is in the area of financial inclusion. This would help in making India's growth story more inclusive with nearly one third of 1.2 billion population still living below the poverty line. The success of Jan Dhan Yojana to ensure that every BPL family has at least one bank account has helped in bringing about systemic changes to ensure that money provided under various social schemes is transferred to the beneficiary directly. This direct benefit transfer is work in progress and

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opening up of 10 million bank accounts within a span of few months is a great achievement. What has not been achieved since bank nationalisation in 1969 has been achieved in a short period. Given the widespread agrarian distress, the government has increased the outlays significantly this year to reverse the damage. While the outlay for agriculture and irrigation has increased from 0.19 percent of GDP in 2015-16 to 0.32 percent in 2016-17.

The four big bang reforms are the launch of Make in India, Skill India, Digital India and Swatch Bharat initiatives that would help the economy become a global manufacturing hub and create the much needed jobs for the youth, which form 65 per cent of the population. The Make in India initiative will push the country's manufacturing from the present 16 per cent to 25 per cent of GDP in the next five to 10 years. The second initiative: Digital India is aimed at utilising India's prowess in Information Technology and software to make India easy place to do business and improve governance and reduce corruption by digitising most of the government operations. India's services sector accounted for nearly 60 per cent of GDP and it is among the leaders in IT and IT enabled services.

The third initiative: Skill India is equally important as without skilled manpower, the make in India initiative will remain a non-starter. The Make in India initiative is aimed at taking advantage of the country's demographic dividend when most other economies including China is facing ageing population. India needed to skill at least 500 million people in the next 10 years to become a global manufacturing hub. The fourth initiative is Swatch Bharat. This initiative is to make India a cleaner place to live. This is equally important as people's living standards will have to improve as the nation progresses. The government has also empowered the state with more untied resources to states, thus helping the country move towards cooperative federalism. The 14th finance commission has provided more devolution of resources from central pool of taxes and the government implemented it in toto giving more autonomy and more resources to states to spend on social projects. Apart from make in India initiative, the government has done quite a bit in improving ease of doing business in the last two years.

The states are also competing among themselves to improve the ease of doing business by cutting down red tapism, bureaucratic and procedural hurdles. The FDI regime too has been liberalised sub-

stantially in the last couple of years. Some necessary legislations on insurance and pension reforms that opened up FDI further to up to 49 per cent have been passed. These legislations were pending for several years. That apart, FDI in defence has been liberalised considerably attracting large commitments by foreign companies with Indian partners for hi tech defence productions. FDI in defence production is now allowed up to 49 percent through Foreign Investment Promotion Board (FIPB) route. In some hi-tech defence production it could up to 100 percent on case by case basis. More recently the budget opened up multi-brand retail on food items up to 100 per cent foreign direct investment. Usually 70 percent of multi-brand retail business world over is on food items. This will go a long way in improving the lot of rural India and farmers as exploitation by middlemen will get phased out. With implementation of Jan Dhan Yojana and the decision on payment of cooking gas subsidy directly into the bank account of consumers has helped the government save Rs 21,000 crore in the last two financial years by eliminating duplicate connections and diversions.

The government began paying subsidy directly into bank accounts of cooking gas consumers in select districts from November 2014 and in the rest of the country from January 1, 2015. As on April 1, 2015, there were 18.19 crore registered LPG consumers and 14.85 crore active consumers implying a gap of 3.34 crore consumers which were duplicate, fake or inactive accounts. Eliminating such 3.34 crore consumers helped save Rs 14,672 crore in 2014-15 fiscal.

The saving in 2015-16 was about Rs 7,000 crore, lower than the previous fiscal mainly because global oil prices slumped thereby cutting the subsidy required. Buoyed by the success of this direct benefit transfer, the government proposed to adopt direct benefit transfer of food subsidy under the public distribution system, kerosene and fertiliser in a phased manner, which is likely to eliminate leakages to a large extent. Under PDS system the leakage is as high as 40 per cent. Food subsidy bill alone is around Rs 1.25 lakh crore annually. Providing coal mining rights for power generation and other uses has eliminated corruption to a large extent. This has also helped central government earn more revenue through transparent auction system. The state too benefited through increased royalty. The telecom sector too adopted transparent auction route for 2G spectrum. The coal scam and 2G spectrum scam had resulted in presumptive loss of Rs 1.86 lakh crore and Rs 1.76 lakh crore respectively.

This is also a step towards digitisation of governance in India, which is expected to reduce human interface, thereby improving governance in all spheres of activities. Tax administration has been greatly digitised. Money transfers have got digitised with implementation of JAM – Jan Dhan Yojana, Aadhar and Mobile (smart phones). The government has also promoted green energy in a big way. Total estimated investment in renewable energy power projects during last three years is around Rs. 86,000 crore. As per inputs provided by Central Electricity Authority (CEA), around 15,400 MU has been generated through solar energy during the last three years and it has met the energy requirement to that extent in the country.

Up to 100 per cent foreign direct investment is allowed under automatic route for power generation from renewables. A scheme "Prakash Path" – "way to light," was launched by the Prime Minister under which energy efficient Light Emitting Diode (LED) bulbs will be distributed for domestic efficient lighting programme in Delhi; and a National Programme for LED-based Home and Street Lighting. This is part of government's efforts on energy conservation and the idea is to make spread of LED bulbs as people's movement. LED bulbs have a very long life, almost 50 times more than ordinary bulbs, and 8-10 times that of Compact Fluorescent Lamps (CFLs), and therefore provide both energy and cost savings in the medium term. LED bulbs shall be distributed in a phased manner and the entire project of installing LED bulbs for domestic and street-lighting in 100 cities is to be achieved soon. Under this National Programme for LED-based Home and Street Lighting the government is replacing 77 crore conventional bulbs and 3.5 crore conventional streetlights with the LED range. As per the Economic Survey 2015-16, this change will see a savings of Rs 45,500 crore by reducing 21,500 MW of electricity demand.

More recently, India has moved a step closer to adopting a new bankruptcy law after the Lok Sabha passed the legislation. The law will ensure time-bound settlement of insolvency, enable faster turnaround of businesses and create a data base of serial defaulters—all critical in resolving India's bad debt problem which has crippled bank lending. The creation of the law will also improve India's position in the World Bank's Doing Business ranking.

The Insolvency and Bankruptcy Code, 2016, with all the amendments proposed by the joint parliamentary committee being accepted by the government, will replace the existing bankruptcy laws and cover individuals, companies, limited liability partnerships and partnership firms. It will amend laws, including The Companies Act, to become the overarching legislation to deal with corporate

insolvency. And, it will also help creditors recover debt faster. This transformational legislation restores the balance of power between promoters and creditors.

There were 12 laws, some of which were more than 100 years old, to tackle insolvency, and now there will be one law. Implementation of the law will lead to more foreign investment interest in India. The government has done quite a lot to promote Micro, Small and Medium Industries as well. It has already come out with Mudra Yojana to ensure financial assistance to SC/ST small entrepreneur in particular. Rs 1.8 crore loans to be provided to small and micro enterprises at a concessional interest rates. That apart government will soon come out with a comprehensive MSME policy to boost the sector, which accounted for 40 per cent of manufacturing and 45 per cent of merchandise exports. It also has tremendous potential for job creation particularly in rural and semi urban areas.

The sector already employed 11 crore people. Textiles sector, another employment generating sector has received fillip under NDA government. Funding is a major issue for MSMEs and the government has made concerted effort to address this issue by promoting credit rating of manufacturing SMEs in the country, which has considerably helped in availability of bank loans to them. During the last two years government has put in place structural changes, setting the stage for the economy to return to high growth path in the next couple of years. The government is on right track to push reforms and these would start bearing fruits in the coming years for the economy to reap benefit. One Major reform agenda that is yet to fructify in game-changing Goods and Services Tax, which is stuck in Rajya Sabha. Once that is passed in the coming months, the economy will see a sea change in pushing up growth. Apart from moving towards common market in the entire country with near uniform rate of indirect taxation, GST rollout will push up GDP by 1.5-2 per cent. It will also save thousands of crores of money lost because of commercial vehicles piling up for days and months at toll gates. Also GST will widen the indirect tax base thereby helping revenue mop up by both states and centres without impinging upon indirect tax payers. The recent monetary easing with inflation at manageable levels too will help the economy by reducing interest rates. The government has ensured that the economy looks up and the growth should be inclusive with the revival of investment in the coming years.

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