An Analysis of Current Economic Condition in India

Sudip Bhattacharyya

GDP Annual Growth Rate in India averaged 5.83 percent from 1951 until 2014, and 7.3% in 2014-15 GOI in the Union Budget 2015-16 had projected the GDP growth to be at 8.5 per cent this fiscal. Fiscal deficit in 2014-15 was 4% of GDP, when target was 4.1%. It should be lower at 3.9% and 3% in the next 2 years respectively. Gross tax collection has grown 9% in 2014-15 over the previous year. Common GST is starting on 1st April, 2016. A bankruptcy code is being conceived.

India continues to lead the global confidence index for the quarter with a three point increase from last quarter followed by Indonesia and Philippines. The Consumer confidence in urban India rose to a score of 129 in Q4 2014 – a three point increase from last quarter (126 in Q3 2014), and a 14 point increase from the last year's index, same quarter (115 in Q4 2013). India is followed by Indonesia and Philippines with a score of 120 each. These are the consumer confidence findings from Nielsen, a leading global provider of information and insights into what consumers watch and buy.

The Indian economy grew at 7.3% in 2014-15 due to improvement in the performance of both services as well as manufacturing sectors. According to the data release by the Central Statistics Office (CSO) today, the economic growth was 6.9% in 2013-14 as per the new series of national accounts with base year of 2011-12. The fourth quarter (January-March) of last fiscal saw the economy grow at 7.5%, better than 6.6% recorded for the previous three months, October-December. The Gross Value Added (GVA), a new concept introduced by CSO to measure the economic activity, rose by 7.2% in 2014-15 compared 6.6% in the previous fiscal. The manufacturing sector GVA rose by 7.1% during the year as against 5.3% in 2013-14. Similarly, the output of electricity, gas, water supply and other utility services rose by 7.9% as against 4.8% a year ago.

The construction activity too registered an increase of 4.8%, up from 2.5% a year ago. Financial, real estate and professional services also showed an improvement by registering a growth of 11.5% as against 7.9% in previous fiscal.

India has emerged as one of the strongest performers in the deal-street across the world as mergers and acquisitions (M&A). M&A activity increased in 2014 with deals worth US$ 38.1 billion being concluded, compared to US$ 28.2 billion in 2013 and US$ 35.4 billion in 2012. The combined index of eight core industries stood at 166.2 in November 2014 – 6.7 per cent higher compared to the index of November 2013. Its cumulative growth during April to November, 2014–15 was 4.6 per cent. India's foreign exchange reserves touched a record US$ 322 billion, surpassing the previous high of almost US$ 321 billion in September 2011. Latest data released shows an accretion of US$ 2.7 billion during the week ended January 16, 2015, essentially due to a rise in foreign currency assets.

Very recent data is quite encouraging. Factory output growth in April nearly doubled to 4.1% compared with the revised figure of 2.5% in the previous month. Retail food inflation has also eased. Even, WPI has come down in May to 2.36% from 2.65 % in April.

Development of entrepreneurship, MSMEs and skill together with an effective EES received adequate emphasis in India in FY16 budget.

It announced to set up a Micro Units Development Refinance Agency Bank for the MSME sector and boost growth of small business and manufacturing units. The government also announced measures to set up an electronic trade receivables platform for SMEs, which will boost the liquidity available to such enterprises and also address the working capital crunch faced by the sector due to delayed periods of receivables. Propelling growth in the sector, which constitutes close to 57.7 million units, contributes around 45% to industrial output and 40% to total exports, will lead to job creation and manufacturing capability.

To re-engineer the education delivery architecture and establish premier educational institutions, the budget has provided adequate fund. The establishment of a National Skills Mission under the skill development and entrepreneurship ministry which will consolidate initiatives across 31 sector skill councils will help skill youth to provide an employable base for the 'Make in India' mission. The multi-pronged focus of the budget on core, industrial and social sectors will allow a synchronized easing of supply side bottlenecks, job creation with a specific focus on entrepreneurship and micro, small and medium enterprises (MSMEs), and readying a highly employable workforce, along with improved standards of living. The gradual reduction in corporate tax rates from 30% to 25% over four years will provide impetus for investment.

The sharing of revenues between the Centre and States as recommended by the 14th Finance Commission has been accepted. The decline in inflation by over 6 percentage points since late 2013 is happy omen. Financial inclusion has assumed high momentum. It is now necessary to populate the channel with appropriate products and services like overdraft facility under the Jan Dhan Yojana itself and the recently initiated accident insurance, life insurance and pension schemes priced very attractively.

Now the concerns: 1stly, the growth in 2014-15 is largely driven by domestic demand. There is hardly any external support to growth in 2014-15, as the growth in exports is projected to be only 0.9 per cent and the growth rate of imports, around (-) 0.5 per cent. The deceleration in imports owe substantially to the sharp decline in international oil prices in the current year that compressed the oil import bill.

Then, even as the economy is showing some signs of recovery, the capacity of the banking system to support the process should raise serious questions. A recent report by CRISIL lays out the magnitude of the problem. It estimates that gross NPAs will rise by almost 20 per cent to Rs 4 lakh crore during the current fiscal year. As a ratio to total assets, they will increase by about 20 basis points to 4.5 per cent. The primary cause of bad assets is the massive burden of infrastructure projects that are stalled and, therefore, unable to service their due obligations to banks.

The stock of stalled projects at the end of December 2014 stood at ` 8.8 lakh crore or 7 per cent of GDP. Stalling of investment projects in India fell by 27 per cent y-o-y in 2014-15. However, their value was considerably high at Rs. 4.8 trillion. The decline is largely attributed to massive stalling of investments witnessed in 2013-14 to the tune of Rs. 6.6 trillion, highest in 19 years. Odisha, Madhya Pradesh, Karnataka, Gujarat, Uttar Pradesh, Jharkhand and Andhra Pradesh largely suffered from abandoning of projects in the previous fiscal. Each of them reported over Rs. 250 billion stalled investments. Odissa saw Rs. 763.1 billion stalled investments, highest in 20 years (except 2013-14). There is therefore a need here for coordinated and concerted action by Centre and the States for accelerating implementation of these projects.

As things stand today, it would not be easy to achieve the ambitious export target of $ 900 billion especially in the light of near stagnant merchandize exports (that account for two-third of India's exports) hovering around $ 300 billion for the last three years, and presence of many tariff and non-tariff barriers in top markets. Subdued export markets especially Europe, and Middle East (post the oil price crash) don't help either. India's WTO obligations forced DGFT to either maintain or prune incentive schemes keeping in mind the eventual phase out of all export subsidies in the mid-term review of the new FTP.

Technology has emerged as a major driver of growth, but in India, there has been no conscious effort to leverage high-technology capabilities, such as those in space, atomic energy or information technology, to create an ecosystem of innovation and marketing. These capabilities are instead being leveraged by foreign entities, which are then patented and commercialised outside.

China is already a major consumer of both fossil fuels and raw materials from across the globe. India may find it much more difficult to compete with China and globally for these same resources.

To deal with slowing demand and rising cost on a long term basis, India Inc. must develop suitable global strategies for sourcing, production and trade i.e. buy raw material where it's cheapest, produce where trade policy is favourable (because of the trade agreements) and labour cost is lowest, and sell/export where the demand is. Further, businesses must align their commercial strategies with the government's trade policy strategy – that calls for better coordination between government and India Inc.

So there is a need for better coordination between centre and states for increasing decentralized spending and accelerating stalled projects and between centre and industry and trade for concerted action towards formulation of responsive and effective international trade policy.

---+---

Author is a commentator on Society, Politics and Economy