ECONOMIC TURNAROUND: THE ONLY WAY IS UP

Chandrajit Banerjee

Diplomats recount with quiet satisfaction, how India went from the country that was once shunned - when it was synonymous with a begging bowl and poverty, famine and disease - to being feted the world over, as one of the fastest growing economies, placing it alongside China as an emerging Asian power. With an enviable 7.2 % growth rate, world leaders were beating a path to India's door. In the face of stinging criticism by former finance minister Yashwant Sinha on the economic slowdown that echoes concerns aired by RSS chief Mohan Bhagwat, PAWAN BALI speaks to two eminent economists Chandrajit Banerjee, Director General, Confederation of Indian Industry and Arvind Virmani, former Chief Economic Advisor on the economics of the turnaround that is needed to pull India out of the 5.7 per cent rut

Moving ahead from the present economic situation, industry is looking for signs of pick-up in growth, investments, and demand. Indian industry believes that the economy would trend upwards in the second half of the fiscal year. Economic growth in India has been moderating over the last few quarters due to a complex combination of diverse global and domestic trends.

Within the country, subdued demand, stressed banking assets, and high leverage of corporates contributed to continued excess capacities and stagnant investment.

The government has front-loaded capital spending and undertaken significant reform policies including GST. Some of these reforms invariably lead to adjustment issues, but in the medium to long term, economic prospects will be stronger. State governments too should be urged to maintain capital spending as a growth driver. Several parts of the economy are beginning to show signs of recovery.

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However, with kharif output expected to be lower than last year owing to monsoon performance, we need to carefully weigh options for faster economic growth.

A key decision for the government would be regarding the fiscal deficit. As public expenditure will remain a significant growth driver, it is essential for the government to continue on its infrastructure mission. The Fiscal Responsibility and Budget Maintenance Act (FRBM Act) provides for relaxation in fiscal deficit by up to 0.5% and additional funds are expected to come in through disinvestment, non-tax revenues and higher tax revenues once GST stabilizes.

A second area to be addressed relates to interest rates. Although inflation has been within the Reserve Bank of India's target range, the cut in interest rates has been slow to come. Decline in interest rates would boost demand for consumer durables, stimulate investments, and make Indian products more competitive. Given the leeway in inflation and excess capacities, the RBI must seriously consider a meaningful reduction in interest rates as an urgent stimulus measure.

Exports can be a game-changer as the global economy is picking up. A prudent depreciation of the rupee may be called for to make Indian goods competitive in the global markets, while avoiding volatility. Another targeted measure to revive exports faster could be to focus on identified sectors where India has the potential to scale up to become number one or two in the world.These champion sectors should be actively promoted in terms of manufacturing, marketing and branding. The six-by-six strategy of taking up six sectors for focused attention for a period of six years could yield quick returns, as compared to the current schemes spread over several thousand products. India also needs a dedicated body to undertake trade negotiations and call for trade remedies.

Further, the interest rate subvention of 3% can be increased to 4%. It may be noted that export credit currently accounts for a very low proportion of total advances by commercial banks. One way to increase coverage of exporters could be to raise the capital of the Export Credit Guarantee Corporation which provides insurance cover for export loans to riskier markets as also to banks providing such loans.

When it comes to reviving investments throughout the economy, including in the small and medium enterprises sectors, bank credit is a challenge.

Non-performing assets remain a bottleneck and it will take time to address them impactfully. Meanwhile, banks require capital urgently. Government has provided funds for bank recapitalization and other options such as exchange-traded funds, mergers and amalgamations are on the table. Lowering government stake in banks is imperative and while government ownership has been set at 52%, there may be need to further reduce its presence in the banking sector.

Also, targeted bank credit to certain sectors would certainly add to economic growth. An interest rate subvention for MSME, exports and low-cost housing sector could be a key growth driver. The affordable housing interest rate scheme has recently been extended for another 15 months for loans up to Rs 18 lakhs. This limit may be increased to bring more home-buyers under the Pradhan Mantri Awas Yojana for urban areas which will increase housing construction, create demand and generate jobs. MSME too need better access to credit at affordable rates.

The government has addressed many issues for smooth transition to the GST. Teething problems are being identified and facilitated through interaction with industry. A dedicated senior officer in industrial hubs could be tasked to examine points raised by enterprises. In the beginning stages, it is also important to reassure businesses that late filing will not attract penalties. An announcement is required on continuation of existing tax incentives for investments in certain states. For exporters, the refund of input tax credit should be quick so that working capital cycle is not extended, adding to costs.Certain key sectors such as construction and infrastructure, labour-intensive manufacturing sectors, tourism and healthcare, etc have the potential to both add to growth and create new jobs. A specific set of measures can be targeted for their dynamic growth.

We believe that the growth rate has bottomed out and that the temporary phenomenon of subdued economic pace would be over by the end of this fiscal year.

The writer is Director-General, Confederation of Indian Industry