

An Autumn Of Happy Tidings

Amidst all the doom and gloom, it's all too easy to miss the positive signs for our economy

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After a long period of perceived lack of movement on critical policy issues, last week saw some very positive movement, with the cabinet clearing the National Manufacturing Policy. This is a welcome move; India has been falling behind its peers in the competitiveness of its manufacturing sector. Without the sector's growth, it will not be possible to provide employment to the large additions to its labour force. Availability of land for industrial development together with a facilitative environment and adequate provisions for good quality infrastructure will encourage investments from the private sector.

Therefore, the cabinet clearance has given us much cause to cheer. As a close observer of this policy's progress, there is additional satisfaction in seeing that the various ministries have come together for a cause which is clearly in the overall interest of the country – particularly from the point of view of employment generation.

The week had some more good news coming our way when the RBI decided to announce its intent to pause on rate hikes. The view across industry has been that the continuous hike in interest rates has only served to discourage growth and investment, without having much

impact on inflation. India is at a stage of development where transmission of monetary policy is weak, particularly if the intent is to contain inflation in food items and the like.

Instead, if certain policy reforms were to take place to encourage investment in key sectors such as food and agriculture, this would ease supply-side constraints and lead to some moderation in inflation. With the RBI expressing its concern on growth for the first time, there seems to be light at the end of the tunnel.

Another example of forward movement on policy issues is the progress made on the Companies Bill, which is

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awaiting final clearance in the cabinet after a few remaining differences are resolved. With a view to creating a flexible and less regulated framework, India is all set to replace the 55-year-old Companies Act, 1956 with the Bill. Its based on the need for structural change and modernisation of corporate



The engine that can propel India out of troubled waters

regulation commensurate with global standards.

Even on GST, which is considered to be most difficult to implement as it requires consensus across state and central governments, here is reason to be optimistic. From the Confederation of Indian Industry (CII)'s interaction with state governments, it seems what they are looking for is an assurance from the Centre that it will compensate them in case they suffer revenue losses and a water-tight formula for such compensation. This should not be so difficult; even the more fundamental intransigence that was on display earlier seems to be eroding. Of course, this is a subject on which one always runs the risk of being told later,

"You spoke too soon." But where's the harm in being a little optimistic in life?

However, much remains to be done; as the saying goes, one swallow does not a summer make. For instance, the problem being faced in the power sector poses an immediate threat to the country's economic outlook. On the one hand, the shortfall in coal production is leading to a lack of fuel availability for thermal power generation. On the other, escalating losses at state electricity boards are making it difficult for them to pay cost-reflective tariffs. CII is in active discussion with the relevant ministries to develop a conducive framework for competitive bidding of coal blocks and for the implementation of

distribution reforms.

Another area where the economy is facing a challenge is the persistently high level of inflation in food items. Here, as highlighted by the RBI, the problem persists despite record food production in the last two years. This is because the rise in prices is concentrated in items such as fruits and vegetables and eggs, meat and fish, which have experienced an increase in demand following changes in dietary patterns. An adequate supply response has been missing due to various bottlenecks in the distribution of these products. Policy action is required to reform agricultural marketing so that the retail food sector is consolidated, middlemen are eliminated and margins are slashed.

Clearly, the glass can be seen as half-full or half-empty depending on whether one is an optimist or a pessimist. It is time to break the negative feedback loop that tends to develop when all views converge towards pessimism. India still has strengths that will enable it to survive the global turmoil better than many other countries. Our policymakers are alive to the challenges of ruling a large and thriving democracy. As has been the experience in many critical situations earlier, I am confident that economic reforms will continue to take the country forward.

The writer is director general of Confederation of Indian Industry.