Transforming Economy: A Reformed India

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Abstract:

In the last 20 years, if we think about economy and global trade made in India, we have gone up by about ***11.5 times*** that is about 850 Billion U.S Dollar today which is used to be 75 Billion Dollars in 1998 and in this duration the GROSS DOMESTIC PRODUCT grown up only by ***6 times***. So the global trade from India (considering Import and Export) is leapfrogging by about 8.70%. The second key mega trend which is also emerging at the same time is the ***global workforce***. Having a large workforce is a headroom as well as it creates its own set of issues. In terms of Transforming Economy, various steps have been taken by previous and current government. Four corner of any transforming economy according to our Prime Minister, Mr. Narendra Modi are "Four D": Demography, Democracy, Demand and Decisiveness, with which the policymakers in India really coming out with very strong market aligned and inclusive growth. To attract more investments in this Ecosystem Indian government is focusing on "***Ease of doing business***" to generate revenue for government and to trigger a virtuous cycle of skilled workforce and financial inclusion. If we look at the issue of 5 Trillion Dollar economy which is targeted to be achieved by 2024-25, we have got lot of bottlenecks on the way which we need to overcome. Reviving Indian Economy requires very bold reforms to be implemented on a long term basis. Few of the limitations we are facing are Infrastructure, Resource poor population, lack of Internal Financial Capital Generation. Certain areas which are needed to be improvised in the context of implementation are Digital Infrastructure, Better government Policies, Participation of Integrated (Private and Public) players, Renewable Finance and Investment. This paper approaches in terms of aces, challenges and solving the core issues at scale, speed and at depth of Transforming Economy.

Keywords: Transforming Economy, Financial Inclusion, Government Policies, Reforms etc.

Introduction:

A long Term Problem: With an aim to acquire USD five trillion economy status, India has to consistently achieve a minimum of 9% growth rate of next five years. On the other hand economic indicators reflect that the GROSS DOMESTIC PRODUCT growth of India has gone down to almost 5% in the first quarter of financial year 2019-20. Many sectors that contribute to Indian Economy's growth path, like Automobile, Real Estate, FMCG, Manufacturing, Agriculture are lagging behind in achieving desired growth rate and jobs in these sectors are not only going down but are also trimmed.

To become a USD five trillion economy in 2025, India must achieve USD 3.3 trillion economy status by 2021, USD 3.6 trillion economy status by 2022, USD 4.1 trillion economy status by 2023, USD 4.5 trillion by 2024 and USD 5 trillion economy status in 2025. However the current trends and prospects do not favour this dream.

Facts and Backgrounds:

India's Economic growth has slowed for 5 consecutive quarters beginning from late 2015-2016 onwards. Now growth is slower than it was in quarter in which The Modi Government assumed office. It could be serious blow for a government that had promised to turn around the economy through decisive governance. India's GROSS DOMESTIC PRODUCT growth has gone down from a high of 9.2% in third quarter of the year 2016 to 5.7% in current 4^{th} quarter of 2017. The economic growth rate is probably the slowest in last many years. However, Indian economy as per global standard is not in recessionary stage. The UK and the European Union consider an economy is far off from being in a recession.

All four contributors to economic growth are hit by the slowdown:

1. Domestic Consumption
2. Foreign Consumption or Exports
3. Private investments
4. Government spending

In the first quarter of this fiscal year, domestic consumption fell to 6.66% as against 8.41% in the same period last fiscal; exports as a share of the GROSS DOMESTIC PRODUCT was down to 19% from 20%; and fixed capital formation decreased from about 31% of the GROSS DOMESTIC PRODUCT to 29.8%, signalling a slowdown in the industry as well.

Indian Economy Slow Down to Earth: A ViewPoint

Indian economy loses its sheen this year (2019-2020) as it stumbles through a deep down and a credit crisis, the country has gone from being hailed as a colossus-in-waiting to placing among the also-rans. Rarely has a major economy had such a humbling turn in fortunes. In the third quarter, GROSS DOMESTIC PRODUCT rose 4.5% from a year earlier, about half the pace notched in the first part of 2018. Consumer confidence has tumbled to the lowest since 2014. The labour market, a vital indicator in a country with a population of 1.4 billion, is fragile: The jobless rate has climbed to a 45 year high of 6.1%.

Last year India was the world's fastest growing major economy. The past decade has been replete with predictions it would take up an increasing share of global commerce, alongside China and America. But the Philippines and Indonesia grew quicker than India last quarter and Malaysia was just a hair behind. China grappling with its own slowdown, logged a respectable 6% and Vietnam was way ahead at 7.3%.

Prominent Impact of Recent Slowdown of Indian Economy:

The GROSS DOMESTIC PRODUCT growth of Indian Economy has touched the six year low in the first financial quarter of April-June-2020. It touched the 5.8% growth in Jan'19 –March'19 although in nominal terms India's GROSS DOMESTIC PRODUCT grew by 7.99% which is also lowest since December 2002. Key sectors bearing the burnt of Indian Economy slowdown among others are:

1. Agriculture
2. Automobile
3. Real Estate
4. FMCG
5. Insurance and Reinsurance Sectors (According to Moody's)

The 100 USD billion automobile industry that employs 370 lakh people and contributes 12% to the national GROSS DOMESTIC PRODUCT, is suffering from huge slow down. Around 3 lakhs jobs are lost, Sales have gone down and the automobile industry appears to be going in reverse gear.

The *National Statistics Office* confirms that, weaker section consumer demand and slowing private investments are the two key factors behind the Indian Economy Slow Down. Eight Crore sectors have registered Negative growth of just 2.1% in July, compared to 7.3% in the corresponding month last year. According to the Centre for Monitoring Indian Economy (CMIE), the overall Unemployment in India has now touched 8.2%, with a high urban figure of 9.4%.

Slowing Indian Economy will weight on insurance premium growth over the next two-three years, According to Moody's Investor Service "Supportive measures taken by the regulator Insurance regulatory and Development Authority of India (IRDAI) will help counterbalance the deteriorating economic environment. Because of weakened growth the resultant financial pressure on Rural households amid weaker job creation is in turn also weighing on premium growth.

FPIs have pulled out an amount of Rs 5,920 Crore even after the government announced a rollback of enhanced surcharge on FPIs. All the sectors need huge investments and remedial measures to increase the demand to improve and take India out of the state of economic slowdown.

Indian Economy is passing through a sluggish economic growth since 2016 post demonetization as compared to earlier years, although efforts are being made to improve the Indian Economy's growth to achieve the rate which may not be considered as very slow.

Causes of Economic Slow Down:

The causes of the problem consist of Supply-Side shocks. Three important contributors to this problem include:

1. Demonetization and Stressed Banking Sector
2. GST Implementation
3. Problems in Agriculture
4. Unemployment
5. Consumer-Led Slowdown
6. Increase in Leverage
7. Collapse of IL&FS
8. No-Demand = No-Investments
9. Not Pleasant response from Corporate Sector and Industry Professionals
10. Lack in implementations of reforms.

The public goods are provided by government and the government needs tax revenues to supply them, and these depend upon National Income. A demand for labour exists only when there is demand for goods. So growth is necessary if employment is to be increased or assured. There is not only a pool of unemployed persons in India to absorb but the country also needs to provide employment to youth continuously entering the labour force. The slowing of the economy is a source of concern as an economy that has been slowing for five quarters is unlikely to turnaround quickly. It may not be able to revive on its own.

A Goods and Service Tax in a federal structure by very nature is complex. The GST system in India tries to minimize the complexity by applying a common base and rate across the country. However, the multiple rate structure and an enforcement framework using enormous reporting requirements for businesses places a huge compliance burden on businesses especially SMEs by providing a longer transition period for them to be part of the full GST requirements. Exporters are facing significant shrinkage in their working capital under the new system which is restricting their ability to take in new orders. Reducing the cash flow burden on exporters and reducing cases of refunds would require immediate policy interventions.

Few of the major causes of low income of Indian Farmers is the difficulty in Agriculture their crops which lead to low growth of economy:

a. Agricultural Marketing: The farmer has to rely on a number of middlemen for the disposal of "his crops at cheap prices".
b. Agriculture Credit: The typical Indian farmer is almost always in Debt. The farmer is a perennial debtor. There are four main reasons of Rural Indebtedness:
   i) Low earning power of the borrower
   ii) Use of loan for unproductive purposes
   iii) The excessively high rate of interest charged by the moneylenders
   iv) The manipulation of accounts by the lenders
c. Agricultural Prices: In order to increase food production, it is necessary to ensure that prices of Food grains set by the Government from time to time give sufficient incentive to farmers so that they can earn reasonable incomes. In India, bumper crops lead to fall in revenue of farmers.

According to Ministry of Statistics and Programme Implementation Since 2011-12, growth has been overly reliant on consumption spending. In 2017-18, the last year for which statistics are available, it contributed to 59% of growth. A key component of this growth was reliance on debt to power spending on everyday gadgets, including mobile phones and washing machines, and high-ticket items like cars and foreign holidays. In the four years since November 2015, the amount of personal loans increased to INR 6,75,823 Crore, with an annual growth rate of 26.2 percent.

The increase in leverage also coincided with a collapse in inflation, which led to nominal growth numbers slowing down. Companies lost Pricing Power; Debt took longer to payoff and salary increases stalled. Still a large number of shadow banks and Fintech companies continued to push loan products in large part due to their cost of capital falling. These were in the grab of zero percent finance schemes as well as short term payday loans.

The collapse of IL&FS in September 2018 and the freeze in the credit market put an end to the consumer lending boom. Several Non-Banking Companies (NBFC) saw their business shrink and consumers as well as small businesses found it impossible to raise money. Sales of cars and two-wheelers went down, dealers of consumer goods were unable to raise working capital loans and real estate companies defaulted on their debt. Growth in Bank Credit also slowed with an increase of 8.6 % in November 2019, the lowest in 11 years.

Since it is capital formation, or investment, that drives growth in the economy, investment is an immediate source of demand as firms that invest buy goods and services to do so. It also expands the economy's capacity to produce.

The two sources of investment are Private and Public. The Private investment source is depressed as of now due to the factors cited above and is difficult to revive unless some external force is applied for example- tax sops, incentives of investment, creating demand for certain products through funded projects among others.

When there is No Demand, Supply has to be stopped due to piling up of stocks and production units go idle, leading to cut in labour force. It further reduces the income leading to less demand and further reduction in Supply and stopping of Production.

A section of the industry and many economists have criticized the government for not being prudent enough to read the distress signs and for treating the slowdown as temporary and transient.

Structural Reforms are being taken by all the governments. Since 2014, in particular "The ease of doing business" has received great attention from the government. But the economy today is still less regulated than it was in 1991. Labour market reforms have not been taken up yet in Parliament. Share manufacturing may rise if the labour market is liberalised.

Mixed Signals:

- Reviving growth Dependent on rural spending and increased flow of Credit: The last five years have been tough for Rural India. Two important drivers: Farming and construction Employment- had their terms of trade reversed. As global food prices rose slowly, growth in minimum support prices offered by the government to farmers also reduced. At the same, the government refused to pass on the benefits of falling oil prices. As a result farm input prices remained high. In addition 2014 and 2015 were drought years. Wages for the rural employment guarantee scheme indexed to inflation barely rose.
- Corporate India shows no signs of Investing Capacity utilisation numbers have moved down in the last four quarters: The second driver for growth is the increased flow of credit to consumers. Government banks disbursed loans worth INR 252,000 Crore in October and NBFCs have started the credit market and growing their loan book. Outside of Rural spending and Credit growth, there is also the fact that the base effect will kick in from the second half of fiscal 2021, which means growth numbers could start looking better despite relatively slow growth.
- Government expenditure contributes 11 percent to growth in 2017-18. A multi-year high.
- Food inflation could end the rate cut cycle and leave fiscal policy as the only growth level.
- Corporate India has used this period to reduce debt, lower promoter pledges on shares and get rid of business that are not part of their core. Example: Essar Bankruptcy case.
- Over the last five years, Merchandise Exports have been stagnant at an average of $310 Billion a year. This has been partly due to petroleum products and gems and jewellery, which contribute to about a third of exports. As global oil prices fell, the value of India's petroleum too slid. Since then the number has fallen to 26 percent. There is now evidence that government wants to provide business specific incentives to get export going.

How can India come out of Slow down: Government Immediate Steps to be taken:

- **More Government Expenditures**: Governments needs to spend more now to overcome the situation. Although the government has already spent much of its budgeted expenditure, it needs to spend more to spur investment and demand in the economy. An immediate boost without worrying much for consequences is needed by way of spending.
- **Let Indian Rupee be weaker**: Even a weaker Indian rupee should not be a problem. Stronger rupee is hurting both the exports and the business. Imports are surging and they are eating into the domestic market share. India needs growth now, so there is no need for ratings as of now.
- **Lower Lending Rates**: The recently announced monetary policy of RBI has not given any relief to boost Indian economy. The economists now advocate a steep rate cut in the benchmark lending rates to allow for monetary policy extension. The Reserve Bank needs to cut interest rates for banks, thereby making borrowing cheaper for the industry and spurring investment.
- **Certainty in Business Required**: More certainty in the business environment is required. Business should be without shocks like demonetisation. In fact, after demonetisation shock, there is an environment of uncertainty in the economy. This stops the Private Sector short of announcing the new projects. There should be an environment of certainty that no such disruptive moves would rock the economy in the near term.
- **Acknowledge and spend in Rural Areas**: The government needs to spend more on rural areas. Increasing rural people’s incomes can drive up the consumption demand, which in turn will boost the industry. To create more demand the government needs to spend more in rural areas, construction sector and the unorganised.
- **Low Insurance Penetration**: The low insurance penetration rates in India also suggest there is still ample room for growth. According to Moody’s health Premiums are likely to increase due to the government’s “Ayushman Bharat Scheme” that was launched in September 2018. Billed as the world’s largest health assurance scheme. Ayushman Bharat aims to provide free health insurance of INR 5 lakh per family to nearly 40% of the population- more than 100 million poor and vulnerable families each year. Insurance Regulator has taken series of measures, which includes removing the limit on foreign ownership stakes in Indian Insurance Intermediaries.
- Give **auto sector incentives** to invest and shift to electric vehicles
- Incentives to auto sector employees to **up skill** on electric vehicles
- **Change GST collection** to quarterly for companies below Rs 1 crore.
- Reduce the **GST slab rates**
- Reduce real **interest rates by 135 basis points** as cost of capital has to come down
- Change in credit **culture in Public Sector Banks**
- **Need for Price stabilisation in Agriculture**:

i) In view of rising and fluctuating trends in agricultural prices there is need for stabilisations of prices of agricultural commodities. Price fluctuation in any direction may spell disaster since both rising and falling prices have had harmful consequences.

ii) The Agricultural Cost and Price Commission take up number of aspects of price policy such as Minimum Support Prices (MSP), Procurement Prices (PP), and Issue Prices of Food-grains (IPF). Although has not able to utilise any large volume of surplus stocks in Food-for-Work programmes in drought areas.

iii) Agriculture is a long term economic base for the farming community, it is important to recognise farmers' interests are better served by a more efficient system of Production rather than high prices.

World Bank hopeful: Slow down to wane soon

The recent slowdown in India's economic growth is temporary and is an "aberration" mainly due to temporary disruptions in preparation for the GST. It will get corrected in the coming months. The World Bank President Jim Yong Kim said that the Goods and Services Tax (GST) is going to have a hugely positive impact on the Indian Economy. According to him, "We think that the recent slowdown is an aberration which will correct in the coming months, and the GROSS DOMESTIC PRODUCT growth will stabilise during the year. We have been watching carefully, as Prime Minister Modi has really worked on improving the business environment, and so, we think all of those efforts will pay off as well"

Accordingly, if the due corrective steps are taken, Indian Economy could come back on rails with a high growth achievement of 9-10%.

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