Economy: Need for Timely Turnaround

The economy appears to be losing pace to meet the 8-8.5% growth-target, as envisaged for FY16. An overall decline in most of the performance parameters, including growth rate, exports, trade-balance, exchange rate, fiscal deficit, investments etc. in the first five months of the current fiscal year, necessitate an effective and timely spurt to be given to enhance output and investments in the economy, through a slew of all possible measures. Amid an overall slowdown in manufacturing, services and farm sectors, exports, investments etc., India's GDP growth has also slowed to 7 percent in the April-June quarter, from 7.5 per cent in the previous quarter, as per the official figures released on August 24. Even the infrastructure sector, which accounts for nearly 38 per cent of industrial production, and which has grown just 1.1 per cent on a year-on-year basis in July, has been at its slowest pace in these three months and it would also take time to revive. The services sector alone, in the last quarter, grew at an annual pace of 8.3 per cent. But, it was also at a much slower pace vis-a-vis 10.2 per cent rise in the March 2015 quarter. Hence, it would be difficult to attain the overall budget estimate of 8 to 8.5 percent growth rate in 2015-16. In order to achieve the official target of 8 to 8.5 per cent, an early action is warranted to give the economy a renewed spurt. The farm and allied sectors too could grow only at 1.9 per cent in the April-June quarter, down from 2.6 per cent in the previous year, as per the figures of the Central Statistics Office. The output of the mining and quarrying sector too has slipped marginally to 4 per cent, from 4.3 per cent a year ago. Financial, real estate and professional services growth too has shrunk to 8.9 per cent as against 9.3 per cent a year earlier. Thus, the decline in the pace of the economy is widespread and across the sectors.

Coming to the fiscal health of the government, we find substantial deterioration, which may worsen even further and faster. India's fiscal deficit has been Rs. 3.85 lakh crore during April-July, almost 69.3 percent of the full-year's target as per the aforesaid government data. The fiscal deficit was only 61.2 percent during the same period a year ago. Net tax receipts were at just Rs. 1.54 lakh crore in the first four months of the current fiscal ending in March 2016. The additional liability, not budgeted in the Union Budget 2015-16, likely to arise from the one rank one pension (OROP) scheme, would further worsen the situation. Though, the government is claiming very hopefully to accommodate this extra burden of OROP via savings in the fuel costs and fertilizer subsidies, as well as from the higher mop up of indirect taxes. But, the fourteenth finance commission has already stripped the centre of 10 % of its additional revenue by recommending transfer of 52% of the central taxes instead of 42% to the states. In view of the other inelastic liabilities like defense etc. the loss of revenue would be more than 10%.

The worst news is that defying all possibilities to attain the target to double the exports to $900 billion by 2020, our exports have already declined 21% to $21 billion in August. Our imports have fallen 10% to $33.7 billion. Consequently, the trade deficit has widened to $12.5 billion in August 2015. The merchandise exportshave plunged 20.7 per cent to $21.3 billion in August from $26.8 billion in the year-ago period. It is the ninth consecutive monthly decline in exports and the steepest in the first five months of this financial year. This fall has resulted from a massive demand slowdown in global markets and an uncertain global economic environment, owing to the crisis brewing in China. The value of our exports in August was the lowest in last five years, reflecting a greater crisis for us, than an opportunity.

Though, India wasn't alone in Asia to see a steep fall in exports. But, we have seen a much worse decline. Exports from Korea have declined 14.7 per cent in August, the most in six years and the Chinese exports have contracted 5.5 per cent. But, our decline in August exports has been 21% and the cumulative data of April-August are also equally pessimistic.

For April-August, exports from India stood at $111.1 billion, down 16.2 per cent compared with $132.5 billion in the year-ago period, according to the data released recently by the commerce and industry ministry.

It is a fact that we could not do anything, when a global sell-off triggered by the Chinese rout sent the Indian market crashing on August 24 which plunged the most in over six years — 5.94 per cent or 1,624 points — to close at a 12-month low of 25,741 wiping out Rs 7 lakh crore in market capitalisation of all BSE listed companies within hours. The broader Nifty at NSE too fell 5.9 per cent to close at 7,809. Deriving any advantage out of any external crisis needs more internal integration, instead of depending on foreign investments.

We can kickstart output, investments, employment, income, demand and growth, if we can ensure a bigger share for the domestic industry alone in adding new solar power capacity envisaged to be raised from the present 3.3 gigawatt (GW) to 100 GW at an investment of $100 billion. But, then we have to overcome the temptation of bringing FDI in a big way into this sector and also plan for effective anti-dumping duty against cheap dumping by foreign players. Otherwise there would not be any such other opportunity to revive domestic investments.

In this regard, the recent study by the Reserve Bank of India on private corporate investment trends is also worrisome. The study indicates an intensifying contraction in capital expenditures in FY15, and the drying out of pipeline investments in FY16 need to be taken seriously. Sagging investments for the fourth consecutive year from FY12, raises serious questions about any quick turnaround in investments, unless sops are offered to have sustainable growth investments and potential rise in India's output, current as well as future. A negative rate of capital accumulation is going to affect the country's capacity for sustained GDP growth, not only in short term but in the medium term as well. As per the report, the funds raised from all sources (banks, other financial institutions, all type of external borrowings, equity) all are on decline, except internal accruals, private placements and foreign direct investments, which are visible but, a minor fraction. Thirdly, the fresh investments in new projects in FY15 too have plunged by a hefty 25.5 percentage points, the share in total costs declining to 39.7% from 65.2% in FY14. Besides, the most worrying indicator on the investments front by far is the drying out of pipeline projects for FY16, as reflected from capex plans up to last year. Therefore, unless the investments revive, no sustainable economic turnaround can be hoped in the immediate future.

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