PRESS INFORMATION BUREAU
पत्र सूचना कार्यालय
GOVERNMENT OF INDIA
भारत सरकार

Asian Age, Delhi
Thu, 25 May 2017, Page 7
Width: 29.63 cms, Height: 26.53 cms, a3r, Ref: 16.2017-05-25.68

3 yrs of stability, future looks bright

Chandrajit Banerjee

The multiple achievements of the Narendra Modi government are apparent from the performance of the economy over the past three years. When it came to power in May 2014, economic growth was decelerating and the investment momentum had stagnated. Since then, the rate of growth has accelerated with GDP growing at 7.2 per cent, 7.9 per cent and 7.1 per cent in the last three years. Consumer price inflation, which was running at double digits through most of 2012-13 and 2013-14, has moderated significantly and is currently down to just under 3.0 per cent. This combination of good growth and low inflation has resulted in a period of macro-economic stability.

The reduction in both the fiscal and current account deficits have also contributed to stability. Our current account deficit had increased to an alarming level of 4.8 per cent of GDP in 2012-13, indicating poor performance of exports relative to imports. This is set to decline to less than 1.0 per cent in 2016-17. Similarly, the fiscal deficit, which had moved up to 4.9 per cent of GDP in 2012-13, has been brought down to 3.5 per cent in 2016-17. This indicates that the economy's performance was not boosted through unnecessary budgetary stimulus.

Instead, the government has taken this opportunity to implement several reforms to strengthen the underlying fundamentals of the economy. In particular, it has taken steps to strengthen the industrial base of the country by initiating campaigns like "Make in India" which encompass both the manufacturing and service sectors. The objective is to improve the competitiveness of Indian businesses by providing it a facilitative environment. Strengthening the ease of doing business has been a special focus of this government and it has persistently worked with state governments to bring about an improvement.

This has resulted in a quantum jump in the level of foreign direct investment coming into the country from around $34-35 billion earlier to $55-60 billion in the last two years. India has emerged as the destination of choice among global corporations, following several policy reforms made to attract foreign investors. The department of industrial policy and promotion must be commended for making a tremendous effort to implement the Prime Minister's vision.

The government has also accelerated its investment in public infrastructure, which had been stagnating. Just to give an example, rural road construction under the Pradhan Mantri Gram Sadak Yojana has increased to an average of around 40,000 km during 2014-15 to 2016-17 from 25,000 km during the previous two years. In the power sector, rural electrification has been accelerated and a target date of May 2018 has been set for the complete electrification of villages.

Urbanisation and urban infrastructure is being supported through the SMART City and AMRUT programmes. Construction of affordable housing has accelerated under the Modi government and is expected to provide housing for all by 2022. To provide infrastructure support to industry, work on the industrial corridors is progressing well. Further, a plan has been made to create 14 coastal economic zones that will boost port-led development. Over the next four to five years, $450-500 billion is likely to be invested in road, rail and port projects.

It is apparent that the government is using all levers to promote investment and growth while also encouraging development of all sections of society. Yet the full potential of the economy will only be reached when the private sector also increases its investment rate. Subdued domestic and external demand over the last few years has led to a fall in capacity utilisation in many sectors and hence a fall in the investment rate. Over the coming year, I expect this to change. The private sector should start investing as demand rises and their existing capacities get utilised.

The one remaining hurdle in the economy's path is the slowdown in the rate of banks' credit growth. Banks are constrained by the high level of non-performing assets (NPAs) in their books. Concerted efforts are being made to tackle the problem of bad loans. The Insolvency and Bankruptcy Code was earlier passed and the RBI has now been given the power to intervene with banks to resolve the NPA issue.

The implementation of the Goods and Services Tax from July this year will be a turning point for industry. It will create a uniform tax structure where till now we have had a fragmented structure across states. This will lead to greater efficiencies that will drive higher productivity and higher growth for businesses. The recent announcement of the rate structure has also put to rest fears of higher inflation, as very few items will see an increase in the tax rate.

A major restructuring of the country's macro-economic data should also be considered a landmark achievement. Corporate performance was incorporated in the GDP data for the first time, making it more robust. While the revisions in the headline numbers created some controversy, the numbers have now been well accepted by multilateral agencies and investors. All data has been updated to the base year of 2011-12.

The abolition of the erstwhile Planning Commission and the creation of the Niti Aayog should also be considered another area where the new government has left its mark. As a result, the concept of Plan expenditure which was allocated among the states by the commission has become obsolete. Instead, the Niti Aayog plays the role of a policy think tank guiding the government in cooperative federalism. It also acts as a knowledge and innovation hub where expertise is invited from different areas of research.

I believe the government has taken pathbreaking measures in the last three years to fulfil its promise of prosperity with development. For industry, it has been an exciting period with the promise of new sectors and new regions in the country where investment has picked up. We look forward to a period of improving productivity and growth as business conditions improve continuously at the ground level through the government's proactive policy measures.

Urbanisation and urban infrastructure is being supported through the SMART City and AMRUT programmes. Construction of affordable housing has accelerated under the Modi government and is expected to provide housing for all by 2022.

The writer is the director-general of CII