India on the Threshold of the Investment Recovery Cycle

Feature
Investment Recovery Cycle

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As the new government under the National Democratic Alliance (NDA) headed by the Prime Minister Mr. Narendra Modi has crossed the first six months in the saddle of governance, the prospects for Indian economy in terms of revival of activities in the real sectors such as agriculture, manufacturing and services have distinctly and vastly improved. It is not that the Government has unveiled a spate of big ticket reforms on the policy front that the markets have rallied. On the other hand, the very fact that the present government had broken the policy inertia and proceeded on a steady but sure course corrections of the various aberrations in important sectors of the real economy in the past that harmed the perceptions of the investors, both domestic and international, injected a sense of optimism.

Right from the maiden budget of the NDA after a decade of its return to the centre-stage presented by the Union Finance Minister Mr. Arun Jaitley in July 2014 till now, the Government undertook measured and cautious steps on the economic front lest too much rush in a gush by way of policy tweaking should be suicidal and self-defeating. Still, it can be said to the credit of the new government enjoying absolute majority on its own in the Lower House after two decades of coalition governance which saw economic policies being held hostage of coalition pressures and compulsions, that it did not do different things simultaneously but did things differently and in an incremental fashion. The underlying idea is not to rock the boat of the economy by fomenting uncertainty into policies that had been pursued by the previous government but to re-jig some pragmatic policies by altering the design and the way they were ineptly implemented by it over and above the new measures put in place to break the policy paralysis.

The very first sign of change of guard that generated positive energy in the economy was the announcement to dismantle various cabinet committees and empowered group of ministers that had been the hallmark for over a decade under which important decisions got deferred to buy time and abate the consequent heat of contending parties likely to be hit by decisions one way or another. A deadline of just a fortnight was set for policy discussions impinging on inter-ministerial issues so that the dilatory tactics of buying time to arrive at a consensus was jettisoned. This has sent the right signal to the stakeholders that they need not get unduly hobbled by uncertainty as to the course of the policy decision and that investors need not get jittery over the attendant prolonged suspense.

On the primary sector of agriculture, the government took bold decisions of announcing only modest increases in the minimum support price (MSP) offered to the farmers so that the unsustainable food subsidy bill could be managed and the resultant gains in terms of public outlays could be used for investment on public work programmes. Alongside, the authorities took steps to reduce public stocks of foodgrains by offloading them in the open market thereby reducing the cost of holding such stocks and also ensuring that more grains are allowed to get supplied to the market instead of getting rotten in the godowns. Efforts are under way to restructure the Food Corporation of India (FCI), whittle down the whopping transportation and distribution losses and the efficacy of the public distribution system (PDS) so that the really needy sections do not get left out from subsidized supply of essential items.

Farmers and growers were also freed from the onus of selling their produce, mostly fruits and vegetables, common mass consumption items, in their local agricultural produce marketing committees so that they could realize remunerative price for their toil, sweat and labour in the larger open markets. The government is keen on helping the farmers so that they get paid for their hard labour and accordingly the focus is on giving them an enabling milieu for hassle-free cultivation through beefing up extension services and reorganizing existing programmes so that wastage is eliminated and productivity enhanced over the long haul. The target of agriculture credit this fiscal is pegged at Rs 8 lakh crore with the government continuing the interest subvention scheme and enhancing the corpus of rural infrastructure development fund to Rs 25,000 crore. All these steps on the farm front would definitely render the age-old sector robust enough and a worthy avocation to millions of farmers who contribute to the country’s food security by their tenacious and invaluable industry.

On the manufacturing front, the Government launched a “Make in India” programme so that the Indian products would get a leg-up in terms of being competitive both in price and quality not only within the country but also abroad. In order to enable domestic manufacturing to gain cost advantage in local production, the authorities took several steps to improve the doing business ethos within the country through administrative actions so that the pronounced pro-growth and pro-business approach is understood and used up by entrepreneurial forces. In fact, the Union Finance Minister Mr. Jaitely has time and again stated that pro-growth and pro-business approach does not stand in conflict with pro-poor policies as the resultant gains accruing from higher growth would level the field by making the government to increase its outlays on public programmes, including genuine welfare measures that help poverty elimination. The government also opened up important sectors like defense and railways for overseas investment and increasing the FDI cap in the insurance segment and the foreign direct investment into these fields would definitely go a long way in improving these sectors in terms of transfer of technology and best managerial practices, besides bolstering their capital base for further expansion and modernization in the short to medium-term. As manufacturing requires the motor of power, the government swiftly took initiatives to improve the power situation for domestic users, both individuals and industry.

Following a Supreme Court ruling invalidating the allocation of over 200 coal blocs since 1993 that left dozens of private companies in uncertainty over their power supplies, the government came out with an Ordinance to sort out the mess on October 20. The government can now reassign these blocs through a transparent, online auction than an earlier practice that led to sordid happenings and allegations of corruption in allocations. The latest action on the coal front would help the power, steel and cement companies that rely on these coal supplies, besides benefitting the coal-rich States to get the revenue from auctions directly instead through the Centre. The new Ordinance also contains an enabling provision that recognizes the need to open up coal mining to private companies. All these measures for revival of activities across a broad range of industries through swift administrative action duly backed up by political class to secure the requisite seal of approval from Parliament meant the restoration of the much-needed investors’ confidence.

It is against this backdrop that the Moody's, a global rating agency, has recently changed the outlook for Indian non-financial corporate to stable from negative, endorsing the solid and valid conviction that "India's economic recovery, enhanced access to capital markets and successful implementation of pro-market policies will lead to improved corporate cash flows and be broadly supportive of business growth" in the words of a Moody's Vice President and Senior Credit Officer Mr. Vikas Halan. According to the rating agency, India's improved external vulnerability should also reduce foreign-exchange risk for Indian corporate, despite gradual interest rate normalization by the US Federal Reserve as it unwound its unconventional monetary policy recently. Besides, FDI inflows into India have increased significantly since April 2014 and this trend of rising FDI is set to persist over the coming quarters on the back of the country's pro-growth policy agenda and favorable economic milieu when compared to other major emerging markets. Another Moody's Senior Research Analyst Mr.Rahul Ghosh maintained that "greater FDI inflows will, in turn, provide more stable funding for India's current account deficit, thereby reducing the economy's exposure to external headwinds".

The former RBI Deputy Governor Dr.Rakesh Mohan in a recent paper co-written with Ms. Anu Madgavkar, a senior fellow at the McKinsey Global Institute, has contended that India's economic data are "promising". Annual average GDP growth is forecast to range from 6.4 per cent to 7.7 per cent until 2025. They said this compares favorably with last year's 4.7 per cent rate and is close to the 7.7 per cent average logged in the last decade upto 2012. They have withal pointed out that this acceleration would place India among the world's fastest-growing large economies and increase the number of Indian consumers who can afford discretionary items from 27 million in 2012 to 89 millions in 2025.

More prominently, Japanese financial services major, Nomura said its composite leading index for India suggests that the economy has already hit its trough and is in the early stages of a business cycle recovery. Rightly does the Japanese financial major foresee that India's reforms would be but in "a piecemeal fashion" and not big bang and this "steady rollout of reforms" is what endeared this government to global investor community to come to India and stay invested for a long span taking advantage of the unobtrusively ongoing distinct improvements in the economy that would give them more than the requisite returns over a long haul, policy analysts wistfully say.

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