44. Economic Agenda for New India

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In 2014 when Mr. Modi came to power there were several challenges; India has a large no of population below poverty line, elimination of poverty in absolute terms is an important issue. The second was; large scale leakages in the delivery mechanism of government's social security schemes. There were gaps in the tax compliances. Macroeconomic parameters like inflation, fiscal deficit, GDP growth rate were in unhealthy terrain. Concentration of wealth is a big concern. In the last five years, Mr. Modi has been successful in addressing some of these issues; others are part of our unfinished agenda.

India's inspirational middle class is rising again, looking for opportunities and ease of living. This middle-income group will be driving consumption demand and set up businesses. We proudly remember that in the past 2000 years, India and China together occupied almost 60% of the global trade. If the government successfully remove certain capacity constraints like credit availability, high interest rates, land acquisition, tax complexities, connectivity and logistic support etc. they can all propel economic growth. The government has planed massive infrastructure investment over the next five years on roads, railways, airports, housing etc.

Employment growth is very important for the economy. Our emphasis has been on entrepreneurship and self-employment, focusing on the manufacturing sector particularly MSME, what we have termed as the missing link. We are working on achieving 50th rank on Ease Of Doing Business (EODB). We have investment driven roadmap to five and ten trillion-dollar economy by the year 2024 and 2032 respectively. Presently majority of macroeconomic parameters like low inflation, high GDP growth fiscal deficit at 3.5% are under control, tax to GDP ratio at 12% are all on strong foundation, still there are some challenges that we have to work upon.

Various chambers of commerce are worried about the high Real Interest Rates. Cost of deposits is an important cost component of our banking system. Fixed interest rate saving schemes determine the deposit rates. Central and State Government’s borrowings have a bearing on the deposit rates. Government is maintaining its fiscal deficit targets; but with rising GDP there will be space for borrowing without disturbing fiscal deficit.RBI governor also said that there is a limit to which lowering of repo rate can be transmitted to lower real interest rate. We need some structural changes to achieve low real interest rates.

The second important cost component for the banks is the risk premium determined by the level of NPA and stressed assets. Reforms like IBC, NCLT and other legal changes have set up institutional mechanism to resolve the NPA problem. Of the 11 banks under the Preventive Corrective Action (PCA), five are out. The government is infusing capital and merging some of the weak banks. Initial slowdown in the credit off take has now recovered, last year credit growth was around 14 -15 percent year on year.

We are seeing some good results with a time lag and will further accelerate. The government is also working on project revival under the ‘Pragati’ initiative. It is trying to sort out certain complex problems faced by some NBFC and infrastructure companies like ILFS.

Earlier Financial sector legislative reform commission (FSLRC) has recommended certain reforms in the financial sector. Most of them have been implemented. Financial resolution and deposit insurance (FRDI) has to be implemented. We also need Development Financial Institutions (DFI) to finance long-term gestation projects. We will certainly do that.

Indians will have to rise to concept of Tax Payer’s money and its sanctity. Every penny that the government is spending is a taxpayer’s money. These are governance issues involved with the exchequer.

Government is one of the biggest borrowers. Giving out doles, with this money will be an inflationary pressure and fiscal deficit will rise. The efficiency and transparency in the government expenditure is very important. If the government borrowing is used for asset creation, it expands the economy. When we say that in the next 5 or 10 years, we will go for 100 lakh crores of investment into infrastructure, it is sustainable and will help economy.

Better targeting through Jan Dhan account, direct benefit transfer (DBT) is an important goal for us. ‘Benefit to the last person’ is our ideology from the early Jan Sangh days. With all the pressure for farm loan waiver, Central government has abstained from loan waiver. The good economics as good politics.

Big-ticket reforms in the factor market mobility; like land, labour and capital is very important for the industrialization of the country. Government could not amend the Land Acquisition Act. Land being a state subject States are making changes .The Centre is pushing for digitization of land records and land lease agreement; it will help in establishing ownership of land. Even for ease of doing business (EODB) ranking, transfer of title is an important consideration.

On the labour front there have been efforts on the formalisation of labour. 93% of our labour force is in informal sector. The working conditions in this sector are very poor. Provident Fund (PF), ESI, job security, social security etc. are not available. Government has plans for consolidated Labour Code and promote fixed term contracts.

Food grain production in the country has moved from shortages to surplus. But the Agricultural policies are still being formulated with a deficit mind set. We will drastically change this. Earlier all our commodity import export policy was aligned with the requirement of consumers. Our import export policies are being aligned to ensure that the farmers get better price for his produce. Currently low inflation with high growth rate is ideal but not at the cost of lower price realization to the farmers. A big challenge is doubling of farmers by 2022.