ECONOMIC GROWTH

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The huge responsibility for the success of the AatmaNirbhar Bharat campaign rests on Indian industries. And I want to tell you that the government is with you and with your every effort. The Indian industry should take full advantage of the environment that has been created today for the country's development and the confidence that has been created in its capabilities. You can experience, see and feel for yourself the changes in India in the past years, whether it is in the thinking and approach of the government or in the working of the government systems. Today's new India is ready and raring to march with the new world!

PM Narendra Modi at the Confederation of Indian Industry (CII) Annual Meeting 2021, 11 August, 2021

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India's poised to grow like it did in 2003-10, says Jefferies

ET BUREAU, ECONOMIC TIMES

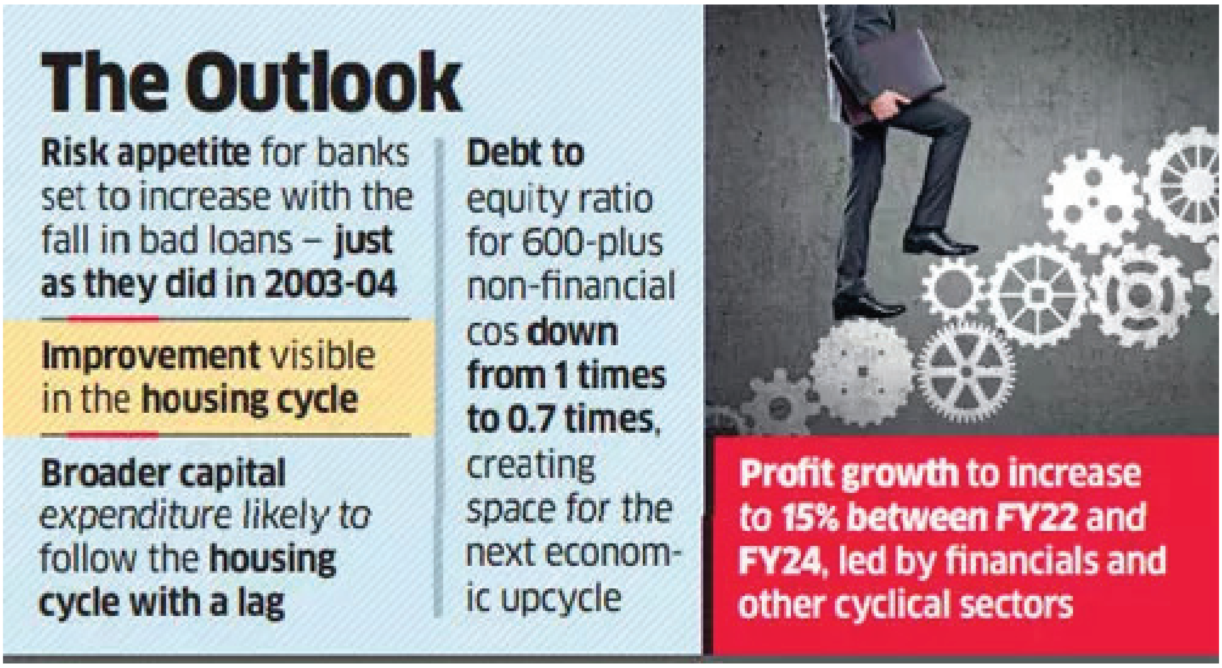
16 October, 2021

The Indian economy is poised for a repeat performance of growth last seen between 2003 and 2010 led by corporate deleveraging and profitability, lower bad assets and demand for housing, Jefferies said.

India's economic growth averaged 8.5% to 9% between 2003 and 2010, up from the 5.5%-to-6% average before that.

The US brokerage analysed six key components of the economic cycle: Demand for housing, drop in bank NPAs, corporate profitability, interest rates, corporate leverage and capex revival.

It said the risk appetite of banks is set to increase as bad loans have fallen - just as they did in 2003-04.



"Between 1997 and 2004, bank gross NPA ratio moved down from 16% to 8%. Similarly, the Indian banking system's gross NPA has moved down from 12% in March 2018 to 7% now and alongside a provisioning jump, the net NPAs are down 59%," Jefferies said. "Provision costs are off drastically. While banks are still risk-averse, we believe that the stage is now set for an increase in risk appetite. Strong capability and seven-year high RoEs further support lending growth."

Although the broader capital expenditure cycle has not turned yet, it is likely to follow the housing cycle with a lag.

"The housing cycle improvement is visible. A historical analysis since 1996/97 suggests that Indian housing up-cycles and down-cycles typically last for 6-8 years," Jeffries said.

"The period between 2012/13 and 2020 was a prolonged down-cycle and 2021 is the first year of an upcycle, with a visible uptick in volumes and pricing. Housing construction is a large job crcreator and has multiple economic linkages capable of driving an economic upturn."

This along with robust expansion in corporate profitability will push up growth. Annual corporate profit growth was a poor 0.4% between FY11 and FY20, but has increased to 51% between FY20 and FY22.

Jefferies expects profit growth to increase further to 15% between FY22 and FY24, led by the financials and other cyclical sectors.

Companies have also used the slowdown in the last six years to deleverage as a result of which the debt to equity ratio for 600-plus non-financial companies has come off from 1 times to 0.7 times, creating space for the next economic upcycle.

Although interest rates are set to rise from current record lows, it is unlikely to hit the economic recovery despite a rise in yields - as it did in the 2003-2010 economic upcycle. "Corporate investment is still sluggish as capacity utilisation and risk appetite is low. Property uptick should help reduce risk averseness. Overall, the broader capex upturn should follow over the next 4-6 quarters," the US brokerage said.

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India Inc's profit-to-GDP ratio rebounds to highest in a decade

SAMIE MODAK, BUSINESS STANDARD

03 November, 2021
Samie Modak is the Senior Market Editor at Business Standard

Listed companies' net profit as a percentage of gross domestic product (GDP) has hit a decadal high and is expected to edge even higher over the next two financial years.

According to an analysis by ICICI Securities, India's Inc net profit stood at Rs 8.4 trillion, or 4 per cent of GDP of Rs 210 trillion for the trailing 12-month period ending September. This is the highest since financial year 2011-12 (FY12), when it was at 4.6 per cent.

Interestingly, the ratio has seen a remarkable turnaround since FY20, when India Inc's profit contribution to the country's GDP had plunged to 1.6 per cent—in what was the lowest reading since at least 1999-00.

So, what has led to the improvement in profit share? The biggest driving factor is the shrinkage in the loss pool.

In FY20, India Inc's losses stood at a massive Rs 3.54 trillion. This was on account of heavy losses posted by telecom companies such as Vodafone Idea, Bharti Airtel, and also financial sector firms such as YES Bank, DHFL, and IDBI Bank, and auto major Tata Motors.

While losses haven't completely vanished, the loss pool of listed companies shrank by more than half to Rs 1.63 trillion on a trailing 12-months basis ended September (June for companies that haven't disclosed their latest quarterly results).

"Two key factors are behind the rapid improvement. The sharp bounce in the commodity cycle from its bottom, and tapering of losses at telecom companies and banks. Also at play are structural themes such as greater formalisation and new listings," said Siddharth Gupta, analyst at ICICI Securities, who co-authored the study with Vinod Karki.

ICICI Securities expects the profit share to improve to 4.2 per cent in FY22 (full year) and further to 4.5 per cent in FY23.

This is on the back of healthy consensus net profit estimates of 54 per cent and 22 per cent for the current and next fiscal, respectively.

"Going further, one can expect cyclicals to have a higher share in the profit pool. Capital-intensive sectors are likely to come into play going ahead if the investment cycle picks up," adds Gupta.

If growth projections materialise, India Inc's profit-to-GDP ratio will move closer to the global average of about 4.7 per cent. Over the last few years, India's ratio was among the lowest in the world.

At its peak in FY08, the contribution stood at 6.7 per cent. Since then, it has been on a downward slope. In the last five years, corporate earnings growth has largely remained stagnant.

Gupta says in FY08 the higher share was driven by massive financial leverage and capacity utilisations.

“An interesting aspect of this profit recovery is decreasing financial leverage and low operating leverage. In 2008, we had very high financial leverage and capacity utilisations,” he added.

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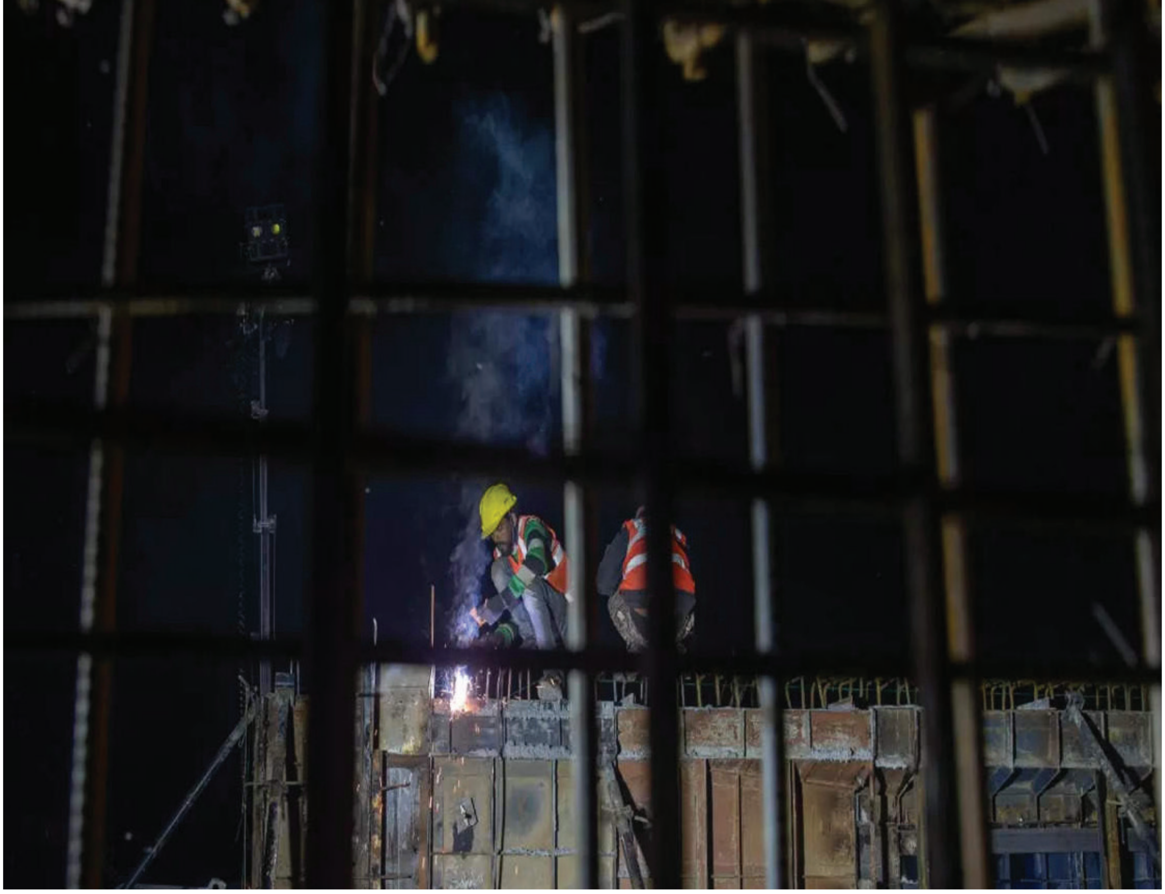

India's manufacturing PMI gains steam in Oct, expands for 4th straight month

ANAND JC, THE ECONOMIC TIMES

01 November, 2021

Anand JC is a writer and Digital Content Producer at The Economic Times.

Growth in manufacturing activities in India continued gathering momentum, remained in the expansion territory for the 4th straight month in October, a private survey showed on Monday.

The seasonally-adjusted IHS Markit Purchasing Managers' Index came in at 55.9 in October, rising from 53.7 in September. Do note, a PMI number greater than 50 indicates expansion in business activity. A number less than 50 shows contraction.

Data shows that panelists continued to report rising prices for several materials & transportation. Selling charges had to be lifted again as overall input costs increased at the sharpest rate since February 2014. Pollyanna De Lima, Economics Associate Director at IHS Markit, said "Manufacturing activity will continue to expand throughout the third quarter of fiscal year 2021/22 should the pandemic remain under control."

New orders also posted an increase in October. In fact, the spike in new orders was quite sharp, the survey shows, and expanded at the fastest rate in seven months. And as such, factory output too saw a sharp recovery & was the increased at the fastest pace since March. "Upbeat business confidence and projects in the pipeline should also support production in the coming months," De Lima added.

Highlighting the inflation concerns, De Lima noted that the input cost inflation accelerated substantially in October, to a near eight-year high amid strong global demand for scarce raw materials. The overall rate of input cost inflation surged to a 92-month high. A vast majority of the manufacturers left their fees unchanged, which led to 'moderate overall inflation', the report shows.

"Despite the overall improvement in operating conditions, jobs failed to increase. This was often linked to sufficient capacity to deal with current workloads and government norms surrounding shift work," De Lima added.

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As Covid wanes, economy back on recovery path

SWAMINATHAN S ANKLESARIA AIYAR, TIMES OF INDIA

09 October, 2021

Swaminathan S. Anklesaria Aiyar is currently Consulting Editor of The Economics Times and a research scholar at The Cato Institute.

This is the time of year when optimistic budget projections usually prove false, tax revenues fall short of expectations, austerity is decreed for government departments, government dues and capital spending are postponed for want of funds, and budgetary fudging of all sorts begins to try and keep the fiscal deficit close to the budget target. But not this year. Thanks to a booming economy, tax revenue has soared beyond all expectations and the fiscal deficit has plummeted.

The economy has recovered sharply from the traumatic April-June quarter, when Covid's second wave caused lockdowns and shutdowns. At that time the budget projections looked far too optimistic. The RBI cut its GDP growth forecast for the year from 10.5% to 9.5%, and IMF reduced its forecast from 12.5% to 9.5%.

But then the second Covid wave receded as quickly as it had risen (save in Kerala). Consequently, the economy bounced back so strongly that earlier GDP and budget projections may turn out to be too pessimistic, not too optimistic.

This will help the BJP when five states go to the polls four months hence. GDP growth is not a key determinant of state elections, but a booming economy is always better than a sluggish one for the ruling party.

The budget estimated the fiscal deficit - net borrowing of the government to finance spending- at a high 6.8% of GDP. When the second wave of Covid struck, rating agency Fitch projected a worsening of the fiscal deficit to 8.3% of GDP. But the latest trend suggests it could end up at maybe 5.8% of GDP, a huge saving.

To understand how remarkable the shrinkage is, recall former finance minister Arun Jaitley's attempts to get the fiscal deficit down to his target of 3% of GDP. He started in his first year with a fiscal deficit of 4.1%, followed by 3.9%, 3.5%, 3.5% and 3-4% in subsequent years.

But right now, the economy has bounced back sharply, and tax revenue with it. In April-August, revenue receipts were a high 41% of the annual estimate against only 18.3% last year (because of Covid) and 30.7% the preceding year, before Covid.

Credit Suisse estimates that the average in the last 24 years was no more than 28%. Earlier we feared that Covid would depress the long-term trend of collection, but no longer. Compared with the pre-Covid period two years ago, total tax revenue has grown at a compound rate of 16% per year, corporate tax at 23%, excise duty at 34%, and GST at 6%.

Tax buoyancy is the key reason why the fiscal deficit in April-August was only 31.1% of the budgeted amount for the year, against a 24- year average of 57%. Hence Central and State cash balances with the RBI have soared to Rs 4.5 trillion (or 2% of GDP).

Nirmala Sitharaman took over as finance minister in 2019 and slashed the peak corporate tax from 30% to 22% (plus surcharge and cess) for existing companies, and further to 15% for new companies that did not avail of other tax breaks.

This meant a huge short-term loss in corporate tax (Rs 145,000 crore) in the hope that improved buoyancy would make up for this later. That optimism looked a stretch at the time, but the latest figures suggest it may be well grounded.

So, is all well? No, there are several problem areas. Covid has deeply scarred many companies.

Big companies have greatly improved their profitability this year while many small and medium companies are in process of revival.

Privatisation and asset sales which was earlier slow has finally taken off with Air India has finally been privatized.

In sum, there is much hard work ahead for the government if the current spurt in growth is to be sustained. But for now, let us welcome the spurt.

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Good comeback, now for inclusive growth

SHOBHANA SUBRAMANIAN, FINANCIAL EXPRESS

25 October, 2021
Shobhana Subramanian is Deputy Managing Editor, The Financial Express

MORGAN STANLEY ASIA CHIEF ASIA ECONOMIST CHETAN AHYA SAYS THERE IS AN INFLECTION IN INDIA'S MACRO ENVIRONMENT. AHYA BELIEVES INCREASING CAPEX AND IMPROVED PRODUCTIVITY WILL LEAD TO GROWTH AND CREATE EMPLOYMENT OPPORTUNITIES, WHICH IN TURN WILL BOOST INCOMES AND CONSUMPTION. THIS VIRTUOUS CYCLE WILL SEE THE COUNTRY CLOCK A GDP GROWTH OF AN AVERAGE 7% BETWEEN FY23 AND FY26.

THAT MAY SOUND A SHADE OPTIMISTIC GIVEN THE RECOVERY IS UNEVEN, CRUDE OIL PRICES ARE SOARING AND CREDIT ISN'T FLOWING AS FREELY AS IT SHOULD. BUT IT IS NOT AN UNREASONABLE EXPECTATION ALTOGETHER.

Going by the sharp rebound in residential real estate, there is purchasing power waiting to be tapped. Companies are already beginning to commit to capex, steelmakers for instance. It helps that much more if corporate India is not leveraged and there are surpluses that can be put to work in new ventures. CRISIL estimates capex by industry could increase by 30% between FY22-24. While that is undoubtedly useful, manufacturing accounts for just about 15% of GFCF (Gross Fixed Capital Formation). Also, those who are arguing that mechanisation will limit employment opportunities are probably right. Nonetheless, we need to promote high-tech manufacturing, such as in ACC batteries, because that too is important.

If employment is to get a boost, the services sector needs to gets back on track. We are already seeing a revival in the transportation, hospitality, travel and tourism spaces, and as the economy opens up, many of the jobs lost will be coming back. The formal labour market is, in any case, doing pretty well with the IT, BFSI and pharma sectors hiring in big numbers. It is the smaller businesses in the unorganised sector, quite badly hit by the pandemic, that have left millions without work.

The good news is that real estate, a big economy catalyst with a chunky 20%-plus weightage in the GFCF, has seen a stunning rebound. Both the Centre and states need to help sustain the demand with sops like lower stamp duties and bigger tax breaks on home loans. Between real estate and infrastructure, the construction sector can get a leg up. Already, a clutch of infra projects has vastly improved connectivity though roads and railways. This will act as a big kicker for the economy in general, but especially for exports and e-commerce; both are critical pieces of the economy given their potential to create jobs. Indeed, India now has a booming digital economy, funded largely by overseas capital. The e-commerce and start-ups spaces are spread over a range of industries, from food to financial services, from education to hospitality. These firms employ thousands—both blue-collar and white-collar employees—and spend meaningful sums on building and running their businesses.

Pranjul Bhandari, chief economist, India, at HSBC, wrote recently that by increasing the consumption pie, e-commerce alone could add 0.25 ppt to India's GDP growth annually for the next decade, even if the penetration catches up half-way with China. The economy-wide benefits, Bhandari believes, could be significant "across a pro-entrepreneurship cultural shift, growth, and jobs". As we have seen, cheap data and internet access has, and will, improve productivity.

A very important leg of the current revival has been exports; it would be difficult to achieve sustained GDP growth without strong exports. For the good run to continue, and not just be a mere blip, New Delhi's trade policies need to be well thought out, so as to help Indian exporters gain share at a time when many countries are re-evaluating their dependence on international supply chains. High tariffs need to go; over the past few years, tariffs have been raised on 60% of the items imported and the high average customs duty of 17% is hurting. India must reassess whether it needs to be a member of trade blocs like the RCEP. To be sure, several FTAs are being assessed at present, but it is critical we clinch good deals and support exporters by dropping tariffs on parts that they need for their products. India must strive to move into the space vacated by China.

Unfortunately, the economy remains hobbled by limited availability of credit. Banks remain risk-averse, seemingly lending only to individuals and top-quality corporate borrowers. With several NBFCs having gone out of business, the pool of credit—for non-AAA borrowers—is smaller. SFBs and MFIs are no doubt addressing the needs of smaller borrowers, as are fintechs. But they are unlikely to be able to bridge the gap meaningfully, and we need to make sure credit reaches more small enterprises rather than only the top companies. Else, the MSMEs—already battered by the Covid-19 pandemic—will struggle worse. Some of this is reflected in the low consumer confidence measured by RBI's survey. Since the informal sector is the bigger part of the economy, accounting for 90% of the jobs, it urgently needs to be fixed. The demand from the formal sector, which is doing well now, may push up investments—even if capacity utilisation is just 70%—but only up to a point. Beyond that, if growth is to pick up pace as desired, we need demand from the informal sector to kick in. One hopes the trickle-down effect will play out, to lift the informal sector out of the rut it has fallen into.

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Indeed, India now has a booming digital economy, funded largely by overseas capital. The e-commerce and start-ups spaces are spread over a range of industries, from food to financial services, from education to hospitality. These firms employ thousands—both blue-collar and white-collar employees—and spend meaningful sums on building and running their businesses.

Gati Shakti can spur behavioural changes for superior governance

ANANTHA NAGESWARAN, LIVEMINT

25 October, 2021

V. Anantha Nageswaran is a member of the Economic Advisory Council to the Prime Minister and a visiting distinguished professor of economics at Krea University

SEVERAL NEWSPAPERS HAVE NOTED THAT, AS PER THE MONTHLY REPORT OF THE MINISTRY OF STATISTICS AND PROGRAMME IMPLEMENTATION FOR SEPTEMBER 2021, ABOUT 438 INFRASTRUCTURE PROJECTS, EACH WITH AN OUTLAY OF ₹150 CRORE OR MORE, HAVE A TOTAL COST OVER-RUN OF AROUND ₹4.3 TRILLION. THAT IS ROUGHLY AN AVERAGE OF ₹1,000 CRORE PER PROJECT. EVEN IF THAT IS LOWER BY 10%, IT WOULD MEAN SAVING ₹43,800 CRORE, CLEARLY A NON-TRIVIAL SUM.

PRIME MINISTER NARENDRA MODI ONCE SAID THAT WHAT SURPRISED HIM IN DELHI COMPARED TO HIS STINT AS CHIEF MINISTER OF GUJARAT WAS THE EXTENT TO WHICH CENTRAL MINISTRIES OPERATED IN SILOS.

The surprise he expressed found an echo in an article that Neelkanth Mishra, my fellow member at the Economic Advisory Committee—Prime Minister, wrote nearly five years ago. In an article on 2 January 2017, he had expressed surprise that the Central Board of Excise and Customs and the Central Board of Direct Taxes had to sign a memorandum of understanding to share data (bit.ly/30XG2z9).

Think of Gati Shakti as the solution to the problem of information-sharing between ministries and government departments at the Centre. It is a software element in the government's infrastructure projects implementation. It is not an announcement of additional spending. It is about data linkages and ironing out wrinkles in execution by anticipating them and not after they arise. As the concept note frankly states, it is about learning from the past. That is refreshing. To that extent, it is an even more significant development than the announcement of, say, a new infrastructure spending programme.

Whether it is the auctioning of mineral resources through a transparent e-bidding process, the procurement of public goods through the Government e-Marketplace (GeM), or the Direct Benefit Transfer scheme, or others, the National Democratic Alliance government since 2014 has prioritized efficiency in government functioning and the delivery of government services to the public. Gati Shakti must be seen as an extension of this approach. The Prime Minister was hence right to characterize it as a “whole of government" approach to infrastructure development.

Gati Shakti should be seen as a cog in India's wheel of infrastructure creation that is as important the other three: the 10-year infrastructure development programme announced last year, National Monetisation Pipeline and privatization of public sector enterprises. That is why it was important that the sale of Air India was achieved this financial year. It is a significant statement of the Centre's execution of intent. In launching Gati Shakti, Modi was right to express the hope that it would do to infrastructure development what the JAM trinity of India's Jan Dhan Yojana, Aadhaar and Mobile telephony did to the transfer of government benefits to people.

Whether it is the auctioning of mineral resources through a transparent e-bidding process, the procurement of public goods through the Government e-Marketplace (GeM), or the Direct Benefit Transfer scheme, or others, the National Democratic Alliance government since 2014 has prioritized efficiency in government functioning and the delivery of government services to the public. Gati Shakti must be seen as an extension of this approach. The Prime Minister was hence right to characterize it as a "whole of government" approach to infrastructure development.

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In his weekly column on the initiative (bit.ly/36Gati), columnist Shankkar Aiyar has called for elements that would facilitate citizen-monitoring and accountability. He is right. Information-sharing between implementation agencies is, no doubt, an important element of accountability. But the availability of information in the hands of the public would take it to another level.

There are two other levels of software upgradation that need to be attained for infrastructure creation to be seamless and faster. One is the extension of the information dashboard to state and local governments. They constitute the important last-mile elements of projects. That will also advance cooperative federalism. It is not easy. We have many states and Union territories. Yet, pilot initiatives with reform-minded states and success stories can inspire and set the tone for others.

The second aspect is the negotiation of contracts with the private sector for the monetization, creation and/or operation of existing assets. In the spirit of the Gati Shakti initiative, these agreements must also learn from mistakes committed in the past. In some respects, the Indian bureaucracy has to raise its game in contract design and negotiation. Simplicity of language and transparency of mutual obligations and expectations will go a long way in avoiding costly renegotiations, needless litigation and costly delays.

In short, Gati Shakti constitutes an important step forward in the efficient creation of infrastructure assets. It is mission advanced, but not yet mission accomplished.

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Gati Shakti: Connecting the silos

VINAYAK CHATTERJEE, BUSINESS STANDARD

28 October, 2021

Vinayak Chatterjee is the Chairman, CII's National Council on Infrastructure. He is also the Chairman of IIT Dharwad.

The Gati Shakti National Master Plan unveiled by the prime minister marks a rather historic shift in how India wishes to henceforth conduct the business of developing infrastructure.

> **THE PRIME MINISTER, IN HIS INDEPENDENCE DAY ADDRESS FROM THE RAMPARTS OF THE RED FORT, HAD INDICATED THAT THIS INITIATIVE WOULD BE INTEGRATIVE AND TRANSFORMATIONAL. IT WOULD SEEK TO ENHANCE MULTI-MODAL LINKAGES, INCREASE COMPETITIVENESS AND PROVIDE A LINKED PLATFORM FOR ROLLING OUT VARIOUS INFRASTRUCTURE PROJECTS AS PART OF A GRAND MASTER PLAN.**

So, what exactly is Gati Shakti? Well, it is a platform based on geographic information system or GIS that will connect all economic zones and clusters in the country. Superimposed on the platform will be layers of infrastructure linkages that are required to make an economy function effectively. These include road and rail links, optical fibre cables, oil and gas pipelines, power transmission lines, water supply pipes and suchlike. The platform is also expected to be a dynamic master planning tool for project design and monitoring by providing regular updates by authorised institutions and personnel. It will have review dashboards, management information system generation facilities and compliance tools.

This entire platform has been developed by the Bhaskaracharya National Institute for Space Applications and Geoinformatics (BISAG). BISAG is a Gandhinagar-based autonomous scientific society under the Ministry of Electronics & Information Technology that undertakes projects in satellite communication, geo-informatics and geo-spatial technologies.

In the master plan that has been put in place, all existing and proposed economic zones have been mapped, along with all their multi-modal connectivity infrastructure, across three periods: Status on 2014-15, status by expected completion date in 2020-21 and planned interventions by 2024-25.

There are four key reasons why it is indeed “transformational” and dramatically changes the way infrastructure is going to be rolled out.

One, it breaks the “silo culture.” Typically, each ministry or department rolls out its own plans and programmes irrespective of the linkages with others. So, roads would be built without great thought on their linkages with rail, or those laying optical fibres and water pipes would start digging without reference to each other. More importantly, complementary linkages would be missing. For example, a hydro or renewable power generating station would be ready with no transmission line in sight. Or a port would be operating with inadequate road and rail linkages.

Such anomalies, hopefully, will be a thing of the past. Sanctions and approvals for individual projects of different line ministries will now be viewed from the perspective of conformity to the Gati Shakti National Master Plan.

Two, it forces an integrative approach. To achieve synchronisation and compatibility it now mandates all statal entities to compulsorily enter their planned projects into the Gati Shakti platform. For this purpose, a fresh administrative architecture has been created alongside. Individual ministries will be trained to use the system and be given user-rights to input and update all their data through an application programming interface. BISAG and the logistics division of the Ministry of Commerce will anchor a Network Planning Group (NPG) that will have the responsibility of ensuring proper functioning of the platform and providing user assistance. The NPG will bring into its fold a new cadre of trained officers representing the network and planning cells of their respective ministries. This group will be the new-age planners interacting with each other, inputting data, synchronising plans and supporting their bosses. Officers from these ministries will be placed on deputation to the logistics division. They will be the new digitally-empowered cadre of whizz-kids of the country's infrastructure rollout! An empowered group of secretaries under the chairmanship of the cabinet secretary is proposed to be constituted for approving any future changes in the basic master plan.

Three, it ensures optimum use of available finances. Currently, there are no inter-linkages by which the Ministry of Finance provides sanctions and resources. Standalone projects get cleared because of their own perceived viability. Henceforth, clearance by NPG is expected to be the key determinant for considering sanction.

Four, it achieves digitally what an overarching Ministry of Infrastructure was often envisaged to deliver. The government has wisely harnessed the power of software, technology and native creativity to unify a diverse clutch of economic activity, historically bundled under different ministries, into an all-encompassing tech-driven platform. To start with, 15 ministries are involved, namely roads, railways, shipping, civil aviation, petroleum, power, renewable energy, telecommunications, food processing, fisheries, animal husbandry, dairying, defence production, electronics & information technology, pharmaceuticals, textiles, and commerce and industry.

It is clearly ambitious in its scale and delivery expectations. What are the challenges involved? The first is clearly "team-work." Ministries and government departments are notorious for being inward-looking and holding on to their turf. Will this mandated participative framework be truly embraced, or will clever ways be found to beat the system and bypass the integrative requirements?

Will states come on board? Without that the integration at the Central level may be sub-optimal. Will the technology deliver in practical terms to configure and review projects, and will the platform indeed be the wonder-tool it is expected to be?

There is talk of having the Gati Shakti programme initiate changes in the administrative framework at the ground level. If each economic cluster is indeed going to show up as a bundle of coordinated linkages, then should not such zones have dedicated development commissioners instead of district magistrates and collectors with many other diverse responsibilities?

No doubt, such issues will be handled as Gati Shakti seeps into the DNA of administration, replacing decades of working in unitary formats. Along with the National Single Window System of clearances, Gati Shakti signals a bold and new way of developing the country.

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Pandemic stimulus backfired: India can be thankful it did not go bigger on government spending

RUCHIR SHARMA,TIMES OF INDIA

26 October, 2021

Ruchir Sharma is Head of Emerging Markets and Chief Global Strategist at Morgan Stanley Investment Management.

Emerging markets which stimulated most aggressively got no payoff in a faster recovery, owing in part to the downsides of overindulging. India was not among the biggest spenders, which tended to suffer higher inflation, higher interest rates and currency depreciation, at least partly cancelling out the sugar high of stimulus. Scanning data on the top emerging and developed markets for a statistical link between the scale of their 2020 stimulus programmes and the strength of the ensuing recovery, I found none.

Even after correcting for the deeper downturns, which often produce a higher bounce-back in growth, aggressive monetary and fiscal stimulus added nothing discernible to the recovery. This disconnect was particularly sharp in the emerging world. Dividing top emerging markets into heavy and light spenders, and including both new government spending and central bank asset purchases, the bigger spenders actually tended to suffer weaker recoveries.

Through the second quarter this year, the median recovery in the 11 biggest spenders amounted to 12% of GDP, compared with 19% in the 11 lightest spenders. India went into the crisis with a large deficit, which limited how big it could go on stimulus. Its package amounted to 10% of GDP, mid-size compared to its peers. But its payoff for moderation was one of the strongest recoveries in emerging markets Among the heaviest spenders were Hungary under Viktor Orbán, Brazil under Jair Bolsonaro and the Philippines under Rodrigo Duterte – all populist governments.

Each spent at least 16% of GDP on stimulus, but the biggest spender by far was Greece. Demoted in 2013 from the developed to the emerging markets amid a run of financial mismanagement, Greece spent the equivalent of 67% of GDP on pandemic stimulus, apparently for naught. Like Hungary, Brazil and the Philippines, Greece got an unexceptional recovery, close to the emerging market average of around 16% of GDP. Why is stimulus showing unclear benefits, and even backfiring in many emerging markets? The impact of stimulus in any one emerging country may now be overwhelmed by factors unique to the pandemic, including the global impact of massive stimulus in the US and other developed countries, and the fight against the virus.

Goldman Sachs research found a tight link between growth and both lockdowns and vaccines: The stricter the lockdown and the slower the vaccine rollout, the bigger the hit to growth. Moreover, overspending often backfires, particularly in developing nations. They lack the financial resources and the institutional credibility to ramp up spending without unbalancing the economy, and end up getting punished by global markets. Over the past year, in the heavy spending emerging markets, inflation has run over 5%, nearly a point faster than in light spenders; bond yields are up more than 142 basis points, versus 43 points in light spenders. Currency values have drifted down, while holding steady in light spenders. Based on IMF forecasts, the government deficit at the end of 2021 will also be slightly higher in heavy spenders, at nearly 7% of GDP, versus 6% in light spenders.

Comparing emerging markets on an index of these factors – inflation, currency, interest rates and deficit – highlights where the backfire effects are most pronounced. The heavy spenders that scored worst include Hungary, Brazil and the Philippines. Light spenders that scored best include Taiwan, South Korea and Mexico. A moderate spender, India suffered mixed backfire effects, with relatively little negative impact on its inflation and interest rates, but a relatively large impact on its currency value. The red flag is a deficit of 11% of GDP, highest among major emerging markets, but this condition existed before the pandemic.

The logic of stimulus campaigns may have more to do with politics than economic conditions. In keeping with their government traditions, East Asian nations tended to be light spenders, Latin American nations tended to be heavy spenders. Emerging or developed, nations that suffered the sharpest downturns did not necessarily roll out the biggest stimulus packages. The developing world has faced these choices before. Many emerging markets went into the crises of the late 1990s in weak financial condition, were forced to reform rather than spend their way out of trouble. Reining in deficits and debt set them up for a boom in the next decade.

By 2008 they were flush, and many responded to the crisis that year by spending and borrowing heavily, which contributed to one of the worst decades on record for emerging economies. Nations that spend in haste are often forced to repent at leisure.

> **THOSE THAT ATTEMPTED TO "GO BIG" DURING THE PANDEMIC PROBABLY GOT LESS ADDED GROWTH THAN THEY IMAGINED AND MORE TROUBLE, IN THE FORM OF HIGHER DEFICITS AND DEBT, WHICH WILL LEAVE THEM WITH LESS AMMUNITION TO FIGHT THE NEXT BATTLE.**

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India went into the crisis with a large deficit, which limited how big it could go on stimulus. Its package amounted to 10% of GDP, mid-size compared to its peers. But its payoff for moderation was one of the strongest recoveries in emerging markets

Under Narendra Modi, India will lead global economic recovery

AKHILESH MISHRA, GULF NEWS

28 October, 2021

Akhilesh Mishra is the CEO of Bluekraft Digital Foundation and was earlier Content Director of MyGov India.

The COVID-19 pandemic has not just been devastating when it comes to the health of the people but it has also dealt a severe blow to the economies of multiple nations across the globe.

However, as many reports and analyses now confirm, India has emerged as the nation which has not only dealt with the health implication of the pandemic relatively well but has also successfully managed its economic fallout.

On the health side, India has now administered more than 1.03 billion doses out of which more than 723 million are first doses while more than 313 million are second dose.

Consider this statistic for a moment. India has now double vaccinated almost the equivalent entire population of the United States — the third most populous country in the world, while the US itself is struggling to double vaccinate just its entire adult population. This despite the fact that US started vaccinating a month before India!

On the economic front, various recent reports sum up the strong economic management by Indian government.

Ruchir Sharma, chief global strategist of Morgan Stanley, recently published a report which analysed countries that were heavy spenders during the peak of the pandemic and compared them with light spenders.

The unambiguous conclusion — countries which were reckless in spending have fared very poorly in economic recovery as compared to countries that spent wisely and spread their efforts in managing the pandemic.

> **DESPITE PRESSURE FROM MANY CELEBRITY ECONOMISTS, IN INDIA AND ABROAD, THE INDIAN GOVERNMENT LED BY PRIME MINISTER NARENDRA MODI, HELD FIRM, DID NOT RANDOMLY SPEND OR DISTRIBUTE CASH, BUT RATHER SPREAD ITS EFFORTS IN REACHING THE POOREST THROUGH TARGETED CASH AND FOOD, IN DEVELOPING VACCINES, RAMPING UP HEALTH INFRASTRUCTURE AND FINALLY IN VACCINATING THE POPULATION.**

The result — India has seen the sharpest economic recovery while the heavy spenders have, without exception, floundered. The factors on which Sharma based his analysis are Inflation, Interest Rate, Government Deficit, and Currency.

On inflation, India's latest retail inflation for September is 4.35%, which is almost a percentage point lower than average of heavy spenders with some of them recording inflation close to double digits.

On interest rate, the average lending rate has come down by approximately 1% as of September 2021 as compared to January 2020. This follows the pattern of long-term trend in India of lending rates coming down by average 4% since 2014.

STRONG ECONOMIC RECOVERY

On government deficit, the economic recovery has been so strong in India that the central government is expected to overshoot its already ambitious budgeted tax collection targets by almost 10% in the current financial year. This would be a first in many years and is driven by strong GST collections and overall economic growth.

One of the reasons for strong recovery by India is that the lockdown during the pandemic was very smartly calibrated and the rural economy, which is a feeder to much of urban India, was never shut down. This well thought out approach kept the urban centers going even during the lockdown phases while at the same time giving a fillip to rural economy.

The result — agriculture sector has witnessed strong growth and high gross capital formation even during the pandemic. Food grain production is at an all time high and driven by record Minimum Support Prices (MSP), the procurement is at an all time high as well. Total Kharif crop production is 12.71 million tonnes higher than average of last five years while Kharif pulses production is 17.2% higher than last five years average.

Tractor and two-wheeler sales — high frequency indicators of rural demand — have both exhibited strong demand, even more than the pre-pandemic levels, pointing out to strong rural incomes.

The Index of Industrial Production (IIP) in August 2021 was more than 100% of the index in August 2019, indicating strong industrial activity, at a level even higher than the pre-pandemic. Electricity demand, another high frequency indicator for industrial activity, was the highest ever in the first half (April — September, 2021) of the current financial year and 3.6% higher than pre-pandemic level.

The overall index of 8 core sectors has reached the same level as pre-lockdown with electricity, fertiliser, steel, crude oil and natural gas being significantly higher than pre-pandemic level.

The Purchasing Managers Index (PMI) Services has been consistently recording values above 50 (56.7 in August 2021) pointing to strong recovery in services sector as well.

The Google Mobility Report which measures mobility across retail, recreation, grocery, pharmacy, parks, transit stations, places of work and residence and benchmarks them with Jan3-Feb6 2020 data (pre-pandemic) has turned positive for the first time, confirming that on an average these sectors are back to pre-pandemic levels.

Rail freight, port cargo traffic, and exports of services has crossed pre-pandemic levels.

The unemployment frate, as per CMIE, in September 2021 was 6.9% which is lower than pre-pandemic levels.

FALL IN UNEMPLOYMENT RATE

Among a host of factors, this fall in unemployment rate has been driven by a hiring spree across a range of industries, but primarily driven by India's IT sector. According to latest Naukri-JobSpeak report, the hiring index in September was at an all-time high, higher than September 2019 by 21%.

On currency, the government announced the first lockdown on 24 March 2020. Pegged against the dollar, the Indian Rupee has since then actually held steady around the 75.2 to a dollar. This again is opposite of the heavy spenders where the currency has drifted down.

The Indian GDP growth rate has rebounded in the first quarter of current financial year with a record growth of 20.1%. For the entire financial year, the growth rate estimates by various agencies like World Bank, IMF and others is ranging between 9-10%. This will be almost double the global GDP growth, double that of USA growth and between 1.5-2 percentage points more than that of China.

The index, which is calculated monthly, has been breaking records for three consecutive months. IT sector hiring is up 138% while hospitality is up 82%. Retail, which was hit hardest by pandemic, has also registered 70% growth in hiring indicating robust growth in sectors that employ the largest number of Indian workforces. Education sector is up 53%, banking and financial sector is up 43% and telecom is up 37%.

The government mandated Employee Provided Fund (EPFO), a social security net for workers, has also witnessed robust growth with almost 1.5 million new additions in July 21, following 1.1 million additions in June 2021. EPFO registrations are an indicator that large number of jobs being created are formal jobs with all the necessary benefits that accrue.

Digital Payments, a made in India success story, has skyrocketed during the pandemic and the growth story has not abated. September 2021 recorded more than Rs. 6 trillion (almost $90 billion) transaction in value and over 3.75 billion transactions in volume. This is the highest in the world, and surpasses other digitised economies like USA and China by substantial margins.

But as the recent study by US firm Jefferies pointed out, the most gladdening aspect pf this recovery is the major uptick in the housing and reality sector. Driven by low and affordable interest rates, the strong and sustained demand in reality sector has come after almost 7 years and combined with other factors, it points to a long-term phenomenon.

Jefferies analysed six key components of economic cycle — Demand for housing, drop in bank NPAs, corporate profitability, interest rates, corporate leverage and capex revival.

On housing, Jefferies notes that a “historical analysis since 1996/97 suggests that Indian housing up-cycles and down-cycles typically last for 6-8 years. The period between 2012/13 and 2020 was a prolonged down-cycle and 2021 is the first year of an up cycle, with a visible uptick in volumes and pricing. Housing construction is a large job creator and has multiple economic linkages capable of driving an economic upturn.”

On Bank NPAs the firm notes that “Between 1997 and 2004, bank gross NPA ratio moved down from 16% to 8%. Similarly, the Indian banking system’s gross NPA has moved down from 12% in March 2018 to 7% now and alongside a provisioning jump, the net NPAs are down 59%. The fall in bank NPAs is a significant success of the reforms under Prime Minister Modi government and such moves as the Insolvency and Bankruptcy Code (IBC) have immensely helped.

On corporate profitability, Jefferies notes that annual corporate profit growth was a poor 0.4% between FY11 and FY20, but has increased to 51% between FY20 and FY22. Jefferies expects profit growth to increase further to 15% between FY22 and FY24, led by the financials and other cyclical sectors.

On interest rates, the average drop in lending rates by almost 4% between 2014 and 2021 will spur consumption, boost demand across sectors like automobiles, housing and overall, positively impact the economy.

On corporate leverage, the form notes that Companies have used the last six years to deleverage as a result of which the debt-to-equity ratio for 600-plus non-financial companies has come off from 1 times to 0.7 times, creating space for the next economic up cycle.

And, finally on Capex, Jefferies observes that all the above factors will push the capex cycle in the short term to medium term as well. The big budget schemes announced by the government — almost $1.4 trillion in infrastructure in the next five years with Gati Shakti being the anchor scheme and about $9 billion in creating health infrastructure under Ayushamn Bharat Health Infra Mission will push the capex cycle as well.

SUSTAINED GROWTH

Overall, Jefferies estimates that India is entering a phase of at least a decade or more of 9.5-10% of sustained growth.

In the financial markets the benchmark BSE Index has performed most spectacularly and the index has doubled from around 29,000 in June 2020 to over 61,000 in just over a year. Annual FPI investment into Indian equity markets has bee the best in comparable emerging markets with high volumes both in 2020 and 2021 totalling to up to approximately $34 billion.

The trade performance has been robust as well with exports in September 2021 at approximately $34 billion which is higher than both September 2019 and 2020. The top export commodities are engineering goods, petroleum products and cotton yarn and handloom products indicating an across the segment revival, especially in MSME sector which accounts for the bulk of industries and employment.

In the start-up sector, 2021 has been a year unlike ever before. 33 Indian start-ups have become unicorns (more than $1 billion in valuation), which is the highest in the world. In the overall international venture funding, India has attracted the maximum funds ever in 2021 while the year is still not complete.

In the meanwhile, Prime Minister Modi's government has been hyperactive on the policy and reforms front to give a further fillip to the economic activity. The privatisation of Air India, stuck for almost two decades, is finally done. The new drone policy, reforms in the space sector, record FDI investments in India due to liberalised FDI policy and the labour reforms have created a platform for high trajectory growth offtake.

Overall, the Indian economic story during the peak of the pandemic and afterwards, has been rather remarkable given the challenge of once-in-a-century pandemic.

As Prime Minister Modi pointed out in his recent address to the nation, the fact that India has produced more than billion doses of vaccines, in the fastest time in any open and transparent society, will itself place India in new light in the world of manufacturing and economic landscape.

Given India's market size, a young demographic, skilled and trained workforce, and a very business friendly policy paradigm, India is well placed to lead the global economic recovery and indeed the next economic cycle.

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Business Standard

Modi socio-nomics starts to pay off

R JAGANNATHAN, BUSINESS STANDARD

02 November, 2021

R Jagannathan is the Editorial Director, Swarajya. Previously, he was the editorial head at Firstpost, Forbes India, Financial Express and Business Today.

A recent article in the Financial Times, authored by global investment strategist Ruchir Sharma, makes a simple point: Countries which went over the top in providing massive fiscal and monetary stimuli after Covid laid their economies low did not get bang for the buck. In fact, they may be heading for a debt trap. He does not mention India, which did not do any such thing.

The question is: What did Narendra Modi and his group of low-profile economic think-tankers see that the experts did not? In fact, one should go further and ask the experts, especially those who prefer to view everything this government does with a jaundiced eye, why they saw nothing transformational in many of Mr Modi's big schemes. The goods and services tax (GST), they said, was seriously flawed and in need of "root and branch" reform. Atmanirbhar Bharat was nothing more than the discredited import substitution idea back in a new garb. The multiplicity of Modi schemes was more about pandering to the prime minister's penchant for acronyms and alliteration than substance. And so on and so forth.

Anyone who is not congenitally disposed to seeing the Modi government with a negative lens will see that the last seven-and-a-half years have been (with some caveats) the most transformational in post-independence history. We can mention 1991 in this context, but the difference between then and the 2014-21 period is that the former was driven by bankruptcy, the latter by pure reformative intent.

The scorecard in this phase of our post-Covid recovery reads more positive than negative: GST is now consistently above Rs 1 trillion; the fiscal deficit in H1 2021-22 is just 35 per cent of the budget estimate (BE), an unheard-of feat in recent memory, and net tax and non-tax revenues are at 59 and 66 per cent of BE. Forex reserves are two-thirds of a trillion dollars, corporate profits are reviving, the markets are over the moon, and 34 unicorns — billion-dollar start-ups — were created in just the first 10 months of calendar 2021.

It is easy, with the benefit of hindsight, to credit this to Modinomics, but that would be partly wrong. For what Mr Modi practices is socio-nomics, which embraces common sense fiscal conservatism while addressing the pain points of citizens and companies, cocking an attentive ear to political reality. Here is what it is all about.

> **HE IS A SOCIO-POLITICAL VENTURE CAPITALIST AT WORK. FROM SWACHH BHARAT TO UJJWALA TO THE LATEST ATMANIRBHAR BHARAT, MR MODI HAS LAUNCHED ONE NEW SCHEME ALMOST EVERY TWO MONTHS IN HIS SEVEN-AND-A-HALF-YEAR TENURE. WHAT EXACTLY IS HAPPENING HERE? THE INITIATIVE OVERLOAD DOES NOT MAKE SENSE UNLESS YOU THINK LIKE A VENTURE CAPITALIST. A VENTURE CAPITALIST WILL INVEST IN MANY START-UPS KNOWING FULL WELL THAT 60-70 PER CENT OF HIS INVESTEE COMPANIES WILL FAIL, 10-15 PER CENT WILL DELIVER IN SPADES, AND THE REMAINING 20-30 PER CENT WILL DO REASONABLY WELL TO JUSTIFY THE INVESTMENT. THIS IS EXACTLY WHAT MR MODI IS DOING. HE KNOWS THAT HE NEEDS ONLY FOUR OR FIVE BIG HITS TO BE ACKNOWLEDGED AS A TRANSFORMATIVE LEADER, BOTH POLITICALLY AND ECONOMICALLY. IN HIS FIRST TERM, SWACHH BHARAT AND UJJWALA WERE HUGE SUCCESSES, APART FROM THE REFORMATIVE JAN DHAN-AADHAAR-MOBILE TRIO, DIRECT BENEFIT TRANSFERS, AND THE BANKRUPTCY CODE. IN THIS TERM, GST WILL DELIVER WITH SOME TWEAKS, AND FOR ORDINARY PEOPLE NAL-SE-JAL WILL BE HUGELY BENEFICIAL.**

2. The approach is 360 degrees to any problem. Taken separately, Ujjwala, Saubhagya (providing last-mile power connections to the home), Swachh Bharat, Ayushman Bharat and Nal Se Jal are separate initiatives. Taken together, they empower the homemaker and improve health outcomes. The traditional approach is to call for higher health budgets, which are admittedly very low, but toilets, clean energy sources, lighting and water on tap are not just social sector schemes. They have a direct bearing on health.

3. Formalise, formalise, formalise: Mr Modi has formalised the Indian economy like no one else before him. Between GST, the push for tax compliance, demonetisation, and the extension of social security benefits to many more workers (often on a self-help), Indian business has taken a big leap towards formalisation. Micro and small companies, currently paying extortionate rates in the informal lending markets, will now get loans through the account aggregator initiative. But Mr Modi's formalisation goes beyond firms and companies. The poor have been conscripted, too. Between Jan Dhan, DBT and unified payments interface, more Indians are now part of the formal financial sector than ever before. With the launch of the e-Shram portal for migrant labour, gig economy workers are being visibly formalised.

4. A “BHAG” vision with deep execution capabilities: India did not vaccinate two-thirds of its eligible adult population merely by waving a magic wand. This initiative involved many actors working together all the time. Government labs and private companies worked in partnership to create two high-volume India-made vaccines at low unit costs. It worked because a leader at the top could bash heads together and force government babus out of their silos and private players to deliver what they could.

In Jim Collins and Jerry Porras’ path-breaking book (Built To Last), they talk about BHAGs — Big, Hairy, Audacious Goals — as being a defining characteristic of great companies and leaders. Nothing exemplifies Mr Modi’s approach better than the acronym BHAG. Whether it was Jan Dhan, Ujjwala, Jal Jeevan Mission, or any scheme, scale, size, speed and execution have been exemplary.

5. Supply-side reforms. Atmanirbhar Bharat and production-linked incentives are not about import substitution, but building an internal supply chain for inputs and products at a time when global supply chains have broken down, thanks to Covid and Chinese aggression. Globalisation cannot work unless there is strong localisation. And a degree of mercantilism is needed to give nascent competitive strengths a boost — which is what the rich nations did when they were not so rich.

The reason why even unbiased people have been reluctant to note the transformative nature of Modi socio-nomics is simple: It was less visible to the eye so far, as deep reforms take five or six years to deliver. Now they are becoming visible.

Here’s what could be ahead for India: A $10-trillion economy by 2030-32, a Sensex at 1,00,000 by 2025, monthly GST revenues at Rs 2 trillion by 2024-25, 100 new unicorns by 2025, and poverty below 5 per cent by 2030. It’s possible because Mr Modi could see what the experts could not.

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Covid Relief: Why Even Experts Crashed Against The Great Reef Of Modinomics

R JAGANNATHAN, SWARAJYA

26 October, 2021

R Jagannathan is the Editorial Director, Swarajya. Previously, he was the editorial head at Firstpost, Forbes India, Financial Express and Business Today.

Rumour has it that a boatload of renowned Indian economists crashed against the Great Barrier Reef of Modinomics, which is just another name for commonsense conservatism. We can confirm that all of them are safe, with only minor bruises to egos and dents to reputations. And these bruises and dents can easily be covered up by producing more 'research' and opinion on how the Indian economy is doing worse than before, how Covid-19 deaths may be 20x reported numbers, and how India is already a fascist state.

An article by Ruchir Sharma, global investment strategist for Morgan Stanley, published by the Financial Times, confirms to us that “Emerging markets that stimulated most aggressively got no pay-off in a faster recovery, owing in part to the downsides of overindulging. The big spenders tended to suffer higher inflation, higher interest rates and currency depreciation, at least partly cancelling out the sugar high of stimulus.”

Sharma notes: “Throughout the second quarter this year, the median recovery in the big spenders amounted to 12 percent of GDP, compared with 19 percent in the light spenders. Among the heaviest spending emerging markets were Hungary under Viktor Orban, Brazil under Jair Bolsonaro and the Philippines under Rodrigo Duterte — all populist governments. Each of these nations spent at least 16 percent of GDP on stimulus, including both new government spending and asset purchases by the central bank.”

From the start of the pandemic, many emerging nations watched the US and other large developed countries 'go big' on economic stimulus, and wished they could afford to follow. It turns out they were lucky if they couldn’t and wise if they chose not to.

Sharma does not say much about India, but against these parameters, India’s gross domestic product (GDP) in Q1 grew over 20 per cent in April-June this year (no doubt, on a much lower base last year) shows up as a strong recovery even when the second wave was yet to peak. Retail inflation, though worrisome, is nowhere near dangerous territory, with the September 2021 consumer prices index at 4.35 per cent, just marginally above the Monetary Policy Committee’s 4 per cent medium term target.

Tax revenues were buoyant, goods and services tax numbers are steadily rising, and foreign investment is pouring in, boosting foreign exchange reserves to nearly two-thirds of one trillion dollars ($641 billion, at last count). The markets are booming, and India created 28 new unicorns (companies with over $1 billion valuations) up to end-September.

What made India different was probably India's decision under Prime Minister Narendra Modi to keep direct fiscal spending at a lower level of GDP than advised by world-renowned economists, who were talking about spending like crazy last year, including throwing the kitchen sink at the problem of slowdown and the possibility of a lurch towards hunger and corporate bankruptcies, especially in the micro, small and medium scale (MSME) sector.

Even better, the Modi government decided to opt for massive economic reforms, from labour to farms, from boosting manufacturing to providing relief to non-bank financial companies, even while ramping up health infrastructure to meet the challenges of Covid.

As noted in an article in Swarajya last December, this is what several eminent economists said last year, when the first Covid wave struck.

Raghuram Rajan on the government stimulus package of March 2020: "This has been meagre; primarily free foodgrains to poor households; and credit guarantees to banks for lending to small and medium (SMEs) firms, where the take down has been patchy." He added that the government's strategy of saving up resources for a possible future stimulus was "self-defeating".

Abhijit Banerjee on the stimulus: "We really haven't decided on a large enough stimulus package. We are still talking about 1 percent of GDP. The US has gone for 10 percent of GDP... I think spending is the easiest way to revive the economy. Because then MSMEs get money, they spend it and then it has the usual Keynesian chain reaction. We cannot shut the entire retail sector because they are situated in the coronavirus red zone."

Kaushik Basu: "...We do need a large fiscal stimulus. India has the FRBM Act, 2003, for fiscal management and to make sure that government does not overspend. But the FRBM is a sophisticated piece of legislation that recognises that, during times of natural calamity, we should be allowed to run up larger deficit."

The most egregiously wrong advice came from Swaminathan Aiyar in his Times of India column. He called the government's stimulus "outrageously small; crumbs from a miser's table; spineless obeisance to fiscal orthodoxy; cowardly fears of foreigners reacting badly to a massive fiscal stimulus."

He wrote: "The lesson for India is clear. At least triple the relief package and put more money into the bank accounts of the needy. If the problem continues for six to nine months, increase the relief package fivefold. Even a five-fold increase implies an additional stimulus of barely 5 percent of GDP, tiny compared to the US stimulus."

But Aiyar was gracious in defeat later, when the economy proved more resilient that he thought it would be. He wrote in The Times of India later last year: “The finance ministry has, from the start of the Covid-19 crisis, emphasised fiscal prudence, relying mainly on monetary measures and loan guarantees, rather than massive budgetary handouts. Having predicted that this would fail to check distress or stimulate the economy, I need to eat crow. Fiscal rectitude has kept government finances in surprisingly good shape, without producing a voter revolt in Bihar, or thwarting a sharp economic recovery. I still think the severity of the March lockdown and fiscal parsimony was grossly overdone. But actual outcomes have exceeded my gloomy expectations.”

His reputation for forecasting may be dented, but his reputation for honest self-appraisal is intact.

The real mistake these economists made was to benchmark India’s stimulus with the initial US stimulus which was more than 10 per cent of GDP. But not all countries can do what Uncle Sam with a globally acceptable hard currency can do — though America may still pay a price for its profligacy.

The fact that Modi was careful with fiscal spends last year was what made it possible to meet the even more massive second wave this year without any significant fiscal threats looming. If we had actually spent over-the-top last year, the fiscal resources for the second wave would have been an albatross around our necks — and India’s perennial doomsayers would have been thrilled that we are tripping on our own boot-laces.

Reality is no respecter of global reputations. Common sense economics often trumps expert advice, especially when that advice comes from experts with a bias against the Modi government.

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India's economic response to pandemic was different from other nations. Did it work?

KARAN BHASIN, THE ECONOMIC TIMES

29 October, 2021

Karan Bhasin is a New York-based researcher with interests in Macroeconomics, Indian Economy, Institutional Economics and Political Economy.

As economies around the world begin to normalise, fresh economic challenges have emerged. These include widening output gaps, systematic overheating of economy in some countries, and supply shortages owing to disruptions. Some of these are a consequence of the policy response to the pandemic, while others are a consequence of a lack of appropriate response.

Now, in hindsight, India's response was adequate. Conventional wisdom 18 months ago while grappling with the Covid pandemic was to demand governments to spend, spend and spend. As an outcome of governments following through, public debt levels have soared, adding its own share to global macro-imbalances. Developed countries have been fortunate with record low interest-rate levels. The situation for most emerging markets (EM) is more severe, with some having to deal with high inflation, high deficits, volatile capital flows and exchange rate pressures. Indian policymakers were wise to restrict initial Covid mitigation support to relief measures.

These interventions were geared towards preventing massive bankruptcies as they comprised of moratoriums, regulatory forbearance, additional credit extensions and cash transfers. Also, while the fiscal response by GoI was staggered, it was still broadly in line with the additional spending announced by most of EMs. On an average, EMs undertook a fiscal expansion of 6 percentage points. India's fiscal push was slightly lower, at 4.9% in 2020-21. Advanced economies were the only outlier, as they expanded their spending by 11 percentage points A major component of India's fiscal response has comprised doubling outlays on food grain transfers under the Food Security Act via Public Distribution System (PDS), which increased from ₹80,000 crore in 2019-20 to ₹1.67 lakh crore in 2020-21. Till date, over ₹1 lakh crore worth of food grains have been distributed since the start of 2021-22.

The other increase came in the form of an ambitious infrastructure pipeline, which had been in the works prior to the pandemic but has since then been accelerated to front-load the fiscal impact. Add to this additional spending in the form of subsidies under the production-linked incentive (PLI) staggered over the next several years, and we have a combination of temporary and mid-term fiscal commitment that has been the key component of GoI's economic response to the pandemic. Two things make India's response different from other EMs. One, it adopted a cautious approach towards designing a fiscal response package that included several iterations. This enabled the government to design a well-targeted stimulus package. It left the scope for revisiting interventions and supplementing them as and when necessary.

TWO, GOI UNDERTOOK SEVERAL STRUCTURAL REFORMS THAT ARE BOUND TO IMPROVE FACTOR PRODUCTIVITY, THEREBY IMPROVING INDIA'S LONG-RUN GROWTH PROSPECTS. AN OUTCOME OF THESE REFORMS IS THAT WHILE INDIA REGISTERS A SOLID GROWTH RECOVERY, ITS MEDIUM-TERM GROWTH PROSPECTS WILL CONTINUE TO REMAIN BRIGHT EVEN AS POLICY SUPPORT IS UNWOUNDED DUE TO FACTOR PRODUCTIVITY IMPROVEMENTS. AS A RESULT, OUR POLICYMAKERS DID NOT SACRIFICE OUR FUTURE GROWTH TO REGISTER AN UNSUSTAINABLE RECOVERY, AS WITNESSED IN MANY OF THE OTHER EMS.

India is on its path to narrowing its fiscal deficit thanks to improving tax buoyancy and temporary fiscal interventions, rather than permanent expansion in expenditures, and inflation is largely back to the 4-6% range, barring some deviations. Higher growth over the next couple of years should contribute to reducing debt-to-GDP to pre-pandemic levels. Therefore, India may emerge as one of the few countries without any permanent scarring, as its macroeconomic fundamentals will restore faster than most other EMs

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An outcome of these reforms is that while India registers a solid growth recovery, its medium-term growth prospects will continue to remain bright even as policy support is unwounded due to factor productivity improvements. As a result, our policymakers did not sacrifice our future growth to register an unsustainable recovery, as witnessed in many of the other EMs.

Chris Wood says India only market worth owning for next 10 years

CHIRANJIVI CHAKRABORTY, THE ECONOMIC TIMES

29 October, 2021

Chiranjivi Chakraborty is the Principal Digital Content Producer at Times Internet.

MUMBAI: At a time when investor sentiment in India is wobbling under the pressure of expensive valuations and selling by foreign institutional investors, Christopher Woods of Jefferies has made a statement, underlining his extreme bullishness for the Indian stock market.

> **"...IF GREED & FEAR HAD TO OWN ONE STOCK MARKET GLOBALLY FOR THE NEXT TEN YEARS, AND NOT BE ABLE TO SELL IT DURING THAT PERIOD, THAT MARKET WOULD BE INDIA,"**

Wood said in his newsletter GREED & fear released on Friday. Wood has been consistently bullish on the Indian equity market since the onset of the pandemic as reflected in the fact that he recently launched the first-ever India-focused portfolio.

The veteran global equity strategist has India as one of his most bullish bets in the Asia-Pacific excluding Japan portfolio after Chinese and Australian equities. "India, from a macro perspective, looks in a similar condition to where it was in 2003 when the country embarked on the last property and capex cycle," Wood said. Citing his colleague and head of India research Mahesh Nandurkar's latest report, Wood said that Indian stocks remain supported, for now, by the continuing reality that real interest rates have been negative in India since late 2019 though the real 10-year Indian government bond yield has turned positive this year.

However, after a stellar start to October, Indian equities have hit a rough patch in the past nine sessions, with the Nifty50 index correcting close to 800 points in that period and midcaps and smallcaps undergoing a much steeper drawdown Street will provide opportunities to add to Indian equities, most particularly if this coincides with a further likely rise in the oil price on an accelerating reopening of the global economy," Wood said. Wood's optimistic statement also comes on the back of two larger foreign brokerages downgrading Indian equities citing expensive valuations. UBS Securities and Morgan Stanley have both downgraded Indian equities over the past few days.

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Digitization could ease MSMEs' access to supply-chain finance

V. ANANTHA NAGESWARAN & MAHESH SINGARAPU, LIVEMINT

01 November, 2021

V. Anantha Nageswaran is a member of the Economic Advisory Council to the Prime Minister and a visiting distinguished professor of economics at Krea University

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Access to formal credit continues to be a challenge for micro, small and medium enterprises (MSMEs). Lack of reliable financial information is one of the main reasons.

> **UNDER INDIA'S GOODS AND SERVICES TAX (GST) REGIME, HOWEVER, SIGNIFICANT DATA ON THE FINANCIAL HEALTH OF**

> **THESE ENTERPRISES IS OBTAINED THROUGH MONTHLY RETURNS, ELECTRONIC INVOICES AND E-WAY BILLS. THIS DATA CAN BE USED FOR FINANCING MECHANISMS LIKE THE TREDS (TRADE RECEIVABLES DISCOUNTING SYSTEM), WHICH IS AN ELECTRONIC PLATFORM FOR FACILITATING THE FINANCING/DISCOUNTING OF THE TRADE RECEIVABLES OF MSMES THROUGH MULTIPLE FINANCIERS.**

These receivables can be due from corporates and other buyers, including government departments and public sector undertakings (PSUs). The receivables are confirmed by buyers through invoices ('factoring units') uploaded by MSMEs on the TReDS. Confirmed invoices are bid for by financiers, which include banks or non-bank lenders. Once an MSME selects the best bid, it gets paid by the financier at the agreed rate of financing/discounting. Later, the financier collects the payment from the buyer.

The creditworthiness of MSMEs can be judged from three data points on the GST system: 1) Input tax credit (ITC) being claimed by the MSME; 2) Trade volume as per the e-way bills (EWBs) created by it; and 3) Trade volume as per the electronic invoices raised by it. As for the first data point, each GST registrant files a monthly return form called GSTR-3B, in which it self-declares its tax liability and the ITC that it believes it is entitled to based on its purchases. Since the return does not provide the break-up of ITC seller-wise or invoice-wise and is based on self-declaration, it may not be appropriate for use in any financing scheme.

The second data point is the trade volume based on EWBs created by MSMEs. While this is an important data point, it only applies to manufacturers/traders that supply physical goods. Further, one EWB may correspond to multiple buyers whose confirmation is not implied in the bill's creation. This leaves us with the electronic invoices of MSMEs generated on the GST platform.

The e-invoicing requirement under the GST regime started in October 2020 for businesses with a turnover greater than ₹500 crore. This has been expanded to cover businesses with a turnover of ₹50 crore and above. In the e-invoicing system, a supplier generates a unique 64-character alphanumeric code called the IRN (invoice reference number) with details of its GSTIN, invoice date, internal invoice number. These invoices can be identified with their IRN and can be sent to the TReDS platform to be made available for factoring. Since the buyer's confirmation is not obtained in the creation of these invoices, "recourse factoring" can be introduced on the TReDS platform. This means that MSMEs must buy back the invoices on which the financiers are unable to collect payments from buyers.

The Parliamentary Standing Committee on Finance, while reviewing The Factoring Regulation (Amendment) Bill, 2020, also recommended that the GST e-invoices above a certain threshold should flow directly to the TReDS platform. Till August 2021, around 750 million e-invoices, issued by 136,000 suppliers for almost 6.1 million recipients had been generated. These are big numbers, considering there are 24,000 MSMEs registered on the TReDS. Through the electronic filing of returns, the GST regime brought MSMEs into formal channels of compliance. However, they still need to be brought into formal credit channels by integrating the GST architecture with the TReDS and Udyam.

Such synergy can also be found in the integration of GeM (Government e-marketplace, an online platform for public procurement) with RXIL, a TReDS platform. It will help government departments, PSUs, CPSEs, etc, finance their payments to MSME sellers of goods and services. This can also be done with the data in GSTR-7 returns, which are filed by government agencies every month. This data contains the invoice amount for supply received by these agencies on which they deduct a certain amount as TDS (tax deducted at source). Since these records are generated by the buyers themselves, there is no additional need to verify them again on the TReDS platform and can directly be used as a factoring unit (the system's nomenclature for invoices and bills of exchange) at the will of the supplier.

The linking of India's GST system with the TReDS has other advantages as well. An EWB that is coupled with an e-invoice can act as a supporting document for a factoring unit, enhancing its authenticity. It can also provide for buyers' acceptance, which would serve as valid proof, like a goods receipt note. Further, the GST system is supposed to develop a rating system for all taxpayers based on their tax compliance and other factors, which may prove valuable for factoring agencies on the TReDS. All these linkages will help digitize the supply chain of MSMEs, making their access to finance much easier.

As the integration of GST data with the TReDS requires GST Council approval, this agenda may be taken up by it in its upcoming meetings.

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Explained: Why GST collection has surged, what the trend indicates

AANCHAL MAGAZINE, THE INDIAN EXPRESS

02 November, 2021
Aanchal Magazine is a journalist at the Indian Express.

GROSS REVENUE COLLECTIONS OF GOODS AND SERVICES TAX (GST) IN OCTOBER (FOR SALES IN SEPTEMBER) ROSE 23.7 PER CENT YEAR-ON-YEAR TO RS 1,30,127 CRORE. THIS IS THE SECOND-HIGHEST REVENUE COLLECTION UNDER GST EVER SINCE ITS ROLLOUT IN JULY 2017, COMING ON THE BACK OF A PICKUP IN ECONOMIC ACTIVITY AND SEVERAL COMPLIANCE MEASURES TAKEN BY TAX AUTHORITIES TO CURB EVASION.

At Rs 1,41,384 crore in April this year, accounting for year-end sales, GST collections are the highest so far in the indirect tax regime.

HOW HAVE THE DIFFERENT GST COMPONENTS DONE?

Of the Rs 1,30,127 crore collected in gross GST revenue in October, Central GST is Rs 23,861 crore, State GST is Rs 30,421 crore, Integrated GST is Rs 67,361 crore (including Rs 32,998 crore collected on import of goods) and cess is Rs 8,484 crore (including Rs 699 crore collected on import of goods).

The government has settled Rs 27,310 crore to CGST, and Rs 22,394 crore to SGST from IGST as regular settlement. The total revenue of the Centre and the states after regular settlements in October is Rs 51,171 crore for CGST and Rs 52,815 crore for SGST.

Finance Minister Nirmala Sitharaman said in a tweet: "GST collection for October 2021 registered the second-highest since the implementation of GST Rs 1,30,127 crore gross GST revenue collected in October. Revenues... of October 2021 are 24% higher than the GST revenues in the same month last year & 36% over '19-20."

WHAT DOES THE TREND INDICATE?

Chart 1 shows the trends in GST collections during the current calendar year. GST revenues have picked pace, with a 24-per-cent year-on-year growth and a 36-per-cent growth over the pre-pandemic period of 2019-20. The Finance Ministry said this growth in collections is "very much in line with the trend in economic recovery".

"The GST revenues for October have been the second-highest ever since the introduction of GST, second only to that in April 2021, which related to year-end revenues. This is very much in line with the trend in economic recovery. This is also evident from the trend in the e-way bills generated every month since the second wave. The revenues would have still been higher if the sales of cars and other products had not been affected on account of disruption in supply of semiconductors," it said.

Data released by the Finance Ministry also showed that timely payment of taxes has been increasing compared with previous months (Chart 2).

Out of the total returns filed, the share of returns for the current period filed in every month has increased. In July, 1.5 crore returns were filed as taxpayers had filed returns of past months due to deadline extensions given due to Covid.

What are the measures being taken to ensure higher compliance?

State and Central tax authorities have been taken measures to ease compliance, such as nil filing through SMS, enabling a Quarterly Return Monthly Payment (QRMP) system and auto-population of return, the Ministry said. The tax authorities have also taken steps to block e-way bills for non-filing of returns, system-based suspension of registration of taxpayers who have failed to file six returns in a row and blocking of credit for return defaulters.

For GST revenues collected in the respective regions, Maharashtra posted a 23-per-cent growth in GST revenues in October, Tamil Nadu 11 percent, Gujarat 25 per cent, and Karnataka 18 per cent.

Tax experts said the uptrend is likely to continue in coming months due to the festive season. Abhishek Jain, Tax Partner, EY India, said, “The robust GST collections are quite encouraging and a clear sign of economic recovery. With the ongoing festive season, we can expect similar or even higher GST collections in the coming months.”

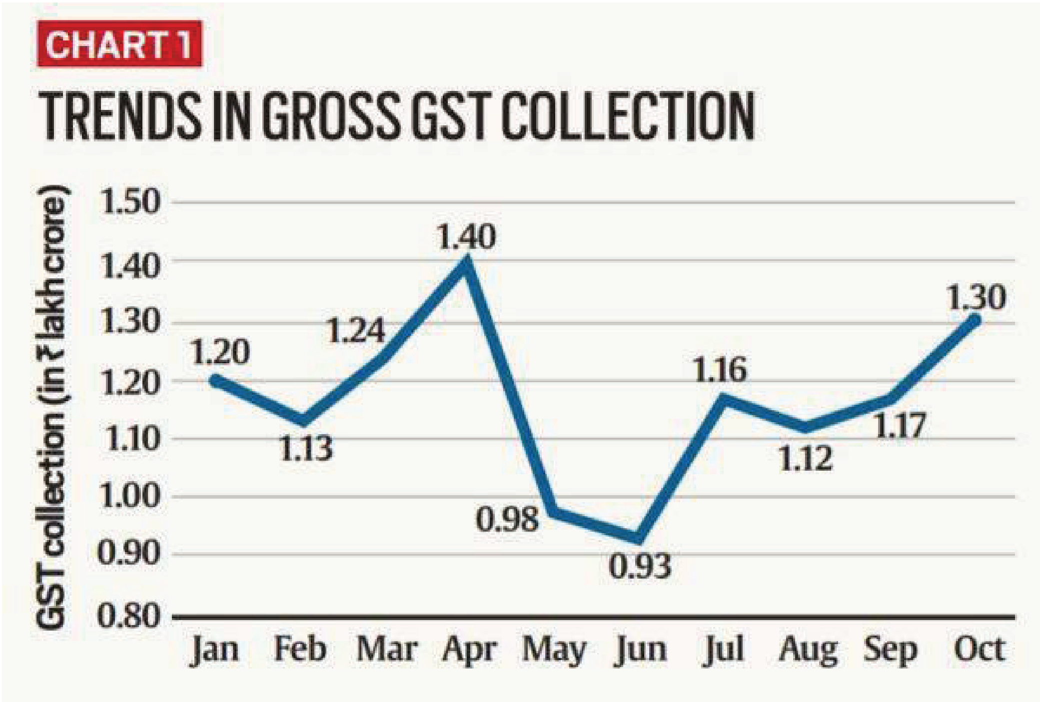
CHART 1
TRENDS IN GROSS GST COLLECTION
GST collection (in ₹ lakh crore)
1.50
1.40
1.30
1.20
1.10
1.00
0.90
0.80
1.20
1.13
1.24
1.40
0.98
0.93
1.16
1.12
1.17
1.30
Jan Feb Mar Apr May Jun Jul Aug Sep Oct

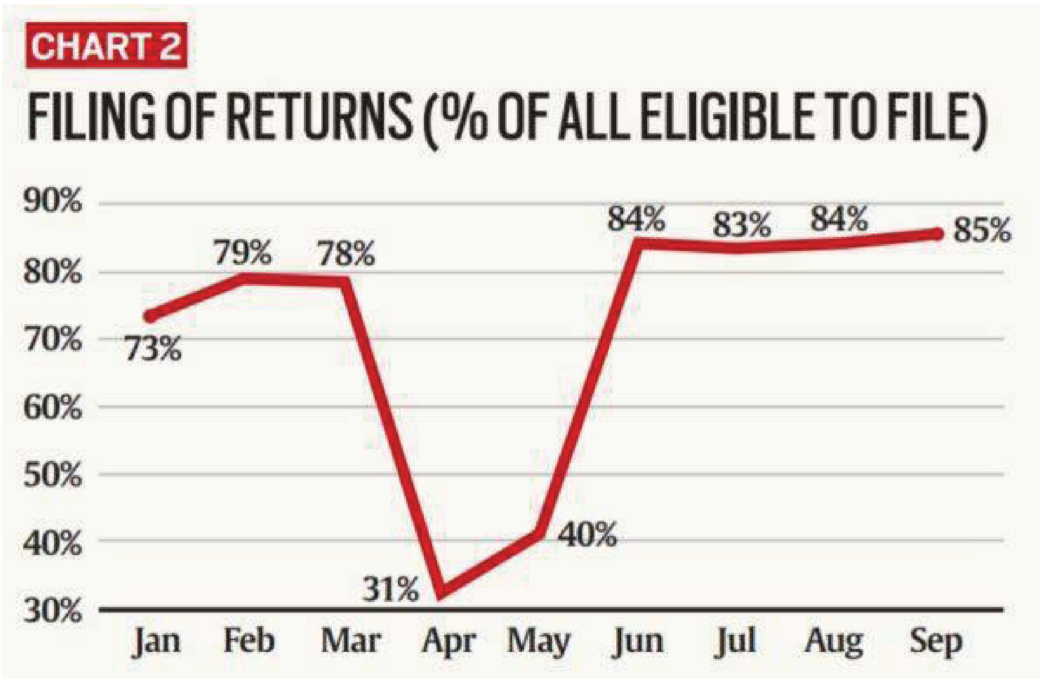
CHART 2
FILING OF RETURNS (% OF ALL ELIGIBLE TO FILE)
90%
80%
70%
60%
50%
40%
30%
73%
79%
78%
31%
40%
84%
83%
84%
85%
Jan Feb Mar Apr May Jun Jul Aug Sep

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India services activity in October rises at fastest pace in 10 years: PMI survey

EDITORIAL, LIVEMINT

03 November, 2021

The recovery of the Indian service sector was extended to October with the seasonally adjusted IHS Markit India Services PMI index signalling the strongest rate of growth in ten-and-a-half years. The index rose to 58.4, from 55.2 in September as the expansion in services activity extended to three months.

> **MORE JOBS WERE CREATED AS RESULT, THE SURVEY SAID, "THOUGH BUSINESS CONFIDENCE REMAINED SUBDUED DUE TO GROWING CONCERNS SURROUNDING PRICE PRESSURES."**

With input costs again rising sharply, companies lifted their fees at the fastest pace in close to four-and-a-half years, it added.

Commenting on the latest survey results, Pollyanna De Lima, Economics Associate Director at IHS Markit, said: "A substantial rise in prices charged for the provision of services in India had no detrimental impact on demand, as companies signalled the strongest monthly expansion in new business in over a decade."

"Hence, the recovery of the sector entered its third straight month, with firms scaling up activity at the fastest pace in ten-and-a-half years and creating more jobs. That said, service providers were concerned that persistent inflationary pressures could deter growth in the coming year. Business confidence remained subdued in the context of historical data. Companies' expenses rose notably from September, which survey participants mainly linked to higher fuel, material, retail, staff and transportation costs," she added.

The survey said that overall "private sector output in India increased at a sharper rate in October as growth quickened among both manufacturers and service providers. The Composite PMI Output Index rose from 55.3 in September to 58.7, signalling the strongest monthly expansion since January 2012."

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