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India may well clock the highest growth rate globally, but more is needed to create jobs and reduce poverty.





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(as of July 25). Though it may seem negligible, it has to be noted that there were 11 meteorological divisions (of a total of 36) which were deficient. The area sown has come down. Rice-producing Bihar, for instance, has been severely affected. However, the monsoon can pick up. There is no consensus on the future behaviour of the monsoon. Agricultural growth may at best be equal to what it was last year – 3.4%.

The services sector may perform better because public expenditure will be maintained at a high level. This is to be expected, as this happens to be the year before the elections. As for the industrial sector, we have data for the Index of Industrial Production (IIP) for the first quarter. They show substantial improvement over the corresponding period of the previous year. It is important to remember that the correlation between the IIP and national income data on manufacturing is poor. Some sectors (automobiles and railway freight traffic) in the first quarter have done well. The combined revenues and profit of 370 large companies have shown better performance in the first quarter, even though they are on a weak base. The problems of the goods and services tax (GST) may have been largely overcome, but it is still a work in progress. A pick-up in the growth rate in the manufacturing sector is likely.

Looking at the overall GDP, after several quarters of low growth, there was a strong pick-up in the last quarter of 2017-18. If this momentum is maintained, the growth rate (2018-19) will certainly be above 7%. How much higher above 7% will depend on a number of factors. International financial institutions have forecast a growth rate of 7.3%. The Reserve Bank of India (RBI) expects it to be 7.4%. However, we need to take note of certain concerns that can come in the way of faster growth.

External environment

The external environment is far from reassuring. Trade wars have already started and can get worse. The U.S. has raised duties on several products such as steel and aluminium, and on certain products imported from China. In turn, China has retaliated. India has also been caught in this exchange. It is difficult to forecast how much worse this will become. Besides these, there are country-specific sanctions such as those against Iran, which have a direct impact on crude oil output and prices. India benefited from the fall in crude prices earlier but this position has reversed. There has been some lull in crude prices. As a net importer, India's



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export growth rate was 9.78%. There is an inescapable need to raise our export growth rate. In this context, we need to ensure that the rupee does not appreciate in real terms. Despite a current account deficit, India's rupee had remained strong because of capital flows. With a rising trade deficit and some outflow of capital, the rupee has depreciated. This is not unnatural. The RBI should act only to ensure that the adjustment is smooth and there are no violent fluctuations. But what is really important is to make our exports competitive. The exchange rate is only one element. Improved efficiency in production and better infrastructure are equally important. Maintenance of domestic stability also plays a key role. Over the medium term, we need to search for an alternative fuel.

Reviving the banking system

The **banking** system continues to be a source of concern. The RBI's latest report on financial stability shows that the gross non-performing asset (NPA) ratio of scheduled commercial banks rose to 11.6% (March 2018). The ratio for public sector banks was 15.6%. This is indeed a very high level of NPAs. Some part of the increase is also due to the adoption of a more rigorous definition of NPAs. The high NPA level has a dampening effect on the provision of new credit. In fact, credit to the industrial sector has slowed down considerably. Recapitalisation of banks has become an urgent necessity. Of course, this will impose a serious burden on the fiscal position. Many suggestions, which include asset reconstruction companies, have been made to resolve the NPA issue. A quick decision has to be made. Unless the banking system recovers fast, it is difficult to sustain a high growth of the industrial sector. Medium-term banking reforms will have to wait until the immediate problem is resolved.

Impact on the fisc

The third concern relates to the fiscal position. So far in the current year, the Central government's fisc has been within limits. At the end of the first quarter, the fiscal deficit as a percentage of total deficit for the year as a whole was 68.7% – a strong improvement over the deficit in the corresponding period last year.



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commodities. Except in the case of rice and wheat (where there is unlimited procurement at MSPs), there is no indication of how the MSPs will be implemented in relation to other commodities. If market prices fall below MSPs, there are only two ways in which farmers can be assured of the minimum price. One is the M.P. model where the State pays the difference between market price and MSP. But this can turn out to be a serious burden if market prices fall steeply. This is apart from the administrative problems involved in implementing the scheme. The other alternative is for the government to procure excess production over normal production so that market prices rise. This alternative may be less burdensome. However, this alternative will not work if the MSP is fixed at a level to which the market price will never rise. Thus the burden on the government as a result of the new MSPs is uncertain and needs to be watched. The possibility of cutting expenditures if revenues fall below projections is remote in a year before elections.

The expected growth rate of 7.3-7.4% may be reassuring. It may even be the highest in the world economy. Nevertheless, it falls short of our potential. It is below of what is needed to raise job opportunities and reduce poverty. It is true that the external environment is not helpful. All the same, a stronger push towards a much higher growth is very much the need of the hour.

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