Survey rich in information, but weak in its diagnosis

EXPERT TALK

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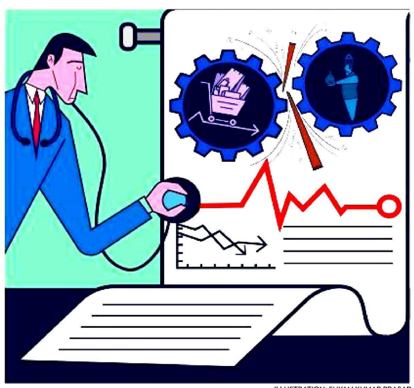
Economic Survey: 2019-20 attributes India's protracted slowdown primarily to two factors — weak global economy and the domestic financial sector that is acting as a drag on the real sector. This is not very convincing given that India's growth is largely driven by domestic demand and even during normal years, exports to GDP ratio had stayed in the band of just 16-17%.

Also, the devil of economic slowdown is not in the financial sector but in the real sector, which is currently facing a crisis of confidence. As described by Bimal Jalan, ex-governor of RBI, "Financial sector provides the mirror image of the underlying real economy and the basic macroeconomic balances".

The latest RBI data too showed that financial intermediaries (both banks & NBFCs) shied away from financing large corporate projects that are facing several economic uncertainties, both on the economic and policy fronts.

While their retail lending too has slowed, the extent of slowdown is much higher for the wholesale book with long gestation projects.



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Economic Survey sees improvement in external sector stability because Current Account Deficit (CAD) has narrowed to 1.5% of GDP in H1, FY20, FDI inflows have continued and Foreign Exchange Reserves have crossed $462 billion by January 17.

The devil of economic slowdown is not in the financial sector but in the real sector. As described by Bimal Jalan, ex-governor of RBI, "Financial sector provides the mirror image of the underlying real economy and basic macroeconomic balances". The latest RBI data too showed that financial intermediaries shied from financing large corporate projects facing uncertainties.

However, CAD has improved mainly because imports have fallen at a faster pace than exports due to acute slowdown in the manufacturing activity, as the fall in non-oil-non-precious metals imports is in double-digits in Q2, FY20.

While FDI inflows have sustained, a strong pick-up in portfolio inflows (hot money) does not augur well for India's net overseas investment position.

India Inc's debt fundraising through overseas loans at $25 billion in H1, FY20 is an all-time-high borrowing for a half-yearly period.

The Survey does not explicitly consider all relevant factors that can impinge on external sector stability going forward.

While analysing recent inflationary impulses, the Survey attributes an increase in core-CPI and WPI inflation in December to building of demand pressures.

This is incomprehensible, as core-CPI has inched up due to administered price shocks stemming from telecom tariffs and higher transport costs and WPI from higher sequential pick-up in primary articles' and crude petroleum prices.

The actual demand-pull components in both these series are still reflecting weakness.

The Survey has highlighted several steps taken by the government under easing of credit for the stressed real estate sector and NBFCs.

However, the overall slowdown, inadequate capital cover and regulatory restrictions like sectoral caps, among others, are the major hurdles in facilitating credit flows from banks to NBFCs.

In addition to finding a solution to these real issues, a one-time restructuring for realty NPAs for a period of one year will prove to be effective in reviving these sectors.

Similarly, the Survey finds a strong merit in the initiative taken by the government to boost investment under the National Infrastructure Pipeline.

But chronic issues like resistance to land acquisition, controversies over pricing, construction & operations and uncertainty over private funds would continue to pose challenges. Assessment of why past projects could not deliver, before initiating new ones would have gone a long way in boosting confidence.

Views are personal