Path to Recovery

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< EXECUTIVE SUMMARY >

◆ The Indian Economy has once again proved its strength of coming back from the difficult time. The performance of the corporate sector and the outlook of stock Index coupled with good monsoon is a clear indication. But the nagging problem of regional imbalance in the rainfall, poor performance of the infrastructure industries and significantly low tax collections despite increase in the profits of the Corporate Sector, still prevails. The growth in the region showing positive indications should be sustained and pushed to further heights to off set the lower growth rates in other regions.

Indian economy has once again proved its strength of coming back from the difficult times. The performance of corporate sector and the outlook of stock index coupled with good monsoon is a clear indication. The spirit of liberalisation and fiscal discipline and had a definite temporary set back during the last three years due to factors such as bad monsoon and the general poor performance of the developed economies. This recovery had to be sustained through further measures to increase agriculture production and the core infrastructure of the economy. The economy had shown signs of recovery in 2001 but had a set back in 2002 indicating a pattern of bust and boom. The same should not repeat in the current year.

THE EFFECT OF MONSOON ON FOOD GRAINS PRODUCTION AND GDP

The growth in the GDP during 2002-2003 has seen a set back as compared to 2001-2002. The growth in GDP for the year 2001-2002 was 4.5% as against 5.6% for the previous year. The food grains production had fallen steeply by 14% during 2002-2003 due to bad monsoon. The common denominator of all the years in which the GDP had shown improvement had been good agriculture production as a result of good monsoon. The consumer spending which also triggers positive inputs to the manufacturing sector is also a significant contributor to the growth in the GDP. The performance of the economy for the year 2002-2003 was hit adversely due the poor monsoon, global slowdown and due to war in Iraq. The forecast of GDP for the year 2003- 2004 proposed to be revised upwards by CII in its recent report based on the monsoon till July 2003 and several other factors such as optimistic first quarter performance of the corporate sector and banking sector, upswing in share price index etc. The rate of growth in GDP is expected to be between 6.5% to 6.8%. The food grains production is expected to reach higher levels than compared to previous year and hence, the expected buoyancy in the economy.

INDUSTRY AND INFRASTRUCTURE

The overall growth rate of industrial productions has shown a growth of 5% during April, May 2003 as against

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4.1% during the same period in the previous year. This is marked by good increase of 9.1% in consumer goods, 8.1% in capital goods sector. The core infrastructure industries have also shown an overall growth of 4% as against 5.8% for the same period. The fall is attributable to the lower growth rates or negative growth rates in petroleum, crude oil, hydel power generation, cement and coal. The industries, which showed positive growth rates, as compared previous period belong to thermal power and finished steel. The fall in the growth of hydel generation is directly attributable to the poor monsoon during last year. This may not be repeated in the current year. Good monsoon till July 2003 is likely to give the necessary impetus to the core infrastructure industries. The woes of cement industry are never ending. Regional imbalance of the demand/supply and over capacity created by the cement manufacturers based on over optimistic estimates of the demand had lead the industry to this position. The cement manufacturers on a regional basis may have to come together to foster a discipline in the market by adhering certain norms and not indulging in practices, which are not beneficial to the members in the long run. Government may have to act as facilitator to bring in such measures the absence of which may lead to enduring damage to the industry as a whole.

Corporate results and the stock markets

CMIE report on the performance of companies of first quarter of 2003-2004 in manufacturing and service sector has shown a impressive growth in the revenues and the net profits. The manufacturing sector showing a strong recovery with gross revenues increasing by 14% and the net profit by 74%. The improvement is on account decreasing interest costs and improvement in operational and technical efficiencies. Despite the general perception, service sector had not shown the same kind of improvement as compared to the manufacturing sector for the same period. The is mainly on account of decreasing margins which had eroded the net profits of the service sector. Software industry, which is a significant part of the service sector, had shown modest top line and bottom line gains. This mainly on account severe pressure on the margins and due to rupee staging a aggressive recovery against dollar.

The stock market reacted sharply to these positive developments and started a recovery phase since May 2003. This is apparent in the sensex, which is marching towards 4000 mark. The buoyancy in the stock market is the result of the good monsoon coupled with the good corporate performance for the first quarter of the financial year. Despite the rupee getting stronger and low interest rates, capital is flowing into the country and is evidence of the Foreign Financial Institutions confidence on the strengths of the economy and the direction in which it is moving. The interest rate still seems to be attractive at global level and this would continue for sometime. According to the latest estimates fresh investment by the FII is in the first five months of the financial year is Rs 10,000 crores. The confidence of the smaller investors in the stock markets still remains low and the current developments coupled with the stringent measures introduced since last misadventure in the stock markets by the government might restore their confidence paving the way for higher levels of the sensex.

Banking sector

The first quarter results of almost all the banks for the financial year 2003-2004 showed impressive growth. This in the backdrop of the falling interest rates is definitely a positive development. This is mainly on account of higher interest bearing government instruments held by all the banks. Investment constitutes significant part of the total assets and in some cases is also higher than loans and advances. The yield on the investment being long term investments issued by the government during the period of higher prevailing interest rates in the economy, had retained the average spread of the banks despite fall interest rates applicable to the loans and advances recently. These instruments carried interest rates varying between 8 to 13.8%. This situation is unlikely to continue for very long. The response of the banks to the recent swap deal of the government, issue of fresh securities carrying lower interest compared to the original instrument by settling future interest payment at their present value, was poor. These securities will mature future (may be 8 to 15 years) and are generally illiquid and hence, the banks should focus on improving the average interest from the loans and advances and on improving the operational efficiencies.

Exports and exim policy

Exports increased by 11.1% during April, May 2003 in dollar terms as against 18.3% for the corresponding

period in the previous financial year. Imports also showed substantial increase of 19.5% as against 7.1% for the corresponding period in the previous year. Government announced ambitious initiatives to inject the fuel of growth to reach a target of 1% of the total global trade in next five years. These initiatives were part of the recently announced Exim Policy for the period 2003-2004 by the Government of India. To achieve this target exports have to increase at pace of 12% per annum. The measures announced include duty free imports, association of Corporate in Agri Export Zone, modification of norms for fixed Duty Exemption Pass Book to agriculture, horticulture and allied products etc. Apart from these the Policy also identified certain regions and the countries to which exports can be increased to improve the overall share of the global trade. Service and agriculture sectors were considered to be sources of future exports earnings and growth. The directives are focused towards equipping these sectors to face the competition and provide the necessary edge to increase exports. These measures together with availability of capital at cheaper rates would equip the Indian agricultural and service sectors to manufacture and provide services of international quality at competitive rates.

CONCLUSION

Though the overall picture is definitely encouraging, the nagging problem is regional imbalance in the rainfall, poor performance of the infrastructure industries and significantly low tax collections despite increase in the profits of the corporate sector in general. India being a vast country regional imbalances in growth are bound occur. However, the growth in the regions showing positive indications should be sustained and pushed to further heights to offset the lower growth rates in other regions. Infrastructure industries reported poor performance for the August 03 as well. Infrastructure is the nucleus for the overall growth of all industries and economy in general. Measures to directed to bring them back into the growing phenomena. ■

UNCTAD INTERNATIONAL MEET ON ACCOUNTING IN GENEVA

The United Nations conference on Trade and Development (UNCTAD) held a major international meet in Geneva, Switzerland on March 31, 2003 to discuss challenges faced by the accounting profession and find ways to restore investor confidence.

The meet was held against the backdrop of the highly publicised corporate failures of the West, which led to severe erosion of market capitalisation of major companies around the globe, & had left millions of investors devastated.

The Opening session was on 'Major challenges to the accounting profession' chaired by the Unctad Secretary General Rubens Ricupero.

The second session was on 'Responding to the need of harmonisation of professional Qualifications' chaired by Nelson Carvalho of Sao Paulo University Brazil.

The third session was on 'Major recent initiatives on cross-border recognition of professional qualifications' chaired by Aziz Dieye from Senegal, a partner in PWC.

The fourth session on 'Major issues in the harmonisation of accounting education' was chaired by Abbas ali Mirza, Chairman of the Dubai Chaptor and the author of the book on International accounting Standards published in New York, titled" WILSEY; IAS 2003". It discussed the findings of a recent research on impact of globalisation on accountancy education and whether differences in accounting education should be regarded as an asset instead of a problem.

The final two sessions were held in next day, chaired by Ndung'u Gathinji, CEO of Ecsafa, Kenya and Lorraine Ruffing of UNCTAD.