How to Revive Indian Economic Growth in Current Scenario: A Progressive Approach

Our economy is going through choppy waters as witnessed in Auto sales, IT collections, small cap carnage and management guidance post quarterly results. Our economy went through a Samudra Manthan in last few years. Poison in form of subdued growth has come out before the intended Amrit. In absence of Mahadev all of us have to bear a part of it. Future NPAs are likely to be lower as Bank lending is without external influence. Banks are better equipped to recover NPAs as IBC has brought fear among defaulters. Fiscal discipline including off budget borrowing is reflected in the journey of inflation from double digit to lower single digit. Subsidies are reaching targeted recipients more efficiently. Tax compliance has improved. RERA has cleaned up real estate sector. All these reforms have come with an adverse impact on growth. Read on….

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Few extra pinches of salt negate effort of the chef in preparing food. Investors and Entrepreneurs sentiment has been similarly impacted by few things.

Indian entrepreneur is *Kalyug's Abhimanyu*. He is born in the *Chakravyuh* to not only fight *Kauravs* (market and competition) but also *Pandavs* (lack of credit, high real interest rates, high tax burden, complex regulations, infrastructure bottlenecks etc.). We must encourage entrepreneurship by accepting genuine business failures. Entrepreneurs need to be trusted and respected for running business, creating jobs and Growth. Investor sentiment is adversely affected by steps like Levy of LTCG despite STT, Surcharge on FPIs, Minimum Public Shareholding norm, higher Margins despite lower volatility, suspension of derivatives settlement, etc.

Good Intentions need to be backed by efficient execution. In 2012 entire country's police force was focussed on removing films from automobiles as it was illegal under Motor Vehicles Act. This order came on a PIL which had good intention to stop crime which

can occur in a car with dark films. However, the execution came with high cost. About 1.5 crore car owners lost more than ₹ 30,000 crore investment in films. Film manufacturers lost business overnight and became NPAs. Hundreds of car mechanics lost jobs. Annual burden on car owners due to increased load on AC in absence of energy saving transparent films is now more than ₹ 7000 crore. The good intention of stopping crime is not achieved yet the cost has to be borne by car owners.

Following steps which by no means are exhaustive are needed in totality and in rapid succession for a turnaround.

- We need to prioritise Growth over Fiscal Prudence & Inflation. Higher Growth will tackle inflation with addition supply and fiscal concern with higher tax revenues. It is better to increase the size of the pie and take a piece than take a bigger piece from the existing pie.

- Growth can't happen without money. Our domestic savings are down by more than 8% over last decade. We have to access global capital for faster growth. With more than $14 trillion of debt in negative yield, we are at a most opportune moment. Instead of FPIs coming for registration to India we should reach out to them and invite them to invest by giving License to Invest anywhere in India. Removal of surcharge for FPIs will be a positive gesture to improve sentiments. Giving FPIs certainty on tax aspects by a decade of policy holiday will be a game changer. Essentially give FPIs "Suswagatam" treatment which Tata Motors got at Sanand while relocating Nano Plant. While getting FPI flows care should be taken to attract long term flows. Becoming part of Global Bond Index will be a good way to attract long term debt flows. Invest foreign debt money in capital assets to tackle valid concerns raised by wise people.

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- Tight liquidity prevailing in banking system since many quarters has become positive from May 19. Markets must be assured of liquidity for a long period of time. Last year same time Repo rates were raised proactively by 50 bps in two parts to control inflation. Cutting Interest rates proactively in large quantum at the borrowers end is precondition for Growth. Transmission of credit is severely constrained with guidelines like PCA, LCR norms and NBFC crisis. Budgetary allocation of ₹ 70,000 crore for PSU bank capitalisation should be released immediately. More growth capital should be made available to PSU banks post Jalan Committee Report for better transmission of credit. We can learn from US Fed, which is managing 7 times bigger economy with less than 6% of reserves held by the RBI. Ignore critics who clap when US announces TARP for their troubled financial sector but advise us not to intervene to help our troubled NBFCs. Launch a TARP equivalent for troubled NBFCs including equity infusion to take majority control and make the management accountable like the US did during sub-prime crisis.

- Launch focused programs such as Operation Milk which made India world's largest producer of milk to settle issues in Real Estate, Automobile and SME sector.

- Our trade deficit with China was more than $ 55 billion last year. Dumping from China is converting our manufacturers to traders. Control trade deficit with China by *sam, dam, dund, bhed* to support local manufacturing.

- We spent $22 billion for import of coal last year, despite having third largest coal reserves in the world. On a war footing, remove all the constraints including judicial requirements from the path of our entrepreneurs to mine coal and other natural resources.

Create Jobs in Jharkhand, Chhattisgarh, and Orissa rather than in Indonesia and Australia.

- We spend tens of billions of dollar for travelling and kid's education abroad. Bring Harvard to India rather than sending our kids to Harvard. ISB and Ashoka University has shown us the way. Unnecessary travel like distributors being taken for joints abroad needs to be discouraged. Encourage Industries for local travel instead of global travel.

> Our trade deficit with China was more than $ 55 billion last year. Dumping from China is converting our manufacturers to traders. Control trade deficit with China by *sam, dam, dund, bhed* to support local manufacturing.

- We spent $9 billion in import of broadcasting equipments. Encourage global manufacturers to set up plants here with the lure of preferential access to domestic market on a FX neutral basis. Not only jobs will be created locally but also precious foreign exchange will be saved. From Apple I- Phone to X- Box there is a big list to capitalise upon.

- Many companies are migrating out of China due to tariff imposed by US. We must target them through large buyers like Amazon and Wal-Mart which have set up a base here. Set targets and rewards like the private sector for such efforts. Let us start with a low target of surpassing Bangladesh in Garment exports and Sri Lanka is Lingerie Exports.

- Multiple levels of taxation on corporates viz. Income Tax, Dividend Distribution Tax and Tax on Dividend Income need to be brought at par with peers. Tax collection process has resulted in capital flight with thousands of families relocating from India. Capital flight needs to be reversed with better tax collection process.

- Apart from lower rates and adequate credit, entrepreneurs need policy predictability. While we need to be aspirational about developed world standards like low pollution and electric vehicles, we need to keep in mind our emerging market income levels. Aspiring for developed world standards will make products and services unaffordable for most Indians.

-The Government has no business to be in business. Incredible set of talent and assets are underutilised in PSUs. The Government is giving away economic ownership and keeping managerial control through current method of divestment. Past success in divestment like Hindustan Zinc, Axis Bank and Maruti had come when Govt. kept economic ownership but gave away managerial control. The List of PSUs for strategic divestment is long from Air India to SAIL. Few Real strategic divestments will convince the market on government's commitment to reform path.

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We are lucky that oil prices are soft despite US-Iran skirmishes and the monsoon is expected to be normal for the season with pick up in rain.

Singular focus on growth, availability of money, respect for market and encouraging entrepreneurship will remove excess salt to make food palatable. ■