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Modi Factor and its Expected Impact on Indian Economy

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Abstract—*The Indian economy is currently passing through a difficult phase. Growth has slowed down and inflation remains high. In the light of India's economic performance in recent years, a frequently asked question is whether India has the potential to grow in a sustained way. After several years, a government with a majority has come to power at the centre lead by Mr. Narendra Modi(former three time chief minister of Gujarat) where the government will not be required to waste its time on management of coalition & its issues and it would be able to concentrate on issues such as Social , Economical , Technological development. The issues relating to Global Economic Meltdown are also being addressed and the global economic environment is improving but not at a pace which is desired by the global leaders. India with other fast growing countries in the world can contribute to the overall increase in global economic growth in the coming years. The experience of the Prime Minister in achieving a good growth in Gujarat in Industrial and Agricultural development is likely to go a big way in replicating this model in several other parts of India.In this scenario, this paperdiscussesthe expected impact of Modi factor on the Indian economy.*

Keywords: *Narendra Modi, Prime Minister,Growth, Inflation, Development, Indian Economy.*

1. INTRODUCTION

The recent economic performance in India caused many concerns among various stake holders and the general sentiments toward new investments and growth moved towards moderation. After holding steady for two years after the Economic crisis, the growth in the Economy had shown signs of tapering and reached its decade low of 4.9%. In therecent past,inflation had shown a rising trend butafter appointment of Mr. Narendra Modi as the Prime Minister of India, inflation has started receding. The lower economic growth in India was due to developments in the Global economy as well as issues relating to Regulation, Environment , increased competition between political parties , increased social / Judicial activism and sensational reporting by media. In 2012, the potential for economic growth was at 10%. The conditions for higher economic growth were very favorable including; low interest rates, robust capital markets, good corporate performance, consensus on national issues between political parties. Due to recent developments and the fast rise in inflation, the potential for economic growth is moderated to 8% now and there is a big gap between potential and the actual performance. The prime minister by taking concerted actions in collaboration with various stake holder groups in the economy aims to achieve 8% growth within a year. According to him "The solutions for accelerating the economic growth are in place and what is required is cooperation of various stake holder groups in achieving this target."India`s faltering economy grew at its fastest pace in over two years in the first financial quarter, as the election of a new right-wing government spurred confidence. India has been seen in its longest spell of sub five-percent growth in a quarter-century.But analysts say the economy appears to be gaining steam after the Bharatiya Janata Party (BJP) `s election victory, powered by increased consumer and investor confidence.Economists surveyed by a daily business newspaper expect the official data will show a 5.8-percent rise in the gross domestic product of Asia`s third-largest economy in the three months to the end of September.That would be a faster than the 4.6-percent expansion logged in the previous three months, and represent the best performance since the July-to-September quarter in 2012."Confidence has lifted with the election result," said Glenn Levine, senior economist at Moody`s Analytics, part of global ratings agency Moody`s Corp."Industrial production is growing at a solid pace and should be mirrored in the cyclical upturn in GDP."Prime Minister Narendra Modi, who took power in May, is perceived as more business friendly than the previous left-leaning Congress government. In July, the finance ministry forecast growth of 5.4-to-5.9 percent for the financial year to March 31, 2015.In the past two years, growth slowed to around half of the near double-digit levels seen a few years ago, hit by high interest rates to curb stubborn inflation, a weaker global economic backdrop and a fall in foreign investment as corruption scandals embroiled the Congress government. Economists say India needs at least eight-to-nine percent growth to create jobs for a ballooning youth population. To help spur growth, Modi has pledged to hasten introduction of a long-awaited goods-and-services tax to replace India`s patchwork of levies that make business transactions more complex and costly. Modi has also been seeking to jumpstart India`s investment pipeline by easing a cumbersome bureaucratic approval process but many big-ticket industrial projects remain stalled by environmental concerns and other factors. The Namo led government aims at adopting and implementing sector wise action plans for the achievement of desired growth.

2. PRIMARY SECTOR: AGRICULTURE AND ALLIED ACTIVITIES

India is one of the largest producers of agricultural produce in the world and it is ranked Number one and two in many products. Agriculture is also contributing to exports in a big way. The productivity in agriculture in many of the commodities is less than half of the best in the world and there is a lot of scope for improving the agricultural productivity. The government is targeting a growth of 4% in Agriculture per annum and if it is considered, the present productivity levels, then India can look at a stretch target of 8% growth in Agriculture and 6% under normal circumstances. Even achieving a growth of 4% p.a. was found to be difficult and there were shortfalls in achieving the target in many years. Few of the states in India, had shown that it was possible to achieve a growth of 8% in agriculture. This growth could be achieved by creating cooperative structures for agricultural produce in all the states, ensuring remunerative price for farmers without any government subsidy and consolidation of land holdings for adoption of automation (under cooperative structure) and adopting the best practices . This could be achieved through creating new organization structures for agricultural management, contract farming, remunerative price to farmers, knowledge sharing and extensive training. By adopting these strategies, the effect will be year on year sharp decline in Agriculture’s share in the overall GDP could be arrested.

Another critical issue is supply chainmanagement in agricultural marketing in India.Farmers' access to markets is hampered by poorroads, rudimentary market infrastructure, andexcessive regulation. Many agricultural crops areperishable in nature and post-harvest handling issuesand marketing problems affect the farm incomes. Itis necessary that India should evolve mechanisms for linkingwholesale processing, logistics, storage and retailing withfarm-production activities so as to generate enhancedefficiency, better farm prices, etc. The private sectorshould be allowed to operate in developing thesemarket linkages for which suitable reforms will help.Recently the government allowed foreign directinvestment (FDI) in retail; it canpave the way for investment in new technology andmarketing of agricultural produce in India.

3. SECONDARY SECTOR

The government has already prepared plans for increasing the contribution of manufacturing from 15% of GDP to 25% of GDP. The government has allowed 100% FDI in Many sectors of the economy and there is an increased liberalization in limits being affected in various sectors of the economy, year on year by the government. Recently the FDI caps in Defense and Insurance were increased and many more such announcements are expected to be made in the near future. One of the reasons for high growth in any sector or industry world over is ensuring the development of a viable Eco system for an industry and availability of inputs (Land, Labour, Capital and Machinery) at affordable and low cost rates. The government’s initiative in developing specific industry focused industrial clusters will ensure the development of a suitable eco system. But for a secular growth for the industry, there is a need to ensure other factors of production are also available at competitive rates. The government is already trying to address the issues of Land and Labour. The government had announced a few policies relating to labour, which should provide flexibility to corporate, optimum utilization of labour. The government is in process of formulating policies to acquire land at competitive rates for industrial and Infrastructure development. There is already an enabling environment for adoption of best technologies from across the world in various sectors of the economy. The IT hardware sector is being given a boost to grow in line with the growth in IT services sector, there is a need to reduce the cost of capital for the investors and also make sure long term funds are available for high capital intensive projects. The mechanism created in the Cabinet secretariat to speed up large projects through Project Monitoring group has started yielding results. Many of the pending projects were cleared by this group and companies have started taking initiatives to speed up the implementation of the cleared projects. Similar mechanism is being contemplated to be set up in various state levels to speech up projects which have capex of less than Rs.1000 cr. There is an enabling environment now to revive the plans for capital projects and capital expenditure. The new push should goad companies to plan for new large projects for expansion of capacity.

The appointment of the new government under Modi's leadership has had a positive confidence effect on the Indian economy. Many of the new initiatives—like "Make in India" he latest policy initiative of the Indian Government “Make in India” is a welcome move and a step in the right direction for the Indian Manufacturing Industry that contributes nearly 22 percent to the country GDP.To create jobs for the nearly 10 million workforces that enters the market every year, the country needs to move away from services driven model to a labour intensive manufacturing driven growth. Over the last decade countries in Indian neighbourhood China and other East Asian countries had developed strong economic models that relied more on exports to develop their automotive

industry as well as pave the way for their rapid economic growth.
Indian government’s latest initiative also aims to follow a similar path. The campaign is aimed at making India a manufacturing hub, and the government is pulling out all the stops for ensuring a smooth sailing for investors, by setting up a dedicated cell to answer queries of business entities. "We should manufacture goods in such a way that they carry zero defects, so that Indian exported goods are never returned . We should manufacture goods with zero effect that they should not have a negative impact on the environment," PM Modi said in his speech on Independence Day.

4. SERVICES SECTOR:

India has the second fastest growing services sector in the world with a compound annual growth rate at 9 per cent, just below China's 10.9 per cent, during 2001 to 2010, as per the recent economic survey. But India's services sector which was growing at a steady rate had shown subdued performance in the last three years. According to new elected government,its revival could be achieved through reforms and speeding up of the policy decision making, a targeted approach with focus on big ticket services.

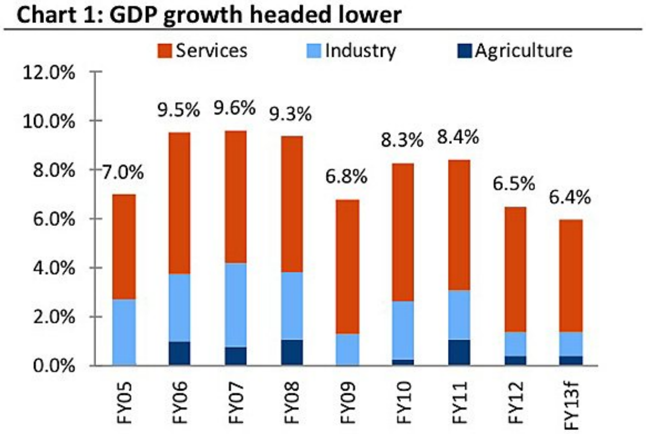
India is reporting fiscal deficit every year and this trend is likely to continue for several years to come. India has got one of the lowest Tax / GDP ratios in the world. Considering the increasing contribution of services to the Indian Economic growth, more and more services are being brought under the service tax net. In the recent budget by the new government, it is projected that the revenue from service tax will exceed the collections from Customs duties and Excise duties. The subsidies given by government are one of the major issues of concern and it was showing a rising trend. The revenue earned by government falls short of the collections on Revenue account and the deficit has to be met by raising resources on capital account. The fiscal deficit was showing a rising trend and drastic measures had to be taken to reduce the fiscal deficit. Now by the policies of the Modi led government the deficit is coming under control, the expectations are that this could be improved further. In the immediate future, the objective is to maintain the present credit rating of India. The new government is planning to undertake measures to improve this rating. Improvement of country rating will help Indian companies to raise foreign funds at attractive rates. Since Indian rating is low today, Indian companies have to pay premium on the funds borrowed from abroad. To shore up the revenues and exercise control on expense, the government has to ensure improved compliance of the tax policies, targeting the subsidies and substantially reducing them; generate resources from underperforming / nonperforming assets of the government including shares in PSU’s and land holding of the government. There is a need to manage the fiscal deficit by exploring all the available options and one major criterion could be considered, i.e., how the options being considered would affect the performance of the Industry and Economy. Before deciding on options, including the change in tax policies and incentives, the socio economic benefits of the new planned policies should be reviewed. In the light of new developments across the world, now India is trying on adopting Macro prudential policies, whereby the policies implemented by government are in synch with the policies implemented by central banks and there is a focus on systemic risk. There is an increased focus on Inflation, Unemployment,and Economic and Industrial growth. In this light, the Fiscal policies being formulated should take care of the interest of all the stake holders in the economy.

Monetary policy: The recent crisis in the world has increased the role of Central banks in ensuring the stability of an economy and the financial services systems. Central banks around the world had played a major role in bringing in the required stability to financial systems and taken the role of close monitoring of economic variables to develop appropriate response. Indian Central bank has played a pioneering role in weathering the global economic storm and brought in policies which ensured the stability of the financial system in India. Going forward, according to the new finance minister of India Mr. Arun Jaitley“the monetary policies should ensure easy availability of credit for good projects at affordable rates”. The monetary policy has to take care of economic growth, employment levels and inflation. There is a need to increase the availability of credit to good projects and reduce the interest rates. The Modi led government also started a banking reform focusing of financial inclusion for all. The program was the “jan dhan yogana” i.e. opening of bank account for entire adult population. This created financial inclusion not only in the rural and poorly developed areas of the country but also created a pool of over Rs. 15000 crores of surplus funds that inflowed into the banking system.

Trade Policy: India has a large deficit today and this is likely to increase considering the fact that the reliance on imported energy is likely to increase going forward. One of the recent initiatives taken by the new government is to encourage exports from India to various other countries in the world (by the introduction of “Make in India” program). Now theIndian embassies based abroad are helping Indian companies to identify the opportunities for exports.

Over the years, India also has become globally competitive in many sectors. India today has emerged as the Global Hub for IT/ITES, Auto and Auto components, Pharma and Bio tech, R& D services and in several others areas. There is a good eco system available in the above sectors to achieve globally competitive standards by Indian companies. Going forward, the government aims to draw up a list of countries with whom India runs a trade deficit and prepare action plans for reducing the deficit with the countries, where the deficit is very high. The government focuses on emerging industries, the emerging entrepreneurs and SME’s to look at the export opportunities and India have to identify few more areas for development including Health, Education,Defense production and others. Achieving higher growth would help the country to increase the global competitiveness in many more products. By increasing the global competitiveness, it should be possible to reduce the trade deficit, which is one of the main concerns for Economic stability. Trade policy of India today enables the foreign companies to invest though FDI in many sectors of the economy. But the FDI received every year by India is still miniscule compared to the FDI received by other countries in the World. There is an increased interest by investors around the world to invest in Indian manufacturing and the government is in the process of making investments in India easier and there will be new announcements regarding Trade facilitation. The requirement of large funds for infrastructure including the plan to develop 100 smart cities is already attracting the interest of investors around the world. The recent budget allowing infrastructure and investment trusts and allowing banks to issue infrastructure bonds will attract more foreign investments.

Chart 1: GDP growth headed lower



Source : CSO, HDFC Sec Institutional Research

5. CONCLUSION

In many sectors of the Indian economy, there are policies which encourage the growth and development. There are issues regarding how they are being implemented. The investors find issues, during project implementation stage. The government has identified, this was one of the major areas of focus and attention is being given to simplifying the procedures in project approval and implementation stage. Future of the Indian Economy is really good. There is a confidence prevailing among both domestic and international investors on the Indian Economy today and these sentiments have to be converted into investments going forward. Considering the interest from investors from all over the world, Indian Economy is poised to realize its growth potential and the Stake holders from various parts of the economy have to play a constructive role in realizing the full potential. On final note, if the problems are solved then the future for India looks bright, India might well become one of the superpowers of the 21 st Century. India country with Potentials for 'sustaining' development. All that is needed is a positive atmosphere, good attitude and correct policies of the government. That builds up confidence in the people. Everything else falls in line - industry, jobs, growth, inflation etc. That's what Modi is delivering. Previous government failed on all those fronts - an atmosphere of corruption, a policy of freebies and an air of superiority over everyone else.

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