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SOCIO-ECONOMIC VOICES

"A White Paper with a Sting in the Tail"

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The present government has published a White Paper on the Indian economy which compares ten years of UPA regime i.e. FY2004 to FY2014 with ten years of NDA regime (FY 2014 to FY 2024). This being an election year the undertone is somewhat combative, however a recollection of the empirical evidences provides an useful learning experience for the future.

According to the White Paper the economy was in a fragile state in 2014. This fragility was created by economic mismanagement, financial indiscipline and widespread corruption. So the key task for the new government was to put the governance system in order as soon as it took over in 2014. Someone at this stage can ask why didn't NDA government bring out a White Paper in 2014?

The current Government's view is- that would have created a stir and shaken the confidence of bankers, investors and institutions. Consequently there would have had a deleterious impact on the economy and markets. Currently, the economic situation is largely under control, in view of the return of macroeconomic stability and investor confidence post covid; the government believes that the time has come to appraise the nation about the developments in the economy and public policy and indicate the road ahead. The paper has three focus areas (1) The macro-environment during financial years 2004 to 2014, (2) the scams, etc. which stymied the development process and created impediments on the supply side of the economy during 2004 to 2014, (3) a turnaround in the economy post 2014 and putting in place an effective governance system.

Coming back to macroeconomic performance during the 2004 to 2014 period, it is important to put the empirical evidence in perspective. According to the white paper "the UPA government inherited a healthy economy ready for more reforms but made it non-performing in ten years." Before we get into the opposing view, it is important to recognise that the economy was growing at 8% in 2004, next four years the economy did quite well. Part of it was due to favourable global conditions, as they say- the high tide, lifted all boats; it happened across emerging economies. Secondly, 'productivity enhancing' measures undertaken in the earlier period helped too. In fact, there was high growth and low inflation during this period. There cannot be any disagreement on that, the global financial crisis appeared on the horizon, the short sighted policy response shook the foundations of the economy. Enhancement of subsidies, widespread entitlement schemes, wage dominant enhancements (6th Pay Commission) and other sops became themes before 2009 elections. The idea of fiscal consolidation a characteristic of 2007-08 budget went out of the window. Consequently fiscal profligacy led to higher inflation and higher interest rate. Some economists have pointed out that the attempt to keep exchange rate overvalued led to widening of trade deficit, as it discouraged both exports and import substitution.

For the common citizen inflation became a major issue, for five years FY10 to FY14 average yearly inflation was 10.34%. Food inflation got affected too due to higher procurement prices and inefficient public distribution system. On the supply side shortage of fuel particularly coal became rampant, so power generation suffered. In fact in the last two years of the UPA regime there was a sharp decline in the index of industrial production (IIP), in 2012-13 the IIP growth was 1.1% and in 2013-14 it came down further to -0.1%.

Another crisis which affected the economy was the banking crisis, interference in the lending decisions of the PSU banks led to sharp increase in non performing assets, bad loans were often not recognised. In a reply to Parliament Estimates Committee Raghuram Rajan as RBI Governor stated that “a large number of bad loans were originated in the period 2006-08.” The white paper points out that another source of vulnerability was growth in ECB (External Commercial Borrowing). ECB rose at a compounded rate of 21.1% during FY2004 to FY2014, making the external sector vulnerable particularly at a time when trade deficit was rising. The cumulative effect of external sector vulnerability led to sharp decline in dollar-rupee rate, the Indian currency depreciated by 36% between 2011 and 2013, when normal yearly depreciation is around 3.5%.

The second part of the white paper attempts to highlight governance failures and scams. These include 'non-transparent auctions of public resources’ like spectrum and coal. In the area of banking, people would recollect “phone banking” had become an issue, political interference in banking decisions was widely prevalent. Another area of concern was discriminatory permission for input of gold by selected premier and star trading houses. The popular outburst against scams led to policy paralysis leading to delays in project implementation and higher project costs.

What has been the nature of turnaround under the NDA Government during the last ten years is the next question, average CPI inflation in the UPA period was 8.2% that has come down to around 5% in the NDA regime. There is greater transparency in fiscal issues, the current government has moved away from below the line expenditure RS. 1.93 lakh crores of bonds (principal+interest) have been paid off during last ten years, these include bonds of oil companies, fertiliser companies and FCI. There has been an improvement in the quality of expenditure, capital expenditure has been prioritised, during FY04 to 1FY4 growth rate (CAGR) for capital expenditure of Government was 5.6%, during FY14 t0 FY24 it went up to 17.6%. The current Government’s fiscal stimulus has been well crafted, budget size increased from 12.2% of GDP in FY19 (pre-covid year) to 17.7% of GDP in FY20 (covid period), yet neither fiscal situation nor inflation went out of hand.

Further market borrowing (G-Sec) has been contained. During FY04 to FY14 it went up by 4.5 times however between FY14 to FY 24 it has increased by 2.6 times. The external sector has been managed conservatively during FY14 to FY24 period, CAD (Current Account Deficit) was -4.8% in FY13 which came down to -2% in 2023. Our foreign exchange reserves at $620 bln are equivalent to 10.8 months of imports, in March 2014 it was equivalent to 7.8 months of import. Rupee today is more resilient. After the taper tantrum in 2013, it depreciated by 14.9%, however after taper 2 in 2021 it depreciated by only 0.7%.

Another area which is of major consequence is banking. The introduction of IBC and certain measures by RBI have improved the balance sheets of the PSU banks. The twin deficit problem which became a hindrance for industrial growth is behind us. Gross non-performing assets as a percentage of gross advances are declining significantly, in September 2023 it was down to 3.2%. The key ratios of the banking system like NIM, ROA, ROE have improved significantly between FY13-14 and FY22-23. On the whole macro stability measures are quite robust, both physical and digital infrastructure (including JAM, etc.) have improved considerably. How these are going to affect per capita income and employment are areas where greater clarity would be welcome.

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