



# Hope with concerns in 2019

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## **Hope with concerns in 2019-Five issues need to be addressed comprehensively if India is to achieve sustained high growth**

- Globally, the growth rate in 2018 was high, particularly in the United States. But strong signs of a trade war emerged, dimming hopes of faster international trade.
- Britain is passing through the pangs of separation from the European Union. Domestically, the first quarter growth rate was high. But signs are not good for the balance of the year.
- The rupee underwent a severe shock as crude oil prices rose, and abated after a fall in oil prices. While prices fell, agrarian distress accentuated.
- Even though the Goods and Services Tax (GST) has stabilised, much will depend on the pickup in the investment rate.
- The international environment is not that conducive for growth in our foreign trade; this will have an impact on our exports and, therefore, growth.
- Perhaps the growth rate will be between 7.2% and 7.5%. Though this may be the highest growth rate of any country, it falls short of our requirements.

### **Major Concerns**

#### **Investment ratio**

- In the final analysis, the growth rate depends on the investment rate and the productivity of capital or its inverse incremental capital-output ratio.
- For ensuring a sustained high growth, we need to raise the investment ratio and keep the incremental capital-output ratio at 4. The Gross Fixed Capital Formation ratio has fallen from 35.8% in 2007-08 to 28.5% in 2017-18.

#### **Banking system**

- An important factor affecting economic growth is the condition of our banking system. Non-performing assets (NPAs), including stressed assets, as a proportion of loans of public sector banks stood at 16.7% as of March 2018.
- As many as 11 public sector banks are under Prompt Corrective Action (PCA). This restricts the lending abilities of these banks.
- Added to this, the non banking financial company (NBFC) system is also under stress.
- Recapitalisation of public sector banks will partly solve the problem. Today, banks are responsible both for short-term and long-term lending.
- Their inability to lend affects the availability of working capital as well as capital expenditures.

### **Employment growth**

- There is a great concern about the inadequate growth of employment. Growth can occur either as a result of increase in investment or because of better utilisation of existing capacity.
- It is growth which is led by new investment that leads to a significant increase in employment. But growth caused by improved efficiency of utilisation of existing capital can lead only to a marginal increase in employment.
- Much of the growth seen in the last few years is of the latter variety. The revival of the banking system depends on a number of factors.
- Thus, even from the point of view of employment, the key factor is the pickup in investment.
- India's external sector has grown and is well integrated with the rest of the world. India's trade in goods and services as a percentage of GDP has grown to 42% of GDP.
- India's balance of payment situation has been comfortable since liberalisation. However, there are vulnerabilities as seen in September-October 2018, when the value of the rupee suddenly plummeted when crude oil prices rose and there were simultaneously capital outflows.
- Strong growth in exports is a must if the current account deficit (CAD) must be at a manageable level. The forecast for world trade and output is not encouraging.

### **Agrarian distress**

- The future growth also depends on the performance of

agriculture. Agrarian distress is widespread.

- Strangely, the fall in prices of agricultural products is in one sense a reflection of our success in raising output.
- The solution to the fall in prices lies in government intervening in the market and buying off the surplus over normal levels.
- The procured agricultural products can be sold by the government in later years when output is low or utilised in any safety net programme.
- Loan waivers are at best short-term solutions. The fundamental problem is one of increasing productivity and enabling farmers to achieve increased output and better prices.
- The average size of landholding is so small that any amount of increase in productivity will not give adequate income. Farmers have to think in terms of consolidation of landholdings so that they can get the benefits of larger size.
- Small farmers will also have to think in terms of higher value-added products like vegetables. A combined attack to increase productivity, consolidate landholdings and improve marketing is needed to assure farmers of better income.
- Thus there are five concerns as we stand at the beginning of 2019.
- These are: raising the investment ratio; putting the banking system back on the rails; employment generation through better growth; enhancing export growth to contain the CAD; and removing agrarian distress by increasing productivity and consolidation of small landholdings.
- These issues need to be addressed comprehensively, if we have to achieve sustained high growth.

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