

MAJOR SHORT-TERM AND MEDIUM-TERM STRUCTURAL CHALLENGES FOR MODI 2.0



EXPERT
VIEW

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With the massive mandate that the National Democratic Alliance (NDA) got in the recent elections, there are also huge challenges ahead for the new government with regard to the economy. It is not clear that the government recognizes that there is distress across all sectors. As I have estimated in August 2018, GDP growth is indeed below 7% for 2018-19. But the big concern is that the slowdown appears to continue even in 2019-20 and we expect the economy to grow at below 7% for the second straight year. Unlike in 2014, in 2019 the economy is facing significant headwinds. Some of them are: rising world oil prices, uncertainty in global trade, growth concerns in the world economy and gloomy monsoon predictions. While the slowdown follows global cycles to some extent, the new government may need to

address the domestic challenges that are of short-term and medium-term structural in nature. Although there are pending issues such as land, labour and administrative reforms, which are long-term issues and may certainly need to be addressed, to revive the economy in the medium term, in my view, three major areas need immediate focus and they are as follows.

Reconsidering the fiscal and monetary policy rules: On the fiscal side, I believe, and it is supported by empirics, that the fiscal rule followed by the government, which does not strictly follow the spirit of the FRBM Act 2003, would not be expansionary (rather it could be contractionary). This is more so when the Finance Bill 2018 has removed the distinction of revenue deficit that allows the government to be more profligate on the consumption side but at the cost of public capital expenditure. In other words, there is a need for improving the quality of public expenditures. More than this, any slowing economy needs fiscal stimulus through taxes that is easily reversible when the economy revives. On the monetary front, what is needed is policies that would encourage savings and not only narrow inflation targets. This is more so when interest rate cuts do not necessarily transmit to higher investments, which has been proved empirically time and again.

Restructuring and strengthening statistical system: On the face of it, this may look a very minor issue for the government. But the fact that economic agents' decisions depend heavily on reliable sta-



The new government must resist from more privatization and merger of public sector banks. PRADEEP GAUR/MINT

istics, a robust statistical system becomes the heart and soul of public policy making. Developments in the last one year or so do suggest that there could be issues, both computational and institutional, that appear to have dented the credibility of official statistics. Having a strong statistical system at an arm's length of government machinery does more good to the government and the people than otherwise. Here, in my view, the recent proposal to merge

the CSO and NSSO and create a new National Statistical Office does not address the current issues that Indian statistics is facing.

Rethink privatization of banks: There is so much clamour from very distinguished economists for more privatization (and mergers) of public sector banks. The new government may want to resist this for one reason. Among the many, the two most successful policy interventions in the last five years are Jan Dhan Yojana (JDY) and direct benefit transfer (DBT). If one

On the fiscal side, there is a need for improving the quality of public expenditure

looks at the role of the private sector in these two interventions, it is highly disappointing. The latest statistics on JDY suggest that private banks have only 3% of these accounts. The story is similar in the case of DBT and other government programmes. Hence, I guess what is important here is to recognize that state-run banks do undertake huge social obligations and should not be compared with private ones. India needs more banks that provide services to the bottom of the pyramid.

In sum, we remain optimistic that there would be recovery in the economy soon with some prudent and pragmatic policies.

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