

## LEGACY ISSUES

A comparison of the economy Narendra Modi will inherit and what Manmohan Singh inherited a decade ago



## MODI EFFECT ON INDIAN ECONOMY

The Modi government took charge at the Centre with a promise to bring about many changes in terms of governance. This created a wave of excitement among the people.

The Narendra Modi government has put together an elaborate economic reforms package in sync with the party's election manifesto.

THE MODI DEVELOPMENT TEMPLATE



- RAM TEMPLE:** To be built within constitutional ambit
- ABROGATION OF ARTICLE 370:** Stakeholders to be consulted.
- UNIFORM CIVIL CODE:** To be drafted keeping in mind the best traditions and harmonizing them with the modern times.
- COW SLAUGHTER:** Legal framework to prohibit the practice
- PRICE RISE:** To set up stabilization fund
- CORRUPTION:** Transparency through e-governance
- FDI:** Not in multi-brand retail, open to it in all other sectors
- GROWTH:** To be addressed on priority, to reverse decade of decay
- INFRASTRUCTURE:** Freight and industrial corridors, rural push
- MINORITIES:** Modernisation of madrasas
- NEW CITIES:** 100 new ones
- TAX:** Rationalisation, end of tax terror
- BLACK MONEY:** To set up task force, amend laws

A "king among kings" is how Anil Ambani, one of India's leading industrialists, described Narendra Modi in January last year, long before the latter entered the race to become the country's next prime minister. After winning the Indian election comprehensively, the business community here is waiting with its arms wide open to embrace Mr Modi. They hope he will be their saviour at a time when the economic growth rate is flagging, investments are dwindling and consumer demand is dropping.

Objectives matter because they alone determine the outcome. The objectives of a leader translate into performance of the organization through specific policies. Because Modi's objective is economic growth and development, and not personal enrichment, one can reasonably expect India's economic fortunes to change.

## ***Effects Mr. Narendra Modi had on Indian Economy within 100 days of being in power***

### **1. Encouraging foreign investors**

Investment by both international and domestic firms has come down over the last few years. Even though foreign direct investment did go up in 2013, the sentiment has largely been skeptical. Some of the steps taken by India in recent years were seen to be unfriendly for foreign businesses. A bitter tax row with Vodafone and policy flip-flops has made investors apprehensive.

And to add to that, India is regularly ranked as one of the toughest places to operate - currently 134th on the World Bank's "ease of doing business" list.

The Union Cabinet has cleared the FDI proposals in the defence and railway sectors. In defence, the investment cap has been raised from 26 percent to 49 percent, while in the railway sector, some projects have been allowed FDI of 100 percent. Considered to be the new NDA government's first major economic reform, the Cabinet Committee on Economic Affairs (CCEA) approved the raising of Foreign Direct Investment (FDI) cap in insurance from 26 percent to 49 percent. This will ensure more capital inflows into the insurance sector. Even as the investment cap is raised to 49 percent, the full management control will remain with Indian entity.

### **2. GDP on the rise**

India's economy expanded at its fastest pace in more than two years in the April-June quarter, revitalized by a decisive political mandate for the Narendra Modi-led BJP and subsequent actions by his government, suggesting that growth may be turning around at long last. India's GDP grew at 5.7% in the first quarter of 2014-15, exceeding expectations. This was the fastest pace since the fourth quarter of FY12, while being dramatically up from the 4.6% rise recorded in the preceding quarter.

Investment activity has gathered pace and reassured consumers have begun to spend again, indicating the worst slowdown in the last decade may finally be over. The GDP growth number, higher than the consensus estimate of around 5.4%, have embellished the Modi government's 100-day report card



Details	2010	2011	2012	2013	2014
<b>Real GDP Growth</b>	9.6	6.9	4.4	5.7	5.5
<b>Inflation</b>	8.5	8	8.2	7	6.2
<b>Consumer Price Index</b>	10.4	8.4	10	7.7	6.6
<b>Wholesale Price Index (WPI)</b>	9.6	8.9	7.6	6.7	6.1
<b>Short-term Interest Rate</b>	6	8.1	7.9	6.6	6
<b>Long-term Interest Rate</b>	7.9	8.4	8.3	8	7.9
<b>Fiscal Deficit (per cent of GDP)</b>	-6.9	-8.2	-8.5	-8.1	-7.5
<b>Current Account Deficit (per cent of GDP)</b>	-2.7	-4.2	-3.2	-3.8	-3.6

### 3. Inflation on a low-down

The inflation rate in India was recorded at 7.96 percent in July of 2014. Inflation Rate in India averaged 9.49 Percent from 2012 until 2014, reaching an all time high of 11.16 Percent in November of 2013 and a record low of 7.31 Percent in June of 2014.



### 4. Sensex on all time high

Sensex extended gains for the sixth straight session and also gained for the seventh straight month, rising the most in May, after the Modi-led NDA government took charge and announced a slew of initiatives that helped improve business sentiment and lifted the economy back on the growth track.

Both the benchmark share indices ended at record closing highs. The 30-share Sensex reached at 27,000 mark after hitting a fresh intra-day high. For the seven months since February 2014, the benchmark index surged nearly 27%. Tracking the momentum, the 50-share Nifty index also breached 8,100 levels for the first time.



### **5. Announcement of Good and Service Tax (GST)**

GST will bring about a change on the tax firmament by redistributing the burden of taxation equitably between manufacturing and services. It will lower the tax rate by broadening the tax base and minimizing exemptions. It will reduce distortions by completely switching to the destination principle. It will foster a common market across the country and reduce compliance costs. It will facilitate investment decisions being made on purely economic concerns, independent of tax considerations. It will promote exports. GST will also promote employment. Most importantly, it will spur growth. GST is expected to simplify and streamline the indirect tax regime. It contains all the indirect taxes levied on goods - including central and state-level taxes. For the taxpayer, it will mean less paperwork and could actually translate into a lower tax burden, as it would remove distortions from the system. Modi government is on a fast paced regime to launch GST by year end.

### **6. Manufacturing sector boom**

On August 15, 2014, Prime Minister Narendra Modi, in his maiden Independence Day speech, appealed to companies around the world to ‘Come, make in India’. From the ramparts of the Red Fort, Modi’s voice boomed from the lectern, urging world powers to ‘Come, manufacture in India’. “Sell in any country of the world but manufacture here. We have got skill, talent, discipline, and determination to do something.

<b>Business</b>	<b>Last</b>	<b>Previous</b>	<b>Average</b>	<b>Unit</b>	<b>Reference</b>	<b>Frequency</b>
<u>Business Confidence</u>	49.90	54.90	58.94		2014-03-31	Quarterly
<u>Manufacturing PMI</u>	52.40	53.00	52.07		2014-08-15	Monthly
<u>Services PMI</u>	52.20	54.40	51.40	Index Points	2014-07-31	Monthly
<u>Industrial Production</u>	3.40	4.70	6.69	Percent	2014-06-30	Monthly
<u>Manufacturing Production</u>	1.80	4.80	6.67	Percent	2014-06-15	Monthly

### **6. Bringing back Black Money**

The first decision Modi Sarkar took after assuming Office was setting up of a Special Investigation Team (SIT), headed by former Supreme Court Judge MB Shah, to unearth illegal money stashed in tax havens. The SIT has already prepared a comprehensive action plan, including creation of an institutional structure that could enable India to fight the battle against black money.

### **7. Bilateral diplomacy**

Prime Minister Narendra Modi’s SAARC diplomacy was indeed a bold step towards creating an atmosphere for multilateral economic cooperation. The common challenges that these nations face have made Narendra Modi create a common agenda of growth with mutual cooperation. During his visit to Nepal and Bhutan, Narendra Modi used the greater Hindu heritage as an instrument of foreign policy. Modi Government has given a strong message to Pakistan by calling off the Foreign

Secretary-level talks after Pakistani High Commissioner to India Abdul Basit met Kashmiri separatists despite clear no from Foreign Ministry. For the first time in India's history, New Delhi under the leadership of Narendra Modi has asserted that it can't be bullied by the pressure from the Kashmiri separatists and various lobbyists. Narendra Modi's ongoing Japan visit underlines the fact that India-Japan Strategic and Global cooperation can shift the balance of power in Asia.

## **8. Stability of Indian Rupee**

The Reserve Bank of India said steadying the rupee to help preserve economic stability has become the priority for monetary policy and that more steps are needed to curb the nation's current-account deficit. The Indian rupee weakened for a fourth consecutive session on Tuesday, dropping the most in three weeks, tracking weaker Asian currencies amid caution ahead of key events including a European Central Bank meeting and U.S. monthly jobs data.

Data showing the April-June current account deficit widening from the previous quarter due to rising imports hit sentiment at first, although traders later said the gap was still within the comfort zone.

The partially convertible rupee closed weaker at 60.68/69 versus Monday's close of 60.5250/5350. The 0.2 percent fall on the day, is the biggest single-day decline since Aug. 13.

Broad gains in the dollar hurt the local unit. The index of the dollar against six major currencies was up 0.3 percent. Most Asian currencies too traded weaker against the greenback. Snapping its four-day losing streak, the rupee recovered by seven paise to 60.61 against the US dollar.

## **9. Infrastructural Development**

*"Economy is bleak without Infrastructure. Hence, the prime focus of my government is Infrastructure." – Shri Narendra Modi*

The focal point of the Union Budget 2014 was infrastructure, a sector which was neglected in the last 10 years under the Congress-led UPA rule. The Government has attracted large-scale investments in infrastructural sector by reviving the Special Economic Zone (SEZ), streamlining the Public Private Partnership (PPP) models and creating Infrastructural Investment Trusts (InvITs). Work for the ambitious Diamond Quadrilateral rail network — connecting major metros across the country — is in the full swing. The Narendra Modi Government has laid the groundwork for its ambitious '100 smart cities' project. To develop infrastructure in rural areas, the Government has launched Syama Prasad Mookerjee Rurban Mission and Deendayal Upadhyaya Gram Jyoti Yojana. The Government is also working on strengthening and modernising the boarder infrastructure.

## **10. Streamlining bureaucracy**

To take administration closer to people and ensure that governance doesn't get stuck in red tape, the Narendra Modi Government is streamlining the bureaucracy with thrust on transparency. The Government has amended the All India Service (Conduct) Rules, 1968. The amended guidelines mandate that the bureaucrats must maintain political neutrality, take decisions and make recommendations on merit alone and take decisions solely in public interest.

## **11. Recasting judicial appointment**

In a path-breaking initiative, Narendra Government has got the National Judicial Appointments Commission (NJAC) Bill passed in both the Houses of Parliament. The Bill scraps the Collegium System of appointment of Judges of Supreme Court and the High Courts and established a six-member body for the appointment of the Judges. The Chief Justice of the Supreme Court will head the NJAC. Besides, the judiciary would be represented by two senior Judges of the Supreme Court. Law Minister and two eminent personalities will be the other members of the Commission.

## 12. Bringing economy back on track

In a bid to arrest inflation, Modi Government asked States to delist fruits and vegetables from the Agriculture Produce Marketing Committee (APMC Act). This decision has protected farmers from the middle men and succeeded in preventing hoarding. This in turn has helped in taming inflation.

With inflation on check, economic growth is picking up steadily. It is important to note that Indian economy has thrown up the best growth figures in two-and-a-half years. The GDP growth in April-June quarter is the highest in the last nine quarters. This is a sufficient indication that economy is turning around under the leadership of Narendra Modi.

Sources: Indiatoday.in, Niticentral.com, Iblnive.in.com, Thehindu.com, Reuters.com, First Post, Times of India, Economic times

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