

# REPAIR AND RECOVER

India's economy is stabilising and growing again. Government must not disturb the process by succumbing to populism on oil

**S**LOWLY AND steadily, the Indian economy appears to be on the recovery path. This is borne out by the Central Statistics Office's latest national income estimates. It shows year-on-year growth in gross value added (basically GDP, net of taxes and subsidies) for January-March 2018 at 7.6 per cent, the highest in seven quarters. More encouraging is growth in gross fixed capital formation (that is, investment). That, at 14.4 per cent in January-March, is higher than even the 9.1 per cent rate for the preceding quarter. But it's not only GDP numbers. Goods and Services Tax (GST) collections in April and May, at Rs 103,459 crore and Rs 94,016 crore, respectively, have been more than the average Rs 89,885 crore figure for 2017-18. These are indicative of not merely green shoots, but of growth taking root with the economy shaking off the disruptive weeds of demonetisation and GST. GST itself has stabilised, as businesses have adjusted to the new indirect tax regime, leading, in turn, to better compliance and revenue buoyancy.

Adding to the optimism is the resolution of many large non-performing asset (NPA) bank accounts under the Insolvency and Bankruptcy Code — those either completed (Bhushan Steel, Electrosteel, Monnet Ispat) or likely to over the next few weeks (Binani Cement, Essar Steel, Ruchi Soya). These resolutions alone should help banks recover over Rs 90,000 crore of NPAs, which is some progress in addressing the so-called Twin Balance Sheet problem. The ongoing repair of both bank and private corporate balance sheets will, sooner or later, also set the stage for a full-fledged investment-led recovery that is necessary for job creation. A roaring economy requires firms to have the capacity and confidence to invest, just as much as for banks to lend. Both these have been lacking for a long time. But now, there is light visible at the end of the tunnel.

At the same time, there are headwinds, too. That includes high oil prices — which, apart from having a cost-push inflationary impact, can also dent private consumption sentiment — rising global and domestic interest rates, a weakening rupee on the back of foreign capital outflows and a widening current account deficit, and continuing pressure on farm incomes. But right now, the tailwinds from a general growth pick-up and improving corporate results, with the worst definitely over with regard to bank NPAs, are probably stronger. The Narendra Modi government should not do anything that can derail the recovery underway. It mustn't succumb to populism on oil, whether through slashing excise duty on fuels or forcing domestic exploration companies to supply crude at below international prices. The Indian economy grew even when global crude prices were at \$ 100-plus per barrel during the United Progressive Alliance (UPA) years. The Modi government would do well to remember that the UPA's ultimate nemesis wasn't oil, but runaway inflation from fiscal profligacy.