

Spurring India's growth

Reserve Bank of India's rate cut is welcome; but it could have put a braver front

There is a line used by Bollywood writers, when an actress does a slightly sensual scene or wears a swimsuit, they call it a 'bold' scene. Maybe they want to attract a lot of men inside the cinema hall, but in these *sanskaari* times, mainstream film-makers are being less bold. After all, playing it safe means that a movie will get a wider release and more people will come into the movie halls. But for some film-makers, showing a bit of creativity and adjusting to rapidly changing social values, being 'bold' is paying off big dividends even today. Indeed, Reserve Bank of India (RBI) Governor, Urjit Patel and his board have played it really safe with the recent cut in interest rates. A 25-basis point cut was widely expected by the markets. All indicators of inflation are falling, and despite some volatility in the prices of tomatoes and onions, prices of staple food items have remained relatively stable as well. Sustained low global oil prices despite the strife in the Middle-East has meant that even fuel inflation has been kept in check. But numbers for the Index of Industrial Production have been cool and worryingly, data from the Centre for Monitoring Indian Economy have shown that far from jobs growth there has been a decline of jobs in both the organised and unorganised

sectors in the Indian economy. Latest data showed in the first four months of 2017, 1.5 million jobs were lost.

The Governor and his board, however, does not feel that it is the cost of capital that is the problem and indeed, Patel does not believe that inflation has been permanently lower. Banks have highly stressed balance sheets, thanks to several stalled large projects. Particularly the energy and roads sectors have been playing it safe — increasing their portfolios in high collateralised sectors such as car loans, this is evident in rising car sales. However, real-estate loans remain depressed due to ridiculous prices and private and public banks remain wary, despite lower rates of lending to large



infrastructure projects. Undoubtedly, there are several large projects that have been classified as non-performing assets because of lack of clearances. That said, while the RBI has a level of justification in their belief, a bigger cut in rates would have possibly spurred some banks to lend to large infrastructure projects. The biggest single challenge facing the Modi Government remains economic growth, without that his aim of creating the 10-15 million jobs required every year will remain a pipe dream. While the Government has taken the lead in promoting major infrastructure projects, on the roads front, Road Transport and Highways Minister, Nitin Gadkari has shown himself to be the most efficient Minister in this Government. It would be unfair to expect that the Government to take the lead on infrastructure as social sector spending is clearly a priority of the Modi Government. Of course, with the full impact of the monsoons yet to be felt in the economy and with other indicators such as car sales and domestic flight numbers growing rapidly, there is still hope for the Indian economy. Maybe once banks manage to clean up their balance sheets, which is Patel's biggest priority, lending could get back on track and so will industrial and jobs growth.