

ON AN EVEN KEEL

Modi government has shored up economic stability.
Now for the leap

THREE YEARS INTO its rule, the Narendra Modi government can claim quite a few successes on the economic front. Prominent among these is macro-stability. The “twin deficits” on the fiscal and external current account, which had almost spiraled out of control during the previous UPA regime, hardly pose significant threats today. Annual inflation rates have, likewise, been brought down to sub-five per cent. A new monetary policy framework explicitly targeting consumer price inflation not more than 6 per cent, and pinning responsibility on the Reserve Bank of India for achieving the same, can certainly be counted as one of the most signal achievements of this government. Commitment to macroeconomic stability that investors see as credible – reinforcing political stability without which tough but necessary reforms cannot be pushed – is, perhaps, the most important reason for the Nifty and Sensex currently trading at all-time highs.

On the reforms side, the record is somewhat mixed. Nobody three years ago thought that the Goods and Services Tax – getting all states to agree to a nationwide and uniform system of taxing commodities on value addition at each stage, as against the present multiplicity of levies making for “one country-many markets” – would be anywhere close to the reality that it clearly is now. The enactment of the Insolvency and Bankruptcy Code is a major step towards reform, allowing for winding-up or restructuring of failed firms through a time-bound, creditor-driven process of resolution and liquidation. Along with initiatives such as the abolition of the Foreign Investment Promotion Board, it signifies a genuine attempt to bolster the country’s “ease of doing business” rankings. There can be a debate on the merits of demonetisation – whether the November 8, 2016 decision was necessary at all. But its collateral benefits – be it in terms of resulting in an expansion in the taxpayer base or giving a fillip to digitisation and complementing the government’s JAM (Jan Dhan-Aadhaar-Mobile) programme to directly transfer subsidies to bank accounts of beneficiaries – may not be small either.

But all this success is diminished by the failure to revive investments and create jobs. The Modi government cannot list too many new factories that have come up during its tenure. Industries from IT to real estate and construction are actually shedding jobs. Worse, banks are saddled with huge non-performing assets, which have shrunk their ability to lend. Reviving investments and generating jobs will be crucial, both economically and politically, in the remaining two years.