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Modinomics 2.0

Clean-up phase is over, this is a budget to expand the Indian economy

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After 5 years of economic expansion, growth has slowed in last few quarters. But fundamentals of the Indian Economy remain stronger than ever-as has been reiterated by many including the IMF chief.

The FM announced her second Budget on Saturday. Any analysis, thus, must start with the long distance travelled in the last six years under careful, unwavering rebuilding of economy by Narendra Modi govt-Modinomics1.0.

Modinomics1.0 commenced with an economy on the brink, with 16 quarters of continuous Inflation, shattered government finances and full blown current account crisis, a broken banking sector reeling under NPAs (real and concealed), sky-high Crony capitalism, rock-bottom investor confidence due to scam after scam, leaky and corruption-ridden subsidies, vulnerable and weak national security, and a big trust deficit.

Modinomics had to deal with all this as also deliver on growth. In addition to the detoxification, PM Modi delivered on growth and structural reforms.

The impact of Modinomics1.0 has been significant.

- NPAs-Congress' gift to the nation-declined from 11.5% in March 2018 to 9.03% in September 2019.
- GDP at $1.9 trillion in 2014 averaged 7.5% in the last five years and is now almost $3 trillion.
- CPI declined from peak of 9.3% in 2013-14 to 3.3% in H1-2019-20.
- The twin deficits-current account and fiscal-have significantly declined 4.7% and 5.7%, respectively, in 2012. CAD is at historic low of 1.5% in H1 2019-20. Central government debt reduced to 48.7% of GDP in 2019, from 52.2%.
- Forex has reached an all-time high of $460 billion and FDI inflows stood at $62 Billion. India has improved its ranking significantly in World Banks Ease of Doing Business Index.

In short Modinomics1.0 has delivered unprecedented macro-economic strength and stability, but with some expected consequences in the short-term.

The clean-up of financial sector via successful in reducing NPAs have made them risk-averse in short-term. The collapse of NBFCs like IL&FS and DHFL has created a gap in the credit markets.

Both these have had an impact on corporate credit, and, therefore, private sector investment has slowed. The NBFC slowdown has also impacted consumer credit and consumption. To a large extent therefore, the current slowdown in investment and consumption can be seen in part as temporary but unavoidable consequence.

Budget 2020 first of the new decade is the first of a series that will move us to a $5-trillion-economy by addressing temporary slowdown. The budget avoids temptation for big-bang type moves. It maintains prudence, given the serious external risks that could still surface. It maintains its fiscal glideslope, but for only a 0.5% slippage.

One of the defining changes under Narendra Modi has been to eschew the Chidambaram-style big-bang budgets-which always left the people with plenty of noise followed by grief. The Modi approach is to move it from a once a year announcement spree to a solid governance and economic roadmap. Budgets now reflect a reporting of state of the economy at that point. While policy action for growth and development are separated from it, and are sequenced as conditions require them.

- National Infra Pipeline worth ₹100 lakh crore over the next 5 years, 9,000 km of economic corridor and Capital expenditure of ₹4.12 lakh crore in BE 2020-21.
- ₹27,300 crores allocated for 2020-21 for development and promotion of Industry and Commerce
- A National Textile Mission and reforms on customs duty that allow textile industry new opportunities
- MSME debt support to revive MSMEs struggling for resolution under IBC.
- Concessional tax rates for new manufacturing units

PSBs approaching the capital market to raise additional capital and expansion. Government listing LIC by IPO. A new financing window for the NBFCs to address liquidity-in addition to credit guarantee scheme. Incentives for sovereign funds investing in infrastructure.

The budget read along with the policy action in recent months on corporate taxation, manufacturing sector incentives, PSB Credit, FDI, disinvestment should boost the confidence of global and domestic investors. Growth should get back into the positive territory in coming quarters and touch 5.5% to 6%.

Some policy concerns remain. Credit markets unfreezing and rate transmission resulting in lower rates remain an issue for RBI. Upon this rests the vector of private sector investment and consumption.

The LIC IPO will be India's biggest IPO ever. It will ensure governance and transparency in India's largest financial company and possibly help transform it into a world-class financial giant. But a successful IPO will be a challenging task. government needs to plan it carefully though and start at earliest to meet the timeline. Recent examples, like Saudi Arabia's ARAMCO shows how complex and difficult the process can be, if not managed properly.

A $5-trillion economy will propel per capita GDP to $3,500. The economy must add an additional $1 trillion of manufacturing and IT needs to grow to about $1 trillion. Financial sector must expand and so too should government's spending efficiency in central schemes. The next 4-6 years are defining years. We are off to a good solid start with Modinomics 2.0 and Budget.