Economic Priorities for the New Government

What is the issue?

With a new government taking office after the General Elections 2019, here is a look at the key economic priorities in the coming years.

What is the current economic scenario?

- The economic scenario of the country is considerably weak.
- The GDP growth in the second half of 2018-19 had fallen to around 6.5%, below the trend growth rate of India (7%).
- IIP contracted to a 21-month low of 0.1% in March, 2019 on the backdrop of weak investment and consumption demand.
- For the 2018-19 financial year as a whole, IIP growth stood at 3.6%, much lower than 4.4% recorded in previous financial year.
- The automobile sector has been witnessing a subdued growth and the passenger car segment saw a decline of 16% in April 2019.
- The FMCG (Fast-Moving Consumer Goods) sector has also been seeing a slowdown in volume growth.
- Consumption demand, which was the bulwark of the economy, has weakened and private investment is yet to show signs of a pickup.
- Evidently, the economy is going through a cyclical downturn.
- The slowing consumption and subdued growth in exports could keep India's growth rate under pressure in the near future.

What should be the focus areas?

- Speeding up the bad loan resolution process under the Insolvency and Bankruptcy Code (IBC) is a key element in the growth revival process.
- In nearly 48% of the cases (or 548 Corporate Insolvency Resolution Processes-CIRPs), resolution could not be achieved within 180 days.
- A total of 362 cases (around 30% of the ongoing CIRPs) surpassed the outer limit of 270 days set out in the IBC.
- Addressing this will boost capital, by freeing up resources for banks to lend further, improve credit availability and support growth.

- Addressing liquidity issues of the Non Banking Financial Companies sector is expected to be another priority.
- A number of NBFCs has put a stop to fresh loan disbursements while many

are on the verge of defaulting on their repayments.

- NBFCs account for a large part of credit disbursal in tier II and tier III towns.
- Notably, the crisis in the NBFC sector threatens to engulf the entire financial sector; its revival is critical for the economy.
- The government is also expected to further step up capital infusion in public sector banks.
- While infrastructure segment has seen a pick up in credit demand over the last 1 year, credit growth for the industrial segment continues to remain weak.
- Private sector investment needs to revive as it may provide the necessary boost to the economy.
- The government expenditure would require a commensurate growth in revenue collections.
- This is an area where the government struggled in the previous financial year.
- Both direct tax revenue and GST revenue have fallen short of the revised budget estimates for 2018-19 by at least Rs 1 lakh crore.
- Going ahead, meeting the already declared direct tax targets for this financial year is going to be a tough task.
- The focus could be more on boosting compliance, simplifying procedures and a move towards inclusion of some of the items that are currently out of GST's ambit.
- Labour reforms did not complete the course mapped out by the government in its first term.
- The labour and employment ministry had drafted four labour codes:

    i. industrial relations
    ii. wages
    iii. social security and welfare
    iv. occupational safety, health and working conditions

- This was done by amalgamating, simplifying and rationalising the relevant provisions of the existing 44 central labour laws.
- However, none of it was enacted through the legislative route.
- Along with implementing this, employment generation, especially of good quality and with decent wages, would be crucial in the coming years.

Source: Indian Express