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A push to macro-economic fundamentals but no quick fixes to growth

Over the last few months, India's faltering growth performance has attracted considerable focus especially when some of the major economic factors continued to be positive like high liquidity, healthy inflows leading to all time capital market highs, improving foreign exchange reserves, and decent monsoons. Even the latest RBI policy maintained that there is an upside risk on inflation while expecting lower growth rates.

Given the growing pessimism, there was an expectation that the policy makers should focus on some of the specific issues like the NPAs, restarting stalled projects and increasing the ease of execution in the economy. The Government has responded by announcing an economic package and it appears that the government is banking somewhat on a fiscal expansion to show results through increase in job availability and economic productivity.

One of the crucial steps is the aggressive INR 2.11 trillion bank recapitalisation plan, part of which is stamped in re-cap bonds while the balance will be transmitted through budgetary support and market debt. While the mechanics of bond-buying are expected to be laid down in the coming months, it is expected that these bonds may pose some liability on the Centre's budget arising out of interest payments. The Government will be hoping that this recapitalisation will restart the credit cycle by making it easier for banks to lend to the economy and therefore restart private investment activity. That said, the speed of transmission may not be as fast as expected by some in the markets and government and will crucially depend on the speed of implementation of this package and on how reassured will the bankers be on their ability to recover loans in future. There is another side too, as concerns may arise on the potential effects on the fisc due to interest payments and pressurise fiscal consolidation measures. Overall, this is a potent step toward strengthening the banking system, however expectations of a rapid turnaround would be ambitious.

Similarly recognizing the need for infrastructural push, the cabinet also approved a plan to develop approximately 83,677 km of roads and highways over the next five years at an expected cost of around INR 7 trillion. This includes a more compelling BharatMala scheme to build highways and economic corridors across the country. We perceive this to be a major commerce booster – an impetus that could help generate jobs and lift the economy, while acting as a pushback against China's unilateral infrastructure initiative under the One Belt One Road (OBOR) project. The project entails connectivity to corridor and feeder routes, development of greenfield expressways and links to major commercial hubs and ports. We believe that this can play out to be a major trade booster and facilitator of international trade, with major focus on northeast and other border states. Another positive can come in through increased logistical efficiency which may be brought close to international standards, providing boost to commercial linkages. Again the impact of this measure is greatly dependent on the swiftness of implementation like issuance of timely contracts, execution and operationalization of agreements assigned etc.

The government has announced what appear to be appropriate steps to push growth with this economic plan, however, one should be careful with expecting a rapid turnaround in economic growth. These and other ongoing government efforts need to be complemented with a corresponding time bound implementation programme. At this juncture, it appears that these measures will help accelerate growth, however, this must not be viewed as a quick fix to current economic weakness. Important to remember that our intention is for sustained high growth that percolates through the economy for inclusive development. These steps are likely to act as a long term accelerator as adjustments to reforms take effect and investment environment improves.

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