



ECONOMIC AND BUSINESS ENVIRONMENT IN INDIA: PROSPECTS AND CHALLENGES

Sudip Bhattacharyya

Retired banker and an educationist and freelance journalist

Kolkata

Abstract

The Indian economy has shown exemplary resilience and withstood the twin whammies of GST and demonetisation. India's elevation into the top 100 in the World Bank's Ease of doing Business (EODB) global rankings from 130 last year is a crucial endorsement of the government's economic policies and reform programs. In a recent survey conducted by Pew Research Centre, 80% of respondents were found satisfied with democracy in India. It also showed that 90% hold a favourable opinion of PM, Narendra Modi. As per TOI dated 1/1/2018, The Edelman Trust Barometer showed that govt. of India recorded a 10% increase in trust levels. According to Fitch, India's projected potential growth is 6.7 per cent, while China and Indonesia jointly rank second-highest, both with projected potential growth of 5.5 per cent per annum.

India has on offer 3Ds- Democracy, Demography (65% youth) and Demand (large market).

Corporate Performance:

For the quarter ended September 30, 2017, results for Nifty 50 companies- (40 others, excluding BFSI and 10 BFSI) have been along expected lines.

There was an 11.2 per cent year-on-year growth in net sales of 40 Nifty50 companies (ex-BFSI), while there was a 10.2 per cent growth in net profit. There was an 11.1 per cent YoY growth in the net interest income (NII) of 10 Nifty BFSI companies, while there was a 26.5 per cent growth in net profit.

If seen from a holistic perspective of the Nifty 50 set, 16 companies have reported earnings above expectation, 10 companies have reported earnings along expected lines, 14 companies have reported mixed numbers and only 10 companies have reported numbers below estimates. M&A activity in India more than doubled year-on-year to reach US\$ 61.26 billion in 2016-17.

Funding: Early-stage start-ups in India are expected to raise US\$ 800 million in 2017, due to greater focus on profitability and sustainable growth, as per a report by InnoVen Capital.

Indian enterprises are expected to raise record funds worth Rs 2.5 lakh crore (US\$ 39.14 billion) from the financial markets with more than 150 companies interested in initial public offerings (IPOs), qualified institutional placements (QIPs), and follow-on public offerings, according to Prime Database.

India's factory activity highest in 5 years: The Nikkei Manufacturing Purchasing Managers' Index, compiled by IHS Markit, rose to 54.7 in December from November's 52.6, marking its fifth straight month above the 50 level that separates expansion from contraction.

The country's manufacturing sector witnessed higher payroll figures in December while the rate of job creation rose to its highest since August 2012. The latest survey showed the new orders sub-index, a proxy for domestic demand, also rose to 56.8 in December, the highest

since October 2016. Foreign demand also expanded at its quickest [pace](#) since June.

Budget: The total projected expenditure of Union Budget 2018-19 is Rs 23.4 lakh crore (US\$ 371.81 billion), 9 per cent higher than previous year's budget, as laid out in the Medium-term Expenditure Framework (MTEF). The fiscal deficit of the Government of India, which was 4.5 per cent of the gross domestic product (GDP) in 2013-14, has steadily reduced to 3.5 per cent in 2016-17 and is expected to further decrease to 3.2 per cent of the GDP in 2017-18, according to the Reserve Bank of India (RBI).

Revenue: The tax collection figures between April-June 2017 Quarter show an increase in Net Indirect taxes by 30.8 per cent and an increase in Net Direct Taxes by 24.79 per cent year-on-year, indicating a steady trend of healthy growth. India's revenue receipts are estimated to touch Rs 28-30 trillion (US\$ 436- 467 billion) by 2019.

Job creation: International Labour Organisation (ILO) released its 2017 World Employment and Social Outlook report and said that Job creation in India is not expected to pick up pace in 2017 and 2018 as unemployment rises slightly. However, comprehensive surveys by NSSO and Labour Bureau established that notwithstanding interstate differences, the average annual rate of growth of job creation at the all-India level, at 3.2% in 2009-2016, exceeded the rate of growth of job seekers, which averaged 2.4%. India's unemployment rate has declined to 4.8 per cent in February 2017 compared to 9.5 per cent in August 2016-says India Brand Equity Foundation (IBEF). According to a study authored by SBI Group Chief Economic Advisor Soumya Kanti Ghosh and IIM Bangalore professor Pulak Ghosh, 590,000 jobs had been generated every month until November in the current financial year. This means that seven million jobs will be created in the formal sector in 2017-18 if one expands the trend on a pro-rata basis.

Start-up: India has retained its position as the third largest start-up base in the world with over 4,750 technology start-ups, with about 1,400 new start-ups being founded in 2016, according to a report by NASSCOM.

Foreign Exchange: Exports growth (30%) rose to its highest since October 2011, helping the trade deficit to narrow to \$13.8 billion. India's foreign exchange reserves stood at US\$ 404 billion as of December 22, 2017. Remittances to India are expected to grow 4.2 per cent to US\$ 65 billion in 2017, making it the largest remittance recipient in the world again.

Govt. Initiative

The Government has progressed on environmental clearances for more than 300 projects and announced an outlay of around USD 8 billion for creating 100 smart cities. Then the six industrial corridors are now showing great progress. Panels have been formed to help fast-track investment proposals, overcome bottlenecks that obstruct the efforts for investing in India and provide consistent efforts in creating investor-friendly environment. The Government of India has recently approved five Foreign Direct Investment (FDI) proposals.

Under the [Make in India](#) campaign, it is expected that the manufacturing sector in the country could reach USD 1 trillion by 2025, with the sector accounting for around 25 per cent of the GDP and creating 90 million domestic jobs. Efforts to promote domestic manufacturing are already

yielding results especially in electronic goods production and consequent employment generation. This is as per Times of India report on 30th December, 2017.

Digitization:

With demonetization, digitization got a much-needed fillip. There has been a surge in digital payments with an 80% increase in value of transactions in 2017-18. The total is expected to touch Rs. 1800 crore.

Digitization will help organisations across various facets of operation, ranging from talent retention in HR, productivity in operations, data-driven decisions in finance, improved customer engagement in sales and so on. Capabilities around analytics, Artificial Intelligence (AI), robotics that have been integrated into Cloud-based offerings are proving hard to emulate using traditional on-premise deployments due to cost, complexity, and skill considerations.

World University Design at Sonipat, Haryana offers country's largest creative course catalogue - 23 specialized UG and PG programs in various design arenas such as design, fashion, communication, visual arts, design and retail management, and architecture. WUD is India's first university dedicated to education in the creative domain.

Kin are the key to business in India and it's no exaggeration. Figures show that two-thirds of listed companies (with market cap above \$50 million) are family businesses. And a whopping 79% of the GDP is contributed by family-owned and run enterprises. Such businesses have been key drivers of job creation and help build lasting institutions, contributing to economic growth both directly and indirectly. It also helps rediscovering the core insurgent mission of the company and rededicating oneself to the cause.

Days Ahead:

- The World Bank has stated that private investments in India is expected to grow by 8.8 per cent in FY 2018-19 to overtake private consumption growth of 7.4 per cent.
- The Niti Aayog has predicted that rapid adoption of green mobility solutions like public transport, electric vehicles and car-pooling could likely help India save around Rs 3.9 trillion (US\$ 60 billion) by 2030.
- Indian impact investments may grow 25 per cent annually to US\$ 40 billion from US\$ 4 billion by 2025, as per Mr Anil Sinha, Global Impact Investing Network's (GIIN's) advisor for South Asia.
- India is to be the 5th largest economy in 2018 and 3rd largest, by 2027, says Centre for Economics and Business Research (CEBR), London.
- World Bank says Indian economy to grow by 7.3% in 2018-19, regain top spot.
- **India's inflation** is likely to average 4% in **2017-18**, sharply lower than the estimate made at the beginning of the financial year of 5.2%, says ADB report

A note of caution:

'Agriculture, forestry and fishing' sector is estimated to record a GVA growth of 2.1 per cent during 2017-18 as against 4.9 per cent in the previous year. This is a drag on the economy and requires immediate attention.

Foreign investment inflows to India rose nearly \$45 billion between April and October, 2017; about 40% of the inflows are short term in nature. Short-term portfolio investors tend to react to

sudden global shocks and withdraw their money from developing countries for safer investment options in developed economies.

NPA

Bad loans of public sector banks stood at Rs 7.34 lakh crore by the end of second quarter this fiscal, a bulk of which came from corporate defaulters, according to Reserve Bank data; private sector banks' non-performing assets were Rs 1.03 lakh crore by September 30. The IMF's Financial System Stability Assessment (FSSA) for India said that overall "India's key banks appear resilient, but the system is subject to considerable vulnerabilities." Marina Moretti, the IMF Mission Chief for India FSSA, said that one of the recommendations is enhancing the supervisory role of the Reserve Bank of India over financial institutions, especially the public-sector banks (PSBs). She called the recapitalisation plan for PSBs announced in October "extremely positive" and said the amount of finance for the plan is "adequate."

Banks and their investors are rejoicing over the potential reduction in stressed loans as corporate bad loan cases are set to get resolved under the time-bound Insolvency and Bankruptcy Code (IBC). Lenders also refer to improvement in the Real sector, which has resulted in fresh slippages of banks reducing in the September quarter. However, the question is whether it will last.

Job creation:

India has this demographic advantage in terms of availability of large youth-force for suitable improvement. The most important task, therefore, would be improving the employability of the youth, and for this, the need is of skilling (including upgrading existing skill-sets) of 500 million individuals by 2022.

Though skill training in the country has improved in recent years, the absence of job linkages is only aggravating the problem of unemployment. Lot of technologies are coming, conventional jobs are squeezed and new verticals are emerging; now what are these emerging opportunity areas to be utilized by this labour-force, these have to be identified and the youth are to be correspondingly trained adequately.

Make in India:

One major plank of present government's developmental strategy is Make in India push. This presupposes availability of adequate export market for such made in India products and services to the extent the domestic market can't absorb. Given that the global economy is expected to grow at 3.2% in 2017, it is not expected to be difficult. Yet, the present status of globalization is one of declining and conservatism (e.g. new restrictions in US visa for IT companies) has staged a comeback. In the past, we have seen strong opposition to outsourcing in some developed country market. Now with Brexit and triumph of Trump materialising, this tendency is likely to be accentuated. Therefore, such an eventuality must be provided for in the scheme of things like Make in India.

The writer is an author and commentator on economic, political and social issues