# Indian Economy – Beware the Nones and Ides of March, or Thereabouts

By Kunal Kumar Kundu

The month of March has been very eventful for India. Results of the elections of the five Indian states were declared on March 6. These were then followed by two national level budgets – the railway budget (a British legacy) on March 14 and the union budget on March 16. Then came the leaked report by CAG (Comptroller & Auditor General) dwelling on the likely loss of government revenue due to faulty allocation of coal mining blocks in India. The first three events were known. The last one was out of the blue.

At a general level, lots of hopes were pinned on the outcomes of the known events. Outcomes that were expected to ensure that the government would be able to restart the stalled reforms process. Not that I was as hopeful, but it never hurts to keep fingers crossed. However, the dampener of an election result (the ruling UPA government being comprehensively routed in the most populous state of Uttar Pradesh), shenanigans associated with the railway budget (one of the more rational railway budget one has come across after a long time that had to be rolled back) and a damp squib (hope being the single common denominator in the government's effort to achieve the various budgeted targets) of a union budget put paid to whatever little hopes that were harboured. The non scheduled event (read the CAG report) could act as the proverbial final nail in the coffin for the struggling economy, atleast in the short term, as all the ills that afflicted the decision making process and impacted the economy reared their ugly heads.

Post the election results, the ruling government went out to bat on an even more treacherous wicket than they had bargained for. Being relegated to a virtual non-entity in the most populous state of UP and being unable to come back to power in Punjab (which has historically always been swayed by anti-incumbency factor) has made the government much weaker than they were before the elections were announced. While they have all along been giving the impression that they are finding it difficult to manage their coalition partners, it looks even more helpless now. As a result, their unmanageable coalition partner (read TMC or Trinamool Congress) became even more viral and have started giving even the actual opposition parties a run for their money. Bringing forth the ghost of encroachment on the federal structure, they have already opposed the National Counter Terrorism Centre (NCTC) and the Jan Lokpal Bill. Earlier they scuttled the Pension Reform Bill and the FDI in retail. The anti-reformist stance of TMC became even more clear when they forced the Railway Minister (who incidentally was part of TMC) to quit because the leader of TMC did not like the idea of railway fares being hiked (after eight years somebody had the courage to do so, more so because the financial condition of railways has been going from bad to worse) as she feels that her vote bank will not like the idea. Subsequently she appointed another minister of her choice who promptly rolled back the fare hike save for the hike affected on more expensive tickets. Indeed as they say (a slightly modified version though) – if you have an ally like this, who needs an opposition.

Not surprisingly, the Union Budget did not have anything politically controversial (hence directionless from an economics point of view). The only statement that can be termed positive was a mention of the much needed goal of achieving fiscal consolidation what with the government committing itself to a fiscal deficit target of 5.1% of GDP during FY2013, though a slightly lower figure would have been welcome. In reality, however, this claim is untenable as the government has been quite optimistic on the revenue collection angle (assuming a real GDP growth of 7.6% with a nominal growth of 14%, disinvestment target of INR300 billion and revenue through auction of 2G spectrum to the extent of INR400 billion) while being very conservative on their cost estimate (prime example being their assumption of oil subsidy bill which is slated to go down by nearly 40% as compared to what it


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is likely to amount to during FY2012, that too given the expectation of elevated levels of oil price if not a runaway spike). The fiscal deficit can even go up to 5.5% of GDP. On the contrary, the budget proposes to make a retrospective change in law to allow authorities to tax cross-border transactions in which the underlying asset is located in India, which opens up a can of worms as some past investments may now be scrutinized.

The above proposal brings to question the very notion of policy stability in the country and hence, darkens the investment climate. Fear was increased further by the leaked report by the CAG on allotment of coal blocks that reeks of corruption – a charge (corruption) the government has been trying to fend off for long, specifically after the previous CAG report on mismanagement during the 2G spectrum allocation process. India's investment climate had deteriorated substantially post that report after India's Supreme Court stepped in to not only punish the guilty but also scrapped all the licenses given out, thereby putting in danger all the investments made by both the foreign and domestic investors. The latest report adds further uncertainty to the business climate.

In essence, the economy seems to have been hit by a triple whammy viz. rising political uncertainty, missing fiscal consolidation and deteriorating investment climate. This, to me is going to have a big impact on the Indian economy in the short to medium term. As a result of which I lowered my growth forecast for FY2013 and FY2014 while upping the inflation expectation.




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