Growth and Investment Outlook for FY19

What is the issue?

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- The GDP growth outlook has recovered to over 7% currently.
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- Nonetheless, there are still some concerns in the investment domain as indicated by the "State Investment Potential Index" report.
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What is the growth outlook?

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- The Indian economy is now growing at over 7% per year despite an uncertain external environment and mixed domestic conditions.
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- Further, all official and private forecasts have projected that the economy will grow at over 7% during FY19.
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- This return to 7% plus growth is quite remarkable as it comes despite monetary tightening in the western world, elevated oil prices, and tariff wars.
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- Though the situation is improving, rainfall is still in deficit in large parts of the economy, but prices have largely stayed stable thus far.
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- The economy has also not yet fully recovered from the shocks of demonetization and the GST, although short term implications have gone.
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What is the investment outlook?

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- Agriculture and the public services segment are the key drivers currently, and both are supply-driven and independent of demand-side.
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- There are clearly limits to such supply-driven growth, as opposed to productivity or demand-driven growth.
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- Excluding agriculture and public services, investment is perhaps the single most important driver, especially when the export outlook is bleak.
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- The quarterly data indicates that the growth of real investment or “gross fixed capital formation” (GFCF) has been rising since 1^{st} quarter of FY18.
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- But the recovery remains weak and the investment rate (GFCF/GDP) remains well below the peak rate of 34.3% achieved in FY12.
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- Revival of the private investment cycle is vital in this context as private investment is the main component of real capital formation.
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How can private investments be revived?

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- Macroeconomic factors like the aggregate fiscal and monetary policy stance are clearly critical for revival of the private investment cycle.
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- Further, structural reforms like GST which apart from strengthening indirect tax compliance has unified India into a common market.
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- Similarly, the Insolvency and Bankruptcy Code (IBC) would help reduce Non-Performing Assets (NPAs) pressure, to reviving private investment cycles.
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- Apart from these macro or countrywide factors, investment conditions in individual states are also critical for private investment.
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- In this context, the NCAER “State Investment Potential Index” (N-SIPI) report released recently was quite revealing.
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What does the report say?

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- Land, labour, infrastructure, credit access, income levels, governance, cost of living, and pollution levels are major domains.
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- Factors such as land policy, efficiency, and prices are critical and states like Telangana, Madhya Pradesh, Tamil Nadu are ranked as best performers.
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- Availability of educated and appropriately skilled workforce and competitive wages are also vital; TN, AP and Karnataka are rated well here.
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- Infrastructure like road density, rail connectivity, and availability of power relative to demand is another significant aspect for investment.
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- Availability of credit is another driver in which Delhi, Punjab, Maharashtra, Haryana, Kerala and Tamil Nadu are ranked at the top.
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- Further, a broad spectrum of parameters like government policy, market demand, as well as levels of per capita income is critical for investments.
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- Governance pillar includes components like the maintenance of law and order, crime, corruption, efficiency of government processes.
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- Tamil Nadu, Haryana, Punjab, and Gujarat, are ranked at the top in this domain, while Telangana and Bihar are rated lowly.
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- On the other hand, concentration of industries can generate negative externalities of congestion, overload, high rental values and pollution.
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- Pulling together all aspects, Delhi, Tamil Nadu, Gujarat, Haryana, Maharashtra, and Kerala are ranked as the top 6 investment destinations.
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What are the other specifics of the report?

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- Some minor differences notwithstanding, the overall classification of performing states is consistent with other ranking exercises.
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- Also, there is significant correlation between the “Ease of Doing Business”

rankings of the Department of Industrial Policy and Promotion (DIPP).
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- Over 86% of respondents said they had no problem acquiring land, while over 68% reported no problem in the availability of skilled labour.
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- On the transition to GST, only 15% of respondents reported it was a severe problem against 56% who reported it was no problem.
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- Though the investment rate is still below its past peak, the investment and growth cycles are beginning to revive.
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- However, the N-SIPI report confirms an emerging pattern of divergence, with some states being left behind, which is of a concern.
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Source: Live Mint

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