'ECONOMY ON AUTOPILOT, WON'T OVERHEAT FOR YEARS'

The Indian economy is now on "autopilot" mode and will grow steadily in the range of 6.5-7% till 2030, even without further reforms, Chief Economic Adviser (CEA) V. Anantha Nageswaran asserted on Friday, adding that the initial assessment of 7.2% GDP growth for 2022-23 could be an underestimate.

Noting that the economy had been prone to 'overheating' after three-four years of strong growth over the past three decades, the CEA said the sound economic policies of recent years meant that India could now grow for a longer period of "seven or 10 or 15 years like China did between 1979 and 2008" without "running into overheating problems".

" The Indian economy... is on a state of autopilot," Mr. Nageswaran said at an interaction with CII members. "If you look at the private consumption, the growth rate since the pandemic has now caught up with the trend if the pandemic had not happened. So, whatever we lost in 2020-21, we have made up already," he added.

Good momentum

While the 7.2% GDP growth estimate for last year was higher than what many expected, Mr. Nageswaran said he was confident that the number would be even higher by the time the final estimates for 2022-23 come in January 2026. "That is the momentum in the economy that we are witnessing that even 7.2% will turn out to be an underestimate and not an overestimate of growth last year," he underlined.

"Between now and 2030, based on what we have done so far without even assuming that further reforms will be done, I can say that we have the potential to grow steadily between 6.5-7% and if we add the additional reforms on skilling, factor market reforms... we can go up to 7-7.5%, and possibly even 8%," Mr. Nageswaran added.

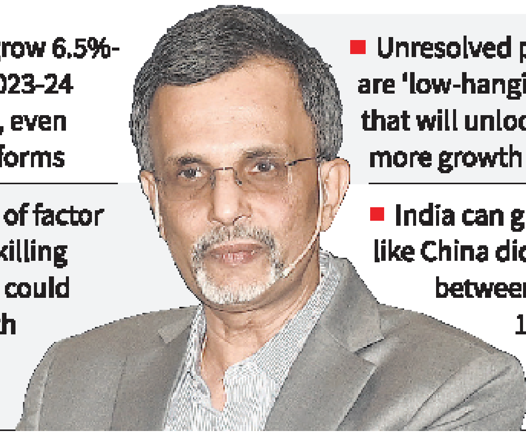
Emphasising that countries of India's size with its per capita income levels will always have challenges, Mr. Nageswaran said there was "lots to look ahead". "The unresolved issues should not be seen as problems but as actually low-hanging fruits, which will further unlock economic growth," he noted.

"In the last 30 years, whenever the Indian economy grew very strongly for three to four years, it used to run into problems, inflation will pick up, imports will go up, the currency will become very expensive, and then we have to take

Growth prognosis

India has bounced back from the pandemic blues, according to Chief Economic Adviser V. Anantha Nageswaran

- GDP to grow 6.5%-7% from 2023-24 to 2029-30, even without reforms
- Unresolved problems are 'low-hanging fruits' that will unlock more growth
- Reforms of factor markets, skilling ecosystem could spur growth to 7.5% or even 8%
- India can grow like China did between 1979 and 2008 from now on



CEA says economy will grow steadily in the range of 6.5-7% till 2030 even without further reforms; he suggests the 7.2% GDP growth estimate for last fiscal could be an underestimate

some drastic action… because if you run a machinery for a long period, it tends to get overheated. That is a law of physics," the CEA said.

"But the speed with which we get overheated was a little too quick in the past. This time, because of all the various good things we did in the last eight to nine years, we feel that the economic machine can run for eight to 10 years without getting overheated.. that is the hope that we have at the moment," he summed up.

UNWAVERING FOCUS

Price stability is a public good and must remain a non-negotiable goal

The Monetary Policy Committee (MPC)'s latest decision, to extend the pause in the Reserve Bank of India (RBI)'s monetary tightening while staying focused on the withdrawal of accommodation, reflects the rate setting panel's reassuring resolve to keep inflation front and centre of its approach to policy. RBI Governor Shaktikanta Das was unequivocal in asserting that "the best contribution of monetary policy to the economy's ability to realise its potential is by ensuring price stability". The MPC's recent unwavering focus on price stability is informed largely by its mandate to achieve the Consumer Price Index (CPI) inflation target of 4%, a goal that it has struggled to actualise right since January 2021 — a period during which inflation remained stuck above or close to the upper tolerance band of 6% in 20 of the 27 months. Mr. Das acknowledged that even as headline inflation had eased appreciably in March and April, slowing to 4.7% in the first month of the current fiscal year from the bruising 6.7% average pace in 2022-23, retail price gains were 'still above the target and expected to remain so according to the RBI's projections for 2023-24'. The MPC, which has forecast CPI inflation to average 5.1% over the 12 months ending in March 2024, is cognisant of the continuing challenges in aligning inflation with the target, given the global uncertainties.

Specifically, Mr. Das flagged the spatial and temporal distribution of rainfall during this monsoon in the wake of El Niño conditions, unabated geopolitical tensions, uncertainty over international commodity prices including those of sugar, rice and crude oil, and the volatility in global financial markets as upside risks to the MPC's inflation projections. Another key factor feeding into the RBI's policy approach is its conviction that macroeconomic fundamentals have strengthened after the unrelenting focus on preserving price and financial stability. To be sure, the increase in credit costs since the RBI started raising its benchmark interest rates in May 2022 appears to have retarded investment and consumption activity last year. Bank credit data show the pace of growth in loans to industry, particularly the MSME and medium sectors, slowed appreciably last year. The sequential contraction in estimated private consumption spending in the fourth quarter of the last fiscal year is also likely to have been, to some degree, a fallout of the higher borrowing costs. Still, as Mr. Das emphasised, policymakers can ill afford to take their eyes off inflation. Price stability is after all a public good and achieving durable disinflation must remain a non-negotiable goal, especially amid widening income inequality and high levels of joblessness.

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'AUSTRALIA SEEKING TO STABILISE, NOT NORMALISE, RELATIONS WITH CHINA'

The outgoing Australian High Commissioner to India, Barry O'Farrell, on Friday said Australia is seeking to stabilise, not normalise, relations with China, which, he added was no different from India's position towards China.

During an interaction with journalists of The Hindu group in Chennai, he said India continued to talk to China for the same reason as that of Australia, which was to resolve bilateral issues as there is a potential that these issues, if unresolved, could worsen and create greater instability in the region.

He was responding to a question on Australia joining the AUKUS and its intention to play a decisive role in the Indo-Pacific region to counterbalance China. He stressed that AUKUS is not an alliance, but a technology transfer agreement. He said Australia supported the status quo in Taiwan.

Asked if Australia would consider restricting export of lithium to China for strategic reasons, he said Australia usually did not do that. "We are a country that has traditionally traded on the basis of people wanting to purchase the goods that we have for offer."

According to Mr. O'Farrell, Australia is trying to put in place secure supply chains for India and Japan for the supply of critical minerals and rare earths and progress is being made on that front with India, especially through Khanij Bidesh India Ltd (KABIL).

The envoy said China closed its borders to a number of Australian products such as beef, barley and wine, while they continued buying other natural resources such as the iron ore. Many Australian businesses, which had overdosed on the Chinese market, learnt a big lesson during COVID-19 that if one were operating in a non-democracy, "the taps can be turned on and the taps can be turned off".

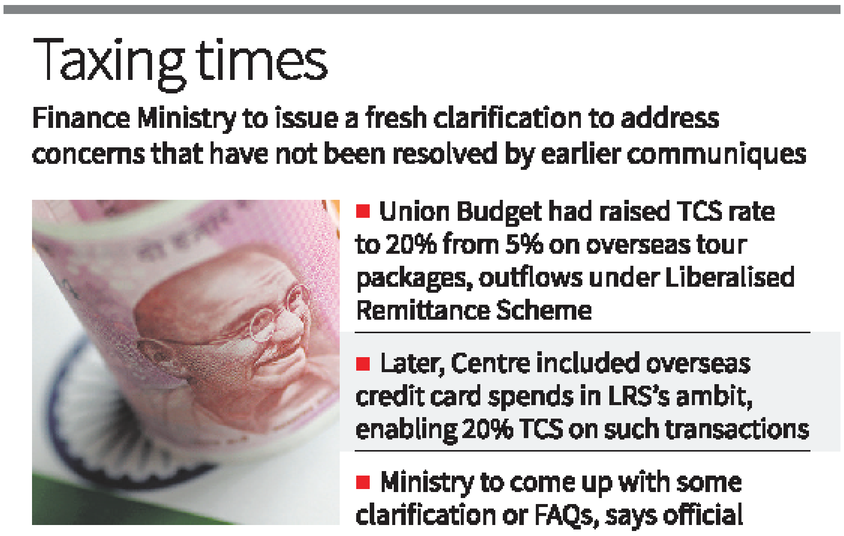
Indian diaspora

Mr. O'Farrell added that though COVID-19 and the trade difficulties Australia faced with China gave an impetus for boosting its economic relations with India, the India-Australia relationship runs deeper and is increasingly influenced by people-to-people links and the Indian diaspora, "which is energetic and ambitious".

"No Premier, no Prime Minister will ever again ignore the India-Australian relationship because of the significance of the Indian community within our political parties, within our community and within our society. And that's a really good thing. And that's in contrast to that other country [China]," he said.

The High Commissioner highlighted that India and Australia had complementary economies, especially considering the fact that the latter is not a huge manufacturing country. He said there was a side deal as part of the Economic Cooperation and Trade Agreement (ECTA) signed last year between India and Australia, which enabled 1,800 Indian chefs and yoga masters to come to Australia a year. Asked if he was hopeful of the Comprehensive Economic Cooperation Agreement between the two countries to be signed this year, keeping in mind that India will be have its general elections in 2024, he said while he was optimistic about it, he understood that free trade deals have to be saleable to the electorates in democracies.

GETTING RAILWAY SAFETY BACK ON TRACK AFTER ODISHA



Finance Ministry seeks to resolve persistent doubts over applicability of new 20% tax collected at source on overseas expenditure; Ministry had issued detailed clarifications in May following outcry from industry and taxpayers over levy

In another bid to address the persistent doubts over the applicability of the new 20% tax levy on overseas spends from July 1, the government will soon issue a fresh clarification to quell the concerns that have not been resolved by earlier communiques, a Finance Ministry official said.

The Union Budget had raised the tax collected at source (TCS) rate to 20% from 5% on overseas tour packages and outflows under the Liberalised Remittance Scheme (LRS) that permits $2.5 lakh dollars a year to be sent abroad. Subsequently, the government included overseas credit card spends in the LRS's ambit, enabling a 20% TCS levy on all such spending abroad.

Facing an outcry from industry and taxpayers on the steep levy, the Ministry had issued detailed clarifications in mid-May and defended the move, before deciding to tweak the provisions by exempting credit and debit card spends of up to ₹7 lakh a year from the TCS requirement.

"Everybody is aware of the issue and we are certainly going to come up with some clarification or FAQs on that and that will clarify the position beyond any reasonable doubt on what and how and in what manner the TCS will be implemented and to what extent a threshold is available on which it is not to be collected," said Raman Chopra, joint secretary in the Department of Revenue. Stressing there has been a lot of discussion in the ministry on the issue, Mr. Chopra assured on Friday that the matter would be clarified "soon".

" At this point of time, I cannot share with you what is to be clarified and to what extent it is to be clarified but it shall be done," he said at a Confederation of Indian Industry (CII) event, when asked how the government would distinguish personal spends from corporate expenses when employees travel abroad for work.

DOMESTIC GDP GROWTH IS ON FIRM FOOTING: SBI ECONOMISTS

The country's largest commercial lender State Bank of India (SBI) said that domestic GDP growth is now on a firm footing with urban demand showing good traction, while lagging rural demand is a cause for concern.

The apex bank has also revised GDP growth marginally upwards from 6.4% to 6.5% for the current financial year.

In its 'Ecowrap' report, SBI said that inflation for the current financial year had been pegged at 5.1% by the central bank, perceived to be above the tolerance band of RBI at 4%.

The inflation trajectory was now conditional on the spatial variation of the monsoon and possible development of El Nino effect.

'Food price dynamics'

The headline inflation trajectory was likely to be shaped by food price dynamics, SBI's economists wrote in the report.

The lender's economists said that the series of rate increases in the recent past had resulted in falling unemployment rate, signifying that the central bank had been able to trim the excess labour demand in the market without a contraction in employment.

They further wrote that the declining current inflation as well as falling inflationary expectations for the next financial year gave a clear signal that the Reserve Bank of India would be able to control the rate of price rise within the tolerance band through the lagged impact of the series of previous rate increases.

A PRAGMATIC APPROACH, FOR BETTER INDIA-NEPAL TIES

Despite daunting challenges to Nepal's democracy, governance and stability and seemingly intractable bilateral irritants, the Prime Ministers of Nepal and India have shown that a pragmatic approach and mutual sensitivity can re-energise bilateral relations.

The Prime Minister of Nepal, Pushpa Kamal Dahal Prachanda's first bilateral visit to India since assuming office in the current term is notable in this sense. Driven by challenges presented by the post-COVID-19 world, current realities as well as huge opportunities, India and Nepal were able to review the entire spectrum of the bilateral agenda covering political, economic, trade, energy, security and developmental cooperation.

Realistic handling of irritants

Prachanda deserves credit for this. He is in a weak position at home as leader of only the third largest party in Parliament, well behind K.P. Oli and Sher Bahadur Deuba, who are waiting to take over from him, not to speak of leaders from smaller parties who are being wooed by the Opposition to cause political instability. Prachanda has shown political courage and probably shrewdly calculated the costs of paying heed to the spectrum of political noises warning him not to be soft and to extract solutions to irritants such as the 1950 Treaty, border differences, and India's reluctance to receive the report of the Eminent Persons Group (EPG) set up by the two governments. Instead, he seems to have listened to the few voices of reason and moderation, and to focus on opportunities to building a better future.

Prachanda has had stints as Prime Minister. In his very first term, as a fiery Maoist rebel-turned political leader, he did give India a few rude shocks, crossing red lines by insisting on visiting China first, or dismissing the Army chief, considered to be a palace loyalist, to which India took strong objection (there was a clear understanding that when the Maoists joined the political mainstream, there would be no interference with the Royal Nepal Army). Later, India too would give Prachanda a few shocks — sending a Prime Ministerial special envoy to urge Madheshi parties not to support Prachanda in order to save his government. But this time round, Prachanda came across as a serious, self-confident and mature statesman.

The Indian Prime Minister, too, has shown sensitivity, for example when he reassured Prachanda that differences on the border issue would be resolved to mutual satisfaction. Neither side tried to justify their official version of the border as the correct one.

Towards economic integration

The visit has helped in underlining the real priorities — the "game changers" which can transform the economic landscape of the sub-region, such as hydropower projects to supply energy to India (and eventually to Bangladesh), infrastructure, access to Indian river transport, innovative tourism circuits, and better connectivity.

In the aftermath of the COVID-19 pandemic, renewed high-level commitment to bilateral cooperation on multiple fronts, with improved deliveries, was necessary. There was unprecedented cross-party consensus when the Mahàkali Treaty, identifying the Pancheshwar Multipurpose Project (PMP), with power stations of equal capacity on both banks of the river, was negotiated, signed and received parliamentary ratification a few years ago, despite political changes in both countries. The finalised Detailed Project Report (DPR) will be submitted to both governments expeditiously, finances arranged and modalities of implementation concluded within one year after their approval of the DPR.

There is a new dimension of cooperation in the power sector with the transmission passage (trilateral power transaction) from Nepal to Bangladesh through India. With new power projects now under implementation or on the drawing board, and the finalisation of an agreement for long-term power trade wherein it was agreed to strive to increase the quantum of export of power from Nepal to India to 10,000 MW within a timeframe of 10 years, an era of prosperity awaits the entire sub-region.

Cooperation for payment, technology

Enhancing digital financial connectivity is another crucial development. The MoU between the National Payments Corporation of India and the Nepal Clearing House Ltd. for facilitating cross-border digital payments, and the Indian offer to create a ground station and supply 300 user terminals to offer the services of the South Asia Satellite to Nepal under grant assistance are important; they would promote regional cooperation in the space sector, and space technology applications in telecommunication and broadcasting, tele-medicine, tele-education, e-governance, banking and ATM services, meteorological data transmission, disaster response and the networking of academic and research institutions.

The real challenge for Nepal is to depoliticise cooperation with India, especially in water resources cooperation, improve the quality of democracy and governance at home, and check unbridled corruption, which is alarming even by South Asian standards. For India, it may be necessary to address the perception in Nepal that it is no longer a foreign policy priority, and to give a sense of ownership, equality and credit for major forward movement in sectors such as hydropower to parties across the political spectrum, rather than only to the government of the day.

Predictably, the Opposition parties in Nepal have termed the visit a sell-out. But they should be made aware of the fact that if there continues to be a steady focus on development — as demonstrated during the Prachanda visit despite possible political instability in Kathmandu — Nepal will find India going the extra mile in meeting its needs and expectations.

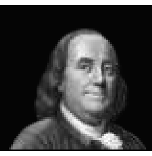
The views expressed are personal

COMPLICATED CASE

With Donald Trump's indictment, the U.S. polity will see further polarisation

The indictment of former U.S. President Donald Trump by a federal grand jury in the investigation by the Department of Justice (DoJ) into his alleged mishandling of hundreds of classified documents creates an unprecedented political situation ahead of the 2024 American presidential election. This is the first time in U.S. history that a federal government is bringing charges against a former President. According to Mr. Trump's lawyers, the Republican party leader faces seven counts of charges, including violation of the Espionage Act and conspiracy to obstruct justice. Prosecutors say Mr. Trump deliberately withheld sensitive documents even after they demanded the return of such papers, which were recovered through a search warrant at his Mar-a-Lago residence in Florida. For Mr. Trump, who assailed Hillary Clinton in the 2016 presidential election campaign over her use of a private server, this is an embarrassing situation. He already faces criminal charges in investigations by the Manhattan District Attorney over the payment of hush money to an adult film actor in 2016. A prosecutor in Georgia is probing alleged attempts by Mr. Trump and his allies to topple the results of the 2020 presidential elections, with charges expected in August. Fresh charges pursued by the federal government will further deepen his legal troubles just when the election campaign is heating up.

If in New York the hush money investigation was initiated by a Democrat attorney, the classified documents probe was by a special counsel appointed by the DoJ, whose head, Attorney General Merrick B. Garland, is a Biden pick. Classified documents were found at the residences of Mr. Biden, former Vice President Mike Pence and Mr. Trump last year. While a separate special counsel probe into Mr. Biden's handling of the classified papers at the time when he was the Vice President is yet to conclude, the DoJ has decided not to seek criminal charges against Mr. Pence, who is challenging Mr. Trump in the Republican primaries. As of now, Mr. Trump is the leading contender for the Republican presidential ticket. So, what makes the indictment politically complicated is that Mr. Trump is not only a former President but also the key potential rival of Mr. Biden, the incumbent, in 2024. Mr. Trump has already seized the political angle, calling the cases a Democratic witch hunt and asking his supporters "not to surrender" the country "to the radical Left". As he seems determined to use the cases for political mobilisation, America's divided polity is set to see further polarisation. Amid this chaos, the DoJ cannot afford to be seen as partisan. It should ensure transparent investigations and build watertight cases based on legal merits.



I didn't fail the test,
I just found Hundred ways to do it wrong.

\- BENJAMIN FRANKLIN

THE NECESSITY OF ELECTRICITY DISTRIBUTION COMPANIES

The Electricity Act 2003 provided the framework for the dismantling of the State Electricity Boards and the separation of generation, transmission and distribution into separate companies. Electricity generation was delicensed, while transmission and distribution remained licenced and regulated activities. Promoting competition, protecting consumer interests, and the supply of electricity to all were key objectives of the legislation.

Under the new regime, a competitive industry structure in generation has evolved. The share of private investment in the creation of new generating capacity has increased rapidly. Competitive procurement through long-term power purchase agreements (PPAs) grew and prices discovered through the market turned out to be lower than anticipated under the earlier cost-plus dispensation for determining tariffs. The impressive growth in renewable power is entirely the result of private investment. Tariff-based bids for the supply of electricity to distribution companies (Discoms) has been the key to the extraordinary success of the National Solar Mission. Further, India now has one of the cheapest rates for solar power supply in the world.

The U.K. model

When the contours of the new law were being discussed, the introduction of full deregulation and competition (like in the United Kingdom in the early 1990s) was advocated by those who believed that we should adopt the latest 'reforms' from the West. In the U.K., a mandatory power pool had been created where all generators submitted bids for the next day, indicating the quantity they could supply along with the price. These bids were stacked in ascending order of price. The price with the quantity at which the total demand indicated by the suppliers would be met became the pool price for electricity. This mimicked the intersection of the supply and demand curves to get the market price. Full retail competition had also been introduced and consumers could choose from among several suppliers who had emerged to serve the market. Though these reform ideas had a strong constituency (including Enron), these were found to be unsuitable for India.

Power was and is being supplied from individual power plants through long-term contracts at prices determined for each. As the plant depreciates, the fixed (capital) cost component in the tariff declines; the older the plant, the cheaper its electricity. Adopting the free market (power pool) model would have meant that all electricity would be sold at the price of the electricity from the most expensive plant at which demand would be fully met. The resultant steep price shock could just not be absorbed. For example, electricity from Bhakra Nangal which was being supplied at a few paise per unit would have had to be sold at over ₹4 a unit then. For decision-makers, such deregulation became a non-starter once the full implications were understood.

The Distribution Licensee (Discom) has the universal service obligation of supplying electricity to meet the full demand of every consumer (existing and new), in its licence area. Therefore, the Discom has the responsibility of projecting demand growth and making arrangements for reliable electricity supply. It does this by entering long-term power purchase contracts. Power-generating capacities have risen rapidly and the power supply position has become comfortable. There has also been the milestone of the completion of rural and household electrification, where discoms have been pivotal.

Open access and cross-subsidy

The Electricity Act gives consumers with a load of 1 MW and above the right to open access, enabling them to buy electricity from whomever they choose to and pay the Discom only for the use of their distribution network and a cross-subsidy surcharge. This cross-subsidy surcharge became necessary as higher-end industrial and commercial consumers pay more and cross-subsidise the lower-end households whose tariffs are less. However, the explicit mandate in the Electricity Act to the State Electricity Regulatory Commissions, to progressively reduce cross-subsidies, remains unimplemented. This has resulted in the cross-subsidy surcharge continuing and acting as a barrier. Not many large consumers are meeting their electricity needs even now using open access. At the margins, generating plants may be able to generate electricity over and above what they are required to supply through their existing contracts; Discoms may have surpluses as well as shortages at different points of time. These can be sold. Power exchanges have come up to enable trading and optimal utilisation of the total generating capacity in the country. The exchange prices are volatile — either a little above marginal cost when demand is modest and shooting up when demand surges, necessitating the imposition of price caps. This is not an unexpected phenomenon as demand for electricity is inelastic.

'Reforms', 'markets', 'competition' and 'consumer choice' have positive connotations. Discoms are seen as the weak link in the supply chain of electricity, with rising cumulative losses and an inability to pay generators on time. The idea of somehow dispensing with the Discoms and letting the free market solve the problems of the power sector appears deceptively simple and attractive.

The problems with Discoms, however, lie in the domain of political economy. Foremost here is the inability of regulators in the States to determine cost reflective tariffs. State governments find it difficult to give timely subsidies as required by law. This underlying problem cannot be solved by implementing some imported reform idea(s). There is the political economy issue of misgovernance and rent seeking in some States where privatisation, as in Delhi, may perhaps be the only solution.

Investment in generating capacity has been taking place primarily on the strength of long-term PPAs with Discoms. Financing, equity as well as debt are de-risked by these PPAs which have the implicit guarantee of the state. The energy transition to renewables is accelerating and the reliability of power supply is increasing. This is based on Discoms projecting demand and entering long-term contracts for meeting increasing demand. Without Discoms this edifice would collapse; and without new investment, we may face power shortages again. It needs to be noted that the exemplar for reformers, the U.K., did not see significant demand growth, and the consequent need for new generating capacity after the new dispensation came into place. However, to drive their energy transition, the state had to invite bids for renewable energy through "contract for differences" which assured successful bidders' payment of the difference between the market price and their bid price whenever the market price fell below their bid price.

The war in Ukraine has led to ironical consequences, emanating from a dogmatic faith in the deregulated market. Electricity prices went up many times due to the inelasticity of electricity demand, government was compelled to give cash support for lifeline consumption, profits of energy companies reached record highs, and government had to impose taxes on their windfall profits. In an earlier era, governments would have considered imposing price controls. Gordon Brown, the former Prime Minister, went so far as to call for temporary nationalisation.

The consequences of implementing the reform idea of doing away with the centrality of the Discom must be thought through. Lessons from the experience of the last year in the U.K. should be analysed. There are no quick-fix easy solutions.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