New Delhi Institute of Management

NDIM DIORAMA

Growth Slowdown - Emerging New Dynamics in India

Volume 3, Issue 4
February, 2020

Chairman's Message

Dr. V.M. Bansal

A year ago no one would have believed that India will be in the midst of a slowdown with one of the biggest and fastest growing middle class population in the world. Recent deluge of articles and commentary on the global and Indian slowdown has made even the common man aware of the difficulties ahead. This scenario makes it important for a business school of NDIM's repute to reinvigorate our students to rise and shine in an environment of volatility and uncertainty. We at NDIM are very proud of our curriculum, faculty and classroom education which gives much importance to making our graduates adapt in changing and challenging situations. Also the co-curricular activities at NDIM are designed in such a way to help students in preparing them with a holistic view about evolving business environment. NDIM's mission is to train the managers of tomorrow which ultimately contributes to the successful India story and our graduates will continue to do that.

Team's Message

Dr. Teena Singh
Consulting Editor

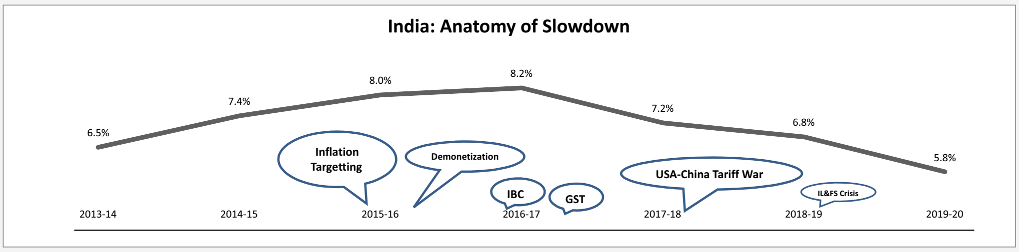
Prof. Atul Rawat
Managing Editor

Niti Aayog Vice Chairperson, Dr. Rajiv Kumar recently quoted the ongoing economic crisis as "unprecedented". According to his evaluation, India is facing such a crisis for the first time in 70 years. The crisis is mainly due to rising NPAs and reforms like:- GST, IBC etc with demonetization like "initiatives" have further exacerbated the crisis. Who is at fault here: the government, the companies or the ongoing trade war or something else?

Looking back, India has come a long way from the bottom of the economic pyramid right after independence to becoming the 5th largest GDP (nominal) with third largest purchasing power capacity after China and USA also dethroning China as the fastest growing economy since 2017. But in the last few quarters the performance has been below expectation. Last quarter's GDP growth rate fell to 5%, the growth in the previous quarter being slightly higher at 5.8%. IMF, World Bank are forecasting current fiscal year GDP growth at below 6%.

The opinions and reasons are mainly pointing towards weak demand at aggregate level. However looking little deep this weak demand tends to be a symptom of a bigger malaise in our economic structure. When we look at manufacturing, our exports have been stagnant in dollar terms for half a decade now, which makes our companies to be totally dependent on domestic demand, a larger share of exports in the world would also increase employment and in turn it will create a virtuous cycle which will increase demand. By protecting our industries with high tariffs we have protected them from competition but at the same time it has decreased our competitiveness w.r.t the other countries. In last few years we have also seen huge imports in electronics which has created huge deficit even with hike in tariffs on electronic products. There was some push lately by Samsung and Apple to open assembly and manufacturing in India but it is like a drop in the ocean.

In this we have tried to look for opinions from academics to corporate to all walks of life to give the readers a comprehensive view what mistakes were made, what lies ahead and the way of this crisis. India is still far behind in taking all its citizens to life beyond poverty, which will require everyone especially the government to rejuvenate development.



The crisis: Is it a slowdown or a recession

Dr. Priyanka Tariyal
Economist, IBC

Recently Puja Mehra (Ramnath Goenka Award winner – 2008 and 2009) has comprehensively detailed how that the current economic malaise originates in 2009 in her book "The lost decade" when governments across the world were countering the negative effects of financial crisis and were not cleaning the pre-existing system. Before the global financial meltdown of 2008, India's economy was thriving and its GDP growth was cruising at an impressive 8.8 per cent. The economic boom impacted a large section of Indians, even if unequally. With sustained high growth over an extended period, India could have achieved what economists call a 'take-off' (rapid and self-sustained GDP growth). The global financial meltdown disrupted this momentum. In the decade that followed, each time the country's economy came close to returning to that growth trajectory, political events knocked it off course. In 2019, India's GDP is growing at below 5 per cent rate, making it one of the laggards in Asia where Vietnam, Bangladesh taking their economies ahead at a much faster rate. Economic discontent and insecurity are on the rise, farmers are restive and land-owning classes are demanding quotas in government jobs. The middle class is palpably disaffected, the informal economy is struggling and big businesses are no longer expanding aggressively. India is not the star it was in 2008 and in effect, the 'India growth story' has devolved into 'growth without a story'. Originally the term "The Lost Decade" or the Lost 10 Years is used to denote economic stagnation in Japan following the Japanese asset price bubble's collapse in early 90s. The GDP fell from $5.33 trillion to $4.36 trillion in nominal terms; real wages fell around 5%, while the country experienced a stagnant price level. While there is some debate on the extent and measurement of Japan's setbacks, the economic effect of the Lost Decade is well established and Japanese policymakers continue to grapple with its consequences.

Slowdown: Economic slowdowns begin with reduced but still positive growth rates and can eventually develop into recessions. Some slowdowns, however, continue to exhibit positive growth rates and are followed by upturns in growth, not recessions.

Recession: With all the information available till now it looks like a manufacturing recession, as auto sector is showing negative growth in sales, which is leading to job cuts, with huge income and overall industrial health implications. A business cycle recovery starts and recession ends when the vicious cycle is broken and a self-reinforcing virtuous cycle begins— with increases in output, employment, income and sales feeding into each other.

As the second quarter growth plummets to 4.5 per cent, a more dis-aggregated reading, though, has a lot more to tell than the headline number. A granular look at the official release will tell us the state of manufacturing is in disarray. The index of industrial production showed contraction in the months of August and September, led by contraction in the manufacturing sector. The slowdown witnessed in demand for durables and non-durables is a testament to the weakness in manufacturing. Industry is banking on a turnaround in the second half, which they hope will help offset some of the losses suffered in the first half. The overall share of investments in the economy has shown a consistent decline over the years. The second-quarter GDP figures show that the investments grew by just one per cent compared to 12 per cent growth in the same period last year.

Countries in recession

	2018	2019
Venezuela	-18%	-35%
Iran	-4.8%	-9.50%
Argentina	-2.50%	-3.10%
Sudan	-2.2%	-2.60%
Puerto Rico	-4.90%	-1.10%
Angola	-1.2%	-0.30%

* GDP growth in%

As per IMF, this subdued growth is a consequence of

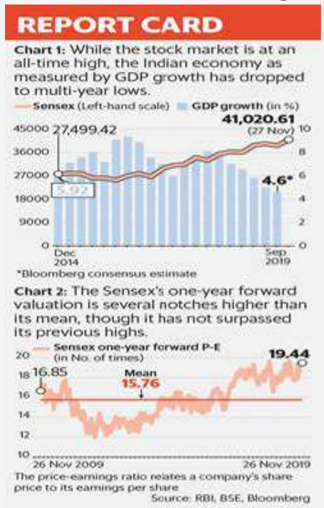
- Rising trade barriers
- Uncertainty surrounding trade and geopolitics
- Idiosyncratic factors in emerging market economies
- Structural factors in advanced economies

GDP growth rate 2019

United States	2.4
China	6.1
Japan	0.9
Germany	0.5
United Kingdom	1.2
France	1.2
India	6.1
Brazil	0.9
Canada	1.5
World	3

Rising Markets and slowing economy

Hemant Gaule
Dean, SCoRe



As we have become submerged with all the negative news on economy, the stock market news is always breaking some record and recently even crossing 42000 level for the first time ever. This is at a time when all economic indicators are pointing towards a major slowdown and corporate India is also perturbed. This simply means the Indian Investors are really forward looking and are very optimistic.

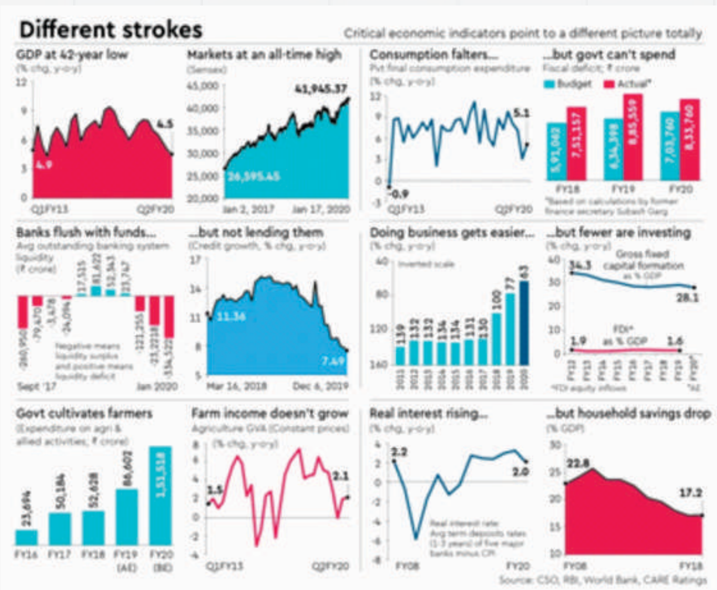
Investors are pouring money on only a hope for a better future and these conflicting ideas about causes confusion in the eyes of academics, students and other observers. But when we look at the ground we see consumption going down, investments down and economic activity index slipping to a 15-year low in September, 2019.Recently the Government of India announced a massive corporate tax rate reduction, but the effect of these policy measures will be very long before the we start it getting on the economic indicators.

The current downturn in the economy is mainly because of structural factors as any economist will tell; i.e India with very low household income is severely affected by Indian economy's inability to create jobs for the burgeoning working age population. On top of these Problems State finances are already stretched and similar to post financial crisis the government will not be able to push in much desired liquidity into the market.

As it is understood now that economy is not in good health, the main reason for high hopes in the equity market is mainly due to the monetary easing by the US Federal Reserve, better-than-expected American GDP data and de-escalation of geopolitical risks. Also another factor is the very low interest rates in some countries and even negative in others. So, naturally, some of this money will find its way to riskier assets like equities in India. In November so far, inflows from foreign institutional investors (FIIs) are at an eight-month high. FIIs bought Indian equity worth $2.54 billion in the month while they were net buyers of $12.49 billion in the year so far. In October, they pumped in $2.06 billion after a sell-off spree from July to mid-September.

A clear Picture

Now to have a complete holistic picture we should realize this optimism of investors is restricted to a few big stocks, as only eight of the 30 Sensex constituents have gained more than 20% in a year, while the benchmark Sensex and Nifty are up 11-13%. The BSE Mid Cap and BSE Small Cap indices have lost 4% and 8%, respectively, in 2019 and investors are buying select stocks with the hope that these will be immune to a large correction when the market sentiment turns. Also another factor to look into is the earnings. So far, earnings have been tepid. The slowdown in the economy means that earnings in sectors such as automobiles, consumer discretionary and some parts of consumer staples will be within the standard range. Orders in a large way have not yet trickled into the capital goods and infrastructure sectors, which means that this portion of the market is not expected to turn up just yet. That leaves only a few domestic consumption stocks to lead the earnings growth, not excluding banking and fast-moving consumer goods firms.



AICTE – CII SURVEY

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Thu, Dec 5, 2019 at 10:48 AM
Dr. Manmohan Singh
To: Chairman2 <chairman2@ndimdelhi.org>

Dear Shri Bansal,

Many thanks for your email message of November 26, 2019. I am very happy to know that New Delhi Institute of management has been declared as the "Best Management Institute of India" for Industry Linkages third year in a row by the AICTE. I write to congratulate you for this achievement.

With kind regards,
Dr. Manmohan Singh
Former Prime Minister

28 Years of Excellence in Educational

Lessons from Iceland & The Great Financial Crisis

Prof. Atul Rawat
NDIM

Shubham Bhatia
Batch 2019-21

Prime Minister Narendra Modi recently called for a focused effort to make India a USD 5 trillion economy in an interaction with economists, sector experts and successful young entrepreneurs ahead of the Union Budget for 2020-21. This will require the country to grow by more than 9 per cent every year for five years continuously and raise aggregate investment rate to 38 per cent of GDP to achieve Prime Minister Narendra Modi's target of turning India into a USD 5 trillion economy by 2025 according to EY. Propelling India into a $5 tn economic behemoth by 2024-2025 seems implausible now as the slowdown is only increasing in intensity. The centre of this quagmire is the reforms meant to clean up $190 billion of stressed bank loans which will be crucial to reviving economic growth. To understand the importance of financial/ banking cleanup we should look at Iceland for some guiding lights where the state Cleaned Up the banking system after financial crisis and became one of the fastest recovering countries post crisis.

Unlike the U.S., Iceland let its banks fail and bailed out lots of consumers. In 2008, both Iceland and Ireland banks went bust, both got bailed out by the International Monetary Fund, and both did austerity afterward. But despite these similarities, Iceland's recovery has been better than Ireland's. Specifically, its economy is 1 percent bigger than it was before 2008, while Ireland's was 2 percent smaller in 2014. That's more surprising than it sounds since Ireland's crisis was merely catastrophic and Iceland's was completely so. But more than that, Iceland is doing better even though—or, for the most part, because—it did everything you're not supposed to. It let its banks fail, it let its currency collapse, and it implemented capital controls--limits on people taking money out of the financial system- that is only now getting ready to lift.

Iceland might have been the most obvious bubble ever. During the mid-2000s, it went from being an Arctic backwater that specialized in fishing and aluminum smelting to an Arctic backwater that specialized in global finance. Iceland's three biggest banks grew to 10 times the size of their economy by offering people overseas, especially in the Netherlands and Britain, higher interest rates than they could get at home. Iceland's banks were not only paying high prices for questionable assets, but also promising to pay their depositors high interest rates. This was about as unsustainable as business models get, and it wasn't that hard to tell. The lesson is that in a crisis—you can get a lot of things wrong and still be okay as long as you default and devalue.

Now coming back to India, as we stumbles through a deep slowdown and a credit crisis, India has gone from being hailed as next China to among the also-rans. Rarely has a major economy had such a humbling turn in fortunes. Much of this comes down to the country's broken financial system. Indian banks struggle with a load of bad loans that's among the biggest in the world. Overextended traditional lenders gave way to shadow banks. One of the most prominent, Infrastructure Leasing & Financial Services Ltd., defaulted last year, setting off a liquidity crisis. While the government took control of the company in an effort to contain the damage, their work was just beginning: Last month, the central bank removed the management of Dewan Housing Finance Corp., a big player in mortgages, and sent it to bankruptcy court.

This slump doesn't have to be the end of India's run. As wrenching as the Asian financial crisis was for the "tiger economies" of Indonesia, Thailand, Malaysia and South Korea, they emerged stronger after painful recessions. Officials bolstered reserves, constrained foreign-currency borrowing and scrutinized debt levels while central banks became more independent. While growth is lower in the aftermath, it's also more sustainable.

India may yet reclaim its mantle as the next big thing, albeit a toned-down and more durable version. The country and the world could be well-served by this brush with reality.

Anurag Goel
PepsiCo

Way out of the Quagmire

As the government is under pressure to deliver growth and rightly described by former Finance Minister P Chidambaram as "most pressing and explosive issue of the day". So what can we propose to the government to ease the slowing economy and bring India back to the fast growth days.

Land Acquisition: Set up transparent processes to determine and alter land zoning, and to register changes in ownership with minimal delay. Also easing acquisition procedures while protecting interests of sellers should be the ultimate goal of state. Digitalization of all land records will be the right starting point especially in the poorest areas of India.

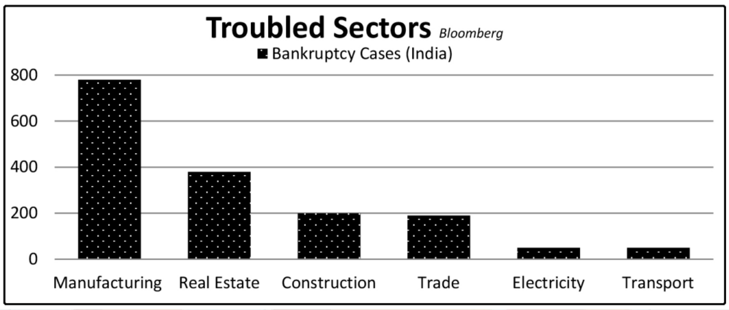
Human Resources: To grow at China's pace and develop a competitive industry will require more flexibility in labour contracts as this have been the area where government have shown willingness but due to vested interests it is not able to do anything.

Decentralization: Empowering states and cities by taking forward 15th Finance Commission recommendations also is important.

Investment: Investors have been running away from India after declaring their huge intentions, which has been mainly due to unstable tax laws and political fighting between various parties. An independent economic watchdog will be able to provide investors confidence that the government won't suddenly change its previous decisions. Insolvency and Bankruptcy code has given a permanence to many issues but still the fight is only half won as we need more policy interventions like this.

India Needs reforms for improving contract enforcement and insolvency resolution *Bloomberg*

Countries	Rank in Enforcing Contracts	Rank in Resolving Insolvency	Over Rank in Ease of Doing Business
Brazil	48	77	109
Russia	18	55	31
India	163	108	77
China	6	61	46
South Africa	115	66	82



Disinvestment: Disinvestment isn't primarily about raising resources by selling public enterprises but also avoiding monopolistic tendencies in the economy.

Power: Ensure power is adequately priced and metered. Encourage competition among power distributors.

Telecom: Preserve sufficient competitors in the telecom sector in the short run. In the longer run, re-examine regulatory processes to ensure a level playing field.

These are some of the areas where government have to push hard and fast if it wants the tag of fastest growing economy back and help Indians out of poverty.

Recovery Channel (Amount in Rs. Crore)	2017-18				2018-19 (Provisional)			
	No. of Cases referred	Amount Involved	Amount Recovered*	Amount Recovered (%)	No. of Cases referred	Amount Involved	Amount Recovered*	Amount Recovered (%)
Lok Adalats	3,317,897	45,728	1,811	4.0%	4,080,947	53,506	2,816	5.3%
DRTs	29,345	133,095	7,235	5.4%	52,175	306,499	10,574	3.4%
SARFAESI Act	91,330	81,879	26,380	32.2%	248,312	289,073	41,876	14.5%
IBC (NCLT Cases)	*704*	*9,929*	*4,926*	*49.6%*	*1,135*	*166,600*	*70,819*	*42.5%*
Total	3,439,276	270,631	40,352	14.9%	4,382,569	815,678	126,085	15.5%

Source: RBI and IBBI

**: Refers to the amount recovered during the given year, which could be with rerence to the cases referred during the given year as well as during the earlier years.*


AICTE-CII Survey of Industry-linked Technical Institutes 2019

AICTE-CII IndPact MENTOR AWARD for Best Industry-Linked Institute for Management (Established)

By virtue of winning this Award in the AICTE-CII Survey for third year in a row (2017, 2018 and 2019) the institute is being elevated to the status of "Mentor Institute" this year

Awarded to

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Chairman
All India Council for Technical Education

Mr Sunil Kant Munjal
Chairman
CII Education Council

The institute has also planted a sapling in AICTE campus and can be identified as per the QR code given on the certificate.

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Articles invited for next issue on the theme of INDIA 2030: Big opportunities, Challenges & Transition

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