



After one year Modi's India has sparks but no boom

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There is lots of sizzle, but where is the steak? Narendra Modi's first year as prime minister of [India](#) has produced lots of ideas and reforms, yet actual [economic outcomes have disappointed](#).

True, Mr Modi can boast that inflation is down from double digits to 5 per cent. The fiscal deficit is falling slowly but surely, and the current account deficit is down. Subsidies on oil are being slashed and controls on diesel prices have been abolished. The current account deficit is down to less than 1 per cent of gross domestic product, from 4.9 per cent in mid-2013. Yet these achievements owe much to the collapse of oil and other commodity prices. Napoleon favoured lucky generals, and would have favoured Mr Modi.

He aims to be friends of both businessmen and the poor. Mr Modi has ordered government banks to open accounts for every family, enabling the gradual transformation of many subsidies and doles into cash paid directly into these accounts, eliminating the corruption and leakages in current anti-poverty schemes.

The previous Congress government was famous for corruption and cronyism, allocating mineral rights and other assets to favoured friends. Mr Modi has changed that completely, holding fair auctions for both radio spectrum and coal mines, and enacting legislation for auctioning other minerals. He seeks massive job creation through a fast-growing economy, so aims to slash red tape and increase public investment in infrastructure. He wants to improve India's rank in the World Bank's Ease of Doing Business index from 142nd position to 50th within five years. He is amending a 2013 land acquisition law that has stalled many projects. He has modestly increased caps on foreign investment in insurance and defence.

Mr Modi has ended the previous regime's paralysis in decision-making, and claims to have cleared stuck projects worth Rs 7tn. Yet there is no big boom yet in capital goods or construction. Indeed, many businessmen complain that too little has changed.

Official statistics report economic growth of 7.4 per cent the year to March, up from 6.9 per cent the year before. But these numbers owe much to a change in the official methodology for calculating output; the old calculations show last year's growth at 5.5 per cent instead. Raghuram Rajan, the central bank governor, is openly sceptical. Ruchir Sharma of Morgan Stanley calls it

“a bad joke, smashing India’s credibility and making its statistics bureau a laughing stock in global financial circles”.

Look, then, beyond the official data. Corporate results have been dismal. The combined net income of 100 firms with a market valuation of more than \$100m were 6 per cent lower in the last quarter of 2014 than a year earlier, according to Reuters. Results for the first three months of this year are still coming out, but have so far been weak. Despite promising to end “[tax terrorism](#)”, the government has retroactively changed the rules on foreign portfolio investors.

Some green shoots are visible. Air traffic is up, truck sales are rising, road building and capital goods are improving from depressed levels. Yet official growth projections of 8.1 to 8.5 per cent this year — which would be the fastest in the world — seem farfetched.

Most investors are encouraged by Mr Modi’s reforms, expecting them eventually to produce a corporate boom. Indicators of business confidence and investment intentions have improved.

Still, the delay is rubbing the gilt off Mr Modi’s electoral image. After his parliamentary victory, he won a string of state elections in 2014. But this February he won just 3 of 70 seats in Delhi, a state where he swept all seven parliamentary seats last year. Voters may not be as patient as portfolio investors.

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