

04:05 PM   28 MAY <b>MARKET STATS</b> ▼	SENSEX <b>35,165</b> ▲ 240.61	NIFTY 50 <b>10,689</b> ▲ 83.50	GOLD (MCX) (Rs/10g.) <b>30,972</b> ▼ -217.00	USD/INR <b>67.43</b> ▼ -0.35	<b>CREATE PORTFOLIO</b>	<b>Download ET MARKETS APP</b>	CHOOSE LANGUAGE ENG
--	----------------------------------	-----------------------------------	---	---------------------------------	-------------------------	--------------------------------	------------------------

# 7 punches of Modinomics that made 'fragile' India a galloping horse

BY ET CONTRIBUTORS | MAY 28, 2018, 08.13 PM IST

Post a Comment

By **Ajay Bodke**

Prime Minister Narendra Modi-led NDA government completed four years in office on May 26. Modi inherited an economy that was derisively scorned by investors -- both global and domestic -- as one of the 'Fragile Five' with a Damocles sword of credit rating downgrade to 'Junk' status.

The last few years of the previous regime were marked by an economy characterised by yawning fiscal and current account deficits, elevated consumer inflationary pressure, a plunging rupee and above all, an unprecedented uproar over crony capitalism. This was evident through assignment of natural resources to a favored few, either on a nomination basis or through a manifest rigging of legally laid-down procedures. The handover of a precariously perched economy to Modi was akin to a poisoned chalice.

Under Modi's watch, the last four years have seen a series of structural reforms that have provided a sturdy ballast to the world's fifth largest (in GDP terms) and fastest growing economy.

Following are Modinomics' seven significant steps that would turbocharge India's economic growth:

1. **GST** is compelling tax compliance, reworking logistics and manufacturing architecture, demolishing trade barriers and fuelling aggregate demand.



Up to 30% Off at restaurants in Mumbai  
DINEOUT



Sign up now for Amazon Business for free!  
Amazon SME

Recommended By Colombia

The biggest indirect tax reform since Independence through introduction of Goods and Services Tax (GST) is revolutionising logistics, distribution and manufacturing architecture of businesses by doing away with sub-scale operational outposts in favour of more efficient, scalable and closer-to-consumer operational hubs.

It is compelling tax evading entities to become part of the taxation ecosystem and propelling a broad shift from unorganised players that thrived on tax **arbitrage** to organised players, thereby enhancing the nation's tax kitty. Most importantly, it is giving a leg-up to aggregate demand by harmonising the rates across all the states by demolishing trade barriers across state borders.

2. **IBC**: Setting up a durable edifice to resurrect India's financially-distressed corporate entities

Indian banking system was characterised by slothful clogging of lakhs of crores of capital lent to companies for projects that had turned unviable. Though some projects -- especially in infrastructure sectors -- hit a roadblock due to lack of environmental, forest and other regulatory approvals or adverse macro-economic headwinds, many others piled on excessive project risk through over-optimistic future assumptions.

Some brazenly gold-plated their project costs by making lenders assume all the risks and having no 'skin in the game'. This lent credence to the abhorrent practice of 'privatising profits and socialising losses'. It is this canker that is sought to be addressed by Modi through the **Insolvency and Bankruptcy Code (IBC)**.

IBC regime has created a transparent, efficient and legally-sound mechanism for resurrecting financially-distressed entities characterised by bloated cost structures (operational and/or financial) into viable, productive entities. A World Bank study points out that in pre-IBC era, it used to take an average of 4.3 years for resolution of a case which now has to be completed within 270 days. An average resolution pre-IBC, yielded creditors just 26.4 paise for every rupee outstanding, which is expected to be bettered and recovered far earlier.

### 3. **Demonetisation:** Force multiplier for financialisation of [Indian economy](#) and bold assault on tax cheats, terror financiers and illicit money hoarders

Another affliction that characterised Indian way of life was excessive reliance on cash ecosystem that has fuelled a parallel economy, depriving Indian citizens of legitimate taxes and posing myriad issues from lack of transparency to heightened challenges to law enforcement and security agencies.

Modi's bold assault on tax cheats, terror financiers and illicit money hoarders through demonetisation has given a strong push to financialisation of the economy. Lakhs of crores of cash hoardings were forced to be deposited into banking channels, making the depositors accountable to regulatory and legal authorities.

This one measure acted as a force multiplier for growth of mutual fund and insurance industries because a significant part of money parked in bank deposits moved through these intermediaries (MFs and insurers) into the equity market. This signal move has led to the deepening and broadening of domestic institutional investors' heft vis-à-vis foreign portfolio investors and created sustainable equity culture among a broad section of domestic retail investors.

### 4. Auctioning of natural resources: From putrid discretionary allotments to cronies to a transparent, competitive and price optimising allotments

One of the first measures by Modi to address the opaque and arbitrary assignment of the nation's precious natural resources to cronies was through introduction of transparent and competitive auctioning process. Natural resources like coal, other minerals, spectrum, land etc are no longer allotted on the whims of discretion. Besides, encouraging competitive spirits and enhancing transparency, it also leads to optimum price discovery benefiting the government and ultimately Indian citizens.

### 5. Removing infra bottlenecks through massive capital investments in roads, railways and power transmission

Large supply bottlenecks were hobbling India's infrastructure sectors like roads, railways, power transmission and the like. Investments in transportation sectors lead to a significant multiplier impact on economic activity over the medium to long term. It provides economic impetus to job creation and growth through faster turnaround time, better connectivity and boosting health and education in the hinterland and far-flung areas.

In each of the last 4 years, the government has earmarked investments of nearly Rs 1 lakh crore each in road and railway sectors.

### 6. Scourge of elevated inflation addressed through Monetary Policy Framework Agreement

Scourge of elevated inflation was another pre-Modi era's hallmark. The present government signed the Monetary Policy Framework Agreement with the Reserve Bank of India (RBI) on maximum tolerable consumer inflation rate that RBI should target to achieve price stability. The government has thus made the RBI responsible through the Monetary Policy Committee (MPC) for containing consumer inflation at 4 per cent -- with a standard deviation of 2 per cent -- in the medium term.

By this measure, Modi has addressed the issue of high inflation that hurts the poor the most and also encouraged long-term capital investments by businesses by ensuring inflationary expectations are well anchored.

### 7. Widening the web of financial inclusion, plugging leakages and enhancing transparency through JAM

Modi has laid massive emphasis on the trinity of JAM ([Jan Dhan Yojana](#), [Aadhaar](#) and Mobile) to enhance financial inclusion, ensure full-proof authentication of the beneficiaries and plug the leakages of money to 'ghost' beneficiaries.

More than 310 million bank accounts have been opened through the Jan Dhan Yojana, three-fifths of them in rural areas with a total balance of Rs 73,690 crore. These account holders get a debit card and access to social security schemes like insurance and pension.

*(Ajay Bodke is CEO and Chief Portfolio Manager (PMS), Prabhudas Lilladher.*

Stay on top of business news with The Economic Times App. [Download it Now!](#)

Powered by

[Live Market](#)  
[News](#)  
[Portfolio](#)  
[Mobile](#)  
[Live TV](#)

[Industry](#)  
[Newsletters](#)  
[Commodities](#)  
[Speed](#)  
[Blogs](#)

[About Us](#)  
[Create Your Own Ad](#)  
[Advertise with Us](#)  
[Terms of Use & Grievance Redressal](#)  
[Privacy policy](#)