Hope on hold

Slow growth rates and policy glitches soured the economic scenario

By Nirmal Sandhu

THE year 2011 saw India's growth wilt. From the initial projection of 9 per cent the GDP growth fell to 6.9 per cent in the second quarter, which is close to the decade's low of 6.5 per cent achieved in 2008-09 following the global meltdown.

Persistently high inflation led the RBI to tighten monetary policy by raising the key rates 13 times since March, 2010, resulting in higher interest rates, lower sales of homes and cars and costlier capital for industry.

High food inflation hits the poor the most and extracts a political price. The Centre came in the line of fire as states showed disinterest. Hoarding, cartels of middlemen and demand-supply glitches remained untouched.

Due to low agricultural productivity the country fails to produce enough to meet the demands of a growing population with rising incomes. With greater awareness about nutrition, more people now consume a protein-rich diet, which pushes up prices of eggs, meat and chicken.

Oil was on the boil and fuelled the inflationary fire. The depreciating rupee raised the cost of importing oil apart from pulses and edible oil. The government has enough stocks of cereals, which rot at places, but are not released in the open market to cool prices.

As the mid-year analysis on the economy tabled in Parliament on December 9 revealed, the government finances were in tatters.

Lower growth meant lower revenue, but the government spending on social welfare is high and will escalate further once the right to food Bill becomes a law.

By Finance Minister Pranab Mukherjee's own admission, the fertiliser, food and oil subsidy Bill is set to exceed the budgetary targets by Rs 1,00,000 crore. Exports appeared robust, but the government figures turned out to be inflated by $9 billion. Fiscal deficit is set to cross the budgetary figure of 4.6 per cent of the GDP to 5.7 per cent, which is one reason why foreign institutional investors are fleeing the country's stock markets.

As the business climate worsened and "policy paralysis" prevailed, top Indian firms chose to invest abroad. Fresh investment, both domestic and foreign, slowed and imports picked up, and the rupee slid to a record low of 54.30 against the dollar on December 16.

To control prices and cut food waste, build a reliable supply chain and strengthen infrastructure, the government opened up multi-brand retail to 51 per cent foreign direct investment. But a united Opposition, backed by some UPA allies, crippled Parliament's functioning, forcing the government to retreat.

With a noisy Opposition disrupting Parliament, legislative work suffered. The Bills on food security, land acquisition, the direct taxes code, pension fund, insurance and aviation have got delayed. The FDI fiasco has left the reformers less enthusiastic about pushing the second-generation reforms. The year-end, however, saw a return of some hope: Food inflation has started easing. The rupee may recover.

THE GLOOM BOOM

Business confidence dipped and the government was caught in a "damned-if-you-do and damned-if-you-don't" bind

ON THE EDGE: India Inc remained cautious in 2011 as most of the corporates lay low in the hope to ride out the storm

By Sanjeev Sharma

IT'S a sense of déjà vu as 2011 is closing at a low for India Inc like 2010 did. Many say that business confidence at the end of 2011 is even lower than it was during the upheaval of the Lehman crisis of 2008. It is ironical that the year was a washout for India Inc, just when India completed 20 years of economic reforms. Industry complained of a policy paralysis in the government, hit by multiple scams and agitations and preoccupied with fire fighting.

On the reforms front, the government was caught in a "damned-if-you-do and damned-if-you-don't" situation. Several Bills were stuck in Parliament, oil sector reforms were opposed and the big setback came when the big ticket reform measure of allowing Foreign Direct Investment in multi-brand retail had to be put in abeyance given the political opposition to it in Parliament. India Inc was deeply disappointed and warned that investor and business sentiment, already quite low, would be hit further.

High crude prices and huge debt tripped the bull run of the "King of Good Times" — Vijay Mallya with Kingfisher Airlines grounding flights and facing a huge debt burden. There was initially talk of a government bailout which was retracted later owing to a huge outcry against doling out taxpayer funds to a flamboyant business baron.

India's most awaited head-hunting search ended with a surprise choice. Cyrus Mistry was chosen as the successor to Ratan Tata as head of the $ 83-billion Tata empire. Mistry is already on the board of Tata Sons and related to the Tata family. Mistry's choice suggests continuity and ensured that an insider is at the helm of affairs for a long period of time.

The humble *chawanni* or 25 paisa coin was phased out. It was only apt that it was discontinued in a year that saw almost double-digit inflation as there was almost nothing that a *chawanni* could buy!

Corporates faced the collateral damage of the 2G telecom scam as for the first time senior and high-profile executives of Unitech, Reliance Communications, DB Realty were in prison for several months and other top honchos were called to the CBI headquarters. Airtel and Vodafone and Essar were also named in fresh FIRs by the Centreal Bureau of Investigation.

BP's acquisition of 30 per cent stake in Mukesh Ambani's, Reliance Industries KG-D6 gas basin for almost $ 9 billion was the standout deal of the year but remained stuck for several months.

The government's stance on decision making became extra cautious in the light of assorted scams floating around and Vedanta's multi-billion dollar acquisition of Cairn was also stuck. The Comptroller and Auditor-General's (CAG) criticism of the Petroleum Ministry and the RIL for development of the gas basin has led to the government holding back future investment approvals. The government's reluctance to take decisions, forget initiating new reforms, was a sore point with industry.

Land acquisition was a thorny issue and the Yamuna Expressway in Uttar Pradesh and the Vedanta project in Orrisa faced local protests. If land was one flashpoint, labour trouble was a worry for Maruti Suzuki. The company faced a series of strikes at its Manesar plant in Haryana, causing losses of more than Rs 800 crore and hurting its market share as other car manufacturers like Honda, Toyota, Volkswagen, Hyundai gained.

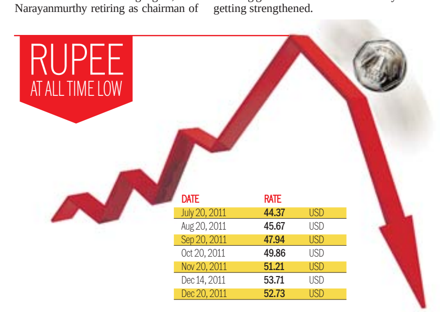
The hot trend of the year was "dieselisation" of cars as disparity between frequently increased petrol and static diesel prices touched Rs 25. As much as 80 per cent of all new cars sold are now diesel versions and there are discussions to increase excise duties on diesel cars to check this trend, which is a ticking time bomb for the oil economy.

The year will also be remembered for one of India Inc's leading lights, N.R Narayanmurthy retiring as chairman of Infosys after spending 30 years and creating one of the country's most respected companies. Since the government was not doing much, industry leaders like Azim Premji, Deepak Parekh and others were regularly making noises that the governance drift and negative mood in the country was killing the India growth story.

For India Inc, problems are only mounting as industrial growth, new investments, stock markets, fund raising and to add its woes, the rupee are at multi-month lows. Demand is weak with households hurt by inflation with auto and real estate bearing the brunt. Profits are under pressure and corporates want to preserve cash and are not investing as the business environment has become vitiated by a flurry of scams and nobody knows where the next one is coming from.

In a world where protests and angst against politicians, big business, rich and powerful is on a high, corporates are lying low and hoping to ride out the storm.

More than the lack of fresh reforms, it is the about-turn and lack of decision making on the existing policies by the government that is spooking business houses. Corporates are also on a weak wicket in times like these having been beneficiaries of what analysts politely call "regulatory arbitrage" or government largesse as seen in the Bellary mines scam and others. They, too, are facing charges of crony capitalism and calls of probity for big business by reducing government discretion are only getting strengthened.



DATE	RATE	
July 20, 2011	44.37	USD
Aug 20, 2011	45.67	USD
Sep 20, 2011	47.94	USD
Oct 20, 2011	49.86	USD
Nov 20, 2011	51.21	USD
Dec 14, 2011	53.71	USD
Dec 20, 2011	52.73	USD

NEWSPICK

The importance of being Cyrus

Tata group's search for a successor ended with 43-year-old Cyrus Mistry being selected as the new head of the $83-billion Tata empire. He was already on the board of Tata Sons and is related to the Tata family. Cyrus is credited with scaling up and diversifying one of India's most valuable private enterprises, the Shapoorji Pallonji Group.

Turbulent times

The "King of Good Times" Vijay Mallya had a difficult year as his Kingfisher airline piled up huge losses and reeled under a mountain of debt. The airline is struggling to pay its fuel bills and staff salaries and even had to cancel several flights and suspended operations of its budget carrier Kingfisher Red.

Growth worries

With projections of 9 per cent falling flat, the year saw the growth rate moderating at 6.9 per cent as economy limped in 2011. Uncertainty in economic environment impacted business and consumer confidence which was reflected in the negative growth of capital goods sector and also the consumer non-durable goods sector. Industrial output growth plunged to a two-year low of 1.9 per cent.

India's gold rush

It was a bull run for the yellow metal prices as these jumped from Rs 20,700 to over Rs 29,000 during the year, thereby making gold one of the most lucrative investments this year. With this, the commodity exchange turnover is likely to touch the Rs 175-lakh crore mark in 2011.