Opinion

SATURDAY, JANUARY 11, 2020

IN DEFENCE...

CPI leader Sitaram Yechury

Defence of India's secular democracy in the face of sinister attacks by RSS/BJP is the task of every patriot. No differences or rivalries at local & state levels should come in the way to defend our Constitution

Tech-ing a brand new turn

Virtual humans to foldable screens, galloping AI/machine learning innovation is unlocking big gains for mankind

IN 2014, ARTIFICIAL intelligence (AI) first passed the Turing test—designed by English mathematician and computer science pioneer Alan Turing in 1950, to check if a machine is capable of thinking like a human. Ever since, many pieces of AI tech have successfully passed the test. With current technology evolving much faster than before, technological innovations are breaching new frontiers every day. The recent Consumer Electronic Show (CES) seemed almost like the future dragged into the present. For instance, Samsung's NEON is a virtual human—actually, an AI chatbot with a human-like avatar that will converse with and learn from users until its 'emotion' and 'intelligence' are indistinguishable from a human's. The world has had digital personal assistants for a long time now, but NEON, Samsung says, won't be one; it will be a virtual human being. What need they serve is an important question. Loneliness, especially among the young, is on the rise in most of the developed world, and technology can play a role in addressing it—OECD data shows that the share of 15-year-olds that feel lonely at school rose sharply between 2003 and 2015, and in the US and UK, nearly a quarter of the adult population have reported feeling lonely or lacking companionship. Chatbots are increasingly being seen as a tool to combat depression, and the NEON avatar may do this better by acting as a friend.

Virtual humans, though, aren't the only talking point in consumer tech. While smartphone makers unveiled foldable phones last year, Dell and Lenovo have showcased laptops that can do the same. Acer last year had launched a dual-screen laptop, but new devices at CES have unity displays where the computer can turn into one giant tablet. Still a proof of concept—and likely expensive—folding screens are going to be the next significant innovation. It also means that as technology advances, tablets are going to lose out. Like point-and-shoot cameras have become redundant with the coming of smartphones—Xiaomi last year launched a phone with 108MP camera—tablets are headed for a similar trajectory if foldable phones can host an 8-9 inch screen. The latest from Samsung's stable has a 7.3-inch display. Although larger screens do translate into higher battery consumption, larger battery capacity would make phones clunkier. Companies, thus, will have to look for more efficient batteries as devices come equipped with more RAM and space. The highest specification in a smartphone, at 12GB RAM and 512 GB space, is already better than low-end laptops.

While smartphones are already increasingly replacing laptops, the pace is going to accelerate further. In the first quarter of 2010, 85 million PCs were sold worldwide, compared with 55 million smartphones. While analysts had predicted smartphone shipments to outstrip PC sales in 2012, this happened much earlier than expected. By the first quarter of 2011, PC shipments had fallen to 82 million whereas smartphone shipments crossed the 100-million mark. By 2018, laptop shipments at 161 million for the whole of the year were less than a tenth of total smartphone shipments. As smartphones look to consolidate the market—Samsung has been pushing DeX, which can turn it into a Windows-like OS—both laptops and tablets are going to lose out. The convergence of devices is finally coming. In the coming decade, there will be fewer screens, but reliance on technology and AI will increase. After all, if your friend and personal assistant can both reside in your phone, why look anywhere else?

Getting Railways on track

Railway Board reforms good, but little on huge subsidies

BIBEK DEBROY, WHO heads the prime minister's economic advisory council, has a fascinating piece (*bit.ly/36DH6Gs*) on how, the Railways was so compartmentalised in its functioning, while the platforms/toilets/waiting-rooms in a railway station were looked after by the civil engineering department, the lights/lifts/fans/water-coolers are the responsibility of the electrical department; he even talks of the wrangling between various wings on whether hot-cases were a better idea to heat food than microwaves. To that extent, railway minister Piyush Goyal has done well to try to put an end to this departmentalism—and silo-thinking—in the Railways by restructuring the Railway Board. The proof of the pudding, of course, is in the eating, so we will know the plan works when decision-making gets faster.

But Goyal needs to keep in mind that, even if the Railway Board revamp delivers over time, he cannot afford to go slow on slashing the huge passenger subsidies. Indeed, when he was power minister, Goyal didn't emphasise as much on raising power tariffs as he did on cutting ATC losses, and that is the reason why the power reforms didn't quite work as planned; indeed, even if ATC losses had come down, the huge subsidies on household electricity usage are cross-subsidised by commercial/industrial users and that makes them uncompetitive.

The recent hike in passenger fares, it is important to keep in mind, were after a gap of five years; given how large the subsidies were, fares should be hiked by a pre-specified amount—say 5% per year—instead of the hikes being episodic. Over the years, the subsidy burden has been increasing, and little has been done to address this and, as a result, operational expenses have increased at a faster rate than revenues; the operating ratio has deteriorated from 90.46% in 2008-09 to 98.44% in 2017-18. While Railways spent ₹97.3 to earn ₹100 in 2018-19—an improvement from 2017-18—this was only due to advance payments of ₹13,000 crore from Concor and NTPC. A CAG report last year pointed out that, had it not been for exceptional assistance like the one from NTPC, the operating ratio would have been 102.66% in 2017-18. While the current hike may help add another few hundred crore to the Railways kitty, this is far from enough.

More important, the current hike excludes the suburban sector, which accounts for a tenth of total subsidy, and has less than half the average revenue per user per km than the non-suburban travel. Debroy had, in 2015, estimated that losses on passenger traffic rose from ₹25,314 crore in FY12 to ₹35,298 crore in FY15, the CAG estimates this rose to ₹39,956 crore in FY17, and all of this was made up by hiking freight rates so much that it is cheaper to move lots of goods via road; that is why the Railways share of freight falls every year. The fact that the dedicated freight corridors will, though, help increase freight earnings, since the Railways can move it faster and also have double-decker containers. On the passenger side, while Goyal has to keep cutting passenger subsidies, the introduction of new trains—including private ones—where higher tariffs can be charged because of their superior amenities will also help.

SailingSHAME

Sulphur waste from ships will remain a problem if open-loop scrubbers are preferred over closed-loop ones

SULPHUR FROM SHIPS' exhaust is a significant contributor to ozone depletion. Thus, when the International Maritime Organisation (IMO) adopted the International Convention for the Prevention of Pollution from Ships (Marpol) Annex VI in 2008—this prohibits deliberate emission of ozone-depleting substances such as sulphur oxides and nitrous oxides by ships—it was hoped that more ships will get fitted with closed-loop scrubbers. Exhaust scrubbers bring down sulphur pollutants in ships' exhaust, and closed loop ones retain the emissions for disposal at the port while open loop ones release the pollutants into the sea after turning them into sulphuric acid.

But, it seems the preference for open-loop scrubbers dwarves that for closed-loop ones—recent data shows that of 3,756 vessels with scrubbers, just 65 have closed-loop. While the IMO approves of open-loop scrubbers, it has strict guidelines of discharge of wash water from exhaust cleaning systems, GlobalData, a data analytics company that put out the numbers, reports. The fact is that it is still uncertain if open loop scrubbers will prove to be sustainable in the long run. While IMO's Suplhur 2020 vision estimates that the capping standards for sulphur content in ships's fuel that came into force from January 1 will lead to a 77% drop in overall sulphur oxide emissions from ships—an annual reduction of 8.5 million tonnes of SOx—if discharge of wash-water remains an unaddressed area, the problem isn't really resolved.

OIL ON THE BOIL

STABLE OIL PRICES WERE ONE OF THE ASSUMPTIONS OF MONETARY POLICY WHICH FOCUSED MORE ON CORE INFLATION. THIS WILL CHANGE AS THE PRICE MOVEMENT BECOMES PERMANENT

What the oil price spike could mean for India

MADAN SABNAVIS

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Views are personal

IT IS ALMOST a stylised fact that a crude oil price shock is an annual feature; and this time, it has struck at the beginning of the year. The shock is always singular as it is caused more by geo-political tensions with Iran being the fulcrum of the controversy for some years now. There was a time when OPEC could move prices given the oligopolistic power wielded by them, but this is passé. With American shale-based oil entering the market and the US becoming one of the largest suppliers, the power of OPEC has gone down to an extent.

The recent imbroglio in Iran has led to the price of crude moving towards $70/barrel and stock markets getting into a tizzy with panic striking across the forex markets. Investors are searching for new havens, and the non-dollar currencies like euro and yen seem to have been preferred to begin with. In such situations, the logical thing to do is to wait and watch, and see if the disturbance is temporary or permanent. If it is the former, then time would be the healer. But, if it is the latter, there could be some implications for us as there is a lot of dependence on imports.

Just how important is oil in Indian economics? The first thing that comes to mind is inflation, as higher oil prices means higher fuel prices, which, with the exception of LPG and kerosene, would be transmitted directly to the consumer. The price of petrol and diesel have moved up immediately as there is no subsidy element and the pricing system is on a daily basis. Curiously, at the macro level, the WPI gets impacted more given the weight of these products. In case of the WPI, the weight of all crude related products is around 10.4%, which means that 10% increase in crude price can potentially lead to 1% increase in WPI inflation. And, given that it is presently moving in the negative terrain, the potential increase can make it positive. In case of CPI, the direct weight is lower at 2.4%, and hence, the inflation impact is moderate even though this would be affecting households directly. This also means that RBI would be less concerned when looking at the monetary policy as the CPI effect would be less bothersome and the WPI effect not really relevant from the point of view of monetary policy.

Oil is also important for the government on both the revenue and expenditure side. On the expenditure side, the subsidy level gets impacted and with the present targeted amount of ₹37,000 crore, there would be an upside risk in case crude oil price remains high for a prolonged period of time. Therefore, the FY21 budget would be watchful of this phenomenon as it would be drawn on the basis of an assumption of crude oil price, which if higher than $65/barrel will enter the budgetary numbers. A higher provision has to be made in case the government is keen to not let market prices increase for these products.

On the other side, the higher crude price is good for the government as there is a lot of revenue to be earned. The effective duty/taxes levied on petrol works out to almost 100% while that on diesel is between 65-70%. These duties are outside the ambit of the GST, and consciously so, as there is a lot of revenue to be earned by the government. In FY19, the central government earned around ₹3 lakh crore and the state government around ₹2.3 lakh crore. Clearly, such revenue would end in case these products came under the GST, as the highest slab is 28%, which is much below what is being levied today.

In fact, even if the rate is fixed at say 67% for both the products, this would not work well with the government as the *ad valorem* rate would mean lower collections in case crude oil prices declined. Therefore, there is an incentive to keep these products out of the purview of GST. It has always been defended on grounds that these products are essential to the consumption basket of the common man, though diesel does enter the transportation costs of goods that are finally passed on.

> **Crude oil is not as potent a factor in distorting the trade balance, and hence, current account, and eventually the balance of payments position**

The other direct impact is on the trade deficit. Crude oil has progressively become less important in the Indian trade basket with this share now being less than 30%. This is so because of various factors. There has been a movement towards alternative fuels which, though marginal today, would expand. CNG has already caught on for vehicles in some metro cities. Second, the slowdown in the economy has meant that there is less demand for fuels, which is getting reflected in the declining share in the import basket. Third, the lower demand for autos has meant that even in future there would not be exponential growth in consumption of oil products. Therefore, crude oil is not as potent a factor in distorting the trade balance, and hence, current account, and eventually the balance of payments position. The oil intensity of growth across the globe has been coming down, which in a way, is a threat to the future of countries that are fully dependent on oil.

With the impact on trade deficit unlikely to be very stark, the rupee should continue to move based on fundamentals which remain strong, mainly due to the strong capital flows witnessed so far this year. Therefore, the impact on the rupee should be muted to this extent. However, of late it has been observed that currencies move more due to sentiment and extraneous conditions, of which, the dollar as the pivot currency holds the clue. As long as the strife signals play out, the rupee would tend to get volatile, though a fair value of 71.5-72 to the dollar looks more likely once normalcy returns. However, of late, the dollar and its strength drives currencies, and as the US exercises power, there would be a tendency for the dollar to strengthen globally which results in currencies weakening across the globe. This can be expected in the coming days too.

The oil crisis comes at a time when the Indian economy is weathering a series of challenges. Stable oil prices were one of the assumptions of monetary policy, which focused more on core inflation. This will change as the price movement becomes more permanent in nature. Fiscal policy also has assumed stable prices within a range and would require some tweaking to factor in this new reality. Hence, this episode of crude oil prices will be watched quite closely by policy makers as the implications go beyond the political overtones that are currently pervading the headlines. The crux will be as to how long does this imbroglio last, and whether it would spread to other neighbouring nations too? Prima facie it looks like being more transient in nature, though one can never tell in such cases.

India's direct tax reforms agenda

Simplicity and certainty in taxation is valued by taxpayers even above the tax rates. In this context, multiplicity of capital gains tax rates is an area that deserves attention

SHALINI MATHUR

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FOR THE TAX world, 2019 has been a happening year as India responded to a multiplicity of challenges and dynamics at the domestic and global levels. Three significant drivers have shaped the tax policy in the past few months—the need to rev-up business sentiments and spur investments amidst concerns of a sub-5% economic growth for the first half of 2019-20, the OECD's BEPS agenda altering the tax structures and legislations across jurisdictions and, most importantly, technology that is bringing in new business models, different supply chains and immense digital data, thus, impacting both tax policy and administration.

Unquestionably, the most defining development of 2019 was the slashing of corporate tax rates to 22% for all companies, and 15% for new manufacturing companies, in a trade-off for zero incentives and deductions. The new rates have catapulted India to a very competitive position against many of the OECD and BRICS countries, and neighbours like China, Indonesia and Philippines. Over time, the lower rates will reduce the cost of capital and catalyse investments.

As a supplementary measure, to truly bring down the effective tax burden on companies, the system of taxing dividends in the hands of the shareholders as per the applicable tax rate should be reintroduced. This system has the advantages of simplicity, transparency and equity. It also eliminates the problem of no-credit for foreign investors, thereby, making India a more competitive destination for investments. With the current dividend distribution tax, even after the rate cuts, a company bears a tax burden of 38% to 56%, depending on whether it is a non-subsidiary, and whether it pays the additional tax on dividends more than ₹10 lakh.

Simplicity and certainty in taxation is valued by taxpayers even above the tax rates. In this context, multiplicity of capital gains tax rates is an area that deserves attention. The current law is highly complex due to inconsistent tax treatment of income, based on varied parameters such as holding period that ranges from 1-3 years, tax rates that range from 10% to 30% and allowing indexation only in respect of certain assets.

A major recent development is the OECD proposal on taxation of digital transactions. New profit allocation rules, nexus rules and implementation of new market jurisdiction taxing rights could lead to significant changes to the tax environment for MNEs. As a welcome step, the Indian authorities are holding consultations with businesses to evaluate the potential impact of these changes. More developments are expected in 2020 with the MLI/treaty amendments taking shape. India will need to guard against any unilateral measures that increase the risk of double taxation and multi-jurisdictional disputes.

> **India will need to guard against any unilateral measures that increase the risk of double taxation and multi-jurisdictional disputes**

Given the above, the role of robust dispute avoidance measures cannot be over-emphasised. Most jurisdictions have mechanisms such as private ruling and settlement mechanism to avoid litigation. India, too, may consider new mechanisms to prevent disputes. For instance, a mediation mechanism may be brought in, right at the assessment level, for high pitched assessments. A mediation panel may be constituted comprising experts like past ITAT members, retired IRS members, and direct tax professionals with relevant experience in mediation and special knowledge of direct taxes.

The mechanisms of Authority for Advance Rulings (AAR) and Advance Pricing Agreements (APAs) are the low hanging fruits for improving dispute avoidance. With more than 400 cases pending resolution, AAR has had limited success in reducing litigation due to structural and administrative reasons. Though APAs have been successful as a means of minimising litigation, with already 300 APAs signed despite it being a complex exercise, lack of capacity has slowed down the APA decisions. Capacity building for both AARs and APAs, supplemented by a new mechanism for private ruling will help taxpayers immensely.

In the recent years, the ministry of finance has taken a leap towards digitised tax administration. A pathbreaking initiative has been the implementation of anonymised, faceless e-assessments that deploy machine learning and artificial intelligence technologies to undertake risk-based audits. E-assessment will bring substantial ease to the taxpayer and minimise undesirable practises. Small businessmen/individual tax payers may not need the help of consultants to represent routine enquiries, which will help bring down their costs. Going forward, the taxpayers will need to equip themselves to provide crisper and focussed information that is easy to understand and not subject to misinterpretation. The tax department too will need to ensure a robust IT infrastructure to enable faceless assessments.

India has been ranked as one of the top-20 improvers in Doing Business 2020 by the World Bank. Here's hoping that the new year brings in significant improvement in India's current ranking of 151 out of 190 for ease of paying taxes.

LETTERS TO THE EDITOR

SC's verdict on Kashmir lockdown

The Supreme Court's (SC) verdict on the prolonged Internet and communication blackout, and the indefinite restrictions on movement imposed under Section 144 of the Code of Criminal Procedure came as a whiff of fresh air. It marked a welcome deviation from the pattern of a slew of judgments delivered in recent days. It was proof that left to itself the apex court is capable of pronouncing fair, impeccable and stellar judgments. Implicit in the present verdict are the paramountcy of civil liberties and the precedence they should get over political exigencies. The verdict represents a setback to the Modi government in that it has held its curbs on communication and movement violative of the constitutionally guaranteed rights. The enforcement of curfew has circumscribed people to their homes and forced them to go without the much-needed social intercourse. Had the SC endorsed its politically expedient moves, the government would have flaunted it as a thumbs up for it and as a thumbs down for the human rights defenders. Post-this verdict, the government cannot invoke or cite 'national security' to justify whatever it does. In any case, the verdict will bring some reprieve to the residents of Kashmir whose day-to-day life became hell. The untold suffering of the people of Kashmir for the last 161 days could have been avoided if the Modi government had not abrogated Article: 370 and stripped their autonomy required, and then not denied them the political space to react to its unilateral decision. It cannot be denied that there exists among the Kashmiris the feeling of being occupied and subjugated. The alienation of the Muslim majority valley still remains to be addressed; it can be addressed only by giving them their rights.

— G David Milton, Maruthacode

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UP RERA

A nice UPturn for home buyers

Uttar Pradesh has been at the forefront of RERA redressals. The state decided a whopping 15,485 complaints, while other states lagged far behind. Maharashtra decided only 6,834, Madhya Pradesh 2,839, Karnataka 1,908, and Haryana 3,161

RAJIVE KUMAR
Chairman, UP Real Estate Regulatory Authority

THE REAL ESTATE sector had come under tremendous pressure during 2015 and 2016. A large number of real estate projects had come to a halt; the home-buyers, who had invested their lifetime savings, had limited recourse to a rapid resolution of problems; the developers were non-responsive, and the development authorities faced serious constraints in regulating them. The need of the hour was for transparency, discipline, and timely delivery of projects, which was too important to be neglected any further.

Therefore, the central government resolved to establish a regulatory authority in all the states and union territories across the country to help the consumers, bring about financial discipline and transparency, and to develop and transform the real estate sector.

The Real Estate Regulation and Development Act, 2016, widely acknowledged as one of the three most important reforms undertaken by the present government, was enacted on March 25, 2016.

July 26, 2017, is an epochal day for the home-buyers and the real estate sector of Uttar Pradesh. On this day chief minister Yogi Adityanath launched the website of UP RERA, and, thus, Uttar Pradesh became the first state in the country to start online management of the real estate projects as well as public complaints. UP RERA has many firsts to its credit and is assiduously working to bring about a desired change in the sector.

Nobody will deny that the sector has been under tremendous stress for a variety of reasons leading to inordinate delay in completion of the projects, abandoning of some projects and increase in the financial liabilities of the promoters-developers. There have also been issues like piling up of the dues of the development authorities, especially NOIDA, GNOIDA and YEIDA; withholding of the approvals and CC/OC by the authorities, non-delivery of lakhs of houses, dismay among the home-buyers leading to complex litigation and non-payment of instalments and fraudulent trade practices by some promoters. So, RERA could not have come at a later date.

The government had designated the Additional Chief Secretary Housing and the Urban Planning Department as the interim regulator. However, the permanent authority was established at a later date and assumed office on August 9, 2018. The administration took a quick and complete overview of the matters requiring attention and embarked on a resolution plan. About 50% of the real estate projects, 70% of the registered complaints and 75% of the stressed projects are from the NCR. While there have been 22,309 registered complaints, 16,575 have been registered in NCR and 5,734 outside NCR.

Similarly, total complaints that have been decided are 15,485. Of these 12,084 are from NCR and 3,401 from outside NCR. The full recovery certificates that have been issued stand at 1,261. Out of these 1,022 are from NCR, and 239 from outside NCR. Again 2,762 are total registered projects. Of these 1,368 are from NCR, and 1,394 from outside NCR.

These are just a few instances. The government, on the request of RERA, established the regional Office of RERA at GNOIDA in Gautam Buddh Nagar in September 2018, and the NCR office-bench started working w.e.f. September 4, 2018, with the chairman, members and senior officers working from both the offices as per the roaster decided by the authority. The authority also took a conscious decision to work six days a week, keeping in view the considerable volume of the grievances of the consumers and the responsibilities cast upon it. Some of the instances of how the authority has successfully met these demands and how it is ameliorating the rashes of the sector paving the way for a vibrant and responsive real estate sector are:

■ Under the close monitoring of the authority, 570 registered projects have been completed, 157 projects granted short duration extension, 200 projects audited, show-cause notices issued for de-registration of 27 projects, 67 projects de-registered and steps initiated to complete such projects under section 8 of RERA as per the draft policy submitted to the government. This move will help to discipline the errant promoters and to ensure the completion of the projects.

■ The authority has established a project management division in its NCR office for close supervision of the projects and positive intervention in case of stressed projects. It has prepared panels of auditors, third party construction consultants, undertaken the audit and verification of the accounts of 321 projects through the CA firms on the panel of the CAG. The development of a framework for the grading of the projects and promoters is underway and will soon be rolled out. Once the grading framework becomes operational, it will help the consumers in making informed choices and usher a healthy competition in the sector.

■ Efforts are being made vigorously to make all the projects RERA compliant. Recently, the authority imposed penalties against the promoters of 1,088 projects for not updating quarterly progress reports on the website. The promoters have started realising the advantages of the RERA compliances. This will finally lead to financial discipline, accountability and transparency in the sector. A study by Magicbricks found 60% want to buy a house in a RERA-registered project. UP RERA has been successful in instilling confidence among the home-buyers.

■ Uttar Pradesh does not have the largest real estate sector in the country, but it has the highest volume of the complaints by the home-buyers. The regular authority was constituted at a much later date in the state. Still, it has decided more than two times the complaints resolved by any other state. While Uttar Pradesh decided a whopping 15,485 complaints, other states lagged far behind. Maharashtra decided only 6,834, Madhya Pradesh 2,839, Karnataka 1,908, Haryana 3,161. The lowest number of complaints were decided in Gujarat (1,455).

Uttar Pradesh was the first state to start the execution of its orders through recovery certificates. The authority has issued 1,261 recovery certificates having demand of ₹391.36 crore. During the short period of just over one year, an amount of ₹53.42 crore has been realised against 275 recovery certificates. The pace of recovery is picking up. The authority is continuously following up the recovery cases with the concerned collectors. It has established an online facility for filing the request for execution of RERA orders and also an online module for tracking compliance on possessions and refunds. Most promoters now comply with the orders of RERA. As per the compliance status gathered from different tracking mediums, there has been compliance in half of the cases. Owing to RERA, promoters are trying to settle issues with home-buyers.

■ The authority has also institutionalised the amicable settlement of the disputes between the home-buyers and the promoters through two conciliation fora established at its Lucknow and NCR offices. So far over two thousand home-buyers have sought relief through this forum.

Uttar Pradesh Real Estate Regulatory Authority earned the honour of organising the First National RERA Conclave in Lucknow on November 4, 2019. The conclave had broad participation from all stakeholders including the central government, state governments, RERAs and Appellate Tribunals of states, top management of the banks and other financial institutions, industry associations, home-buyers and their associations, promoters, professionals and competent authorities. The chief minister of Uttar Pradesh inaugurated the conference in the presence of the minister of state (independent charge) Ministry of Housing and Urban Affairs, Government of India. The conclave was immensely successful and the achievements of UP RERA were acknowledged by all.

With RERA, and UP RERA, the scenario is changing and changing for the better.

ILLUSTRATIONS: ROHNIT PHORE

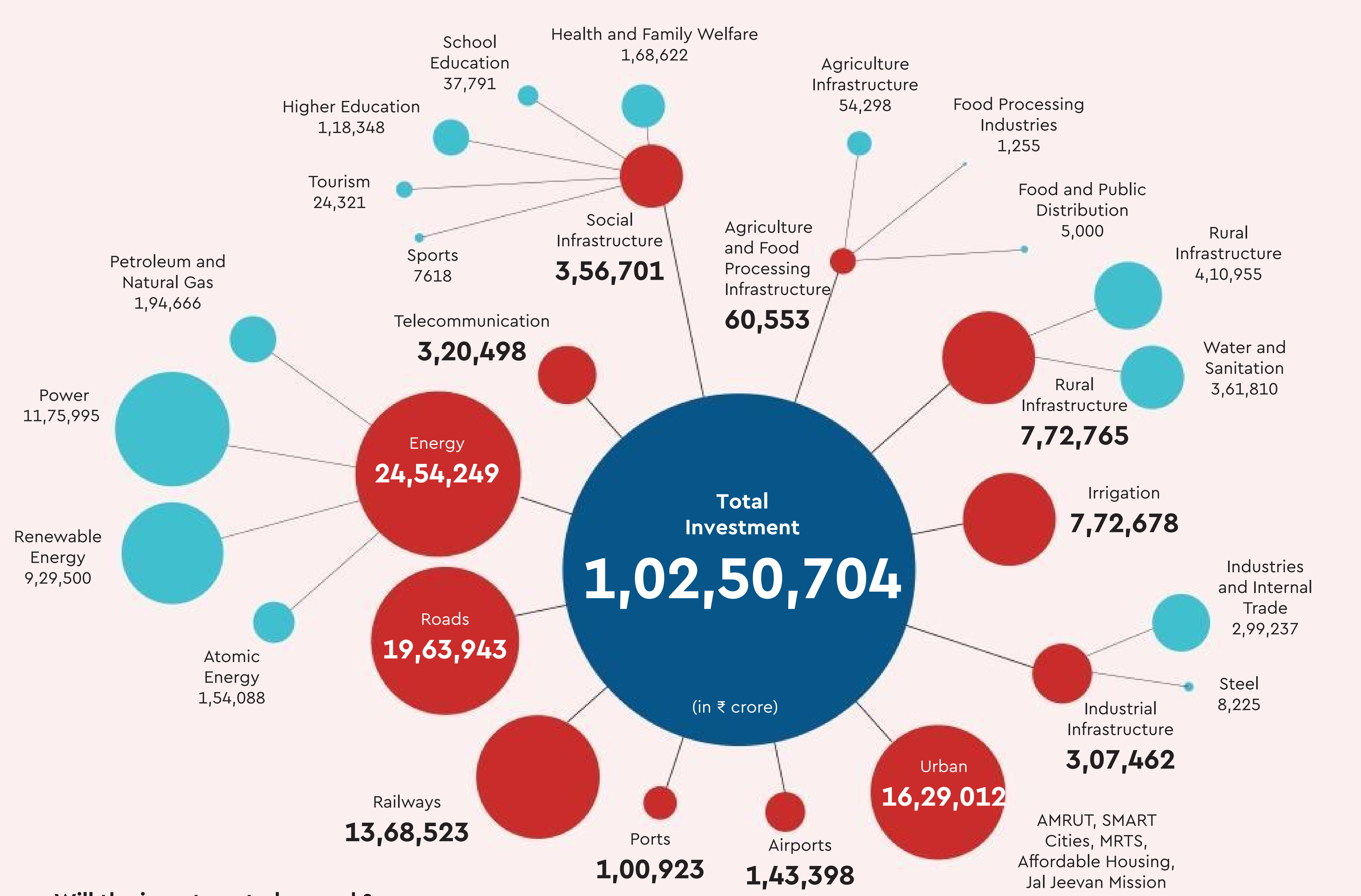
DATA DRIVE

Building a way out of the slump

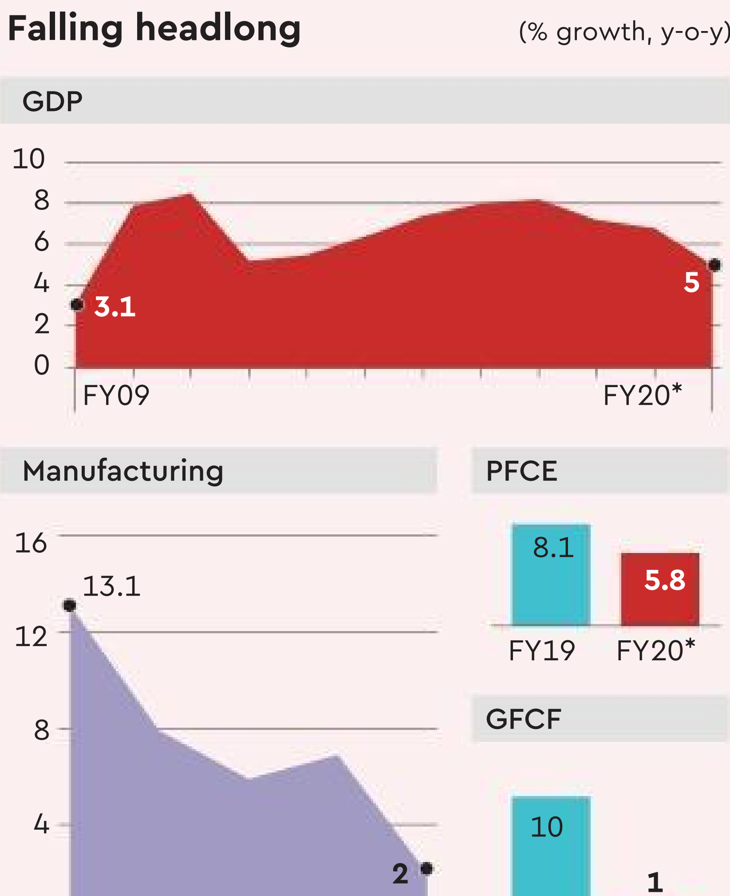
INTERNATIONAL AGENCIES AND analysts have been revising their forecasts of Indian GDP, but the government has held that the economy is not in crisis. The release of first annual estimates for the economy show that growth has come down to 5%. While India was growing by 7% until last year—the fastest-growing major economy in the world then—low investment, coupled with slow down in private consumption has brought down growth. Even the rising government expenditure has not been able to arrest the fall in growth numbers. While the next two quarters are expected to be better given the base effect, Indian economy still has a lot to deal with as most economists who were earlier terming the growth as cyclical, are highlighting structural issues.

The government has responded with a major infrastructure push, targetting investments worth ₹102 lakh crore within the next five years, but the plan seems too ambitious. For one, even when the economy was performing well, India was not able to meet its investment targets. If we were to presume the government's projections—it is expecting nominal growth to average 12% over the next five years—this would mean an investment growth of 6.5%. One needs to keep in mind that the investment ratio in the period between FY13-17, when growth averaged 10% was just 5.7%.

Further, if we are to consider a more realistic growth projection of 8%, the average investment ratio would jump to 7% of the GDP. More important, for FY21, investment will have to be nearly 10%, an impossible task given that even in its best years investment ratio has been just a notch above 6%. The government will, thus, have to explore other avenues if it needs to consider propping up the economy. While government has allocated 25% of the funds to power sector and 20% to roads, till issues like discom losses aren't fixed, the question is who will be ready to invest?

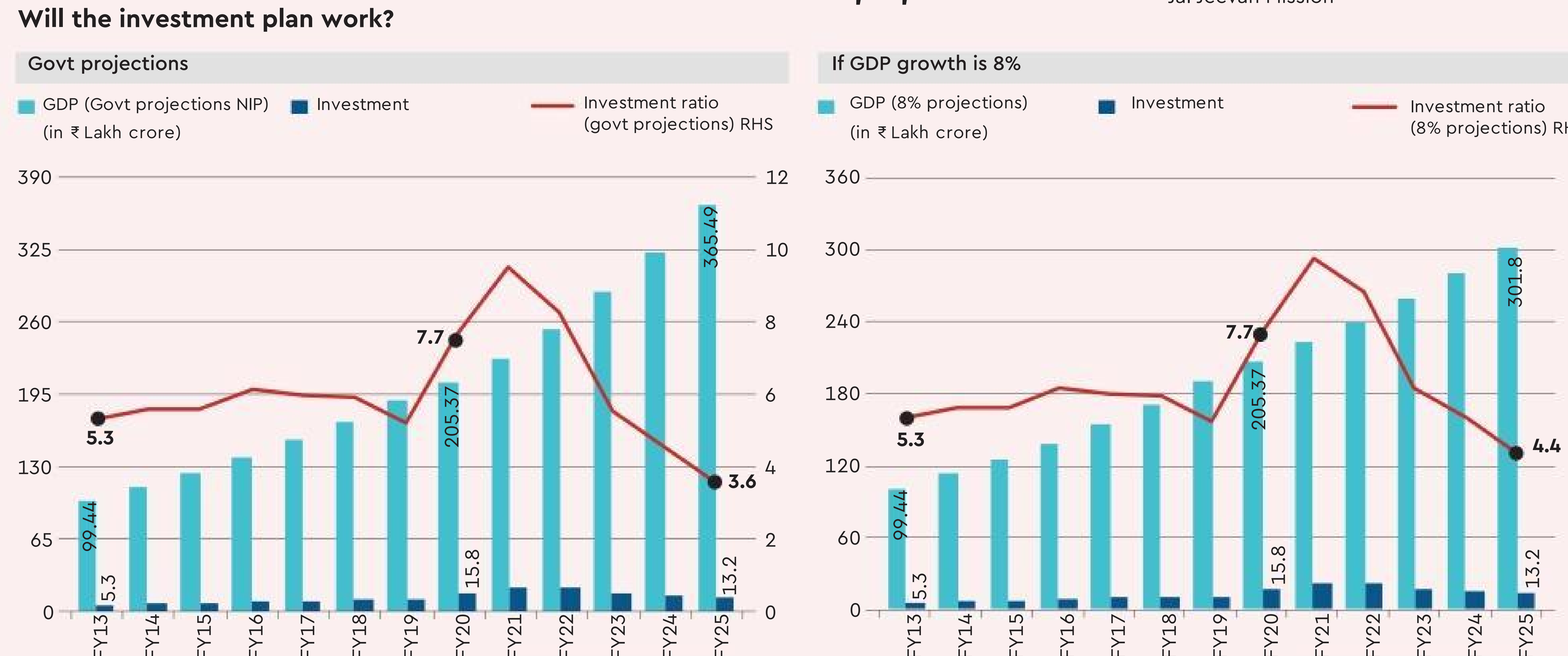


Falling headlong (% growth, y-o-y)



FY20 growth forecast (%, y-o-y)

Will the investment plan work?



*First advance estimate Source: MoSPI, PIB