LETTER

CONFEDERATION OF INDIAN TEXTILE INDUSTRY

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News Highlights

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India's Modi urged to set 'ambitious' economic agenda after poll humbling

Indian Prime Minister Narendra Modi and his Bharatiya Janata Party (BJP) campaigned on India's sizeable economic expansion in the lead-up to the country's recent national elections.

Since Modi came to power in 2014, GDP per capita has risen from about $5,000 to more than $7,500.

India's GDP growth hit 8.4 percent in the financial year ending March, making it by far the fastest-growing major economy.

At the same time, the economy is producing much far less impressive data, including a high unemployment rate, which rose to 8.1 percent in April from 7.4 percent in March.

It is this statistic, along with high inflation, that has been touted as a key reason for the weaker-than-expected performance of the BJP, which won 240 seats, well below its previous tally of 303 and fewer than the 273 needed to form a government on its own.

While Modi has formed a government with the help of his National Democratic Alliance partners, his reliance on smaller parties changes the equation for a leader who commanded outright majorities during his previous two stints as prime minister.

"This is going to be really unusual for Prime Minister Modi," Vina Nadjibulla, vice president of research and strategy at the Asia Pacific Foundation of Canada, told Al Jazeera.

“It was partly why the markets reacted the way they did,” Nadjibulla added, referring to the sharp drop in Indian stocks following the election result.

Nadjibulla said investors are concerned Modi may be unable to push through reforms needed to tackle issues such as high unemployment.

Despite strong headline economic growth, nearly half of India’s population is still employed in the relatively unproductive agricultural sector – a share that rose during Modi’s second term, from 42.5 percent in 2018-19 to 45.8 percent in 2022-23, according to an Oxford Economics report.

Young people, in particular, suffer from a lack of employment – in 2022-23, the youth unemployment rate was about 10 times higher than the adult rate, according to the report.

It is “ironic” that India’s robust growth under the Modi government “has come at the cost of economic stability for the lower classes”, Michael Kugelman, director of the South Asia Institute at the Wilson Center, told Al Jazeera.

In its third term, the Modi government will have to find a way to help poorer Indians in a way that goes beyond building infrastructure, Kugelman said.

“Across the board, it’s going to be a very ambitious economic agenda,” he said.

Manufacturing vs services job

Much has been made of India’s push to boost manufacturing, create jobs and lure global brands looking to set up alternative supply chains in the face of trade tensions between the United States and China.

India’s “Make in India” drive, however, has done little to create jobs for the large segment of the population that is still employed in agriculture.

One reason for this is that the government’s focus has largely been on promoting higher value-added yet less labour-intensive sectors such as electronics, Alexandra Hermann, Oxford Economics lead economist, told Al Jazeera, adding that this would probably not change.

Another oft-touted reason is the lack of “big bang” reforms to land and labour rules, experts say, which are needed to bring in the type of major investment needed to really expand manufacturing.

While the Modi government has failed to make serious headway in this area – despite large majorities in parliament – experts say its coalition partners may now help it pave the way for some of those measures as jobs will benefit all voters.

Coalition partners could also help the Modi government make some progress in its so far failed efforts for land and labour reform, which have been highlighted as a necessary step to attract more investment in manufacturing.

“There will have to be some coordination with state governments… and coalition partners are regional parties that will have a lot of sway in some parts of the country and that is where a coalition government will be very helpful for Modi and the BJP,” Kugelman said.

For now, rather than relying on manufacturing, India’s growth story has largely been driven by services, which experts say will only be able to continue over the longer term and create sustainable and inclusive growth if human capital levels increase.

“Raising human capital levels on a broad basis will be crucial to create inclusive and sustainable growth over the medium-to-long-term,” Hermann said.

“Although India is home to some top technology and management universities nurturing global business leaders, it is the quality of primary and secondary education that still leave the Indian population, on average, relatively low-skilled. [But in its manifesto] the BJP fell short of committing to the higher spending goal,” Hermann said.

Kugelman agreed.

“Some of the fastest growing sectors are in services but the labour force is not equipped for those jobs and there’s a complete mismatch,” he said.

‘Conditions for private investment’

Ultimately, though, GDP growth and job creation are driven primarily by private investment, said Ajay Shah, an economist in Mumbai.

Private investment has not fared well in India since 2009 or 2011, depending on which measure you use, so “the organising principle for economic policy should be to create conditions for private investment”, Shah told Al Jazeera.

Part of the reason for the lack of success in this area has been excessive central planning in economic policy, Shah said.

“This,” he said, “creates policy risk. Arms of the government behave in unpredictable and personalised ways. This creates risk for private persons.”

Shah expressed hope that the incoming coalition will be better positioned to address such problems.

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Statistics ministry sees no major revision of FY24 GDP

The statistics ministry doesn’t expect to undertake any significant downward revision to the official economic growth estimate for FY24, and may disprove many analysts in this regard. It also sees the possibility of the gross domestic product (GDP) expansion in FY25 to exceed 7%, with the “strong momentum” being witnessed.

“We don’t think any significant revision is warranted – either for gross-value-added (GVA) or the gross-domestic-product (GDP),”a ministry source told FE, adding that data compilation methodology for computing the national income is “robust”.

As per the National Statistical Office’s provisional estimates, India’s GDP in FY24 grew 8.2%, while GVA grew 7.2%. The unusual gap between the two growth numbers has raised some concerns, and so has the fact that consumption growth was half the GDP rate.

“India’s growth momentum is strong, and this fiscal year in all possibility will witness an above 7% growth in GDP,” the official said. “But the GVA and GDP wedge in FY25 may be much smaller,” the person added.

The Reserve Bank of India has projected India's economy to grow 7.2% in FY25, but many economists say the growth rate could be lower than 7%, and some have even pegged it at 6.5%.

In the previous financial year, the sharp 100 basis points (bps) gap between GDP and GVA was mainly a consequence of higher collection of indirect taxes as compared to previous years, and a substantial decline in subsidy expenditure. In FY24, subsidy expenditure had contracted 22% on year.

Moreover, the low deflator had also pushed up real growth in FY24. The wholesale inflation (WPI) averaged at (-)0.7% in FY24 as against 9.6% in FY23, which was why the deflator turned out to be unusually low last year.

These factors may not play out this year, which is primarily why the GDP print could be lower, say economists.

The statistics ministry compiles the national income data, or the GDP data, using the benchmark indicator method. It uses data from several sources, such as Index of Industrial Production (IIP), crop output data, financial performance of listed companies, production of cement and steel, sales of commercial vehicles etc, for calculating the GVA.

Improved data coverage and revision in input data made by source agencies later have a bearing on subsequent revisions of these estimates. And hence, the estimates undergo revisions in due course

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Indian exports: How Modi 3.0 can navigate the protectionist tides in advanced economies like US and EU

Indian economy: Indian exports: How Modi 3.0 can navigate the protectionist tides in advanced economies like US and EU - The Economic Times (indiatimes.com)

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Indian stock market: Investors eye inflation data, Modi 3.0 policy decisions, US Fed meet for fresh cues

Indian stock market will be guided by both global and domestic factors including the US Federal Reserve interest rate decision, India's inflation data, and policy decisions of the BJP-led coalition government in the week ahead.

On June 12, the Federal Reserve will release US core and consumer price inflation figures, alongside the interest rate decision and Federal Open Market Committee (FOMC) economic projections.
Bank of Japan is also slated to announce its interest rate decisions next week.

Investors will closely track domestic industrial production data and inflation data to be released on June 12.
India's retail inflation eased slightly to 4.83 per cent in April, down from 4.85 per cent in March.
However, consumer food price inflation surged to 8.70 per cent from 8.52 per cent.
According to news agency ANI citing experts, the market will also have an eye on the portfolio allocation under the new government.
“We believe volatility is likely to decrease now that major events are behind us, with the focus shifting to domestic macroeconomic data such as IIP, CPI, and WPI for further signals. Additionally, global cues, particularly the upcoming US Fed meeting, will be closely watched by participants. The recovery following the post-election decline suggests resilience among participants, and we expect the prevailing tone to continue," said Ajit Mishra, SVP, Research, Religare Broking Ltd., as per ANI.

After a strong rally by benchmark indices on June 3 following exit polls’ prediction of majority for the BJP, the Indian stock market had crashed on the results day as incumbent BJP could not secure the majority on its own.
On June 4, the Sensex declined by a whopping 4,389.73 points while Nifty fell by 1,379.40 points.
Investors had lost around ₹31 lakh crore in the stock markets after the actual results. The combined market cap of BSE-listed firms also retreated to ₹394 lakh crore on the day, from ₹425 lakh crore.
However, last week the BSE benchmark gained 2,732.05 points or 3.69 per cent and Nifty rose 759.45 or 3.37 per cent.

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Sticky inflation delays rate cut

Sticky inflation has dashed the hopes of early rates cuts with experts now pencilling in repo rate cut by the Reserve Bank of India (RBI) from December this year. Economists expect a shallow rate cut cycle with RBI likely to lower repo rate by 75 – 100 basis points.

Despite prices showing some decline over the past few months, the RBI has retained CPI inflation projection at 4.5% for the current financial year.

Addressing the press conference after announcing the monetary policy on Friday, RBI governor Shaktikanta Das said the growth-inflation journey is progressing as per expectations, but added that it is the last mile of the journey towards 4%, which will be the most difficult or sticky, and reiterated the need for the number to align with the target.

“The governor points out to the fact that there continues to be risks from food inflation and the summer price changes are visible on the backdrop of a shallow winter price drop. In this context, the RBI would watch out for the pulses and vegetables prices that have seen a recent uptick in prices,” said Indranil Pan, chief economist at Yes Bank.

“With growth expected to remain firm, the last phase of dis-inflation towards the 4% target remains arduous and hence the RBI would be willing to bide its time. We see a shallow rate cut this fiscal, probably starting in December 2024,” he added.

Headline CPI inflation moderated to 4.8% in April 2024 from 4.9% in March and 5.1% in February. CPI food inflation, however, edged up to 7.9% in April from 7.7% in March. With ongoing inflationary concerns, particularly in the food basket, MPC will remain cautious preferring to assess the evolving risks before making any decisions, say experts. “Even though the core inflation has been largely benign, higher food inflation has kept the overall headline inflation higher than the Central Bank’s target of 4%,” said Rajani Sinha chief economist, Care Ratings.

“Apart from elevated food prices, the incremental risk to inflation also stems from the recent uptick in global commodity prices, especially industrial metals,” she said. While expectations of a good monsoon bode well for the overall rural demand and food prices, monitoring its temporal and spatial distribution would be essential, she added. Prices have fallen significantly over the past one year as headline inflation has declined from the peak of 7.3% in the first quarter of 2022-23 to 5% in the fourth quarter of 2023-24.

“The domestic growth dynamics will remain conducive for the RBI to be on a pause, at least in the August policy, as it remains focused on guiding inflation toward the 4% target on a durable basis," Suvodeep Rakshit, senior economist at Kotak Institutional Equities. "Given our expectations of domestic and global economic conditions, we continue to expect a shallow rate cut cycle (75-100 bps) from the December policy, with the stance changing either in October policy or along with the rate action," he added.

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http://timesofindia.indiatimes.com/articleshow/110856276.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

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Commerce Ministry's focus likely on signing FTAs, reviving exports

The biggest challenge for the commerce and industry ministry under the coalition government led by Prime Minister Narendra Modi would be to revive the growth of merchandise exports that has been grappling with external factors such as geopolitical risks and high inflation. A dedicated road map is expected to be drawn towards this, aligning with the $1 trillion merchandise exports target by 2030. The new government is likely to complete the unfinished agenda, particularly related to signing of the free trade agreement (FTA) with Oman. The negotiation between India and Oman concluded earlier this year and the pact is ready to be signed as soon as it gets an approval from the Cabinet after the formation of the new government.

While the earlier plan was to complete negotiations with India and the United Kingdom (UK) in July— as a part of the new government's 100-day action agenda—talks may take more time to resume, since London is also headed for elections in July.

While FTA negotiations with Peru, the European Union (EU) may continue, discussions for the launch of FTA talks with South African Customs Union (SACU), Chile as well Gulf Cooperation Council (GCC) are expected over the next few months.

Another priority in the first 100 days could be the launch of an e-platform —Trade Connect—to help exporters connect with stakeholders of international trade. The new government may bring back the focus on the pending amendments in the Special Economic Zone (SEZ) law, in line with the emerging order of global trade, to support the building of industrial parks with world class infrastructure and to attract investment in manufacturing. However, the exact timing may depend on the priorities of the new government. The new minister is likely to oversee the redesign of the structure of the commerce department, thereby making the system more efficient.

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GLOBAL

Turkmenistan-ILO Road Map To Stop Forced Labour In Cotton Harvesting

Turkmenistan and the International Labor Organisation (ILO) recently adopted a road map for cooperation for 2024-2025 to prevent the use of forced labour while harvesting cotton. It offers mechanisms for hired labourers to lodge complaints regarding coercion or extortion, and sets a minimum wage for pickers.

The key aim is the legislation of a presidential decree on measures for organised cotton harvesting to eliminate the use of forced labour, a news outlet in Turkmenistan reported.

A system of prohibition and penalties is expected to be introduced to stop the practice of forced mobilisation or extortion in cotton harvesting.

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EU Nations' 2023 Environmental Protection Investment $73 Bn: Eurostat

European Union (EU) countries invested about €67 billion (~$73 billion) last year into assets essential to provide environmental protection services, according to estimates by the bloc's statistical agency Eurostat.
These services included wastewater treatment plants, vehicles to transport waste, acquisitions of land to create a natural reserve and cleaner equipment for production.

About €40 billion (~$43.53 billion, or 60 per cent of total environmental protection investments) was by corporations, both the specialist providers of environmental protection services and other companies that purchase technologies and equipment reducing the environmental pressures arising from their production process.

The general government and non-profit sector accounted for the remaining 40 per cent investments, an Eurostat release said.

The share of environmental protection investments in total investments was about 1.8 per cent in 2023. More specifically, 1.7 per cent of all investments of corporations were environmental protection investments, and 4.5 per cent of all general government investments.

The largest amount of investments was related to wastewater and waste management services. In 2023, they accounted for 41.6 per cent and 26.6 per cent of the total investments for environmental protection respectively.

Air protection accounted for 10.4 per cent of investments for environmental protection. General environmental administration, research and development and protection against radiation accounted for 8.4 per cent.

Biodiversity and landscape protection accounted for 6.4 per cent; soil and groundwater protection for 5.6 per cent and noise reduction for the remaining 1.1 per cent.

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