

Preoccupation with Kashmir Indian economy slows down

NEW DELHI: Sentiments are souring in the country's boardrooms after a much-anticipated budget under the Modi-led central government in July failed to provide any stimulus, and instead hiked taxes on the ultra-rich and on foreign portfolio investors.

Several businessmen say Modi government needs to take a swift action on economy, but instead it seems preoccupied with the Jammu and Kashmir situation, which is under a lock down after the central government stripped the autonomous status of the valley, reports Business Standard.

"The speed of decision-making is very good for example in Kashmir, but the speed of decision-making on business matters is not good," said Adi Godrej, Chairman Godrej Group, which sells everything from electronics to chemicals.

"India Inc is worried that the slowdown may deepen further. We need action," Godrej said in an interview, citing tax breaks for the auto sector and big companies among his top wishes ahead of his taking any major decisions to weather the slowdown. India's GDP growth in January-March slid to a near five-year low of 5.8 per cent, and most analysts expect data due later this month to show that growth in April-June faltered even further.

Domestic passenger vehicle sales, a key economic indicator, plunged an annual 31 per cent in July - the steepest recorded pace of decline in nearly two decades. Godrej's fears were echoed in interviews with over a dozen businessmen, fund managers, foreign investors and executives with multinationals, revealing widespread despondency among the very business elite that cheered Modi to power.

Companies have already started to cut their work force.

The autos sector alone has laid off about 350,000 workers since April and even companies like cookie maker Parle - which sells biscuits for as little as Rs5, or 7 cents, a pack - have warned they may have to lay off up to 10,000 workers, due to weakening demand.

The broad Nifty index has shed more than 10 per cent since hitting a high in June, in part pressured by the trade war between the United States and China. Foreign portfolio investors yanked \$1.8 billion out of Indian equities in July alone. Investors say they want clarity from Prime Minister Modi on what his government plans to do about the economy, and the beleaguered lending sector. Banks are grappling with almost \$150 billion in bad loans and a massive shadow lending industry has been stung by a liquidity crunch after the collapse of major player Infrastructure Leasing & Financial Services.

The foreign portfolio investors seeking a tax cut and automakers demanding easier access to finance for dealers and buyers have flocked to New Delhi to lobby Finance Minister Nirmala Sitharaman. Similarly, bankers have asked the government to announce a stimulus package that drives investment and offers new lending.

The Finance Ministry did not respond to questions about any planned measures. Officials in New Delhi says the government is unlikely to provide a stimulus or tax breaks because that could compromise India's fiscal deficit target of 3.3 per cent for fiscal 2019-20.

Krishnamurthy Subramanian, India's chief economic adviser, says using public money to help the private sector is a "moral hazard." Some banking and finance executives who met Finance Minister Nirmala Sitharaman recently have criticised her, saying her attitude during meetings was not constructive.

"There is no discussion. It is mostly: 'Thank you we'll look into it'," said one investor of a meeting with her. The finance ministry did not respond to requests for comment about the meetings.

The Reserve Bank of India has been slashing interest rates, including an unconventional 35 basis point cut this month, but the stressed banking sector has yet to fully pass on the benefits of lower rates. Many businessmen also say the government is going overboard in a drive against tax evasion, corruption and money laundering.