

VISHLESHAN

(Bi-Annual Referred Journal of Research & Readings in Economics)

Volume : 44, No. 2

July – December 2017

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Primary Educational expenditure and Economic Growth in India- An Econometric Inquiry

ગુજરાતમાં બી.પી.એલ. કુટુંબોની પુનઃમુલાકાત : તાપી જિલ્લાના સંદર્ભમાં એક અભ્યાસ

ગુજરાતમાં કૃષિ ખર્ચ યોજનાનું મહત્વ અને કામગીરી

A Note on: Current Economic Issues – International and National

વિખરાયેલા મોતી

Published by

Vishleshan Trust

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A Note on Current Economic Issues – International and National

Dr. Ashish N. Pandya¹

During last one year, the world economy has been slowly but steadily returning back to higher growth path. This is especially true about the U.S.A. which took seven to eight years to recover from the disastrous effects of the Global Recession. The U.S. economy is currently growing at the rate of around 2% and for the last more than six months, its unemployment rate is in the comfort zone of 6%. In view of these favourable developments, the Federal Reserve – the Central Bank of the United States – revised the Fed rate, in mid-June 2017, after a very long time, from 1% to 1.25% and it again raised it to 1.5% in December 2017. It has given indication that it would raise it to % to 2.5% in the course of next one year. However, while the rate of growth has recovered to pre 2007 level, the inflation rate has been hovering around 1%. These are critical parameters for the U.S. economy to warrant change in its monetary policy. Its other two important parameters namely the fiscal deficit and the current account (of the balance of payments) deficit continue to be quite high, causing anxiety about the stability of the world economy.

In spite of the Brexit – decision by the U.K. to leave the European Union – the economy of Western Europe has recovered from its near stagnation for some years. Similarly the Japanese economy, which suffered from economic stagnation for a little over two decades, has been on an upward growth path in recent months. This is welcome phenomenon for the emerging economies like India whose export growth became negative from December 2014 and continued for long fifteen months.

While the crude oil price and prices of quite a few commodities like food grains and industrial raw materials went on declining since mid-2014, helping the Indian economy to keep its current account deficit within manageable limit, it dealt a deadly blow to oil exporting economies such as Russia, Indonesia, Venezuela and OPEC. Among the emerging economies, Russia, South Africa and Brazil experienced negative rate of growth, adversely affecting their import demand. However since October 2016, this trend is reversed and the crude oil price has already crossed \$65 and is currently hovering around \$67 per barrel. This is likely to upset the current account deficit of India and other oil importing countries. Moreover, the increase in the crude oil price will also add to the cost of production of number of manufactured items, giving spurt in the rate of inflation in India.

IIF (International Institute of Finance) during the last few days, in its report, said that the total indebtedness of the world economy has been increasing and is now many times more than the world GDP. During the last quarter of December 2017, the world debt had risen to \$233 trillion while world GDP was \$75 trillion. Thus total world debt was three times larger than world GDP. Among different categories, debt of non-financial corporations was the largest, followed by the government debt, debt of the financial corporations and the household debt. This has resulted from the fact that world GDP has increased very slowly, while the total debt

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keeps on increasing, making the situation difficult for the world debt. The situation is very similar to one that prevailed in 2007 which in turn caused the Great Recession.

By April 2018, the RBI could publish the relevant information about demonetization move. It was indeed a very bold experiment but, largely because of the corrupt practices of some banks, the amount of unaccounted money was insignificant. People who sat on a big pile of unaccounted money could easily get it converted in to new currency notes. As something like 85% of the total money supply was suddenly sucked from the system, the growth rate of GDP was adversely affected. The year 2016-17 closed with a growth rate of only 7.1%. Again, while the percentage of non-cash transactions increased immediately after the demonetization, an ordinary man's preference for cash has more or less remained at the same level.

A very important and bold fiscal measure of introducing Goods and services tax (GST) was finally taken with its introduction from 1st July 2017. It was discussed at various levels for more than a decade, but could become reality from 1st July, 2017. The states have lost their all-important sales tax, and a few taxes that the centre had introduced over the last decade. If properly implemented, it has the potential of bringing about a true revolution in our fiscal system, by significantly adding to the tax revenue of the centre, and in turn, of the states, by reducing tax evasion of indirect taxes to a considerable extent and providing a stimulus to the Indian economy. The introduction of GST has faced number of operational difficulties during the first seven months from July 2017 to January 2018 and its actual impact on the centre's revenue will be known when the Finance Minister presents the budget for the year 2018-19 on 1st February 2018. The wide spread view point before the budget is that the tax revenue from the direct taxes would exceed the estimate, that from GST is likely to fall short. In view of this, the Union government has already arranged to borrow Rs. 50,000 crores more an originally budgeted, thus creating uncertainty about the fiscal deficit which is projected to be 3.2% of the GDP. In spite of the initial difficulties, the introduction of GST was long awaited fiscal measure and would prove very useful in raising centre's revenue and curbing tax evasion associated with union excise duty and state level sales tax.

The GDP increased by 6.6% during 2013-14, and it increased at a faster rate - 7.2% - in the next year i.e. 2014-15. The rate of growth of GDP was ever higher at 8% during 2015-16. However, under the impact of demonetization, the rate of growth of GDP came down to 7.1% during 2016-17. Actually in the last quarter of 2016-17 i.e. January to March, it increased by only 5.7%, the lowest in many quarters. During the year 2017-18, the GDP is estimated to grow by only 6.5% under the initial adverse impact of GST. However, the IMF's forecast is that the Indian economy would grow by .2% in 2018-19.

The finance minister presented the budget for the year 2017-18 on 1st February 2017. The budget reflected concern for the rural economy of India which largely base the brunt of demonetization. It proposed to spend about Rs. 2.1 lakh crores on rural infrastructure creating more jobs in the rural and semi urban areas. The budget had another noteworthy feature namely, in spite difficult fiscal position, it proposed to keep fiscal deficit at 3.2% of GDP and promised to further reduce it to 3% during 2018-19. It has also proposed a bold step of restricting donations of all kinds, including political donation, to only Rs. 2000 in cash.

It remains to be seen how far this succeeds in restricting the flow of unaccounted money to the political parties.

A disturbing feature of the working of India's public sector commercial banks is their continuously growing Gross NPAs and Net NPAs. The gross NPA are now close to Rs 8 lakhs crores and 25% of this large amount is accounted for by 12 big private sector corporations. Such huge NPAs erode the profitability of this entire sector and our country is not able to adopt Basle III norms regarding capital adequacy ratio and other parameters like increase in paid up capital etc. which would ensure healthy working of the banking sector. The RBI's rule is very commendable in guiding PSU banks in cleaning their balance sheets.

The international rating agency – the Moody's has improved India's rating in 2017 after fourteen years from BAA3 to BAA2. This agency took into account number of new initiatives taken by government of India like introduction of GST as well as Insolvency and Bankruptcy Code. This would enable big public sector and private sector companies to borrow funds from the world capital market.

The RBI took a very cautious view about the performance of the Indian economy, the existing inflation rate and the uncertainties prevailing in the world economy. The Monetary Policy Committee of the RBI met seven times – it holds a bimonthly meeting – between December 2016 and December 2017 and reduced the Repo Rate only once on 2nd August 2017 from 6.25% to 6% and the Reverse Repo Rate from 6% to 5.75%. The dominant view that prevailed at the Monetary Policy Committee has been that there are many uncertainties prevailing in the international capital market and the weak performance of the agricultural sector is likely to push up the inflation rate. This view will further get strengthened with the crude oil price crossing \$67 a barrel. Thus while there is a possibility of the Fed Rate in the USA going up, the Repo Rate in India might remain unchanged in the near future.

The development in India's foreign exchange market has been an increase in the value of Rupee against Dollar. While the rupee fell to close to Rs. 68 per dollar a year ago, it has changed its direction during last year rising close to Rs. 63 a dollar. While this would reduce cost of imports, it would make our exports costlier in the international market, thus creating an adverse impact on balance of trade. Our foreign exchange reserves have finally crossed the high mark of \$400 billion which can go a long way in imparting stability to the external value of rupee.

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