THEIR VIEW

How is India doing? Let's look at some macroeconomic indicators

We face challenges of growth, employment, inflation and a current account gap that complicate monetary and fiscal policy

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Underlying weakness

Growth slowed in H2 compared to H1 due to slowdowns in private consumption and investment demand

Demand components	2022-23	H1 2022-23	H2 2022-23
Aggregate demand (GDP)	7.2	9.5	5.3
Government final consumption expenditure (GFCE)	0.1	-0.9	1
Private final consumption expenditure (PFCE)	7.5	13.6	2.5
Gross fixed capital formation (GFCF)	11.4	14.7	8.5
Exports of goods and services (X)	13.6	15.8	11.5
Imports of goods and services (M)	17.1	28	7.7

Growth slowed down mainly in services

Sectors	2022-23	H1 2022-23	H2 2022-23
GDP	7.2	9.5	5.3
1. Agriculture ,forestry and fishing	4	2.4	5.1
2. Industry	4.4	4.3	4.5
2.1 Mining and quarrying	4.6	5.1	4.2
2.2 Manufacturing	1.3	0.9	1.7
2.3 Electricity, gas, water supply and other utilities	9	10.3	7.5
2.4 Construction	10	10.7	9.5
3. Services	9.5	12.6	6.5
3.1 Trade, hotels, transport, communication, broadcasting (TRC)	14	20.1	9.3
3.2 Financial, real estate and professional services	7.1	7.8	6.4
3.3 Public administration, defence and other services (PAD)	7.2	12.6	2.6

All figures in %

Source: CSO, MOSPI

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SATISH KUMAR/MINT

The National Institute of Public Finance and Policy (NIPFP) recently organized a panel discussion on India's macroeconomic performance, in which I participated. This column draws on that discussion to underline some concerns regarding growth, employment, inflation and the current account deficit (CAD) and associated monetary and fiscal policy challenges.

Robust annual growth of 7.2% in 2022-23 masks the sharp growth slowdown from 9.5% in the first half of the year to only 5.3% in the second half (see table). On the demand side, the slowdown is most evident in private consumption and investment (fixed capital formation). On the supply side, the slowdown is mainly visible in services, where growth halved from a high 12.6% in the first half of 2022-23 to only 6.5% during the second half. High frequency indicators suggest that this slowdown has persisted during the first quarter of 2023-24, especially in services. Our growth forecast for the full year is around 6%. Given the grim global background, achieving this will be quite remarkable.

But is this output growth effectively translating into employment growth? A Niti Aayog paper by Chand and Singh estimated a workforce of 512 million persons in 2019-20, growing by about 25 million persons annually. This implies a workforce of around 590 million persons in 2023. Is growth generating enough new jobs to absorb this work force? The Chand-Singh paper implies that it is, because their estimated unemployment rate declined from 6% in 2019 to 4.8% in 2020. Using a somewhat different definition of unemployment, the private-sector Centre for Monitoring the Indian Economy (CMIE) estimates that the unemployment rate in India is about 7.5% in 2023.

Of course, these unemployment estimates cannot reflect India's exceptionally low labour force participation rate (LFPR), especially among women, which is arguably a more serious challenge than open unemployment. As the Chand-Singh paper points out, about 60% of persons in the working age group are not in India's labour force at all. If the LFPR were significantly higher, unemployment would also be much higher. These unemployment estimates also cannot capture the huge backlog of underemployed workers or those in disguised unemployment.

In other words, while the growth rate of 6% is an achievement under present global economic conditions, it is nowhere near the rates of growth we require to effectively deal with the problems of unemployment and underemployment.

Inflation is also a matter of serious concern now. Headline inflation remained above the upper limit of the Reserve Bank of India's (RBI) inflation tolerance band of 6% virtually throughout 2022-23. There was a broad-based decline in inflation to less than 6% in the first quarter of 2023-24, finally responding to RBI's repo rate increase by 250 basis points between May 2022 and February 2023, plus other monetary policy tightening measures. However, it has again spiked up to 7.4% in July 2023, mainly due to an increase in food prices.

This is a consequence of Russia's withdrawal from the Black Sea wheat export arrangement in the global market, combined with domestic food supply disruption due to erratic rainfall. With general elections just nine months away, inflation has become a serious political issue. The NIPFP forecasts an inflation rate of 7.9% for the whole year 2023-24.

In the external sector, the current account deficit (CAD) had contracted to less than 0.2% of GDP in the fourth quarter of 2022-23, mainly due to a sharp contraction in imports, reflecting the growth slowdown. But the CAD began widening again in the first quarter of 2023-24. To end this chronic CAD stress, we need to rethink the policy of increasing recourse to tariff protection and quantitative trade restrictions and the reluctance to participate in regional trade agreements in which global supply chains are increasingly embedded.

As the CAD contracted, capital inflows also contracted from about $49 billion in the first half of 2022-23 to only $19 billion during the second half. Foreign direct investment (FDI) inflows recovered during the first quarter of this financial year and foreign portfolio investment (FPI) peaked. However, continuing policy rate increases in the US and other advanced countries and the recent Fitch downgrade of US sovereign debt have triggered an FPI flight to safety from most emerging markets, including India.

This has complicated the conduct of monetary policy. With the recent spike in headline inflation, RBI may wish to resume the repo rate increases that it paused in February. However, apart from stalling a bullish trend in the stock market, FPI outflows have also led to a sharp increase in bond yields. Further raising the repo rate under these conditions could be problematic. It could also have an adverse impact on the flow of bank credit, which has been quite robust so far.

QUICK READ

Despite a high growth rate, the economy is not creating enough jobs to employ burgeoning numbers, even as inflation is resurgent and our current account gap is a potential threat.

The mix of challenges muddle our options. Monetary policy can focus on inflation control while fiscal policy supports growth, but weak revenues have made India's fiscal glide path look shaky.

If monetary policy, nevertheless, focuses on containing inflation, fiscal policy can focus on addressing the growth slowdown. The central government's strong and sustained focus on capital expenditure (capex) does this. However, maintaining this focus has become difficult now, due to the sharp decline in central government tax revenues during the first quarter of 2023-24.

The budgeted 0.5% of GDP reduction in the fiscal deficit may now be difficult to achieve. It implies that the 0.7 percentage point annual reduction in the fiscal deficit required during the next two years to meet the 4.5% target for 2025-26 will have to be raised even further. Achieving that may not be possible without a strong tax revenue mobilization effort if the capex thrust is to be sustained.

MINT CURATOR

Weigh climate considerations before purchasing that home

Housing markets have been getting impacted by the phenomenon

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Climate resilience is on the homebuyer checklist now ISTOCKPHOTO

There's lots to consider when buying a house: Is it in a good location? Does it have enough storage? How new is the kitchen? But there's one vitally important question which should be at the heart of any property hunt: How will this home fare in the climate-crisis era?

There's a growing awareness among realtors that climate is fast becoming a bigger consideration in property investment. Mike Holden, divisional director of growth at property data business Landmark Information Group, tells me there's a generational divide, with younger people more attuned to climate risks while oldsters are still willing to pay a premium for drafty inefficient homes provided they tick the rest of the buyer's boxes.

There are financial benefits to including climate in a property buying decision, whether that's keeping insurance premiums and energy costs down, avoiding costly repairs or maintaining resale value. As the next generation starts getting on the property ladder, sustainability is likely to have a growing impact on prices.

I'm in the privileged position of searching for a first home of my own and, as someone who writes about the climate crisis for a living, it's been top of mind in two ways. The first is the physical risks. While my partner admired the new carpets in a cosy basement flat, I fretted over whether it was at risk of flooding. When we visited top-floor flats, I worried about overheating, a potential problem for a third of England's housing stock according to a report from the Resolution Foundation.

Another property previously suffered subsidence, something more likely to happen as hot, dry summers cause the ground to shrink and crack. The British Geological Society predicts that millions more homes will face this expensive structural challenge by 2070, with London particularly vulnerable.

The second thing issue is what improvements we'd have to make to reduce our home's environmental impact. In the UK, any home for sale or rent has to get an energy performance certificate. Assigned by a licensed home inspector, it comes with a rating, from G (least efficient) to A (most efficient), and recommends steps that the homeowner should take to improve the score, such as installing ceiling insulation or upgrading the boiler. It's been eye-opening. We viewed one lovely flat with an EPC rating of E. To bring it up to its maximum potential of B would cost tens of thousands of pounds. It probably needs doing—there's a proposed bill working its way through the UK parliament that would mandate an EPC rating of C or above for all owner-occupied homes by 2033—but as first-time buyers, we simply don't have the capital.

However, it appears I'm still in a minority in asking these questions. Hordes are still moving to locations within the Sun Belt in the US, on the frontline of strengthening hurricanes, flooding and extreme heat waves. That will soon have financial consequences: Just look at Florida, which is in crisis as insurers flee the state and premiums soar. Research in the Netherlands shows that homes with a high potential for flooding aren't cheaper than lower-risk homes, potentially because living near water is seen as a perk. It's only when there's been a flood recently that property prices are hurt. Likewise, in the UK, Holden says that estate agents aren't currently seeing energy performance affecting property values.

So how should you incorporate climate risks when buying? Do as much research as you can. Study the details of the energy performance certificate. Check if the property is on a floodplain. When it's time to proceed with an offer, a solicitor can advise you on anything they discover that might impact your future ownership; in April, the Law Society of England and Wales confirmed that the buyers' conveyancing solicitors have a duty to advise on climate legal risks. The Law Society requires an environmental search, but you might request a specific climate-change report from your conveyancer that gives a forward-looking analysis of potential dangers based on climate projections.

Meanwhile, some surveyors now offer services such as a retrofit assessment, which are more in-depth than an EPC and can give more detail on how to make your prospective new home more energy efficient. Of course, climate considerations aren't the be all and end all of such an important decision.

I'm not choosing a place to live based purely on its climate resilience. It was the way the place I've ended up falling in love with felt like home already that got me. But I'm reassured by the knowledge that it isn't at risk of disappearing underwater, and only needs small updates to improve its energy efficiency.

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GUEST VIEW

Go back to a clean slate on data protection for children

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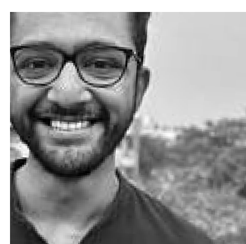

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After nearly a decade of discourse around a data protection law for India, a requirement that was given urgency by a landmark Supreme Court judgement in 2017 on the fundamental right to privacy, the Indian Parliament has finally passed the Digital Personal Data Protection Bill, 2023. This is the third version; previous drafts of the Bill were circulated in 2019 and 2022. However, in each draft, the law's approach to protecting children's privacy has remained hazy.

To recap, the current law sets the age of consent to use online services at 18 years. If you are younger than 18, then the online platform has to obtain "verifiable parental consent," failing which the platform can incur massive penalties up to ₹200 crore. While a child can use an internet platform once a parent provides consent, the platform is completely prohibited from tracking and monitoring the behaviour of child users, irrespective of the purpose for which such data processing is to be conducted.

This is where this approach becomes problematic. How can online platforms prevent a child from being exposed to harmful, risky or illegal content, interactions and experiences without tracking or monitoring their behaviour? How are they expected to take precautionary measures, such as alerting parents or law enforcement agencies, if the child is getting drawn towards self-harm, bullying, harassment, hate speech or other dangers? While other jurisdictions have chosen to place high responsibility on platforms for keeping children safer, the Indian law takes a diametrically opposite approach.

The law looks at "verifiable parental consent" as an end-all solution. This is in a country where less than 40% Indians are digitally literate, as per the National Sample Survey's 78th Round (2020-21) data, with the distinct possibility of children gaming the system by using their parents' phones/email IDs to provide consent without their knowledge. The mere fact of parental consent is presumed to take care of any harm or risk which may befall children after they begin using the platform.

To add to this, the law is willing to provide exemptions from parental consent requirements for certain platforms that will be certified as being "verifiably safe," allowing them to process data of children above a certain age (16 years) without parental consent. As per an interview of the IT minister of state, this certification could be reserved for platforms that ensure "100% KYC," through identity-proofs such as government ID cards. The exemption may be available to specific entities such as "education, skilling, some vocational music websites where children are learning music and they [platforms, i.e.] take all kinds of precautions" and "certainly not social media."

This exemption carrot is riddled with issues as well. One, it is *prima facie* in conflict with the data minimization principle: platforms should only collect data necessary for achieving specific purposes. It is unclear how collecting parents' IDs will help in keeping children safe while using the platform. Two, by laying down a white-listing process, where platforms have to apply for 'verifiably safe' certification, the law will increase bureaucratic entanglement in a dynamic digital economy. It is unclear if entities will have to apply to a government authority for every incremental change by which they seek to create more value for children using their products or services.

QUICK READ

Children can use platforms with parental consent but child users cannot be tracked, making safety measures hard to apply, even as the law's exemptions could have unintended adverse effects.

It would have been better for the new data protection law to uphold 'best interests of the child' obligations set out by the UN convention on child rights, to which India is a signatory.

Further, the rationale for singling out certain categories of platforms is not immediately clear. Today, the lines between a platform's purpose are blurred. For instance, YouTube is perhaps the world's biggest ed-tech platform, with its invaluable and democratized repository of knowledge on everything from exam preparation to art and music lessons and personal development; but the government may categorize it as a social media or a streaming platform. Through this certification, the law would end up discriminating among entities that may be offering equally strong protections while processing children's data, but may either be shut out at the door itself or not have applied for 'verifiably safe' certification for other reasons. This may also reduce the incentive of online platforms to innovate for children, as they may want to avoid an over-regulated market segment. India's young netizens would then be at a disadvantage vis-a-vis their global peers in all these situations.

An alternative approach could have been to uphold 'best interests of the child' obligations under an internationally recognized standard of the UN convention on child rights, to which India is a signatory. In practice, the design of platforms would have to uphold this standard in terms of default settings, nudges, location tracking, publishing regular risk self-assessments, issuing prescriptions against detrimental use of data and so on. Beyond this, the government could blacklist any platform found to be violating the rules and stop it from processing children's data. This will push all platforms to adhere to high data protection standards based on associated risk, while children would be able to freely access the internet based on varying levels of maturity.

How to protect children online is a global debate and there are no easy answers. However, the approach that we have taken to this issue suits neither the realities of India nor the challenges of cyberspace.