

higher. The Indian benchmark 10-year bond yield on July 4 closed at 8.16 per cent, much higher than the yields on the 10-year paper in troubled economies of Italy (5.72 per cent) and Spain (6.32 per cent). The yield on a triple A-rated Indian corporate paper was at 9.36 per cent.

Dr. Singh's actions imply that pushing the value of the rupee back up is the top priority, that market sentiment is more important than the overall business confidence and that fixing the external (i.e. current account) deficit is more important than the internal (i.e. fiscal) deficit.

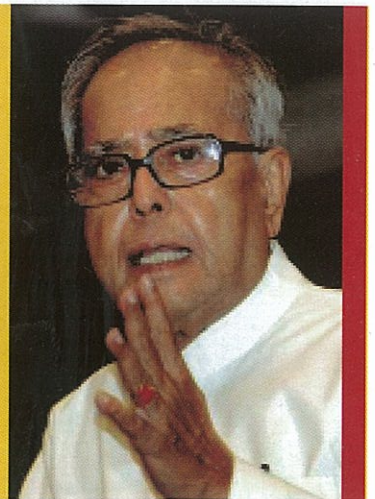
Dr. Singh assuming the charge of the finance ministry was welcomed by trade industry and markets not only at home but also abroad. Dr. Singh's close colleague Dr. Montek Singh Ahluwalia, Dy. Chairman of Planning Commission welcomed Dr. Singh's gesture to keep the finance portfolio with himself. Dr. Ahluwalia is confident that "Dr. Singh will very quickly resolve uncertainty among investors caused by anti-tax avoidance rules."

Mr. N.K. Singh, a former bureaucrat who worked with Dr. Singh in the North Block is all praise for the new finance minister. "I believe he has the technocratic and analytical skills as well as sagacity to take the right steps in the face of the looming economic crisis."

Praising Dr. Singh's revolutionary policy changes to usher in economic reforms in 1991, Dr. V.V.L.N. Sastry, a renowned investment banker and the country head of Firstcall India Equity maintains, "Dr. Singh may have conducted himself for far too long like an economic messiah.

**There are some external reasons for economic slowdown and we need to work towards making our country resilient in meeting these external challenges.**

— Pranab Mukherjee



But for the moment, at least, he appears to have found his voice. The roar that you hear reverberating through the corridors of power is that of Dr. Singh. Well his roar is good for the economy and good for Indian nation."

However there are many who expect no miracle with Dr. Singh assuming the charge of the finance ministry. Quips Mr. Abheek Barua, chief economist at HDFC Bank, "It is not an issue of whether he wants to but whether he is able to push reforms through. I am not sure if he is in a position to pull allies together on controversial decisions."

Mr. Lalit Kumar Dangi, a versatile merchant banker and a financial expert, is also not sanguine of any big achieve-

## Pranab's policies to be reversed?

**I**t is no secret that the Prime Minister Dr. Manmohan Singh and the finance minister Pranab Mukherjee did not see eye to eye on many issues during the UPA II regime. In fact, most of the senior ministers were not paying much attention to Dr. Singh and used to do what they thought was right. Mr. Mukherjee was no exception.

But now that Mr. Mukherjee is out of the cabinet, Dr. Singh seems to all set to reverse some of the policies pursued by Mr. Mukherjee which created serious problems for the economy.

Observers point out that the controversial measures taken by Mr. Mukherjee related to foreign investment viz. GAAR and retrospective tax amendment which have adversely affected the flow of foreign funds into the country may be diluted substantially.

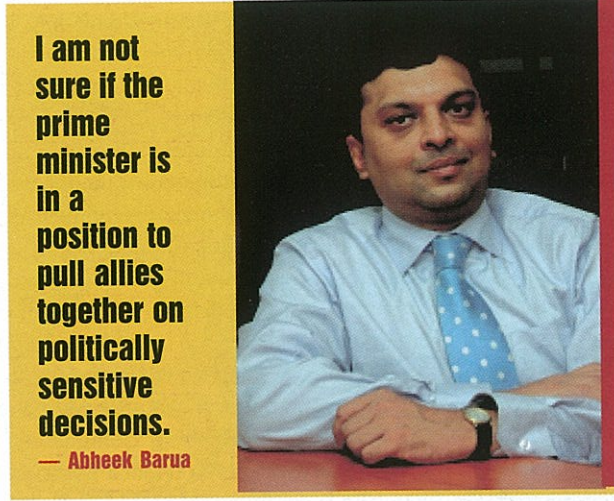
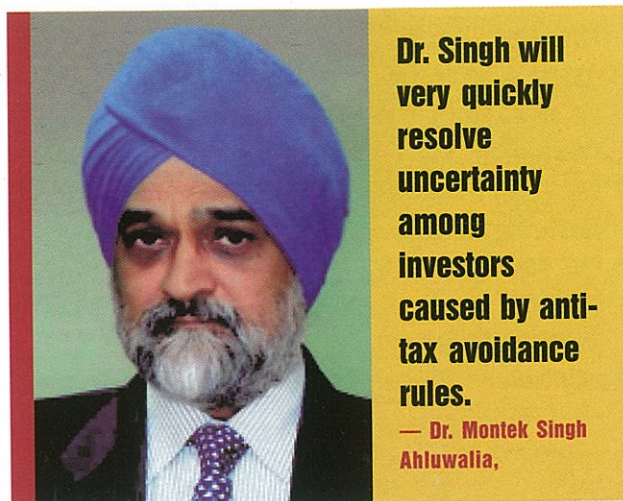
Says Dr. Ahluwalia "I think the government should look carefully at informed opinion and comments on whether these rules take care of all the problems and then address them."

Dr. Singh himself realizes that unless corrective action is taken in these matters and a rating downgrade is averted, India could witness a flight of capital as foreign investors would be compelled to take their money and run.

Comments Dr. V.V.L.N. Sastry, "Dr. Singh's response to the real threat of a rating downgrade is in sharp contrast to the hasty dismissals of Mr. Mukherjee who 'rejected' the S&P report whatever it means; particularly its observation that the power imbalances are leading to policy paralysis has been set to rest by Dr. Singh for now with his assumption of finance ministry."

Reports from the North Block point out that the finance ministry has seriously taken up the two issues highlighted by Dr. Singh. It is believed that some of the top mandarins in the ministry, who were close to Mr. Mukherjee and his policy initiatives, may be replaced in order to evolve investor-friendly policies.

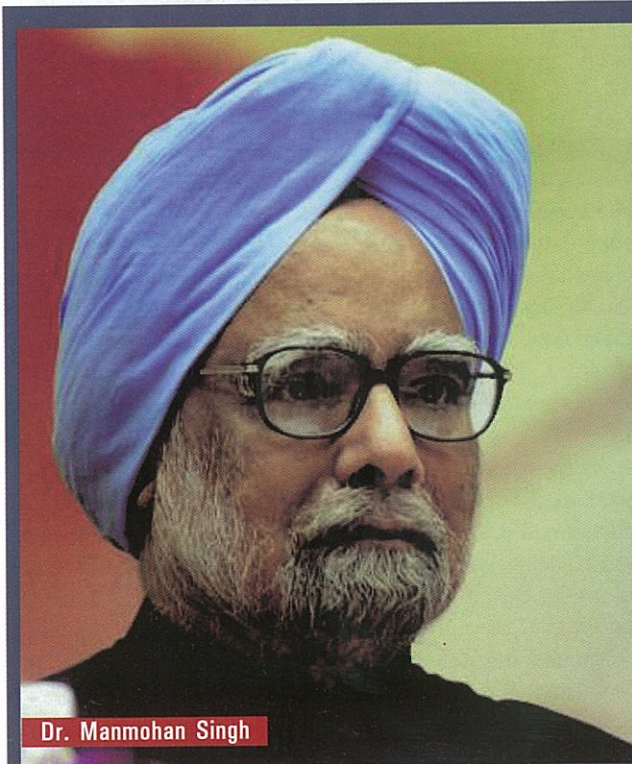




ments by Dr. Singh. He comments, "in the midst of so much political instability and economic downturn in the world, it will be a miracle for Dr. Singh to push ahead reforms even an inch. The opposition parties have lined up all their all artillery to gun down the government and butcher the economic reforms which are being put up for discussion by the ruling party. The government is working under so much threat, uncertainty, with no vision, with no leadership, no game plans for future. Under such circumstances, it is highly improbable that Dr. Singh will be able to push any reforms."

But Dr. Singh seems to have made up his mind to revitalize the economy. He specifically told the North Block mandarins that they should reboot the Indian growth story and revive the animal spirits of businessmen.

Unlike Mr. Pranab Mukherjee, the former finance minister, he did not pretend that the economy was in fine fettle. He made it clear that "investor sentiment is down and capital flows are drying up. There are some external reasons and we need to work towards making our country resilient in meeting these external challenges. However, there are



## Stock markets looking for

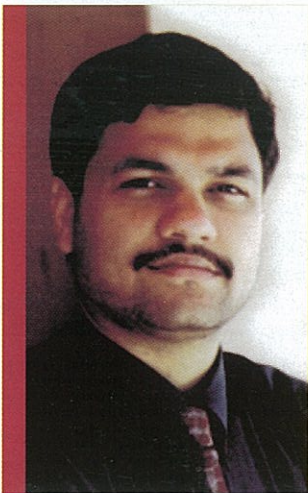
There is no doubt, the stock markets have welcomed the assumption of the charge of the finance ministry by Dr. Manmohan Singh and they are very hopeful after Dr. Singh gave clear indications about bringing in investor-friendly policies.

However, many investment brokers, stock brokers and investors are sceptical as to whether Mr. Singh will be able to achieve what he is planning in the face of the problems being created by the opposition parties, by allies and by its own Congress party.

But it is certain that if Mr. Singh is can take concrete steps to iron out glitches in the new tax policy measures announced by the former finance minister Mr. Pranab Mukherjee, the markets will turn bullish as FIIs who had been spooked into take out their capital will return to the Indian market, leading to a resumption of capital inflows.

Certainly, the economy is in bad shape. The pace of economic growth has slowed down considerably. Industrial production has almost stagnated. Primary capital market is comatose. Capital formation has been on a downward drift. Stock markets cannot remain cheerful in these circumstances.





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many domestic reasons as well. We need to address these quickly."

To be sure, all these goals (pushing up the rupee, improving the market sentiment, fixing the current account deficit) are important, but they are not the primary challenges. As Dr. Singh himself pointed out, 'there are no international solutions to the problems of a country of India's size, of India's diversity. So it is obligatory on us' to restore the momentum of growth that this country is capable of and which this country needs.'

In an interview with a national daily, Dr. Singh identified five key challenges in the year ahead: controlling fiscal deficit, achieving clarity on tax matters, reviving mutual funds and insurance industries, clearing a backlog of foreign investment proposals and boosting infrastructure. Some measures are taken to achieve these objectives. But a lot more remains to be done.

This is what the trade, industry and the investor community at large expects him to deliver. The actions announced so far are politically easy. There is much more that

## action to match words

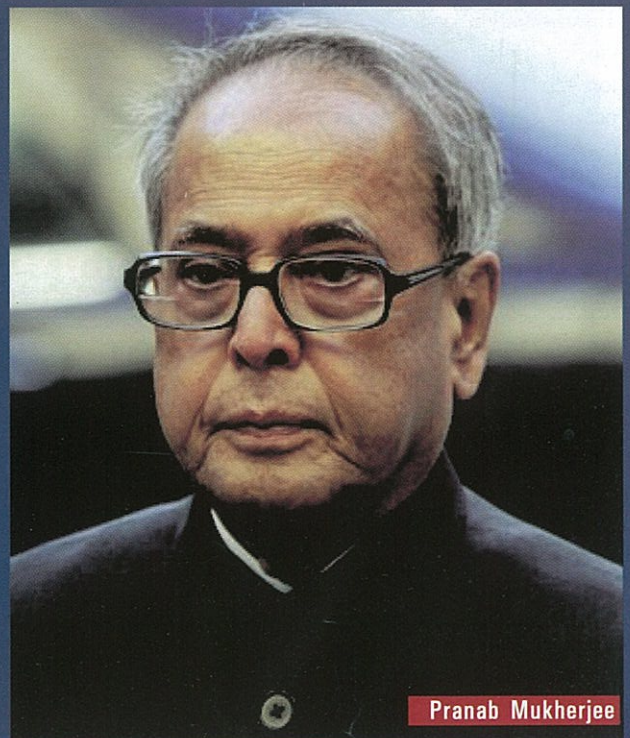
According to Mr. Lalit Kumar Dangi, Dr. Singh is well aware of these facts and he is seriously worried about the issues. But he will have to perform a miracle to change the environment. "The million-dollar question is: will Dr. Singh be able to achieve his objectives in the midst of hindrances from all sides," asks Mr. Dangi.

Admits Dr. V. V. L. N. Sastry, "Dr. Singh has a very small window of opportunity of about eight months to sort out the economic mess before the compulsions of politics and populist instincts take over the ruling party again. It is the self preservation instinct of having to do the right thing out of compulsion, which is driving Dr. Singh to crack the whip."

The stock markets will turn buoyant if Dr. Singh solves the two top controversial issues of GAAR and the retrospective tax amendment. One should not be surprised if the Sensex shoots up to about 20,000 mark in that case.

Stock markets need investor-friendly policies and Dr. Singh knows it very well. But will he be able to perform that miracle?

Markets are waiting with bated breath whether Dr. Singh will be able to deliver what he has in his mind. ■



Pranab Mukherjee