



Confederation of  
Indian Industry  
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# POLICYwatch

AUGUST 2020, VOLUME 9, ISSUE 2

## Focus: Economy

### Message from Director General

## "Green shoots of recovery are visible in economic activity indicators"

**T**he impact of COVID 19 that we are witnessing currently is nothing short of a 'Black Swan' event. It has completely altered the economic paradigm. Globally, the uncertainty as a result of the strict lockdowns necessitated to prevent the spread of the pandemic has resulted in a huge economic cost. Though necessary for protecting lives, the lockdowns have led economies world-wide to struggle with deep recessionary conditions, the worst since the Great Depression of 1930s.

The situation in India has been no different, as it finds itself staring at a recession, the fourth ever in available records. The Government's response to protect and rebuild the Indian economy in the form of the ₹20 lakh crore economic stimulus package was well crafted, without disturbing the fiscal math. This left

additional room for contingency measures in the future, should the need arise. Apart from providing the financial wherewithal to navigate out of the crisis, the thrust of the package was also on ensuring that India becomes self-reliant.

Acting in tandem with the Government, the central bank, has used an assortment of innovative and pragmatic policy instruments to ameliorate the impact on the economy. The rate cuts by a cumulative 115 basis points since March 2020, have been supplemented by an array of liquidity infusing measures to ensure that the credit needs of productive sectors of the economy are met.

After nearly 70 days of lockdown, from June 1 India started the process of unlocking the economy. As a result, green shoots of recovery are visible in economic activity indicators. Peak power demand, e-way bill generation, and manufacturing PMIs, among others, have shown incremental improvements in June.

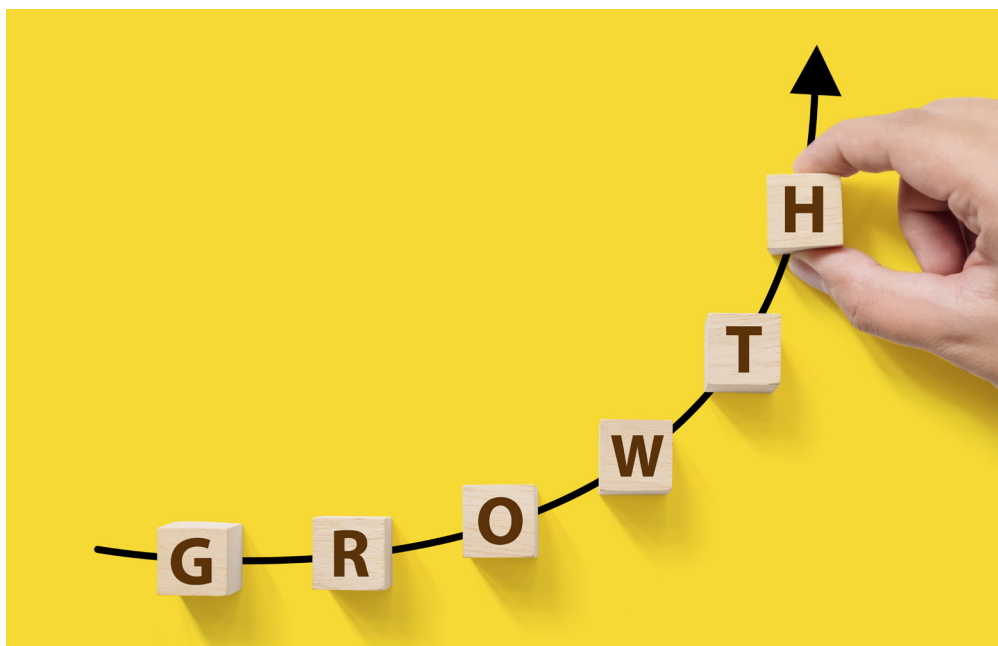
Much-needed support to the economy this year is also expected from the agriculture sector as monsoons have been good so far, with cumulative rainfall 12% above normal (as of 4 July). Sowing for the summer crop

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has also progressed well and is up by 88%, up to 3 July.

As the economy is opening up, supply-side constraints are also easing incrementally. However, while a rebound in activity is expected post the initial pent-up demand, the pace of recovery will likely be gradual given a fragile financial sector and the protracted impact of COVID-19 on certain segments of demand.

Private consumption has been the main driver of India's growth, contributing about 60% to GDP. It is time to go the Keynesian way of stimulating spending in the economy targeted mostly at the lower and middle-income groups that form bulk of our population. This could primarily be done by improving jobs and livelihood opportunities available to them. Thus, a complete reset of the existing policy discourse on jobs needs to be brought back to focus.

Investment, too, remains the foundation of our economy. The large multiplier impact which investment in public works programmes has on growth and employment will be crucial for

lifting the economy. In the same vein, easing procedural bottlenecks with respect to timely acquisition of land, getting environmental clearances etc., will also be important for incentivising infrastructure investment.

Though understandably in the current scenario where global trade is falling precipitously a push to exports may be difficult, the present crisis has presented India a golden opportunity to increase its share of global exports as companies look to diversify their import partners.

Finally, the pandemic should serve as a reminder that it is critical to build on our health infrastructure. At present, our healthcare spending at 1.29% of GDP remains abysmally low as compared to our peers in the BRICS and OECD countries. The government needs to urgently prioritize healthcare spending to brace itself for facing any eventuality of the present kind in the future. ■

**Chandrajit Banerjee**

Director General

Confederation of Indian Industry

# “Direct support is required for the stressed sectors, to prevent large scale loss of jobs and livelihoods in urban India”



**Dr Naushad Forbes**

*Past President, CII & Chairman,  
CII Economic Affairs Council and  
Co-Chairman, Forbes Marshall*

## How do you see the Indian economy performing in the short to medium term?

COVID-19 induced lockdowns, though initially necessary from a health perspective, have severely affected economic activity. April and May saw huge declines in all the key economic indicators, except for agriculture. Despite some recovery in June, the economy is likely to witness a deep contraction in the first quarter. My back-of-the-envelope calculation says GDP fell 30% in Q1.

As the vaccine is not expected to be available before next year, the economy is likely to function at around 85 per cent capacity for the coming 12-18 months. The consensus among economists, rating agencies and multilateral institutions is that the Indian economy will contract by 5 to 10 percent in FY 21. RBI has also forecast a contraction in the economy in the current year.

However, given that the crisis is caused by a disease and does not affect core strengths, the growth potential of the Indian economy remains intact. Bold policy reforms with speedy and efficient implementation are important to the medium-term realization of

this potential. We have seen some useful policy measures in agriculture, MSMEs and mining, under the Atmanirbhar programme. Much more needs to be done, including the ease and cost of doing business, factor market reforms and financial sector reforms.

## What is CII's stand on the fiscal caution exercised by the government?

Government spending has been supporting the Indian economy over the last few years and will be important to kickstart a sustained demand recovery.

Broadly we are supportive of the Government's stance to exercise caution on the fiscal front, with the combined fiscal deficit of the center and state governments estimated to hit a record high of around 12 – 13 per cent of GDP. The increased deficit reflects both some cost for Atmanirbhar – around 2 percent of GDP – and serious shortfall in revenue. GST collections in Q1 were 41% down on last year, instead of the significant budgeted increase. There is perhaps space for another 2-3 percent of GDP but this must take the form of a direct fiscal stimulus.

We believe that the Government's prioritization of the available fiscal space for supporting

citizens who are at bottom of the pyramid and for livelihood interventions in rural India, such as expanding the MNREGA program and the Pradhan Mantri Garib Kalyan Rozgar Abhiyan, is appropriate.

Except for MSMEs, industry has not been supported. Direct support is required for the stressed sectors, to prevent large scale loss of jobs and livelihoods in urban India. The collapse of dozens of large enterprises would also further stress the financial sector. A public works program of scale is important to boost demand and create jobs.

Resources for these interventions could be raised through monetization of Government borrowings, issue of Perpetuity bonds/ Zero-Coupon bonds and disinvestment.

### Given the current economic uncertainty, when do you see demand and investments recovering?

The unprecedented economic and health crisis caused by the pandemic has resulted in great stress and uncertainty in the economy. This makes the short-term demand and investment outlook tepid. Corporates are unable to plan beyond a horizon of a few weeks, affecting all capital expenditure. Consumers remain frugal affecting consumer demand.

Though it is not possible to predict the course of the pandemic, a dashboard approach, triggering predictable responses based on the progression of infections, can reduce uncertainty and boost both consumer and industry confidence, which in turn will support demand and investment recovery.

Confidence to industry on business continuity will aid resumption of industrial activity. The re-opening protocols must ensure that supply

chains function seamlessly across state and district boundaries, including through the containment zones. This could be achieved by limiting containment zones to micro areas, for example a housing society as against a whole block or a street.

In addition to a public works program, wage support to industry can facilitate demand recovery, by protecting jobs.

### The pandemic has brought to fore the issues related to migrant labour, which is linked to the larger problem of lack of opportunities in rural India. What can be done to achieve a rural-urban rebalance?

Rural-urban rebalance is an important agenda for CII. Reverse migration offers a once in a generation opportunity to address regional imbalances in growth and development. This can be transformative but will help only in the long run. In the short-run, we have only one choice: we need to make it attractive for migrant labour to return to urban India. When people migrate from marginal productivity occupations in rural areas to jobs in cities, their earnings rise markedly. As they have returned to villages, the same would subtract from GDP. My estimate is that the 10 million migrants who have returned to villages, at ₹2 L lower earnings each, would subtract over ½ a percent of GDP. Any hope of a bounce-back in growth next year requires that the migrant labour return to their higher productivity jobs in cities. We are already seeing this begin to happen out of sheer economic necessity, in spite of the abysmal treatment they received from private employers, central government and state governments alike. We need to welcome migration to our cities and put in place a new social contract that makes it





attractive and safe for the millions who went and the even more millions who stayed.

**Mission Atmanirbhar Bharat has set the goal of self-reliance. In your view, what steps the government needs to take to achieve this goal?**

Atmanirbhar aims to achieve self-reliance based on competitiveness and build a stronger India which is more engaged globally.

India has all the ingredients to be globally competitive - a young entrepreneurial population with aspirations, a vibrant private sector, a fair amount of strength in science and technology which can be further built on to meet specific industry requirements, we have success stories of Indian companies with large global footprints, we have a large and a growing domestic market and we also have a decent track record in global trade

post 1991.

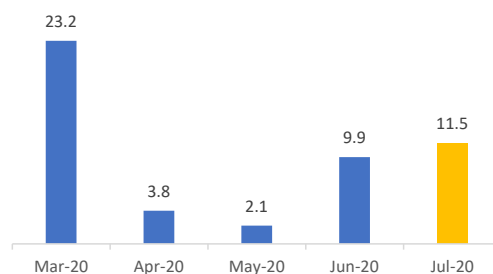
What we are perhaps lacking is world class standards in ease of doing business (EODB) and cost of doing business (CODB). We have made some progress on EODB, but much more needs to be done. Smaller countries like Vietnam, Thailand, Indonesia, Bangladesh which offer smaller markets and less industrial sophistication have been able to do better than us in attracting manufacturing investments relocating from China.

Government has already taken a good step in reducing corporate tax rates. We should couple this simplification in EoDB and addressing CoDB issues, and creating an environment which promotes research and innovation. To be globally competitive, Indian industry needs great improvements in EODB and CODB – we do not need tariffs. ■

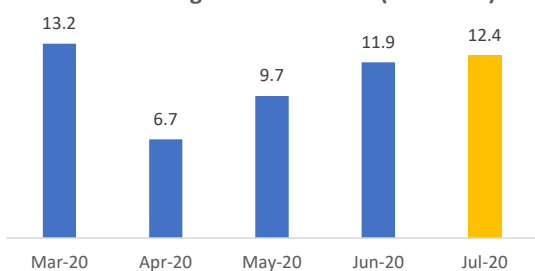
# Green Shoots of Recovery Evident in the Economy



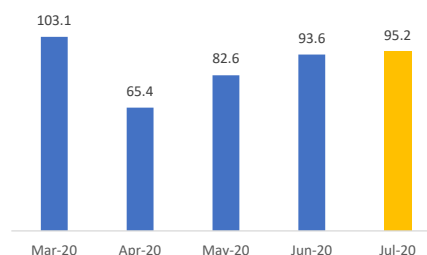
Number of Vehicle Registrations (lakhs)



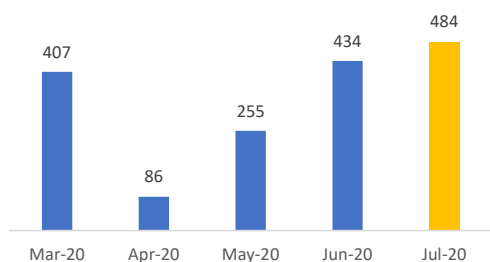
Number of Digital Transactions (Rs lakh cr)



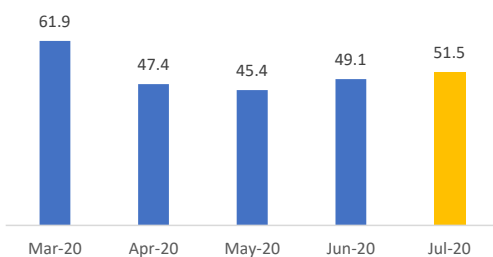
Railway Freight Traffic (Ton mn)



Number of e-way Bills (lakhs)



Port Cargo Traffic (mn ton)



Sources: Ministry of Railways, GSTN, Vahaan.gov.in, NPCI & Indian Ports Association

# CII Recommendations for Stimulating the Economy Amidst Covid 19



The battle against COVID-19 is expected to be a long-drawn one and its attendant economic costs will be humongous. At a time when the economy was showing incipient signs of recovery, the pandemic came as a bolt from the blue.

The lockdown, though necessary to save precious lives, has an economic consequence. In addition, a precipitous fall in domestic demand and the second-order effects from a drastic slowdown in global trade and growth, are all hurting the Indian economy.

CII has suggested the following interventions to stimulate the economy:

- Support to the poor - Support in the form of cash transfers to be made to as many people as possible at the bottom of the pyramid, by transferring about ₹2.0 lakh crore directly to their Jan Dhan accounts.
- Wage and interest support to industry - Banks to provide additional working capital limits, equivalent to at least three-month wage bill to all businesses, backed by a Government guarantee, at 4-5 per cent interest, with a refinance guarantee from RBI. A similar carve out to be provided for interest obligations of the stressed sectors; a provision of ₹2 lakh crores.
- SPV for investing in corporate bonds - Create a fund or SPV with a corpus of Rs 1.4-1.6 lakh crore to subscribe to NCDs/Bonds of Corporates rated A and above. The fund can be seeded by the Government contributing Rs 50,000 crore, with further investments from banks to the tune of ₹40,000-50,000 crore and balance ₹50,000-60,000 crore brought in by financial institutions such as LIC, PFC, EPF, NIF, IIFCL et al. A government guarantee could be used to encourage subscription to these bonds.







- **Public works programme** - An allocation of a total of ₹4 lakh crores to be made, for funding public infrastructure which can further rope in private investors and investment funds such as the NIIF to increase the size of the investment pie.
- **Bank recapitalisation** - An allocation of ₹2 lakh crores for bank recapitalization to be made to manage any surge in NPAs of public sector banks.
- **Additional reconstruction term loans to stressed sectors** - Banks to provide additional reconstruction term loans to stressed sectors like aviation, tourism, etc., with a guarantee up to 20 per cent of the default from Government of India.

## Financing the Interventions

- **Monetization of Government borrowings**

Monetization of Government borrowings could be used as a reflationary tool. CII suggests subscription of government paper by the RBI each year. The government can also borrow more from the secondary market.

- **Expenditure Reduction**

Government to look at substantial reduction in expenditure by reducing some of the centrally sponsored schemes and directing the savings towards states' expenditure on health.

Government to identify items that have been budgeted but not spent, such funds to be utilised for financing suggested interventions.

- **Disinvestment**

Currently about 57 PSU listed companies excluding those in the banking and financial sector have an average equity holding of about 71%. The average market capitalization of these companies is around 10 lakh crores. The Government to target about 30% of these holdings to raise resources over the next two years, which could be channelized for funding public infrastructure.







Of all the sectors of the economy, Industry has borne the biggest brunt of the ongoing pandemic, having to deal with simultaneous demand and supply side blows to its operations. Businesses, large and small, are significantly affected as the sudden onset of the virus and its prolonged uncertainty have brought operations to a standstill and hurt business confidence. Industry requires more support from the government not only in terms of improved business environment where some progress has been made, but also in the form of lower cost of doing business where much needs to be done. Short term direct measures like stimulating demand, providing working capital support to business in the stressed sectors to help them meet their interest obligation and short-term payment of wages to their workers would ensure restart of the business cycle and strengthen prospects for a quicker recovery.

**Sanjiv Bajaj**

*Vice President, CII, and Chairman & Managing Director, Bajaj Finserv Ltd*

The Covid crisis is as much an economic issue, as a public health one. It is certain that a large number of business organisations, which have been hanging at the edge, and those, whose business models have come under existential threat, such as hospitality and tourism will soon face solvency issues. This strain in the real economy will soon impact the health of the financial sector. The RBI has acted proactively and aggressively, providing access to liquidity to a wide variety of businesses and financial intermediaries. It would be prudent for the Government of India to anticipate the potential solvency problem in the financial sector and create a capital fund, that could be made available to banks, public and private, which are in need of augmenting their capital base.



**R Seshasayee**

*Past President, CII and Chairman, CII National Committee on International Trade & Trade Policy and Corporate Director & Advisor, Hinduja Group*



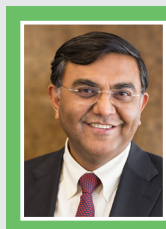
We are going to have a very rough economic ride for the rest of this year, improving, but still a rough ride, and almost certainly the first half of next year. And even if we do get to 2019-20 GDP levels by the second half of 2021-22, we must realize that this is no assurance that the growth rates after that will get us back to seven percent plus automatically.

You will get a high growth next year because of the base effect. But after that, whether we grow at, let's say, somewhere between three to five per cent a year, or at seven per cent plus, in my view, will depend very much on what are the policies the government takes for the rest of this year as well as during next year. And that's going to be a very challenging time, given the huge uncertainty that we have on all fronts.

**Dr Shankar Acharya**

*Co-chair, CII Economic Affairs Council and Honorary Professor, ICRIER*

No government leader can truly be ready for a global health pandemic, combined with spiralling super power tensions and a world economy that has barely recovered from the effects of the global financial crisis. But yet in these times the role of sovereign governments has gotten enhanced because global coordination, cooperation, and support has fallen to the lowest level in living memory. So, it is critical for every nation to have a clear and bold agenda for reform and then act on it. There are two areas requiring continuing focus those that create jobs and those that enhance future productivity of the economy. Thus, the Government should speed spending in infrastructure that creates both jobs and increases productivity by printing money if necessary to sharpen the recovery. The Government should also attract stressed assets funds which would be evaluating opportunity across the world but would seek policy predictability and continuity.



**Dr Janmejaya Sinha**

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Published by Confederation of Indian Industry (CII), The Mantosh Sondhi Centre; 23, Institutional Area, Lodi Road, New Delhi 110003, India

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