

# ECONOMY UPDATE

...Reflections &

Outlook 2021...



# 2021 would see the re-positioning of sectors and strategies basis the learnings from 2020

## 2020 is behind us and was a strange year...

### What went wrong

The pandemic led to a plummet in Indian GDP at the time when economy was already growing slowly at 4.2 per cent in 2019-20 in comparison to 6.1 per cent in 2018-19. This led to contraction in the economic activity leading to closure of enterprises, job losses, reduction in salary having a cataclysmic impact on the poor.

- **Private consumption, investment and external trade:** The 3 major contributors to GDP got severely affected.
- **90 per cent of the entire workforce and 85 per cent of the non-agricultural workforce in India is informal** (defined as those without social insurance), making India an outlier among low-middle income countries as per the ILO report: Informal Employment Trends in the Indian Economy.

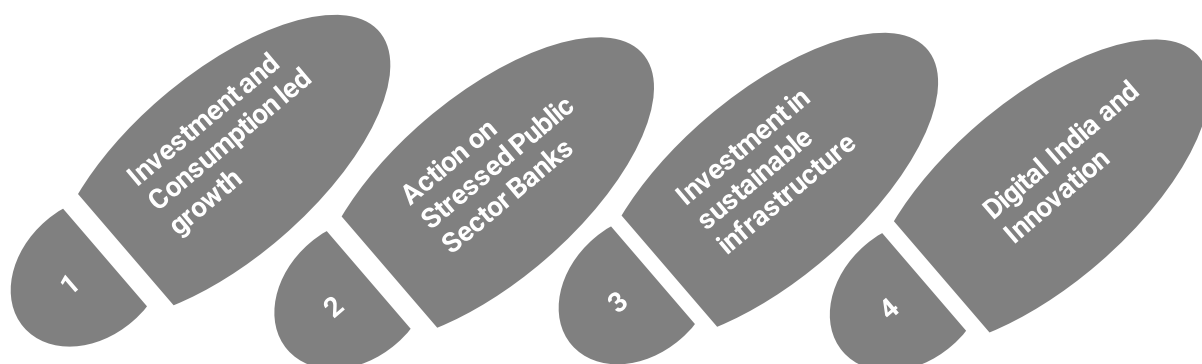
### Visible Positives

- The Indian economy showed signs of recovery in the second quarter when the **contraction narrowed from historic 23.9 per cent in Q1 to 7.5 per cent in Q2.**
- Launch of the '**Aatma Nirbhar Bharat Abhiyaan**' special economic package of 20 lakh crore (10 per cent of Indian GDP) came at the right time to revive economy.
- India has attracted more investments by **easing administrative regulations for foreign investors and opening the economy for foreign companies** in sectors such as defense, telecommunication and private security, among others.
- The pandemic changed consumer behaviour and market's focus towards health and hygiene products.
- The announced **National Infrastructure Pipeline** can be a game changer, both in the medium and long term, through creation of core sector demand, as well boosting economic growth.

## Some challenges remain...

- Functional Autonomy of the Local Governments remains a large issue. There is a need for **stronger revenue augmentation models** and tax collection at the local level.
- **Less expenditure on health infrastructure**
- High level of **statutory compliances**, increasing **NPAs in infrastructure** sector, delayed contract enforcement, and ease of paying taxes remains a large reason for discouraged foreign investments in the country. The 2018-19 Economic Survey, estimated that the value of stayed projects in 6 infrastructure ministries was close to INR52,000 crores.
- While new **Labor Codes** have been notified, there is a **need for continued simplification** and consolidation, and for providing transparency, uniformity and social security benefits.

## The agenda for 2021 should include a focused approach on....



## Big ideas

### 1 Investment and Consumption led growth

- India is a preferred beneficiary of the China Plus One narrative, bringing capital, skills, technology to industries and building up broader supply chains.
- **Investments in renewable energy (solar panels)** will ensure that India's strategic goals are aligned with the global Sustainable Development Goals (SDGs). This can be done by focussing on **Environment, Social and Governance (ESG)** criteria standards for investors to evaluate companies to move towards larger objective of sustainability. Thus, working towards **Circular Economy**.
- Public investments in infrastructure (rural road connectivity, roads, ports, highways) is needed to boost demand having a multiplier effect on output and employment growth in economy. This will strengthen the **investments in developing regional value chains**
- The Government should push investments in **health infrastructure as priority** to catalyze the National Infrastructure Pipeline (NIP) that plans investment of INR111 lakh crore over the period FY20 to FY25.

### 2 Action on stressed Public Sector Banks (PSBs), higher Private Sector Participation

- The privatisation reforms rolled out in many sectors such as the Ayushman Bharat health initiative, Consolidation of Banks and Non-Performing Assets, Roads and Highways as well as lease model for Defence procurement has shown laudable outcomes for the economy.
- Privatising and altering the ownership structure of select **public sector banks** like UCO bank, Bank of Maharashtra by private investors in a calibrated manner can reduce NPAs, bring financial and technological expertise, generate wealth and resources for reinvestment.
- **Setting up Asset Reconstruction Corporations ('Bad Bank')** can act as an engine to aggregate loans and refresh stressed assets in sectors like transport and power and help in efficiently re-distributing both debt and equity funding.

### 3 Digital India and Innovation

- Digital transformation across key sectors are needed such as education (e-education hubs in villages), health (telemedicine), manufacturing (robotics, AI) since country's large part of economic value created is coming from new technologies, innovation and research.
- India needs to focus on incentivizing R&D and innovation by deductions or tax credits for companies investing in technologies such as Internet of Things, cloud services, robotics, automation, Artificial Intelligence, Blockchain etc.
- **Greater focus on Smart Villages:** Robust ICT driven platform such as connecting Gram Panchayats, schools and primary health centres by BharatNet, smart water system, smart waste management will strengthen and empower villages.
- **Need for digitalizing MSME sector:** Cisco India SMB Digital Maturity Study 2020 reveals that the digitization of small and medium enterprises could add up to US\$158-216 billion to India's GDP by 2024.

- *Infrastructure plans and policies need focused attention on governance, regulation and structure*
- *Privatizing selected Public Sector Enterprises will make them more efficient*

*These reforms will enhance local and global competitiveness of the country helping it reach the goal of US\$5 trillion economy.*

## Think Points

### Few key questions that will need executable answers



*Can India make a 'V-shaped' recovery by 2022 in the post COVID-19 scenario?*



*How COVID-19 has led to improved allocative efficiency in domestic specialization of goods and services in current geo-political scenario? (Going local from global)*



*How long will it take to bridge the gap of social inequalities that the pandemic has created?*

### ...and what policy / budget clauses can enable implementing the above...

- Bringing **Automotive and Auto Electronic Components sector** in the production-linked incentive (PLI) scheme can help increasing FDI in the auto sector helping it become the world's third-largest automotive market in terms of volume by 2026.
- Need for establishing a state-owned **Public Credit Registry (PCR)** as recommended by RBI Task Force for centralization of credit information rather than being disbursed across the financial market.
- **Private participation from domestic and international investors** will be a must in developing India's vision to reach US\$5 trillion economy. The Govt. must reinforce its public private participation across the three tiers of the Govt.
- **Fiscal expansion through counter-cyclical measure** through enhancing development spending (education, health, water supply, sanitation and so forth) and revenue stimulus measures will be the need of the hour.
- Indian MSME sector comprises of 94.4 per cent small firms and 5 per cent large firms, which makes it important for the Govt to hold extensive **skill and training programs, capacity building workshops** in order to build resilient supply chains which will help in providing employment and economic value. There is also a need for **resolving structural issues for the MSME sector to enhance efficiency by reaching out economies of scale.**
- **One India Job Portal** that facilitates bringing together employers and migrant job seekers, and also provides for and tracks appropriate **social security measures for the informal sector.**
- **Setting up India Development Bank** as a development finance institution to bring coordination and synergy in SDG achievement, and availability of funding for priority sectors and geographies.

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'Idea Realization'— a unique approach to examine futuristic ideas required for the growth of an organization or a sector or geography, from the perspective of assured on ground implementability.

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The founding team is supported by a distinguished advisory board that includes experts with leadership experience across government, large corporate and notable civil society organisations.

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