



Pre-Budget Expectations

Voice of the Indian Industry

January 2021



Knowledge Partner



The essential lockdown imposed in late March, to contain the exponential spread of the coronavirus, brought economic activity in the country to a staggering halt. The disruption in trade and economic activity led the April-June quarter GDP to contract by 23.9 per cent year-on-year (YoY).

The Government was tasked with managing the health emergency, which was turning into a financial crisis and the industry dealt with the triple challenges of disrupted supply chains, lowering consumer demand and limited workforce.

However, given Government support and the resilience and agility of the Indian economy, supported by strong macro fundamentals, the gradual lifting of the lockdown, led to various green shoots of recovery. On the path of recovery, the country's GDP for the July-September quarter (Q2) contracted by 7.5 per cent, an improvement over what many had predicted. The Prime Minister's clarion call of becoming Aatmanirbhar proved to be the inspiration that drove the industry and populace alike.

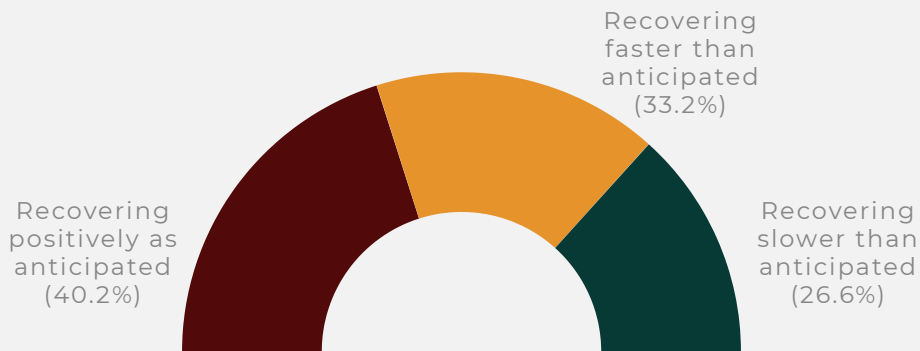
The industry is enthused to work closely with the Government to strengthen the domestic ecosystem and

position India differently in the post-pandemic global order. At the same time, the vision of becoming a US\$5 trillion economy continues to guide the growth agenda.

The upcoming Union Budget will be one of the most important in recent history with the Government promising a 'never before' like Union Budget. The unfolding crisis makes this Union Budget critical for the country's economic recovery and growth, as it would not only deal with the effects of the COVID-19 pandemic but also set up a roadmap for the Indian economy in this 'New Normal' that will define the role of the country on the global stage in the time to come.

As per the results from the ASSOCHAM-Primus Partners survey, covering more than 550 people from 64 cities across the country, the industry is optimistic towards the path to recovery and hopeful of embrace the 'new normal'. While more support would be needed in coming times, the industry maintains hopeful of continued Government support and collaboration with the private sector to realise the vision of becoming a US\$5 trillion economy.

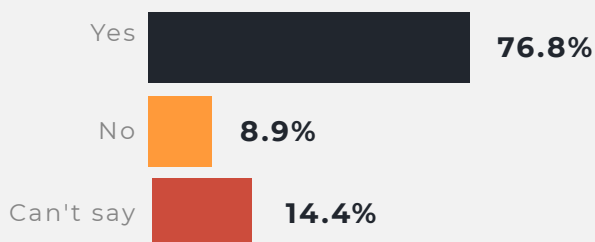
Current state of the economy



The Indian industry is significantly optimistic towards Government's measures taken to revive the economy in the wake of the COVID-19 pandemic, as two-third of the survey respondents stated that the economy is recovering quicker or as anticipated. Timely government interventions such as the INR1.7 lakh

crore relief package announced in late March providing rations for the poor, the Aatmanirbhar Bharat package worth INR20 lakh crore providing liquidity help to MSMEs, among other sectors and other subsequent measures announced have supported the economic recovery faster than was initially anticipated by many.

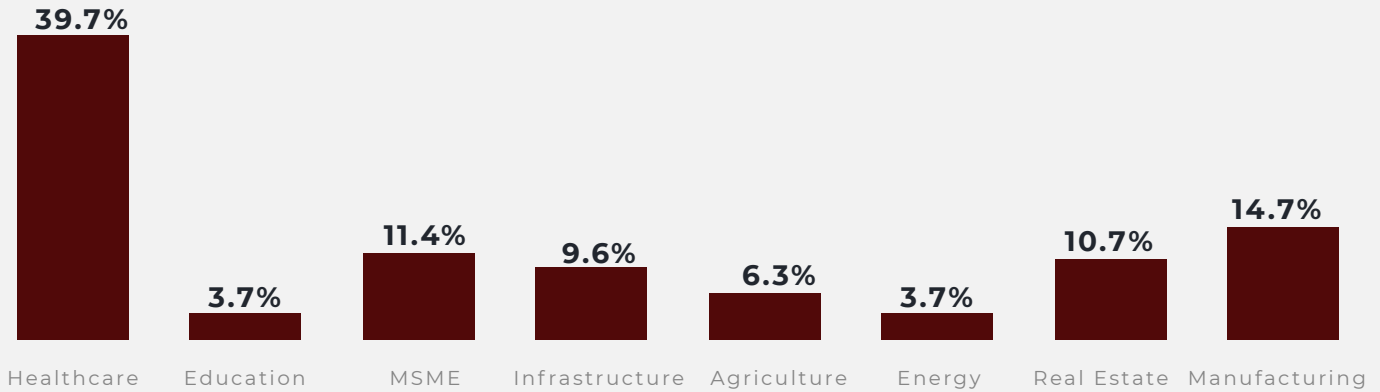
Need for demand stimulus in the Budget



The Aatmanirbhar Bharat package was a mix of much-needed liquidity measures and structural reforms. It is now essential for the Government to demand support measures, as the country has been unlocked now, with cases consistently declining and the vaccination drive in progress. 77 per cent of the respondents expect the Government to include a comprehensive demand stimulus in the Budget.

An impetus to spending by both the consumers and the Governments will accelerate economic activity and move India towards the path of recovery. Given the robust macro fundamentals, and continued Government support, IMF has estimated strong rebound for India, with 11.5 per cent growth in FY22.

Sector expected to get the most attention in the Union Budget 2021-22

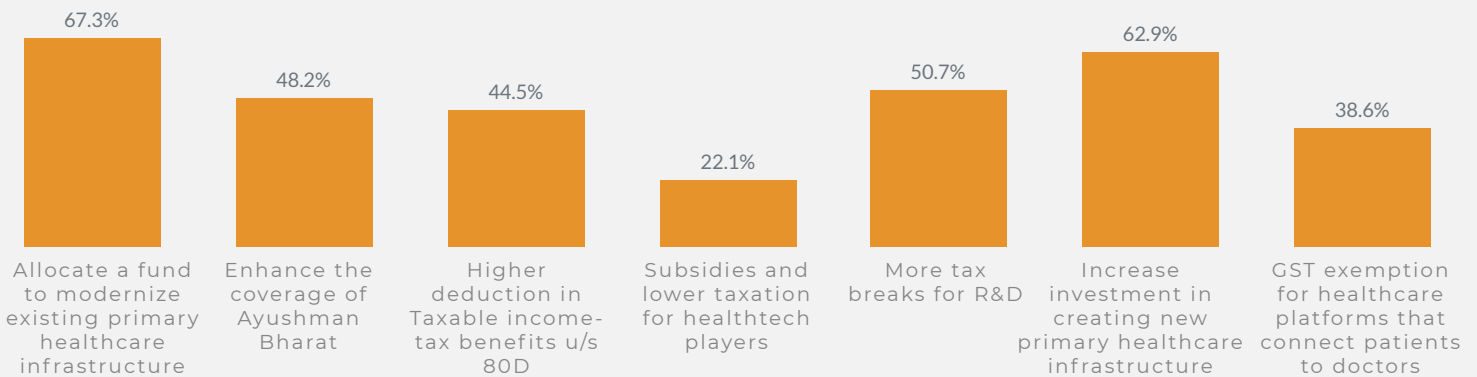


The survey results stated that respondents expect the health sector to get more attention in the Union Budget 2021-22, followed by Education, MSME, and Infrastructure.

The COVID-19 pandemic tested the limits of the global healthcare system. While the Government's proactive measures and the frontline workers' tireless efforts have helped tide the way, the pandemic has also brought forth the fragility of the healthcare system. In India, the shortage of hospitals, beds, and oxygen in the pandemic's initial days proved to be a challenge that needs to be addressed for the

economy's long-term health. The Indian healthcare and education systems have been underfunded for decades and were most affected by the COVID-19 pandemic. The survey shows that India expects investment in the social segment to support the infrastructure and manufacturing segment. This would help realise the Government's vision of making an Aatmanirbhar Bharat.

Measures expected to strengthen the healthcare and pharma sector



Note: Multiple response question

When asked on measures that can strengthen the Indian healthcare and pharma sector, maximum respondents expect the allocation of a fund to modernise existing primary healthcare infrastructure. This was followed by an expectation that the Government should increase investments in creating new primary healthcare infrastructure.

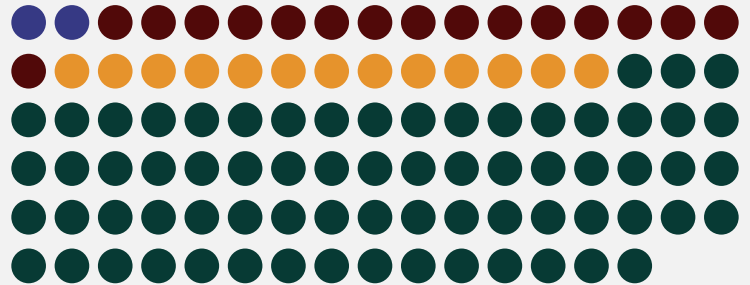
The COVID-19 pandemic put a significant burden on India's healthcare system, bringing forth the need for enhanced investments in the sector. As India faced a massive shortage

of hospitals and beds in the pandemic's initial days, especially in rural areas, there is a need to modernise existing primary healthcare infrastructure. As India focuses on bridging the deepening inequality amongst its populace, strengthening accessibility to low-cost, high-quality and timely healthcare will be essential.

As the Government faces a severe shortage of funds due to impacted tax revenues, it needs to look at new and innovative ways of allocating resources to their most productive use. Amidst the unfolding crisis, Direct Benefit Transfers (DBT) led to massive savings amounting to thousands of crores for the Government, highlighting the importance of technology.

The survey also revealed that the Government should further leverage technology and analytics to allocate funds better and more efficiently. 70 per cent of respondents stated that using technology could help support the increased allocation towards public health expenditure.

Supporting increased public health expenditure



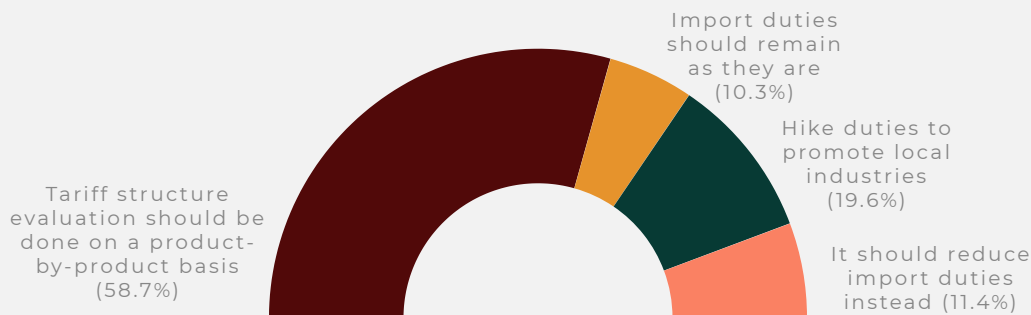
Leverage technology and analytics for better allocation of funds (69.4%)

Introduce an additional COVID-19 Cess (12.5%)

Increase collections from existing taxes (16.2%)

Introduce new taxes (1.9%)

Increasing import duties to promote Aatmanirbhar Bharat



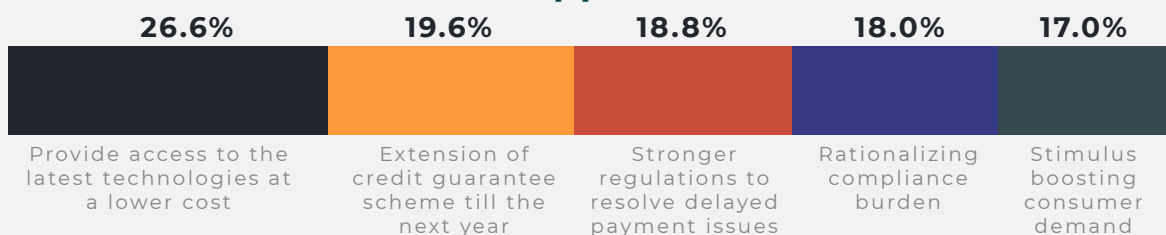
As the world dealt with the twin crisis health and economic crisis, India found a silver lining, with the Government's Aatmanirbhar Bharat Abhiyaan enthusing the industry and citizens with hope on the country's growth potential. This comprehensive initiative aims to boost domestic manufacturing capabilities, increase employment opportunities, reduce imports, and strengthen exports.

Respondents to the survey felt that the Government should further hike import duties to promote the Aatmanirbhar

Bharat Campaign. 59 per cent of the respondents stated that the tariff structure should be evaluated on a product-by-product basis. This would ensure that India's competitiveness is enhanced in the global landscape.

With the announcement of the Aatmanirbhar India campaign, domestic manufacturing will get a boost. However, the evaluation of the tariff structure would help identify areas to enhance productivity.

Measures to support MSMEs



The MSME sector - the backbone of the Indian economy - took a significant beating amidst the pandemic. This segment faced significant survival challenges, as it dealt with disrupted supply chains, lowering consumer demand and limited workforce. Though the Government introduced a host of measures, as part of the Aatmanirbhar Bharat package, to support the industry by infusing liquidity, more needs to be done for MSMEs to thrive.

Over the last few months, the world accelerated technology adoption unprecedentedly, and companies displayed agility like never before. In India, the adoption of technology-led innovation kept consumers connected to businesses and

allowed companies to continue operations. As India moves towards its goal of becoming a US\$5 trillion economy, the critical MSME segment needs to be offered access to the latest technologies at a lower cost.

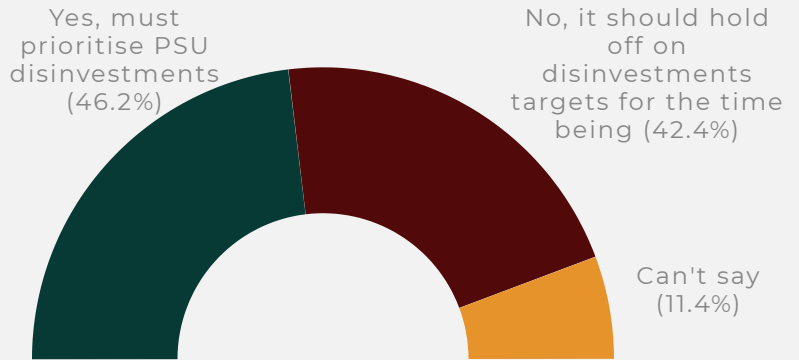
27 per cent of the respondents stated that the upcoming budget should include measures to encourage access to the latest technologies at a lower cost for MSMEs, allowing them to tide over the pandemic and drive long-term competitiveness.

To manage the short-term challenges, the respondents stated that the Government should offer an extension of the credit guarantee scheme till the next year.

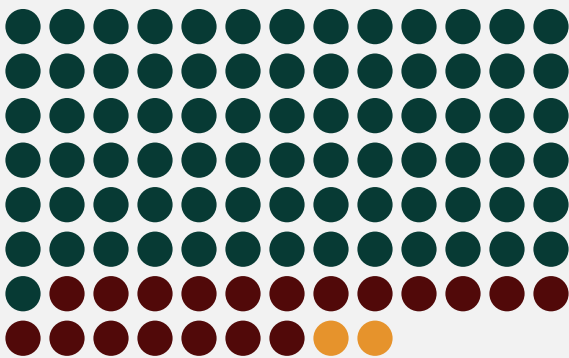
Amidst the financial strain brought on by the COVID-19 pandemic, the Government is looking for avenues of resources. The COVID-19 pandemic put government finances under severe pressure. Many have suggested the Government go for aggressive disinvestment of PSU's to shoring up resources during the difficult time. There is an increasing view that privatising PSUs, mostly PSU Banks, will play an essential role in helping the path to recovery.

India set an ambitious disinvestment target for FY2020-21; however, this target was not fully met, given the unfolding crisis. As per the survey results, 46 per cent of the respondents favour the Government focusing on privatising PSUs, to fund the much-needed spending.

Need to raise its disinvestment target from the previous year



Rationalize personal tax rates



As many individuals have lost jobs and faced salary cuts, almost 80 per cent of the respondents stated their expectation that the Government should reduce personal tax rates to put more money in people's hands.

At a time, when India has reduced corporate tax rates to enhance competitiveness, individuals pay taxes at a higher rate than corporates. Apart from income tax, they also pay taxes when consuming goods and services. Rationalising taxes for the individuals is critical as reducing the tax burden on individuals would enable further spending. This much-needed push to demand would help in creating a multiplier effect in the economy.

The once-in-a-century crisis that brought the globalised world to a standstill also resulted in an unprecedented transformation of how people live, study, work, shop and entertain. Amidst this upheaval, the Government of India stands by its US\$5 trillion vision, supported by the Aatmanirbhar agenda. As the country works towards enhancing manufacturing capacities and capabilities, it focuses on supporting the most vulnerable segments.

To attract large investments, a 24-months separate window at RBI should enable financing for fresh investments for 5 years to leverage low interest rate (CRR). A dedicated fund of INR 100,000 crore available to investors on a first come first served basis, will encourage investors to initiate action to get the benefits before the allocated amount dries up.

India has a goal of spending US\$1.5 trillion on new roads, rail links and other infrastructure over the next five years and an infra bank would play a pivotal role in realising this vision. An Infrastructure Bank will help the country enhance spending on productive assets, in turn driving economic growth.

As the country aims to reduce the logistics cost from 14 per cent of GDP to less than 10 per cent, it becomes essential that a few transformative measures are introduced, to

encourage automation in the logistics sector. Additionally, enhanced digitalisation in logistics would help improve transparency and increase predictability in the industry.

By 2026, India is expected to be the third-largest global automotive market by volume, with India's electric vehicle (EV) market estimated to be a US\$ 7.09 billion opportunity by 2025. There should be a policy to promote electric vehicles' financing, boosting the demand for environment-friendly vehicles.

As personal taxes are expected to be rationalised, the continued streamlining of GST would also be essential to support various sectors towards the path to recovery.

Additionally, taxation rules for non-resident Indians and People of Indian Origin should be re-evaluated as the current rules lead to a higher tax burden compared to developed countries. Given the current travelling restrictions, such people would have their global incomes liable for tax in India.

ASSOCHAM initiated its endeavour of value creation for Indian industry in 1920. Having in its fold more than 250 Chambers and Trade Associations, and serving more than 4,50,000 members from all over India. It has witnessed upswings as well as upheavals of Indian Economy, and contributed significantly by playing a catalytic role in shaping up the Trade, Commerce and Industrial environment of the country.

Our legacy has helped build a strong foundation for future endeavors wherein we serve as the Knowledge Chamber for the industry and become the conduit between them and the Government to foster development of a New India. Seen as a proactive and forward looking institution, ASSOCHAM is fully equipped to meet the aspirations of Corporate India in the new world of business.

ASSOCHAM has emerged as the fountainhead of Knowledge for Indian industry, which is all set to redefine the dynamics of growth and development in the technology driven cyber age of 'Knowledge Based Economy'. We aim to empower Indian enterprise by inculcating knowledge that will be the catalyst of growth in the technology-driven global market and helps them upscale, align and emerge as formidable player in respective business segments.

Aligned with the vision of creating a New India, ASSOCHAM works as a conduit between the industry and the Government. ASSOCHAM is seen as a forceful, proactive, forward looking institution equipping itself to meet the aspirations of corporate India in the new world of business. ASSOCHAM is working towards creating a conducive environment of India business to compete globally.

As a representative of Corporate India, ASSOCHAM articulates the genuine, legitimate needs and interests of its members. Its mission is to impact the policy and legislative environment so as to foster balanced economic, industrial and social development.

ASSOCHAM derives its strength from its Promoter Chambers and other Industry/Regional Chambers/Associations spread all over the country.

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