Reviving industrial growth imperative for economic turnaround
says FICCI President, Naina Lal Kidwai at PM's meet
All policy tools to be geared towards improving business confidence

July 29, 2013, New Delhi: "***Reviving investments and giving a thrust to the industrial sector should be government's priority at the present moment. A turnaround in GDP growth hinges on how the overall industrial sector performs in the months ahead. Be it fiscal policy, monetary policy or the structural reforms route, all these have to be used in tandem to lift business sentiment and create an environment where investors feel confident about their investments***" said Ms. Naina Lal Kidwai, President, FICCI at the meeting of Prime Minister with Industry leaders. From FICCI, Ms Kidwai and Mr Vindi Banga, Chairman, FICCI's India Advisory Group in UK and Partner, Clayton, Dubilier & Rice, London attended the meeting.

"***From FICCI, we will highlight the point that fresh investments have taken a nosedive over the last few quarters and investors continue to remain on the fence as they wait for clarity on several issues from the government***", she added.

The liquidity situation in the system is not comfortable and recent measures taken by the RBI, which are tantamount to tightening of monetary policy, would make banks further wary of lending to the industrial sector. Triggering domestic investments will be critical even as the government takes steps to attract foreign investment.

A stronger signal from RBI and Government to banks to reduce rates must go at this juncture as any up-tick in investments otherwise will not be possible. In fact, in the recently conducted *FICCI's Economic Outlook Survey*it was clearly indicated that a cut in the policy rates would be crucial for getting growth back on track. A majority of the respondents hope to see a cut of 50-75 bps in repo rate by end of this year.

Other measures like allowing for greater government procurement, urging PSUs with surplus cash balances to make fresh investments, tweaking the investment allowance norms by lowering the threshold investment amount eligible for benefits and extending the period of benefit from 2 to 5 years, and providing more clarity on significant legislations like land acquisition bill and GST would be instrumental in pushing investments and industrial growth.

"***Moreover, with the slowdown becoming more discernible, fresh hiring is already taking a hit. Layoff of contractual staff has already started and this could soon move to permanent employees. Unless the growth trajectory is reversed, we will be facing a grim employment scenario***", felt Ms. Kidwai.

Estimates indicate that about 10 million people join the workforce every year; however there remains a yawning gap between the skills acquired by these new entrants and skill set required by the employer.

"***Building India's skill base is one of the most important tasks at hand to be able to fully capitalize on the demographic dividend***", said Ms. Kidwai.

Further, the pressure on the external front is worrisome. The sharp fall in Rupee has once again raised concern about the already grave CAD situation.

"***It is extremely important to establish more stability on the external front. There is urgent need for long term action geared towards economizing imports of oil, coal, fertilisers, electronics and capital goods. Also, on the export side, merchandise exports have become increasingly price inelastic. Exports rise when global growth picks-up, but don't respond adequately to depreciation of exchange rate. Exports revival has to be an integral part of our policy framework***" said Ms. Kidwai.

To shore up the Rupee in the short term, government may consider issuance of Rupee bonds to NRIs. Also, since a good part of gold demand emanates from rural India, inflation indexed small saving instruments distributed through post offices in the country could be considered. FII flows too need to be targeted towards longer term rupee instruments so as to minimize the risk of 'reversal' of capital.

FICCI has also been highlighting the issue of ease of doing business. "***Though there has been a sea change in India's image as an investment destination, however it is important to note that in terms of ease of doing business, India still has a long way to go***", said Ms. Kidwai.

For instance, the issue of transfer pricing today is the one of the most contentious tax issue in our country with 70% of the world's transfer pricing litigation emanating from India. According to a recent FICCI-EY report, corruption – real or perceived, is having a detrimental impact on the country's economy. Though the government has proposed certain changes in the existing laws and some new Bills have been proposed to deal with the issue of corruption in the public and private sector, these should be expedited.

On the Food Security Ordinance recently passed by the government, FICCI mentioned that while this could help in meeting the dietary requirements of the poor, the coverage of this scheme as proposed is quite expansive. While poor need to be supported, we need to review the coverage of this scheme as we cannot afford to subsidise consumption at the cost of savings and investments.

"***With the fiscal situation being monitored very closely by the international rating agencies, we need to be careful on this front as the expected cost of implementing this program is huge and may cause slippage on the fiscal front***", added Ms Kidwai.

****