NEWSLETTER

INDIA SHOULD ATTRACT MNCS LOOKING TO RELOCATE FROM CHINA, SAYS DR. ROY

We are living through a time when alarming forecasts dominate media headlines and distressing stories draw public attention. However, even in these times there are a handful of optimists who foresee long term gains for the Indian economy.

Dr. Siddhartha Roy, Chief Executive Officer, SR Associates feels that the depreciating Indian currency and the possible relocation of multinationals away from China will be beneficial for the Indian economy.

In an interview to **MVIRDC World Trade Center Mumbai**, **Dr. Roy opines that India should play its card well to benefit from shift in global value chain**.

Excerpts of the interview:

What are your reflections on the status of the Indian economy as a result of COVID-19? How can it be remedied?

The Government has done a commendable job by imposing the lockdown at a very early stage. There can be no firm answer to when this situation will be fully tackled until a vaccine is in place. However, it is increasingly important to focus both on life and livelihood right now.

We need to recognise that approximately 90% of jobs are in the unorganised sector. Many of these employees are affected adversely on account of the lockdown. Sooner rather than later the Government needs to open parts of the economy which are not affected by COVID-19. Also, the districts in which the COVID-19 numbers are high the government should not hesitate to take stern measures to curb these numbers.

There is no doubt that the COVID-19 pandemic has been detrimental not just to the Indian economy but also the world economy. Even before the pandemic, the world economic output was slowing down so this will definitely bring down those numbers further.

Sectors like aviation, hospitality and tourism, automobile, real estate and textile are feeling the brunt of the situation. One must not forget that the demand has just been delayed, it has not disappeared. The supply side needs to strategically plan on how it would best be able to meet this demand after the dust settles.

Post-COVID world will be very different from the pre-COVID world. As the post-COVID world will know which countries are reliable in a crisis situation. Possibly a part of the world manufacturing activities will shift to India. The IMF has predicted that India would grow 1.9% for the year 2020 and 7.4% for the year 2021 be one of the few major economies to register an expansion despite the pandemic. So, the way the Government is able to curb the spread and reinstate economic activities will determine the economic future of the country. There is a delicate balance that needs to be maintained wherein the economic activities revive and the spread of COVID-19 declines in a steady manner.

In your opinion how is the RBI Governor's announcements today further strengthen what was announced earlier? How will it boost the Indian economy?

The policy-makers need to utilise both fiscal as well as monetary policy to secure a stable economic position for the country during these unpredictable times. When it comes to monetary policy response the RBI, on March 27, initiated the first phase of TLTRO to inject funds worth ₹1 lakh crore. It reduced the reverse repo rate by 90 basis points to 4% and the repo rate by 75 basis points to 4.40%. It also reduced the Cash Reserve Ratio (CRR) by 100 basis points to 3%.

In its second phase, the RBI decreased the reverse repo rate by 25 basis points to 3.75% on the 17th April 2020. This will discourage the banks from parking the money with the Central Bank and help improve the liquidity in the system.

RBI has also banned dividend payouts by banks and cooperative banks from profits pertaining to the fiscal year 2019-20. This will help to strengthen the capital reserves of banks.

For non-banks and micro-financiers, RBI is providing a ₹50,000-crore special refinance facility for financial institutions—of this, ₹25,000 crore goes to Nabard for refinancing regional rural banks (RRBs), cooperative banks and micro-financiers; ₹15,000 crores to SmallIndustries Development Bank of India (Sidbi) for on-lending or refinancing; and ₹10,000 crore to National Housing Bank (NHB) for supporting mortgage lenders.

Under the TLTRO 2.0 window, banks can access three-year funding from RBI to invest in investment-grade papers of non-banking financial companies (NBFCs), with at least 50% invested in small and mid-sized NBFCs and micro-financiers. The central bank has also assured companies that it will make available further liquidity under this facility depending on the pattern of utilisation and requirement. Banks will have a month to invest funds raised under TLTRO. Exposures under the facility will not be included while calculating large corporate exposure. These are all helpful measures.

On the fiscal side, the Government has announced a package of 1.7 Lakh crore rupees under Pradhan MantriGaribKalyanYojna on March 26. It has also announced another Rs 15,000 crore to bolster the health networks over the next four years. The government needs to progress carefully while announcing further measures as one does not know how much money will be needed in the future, as it all depends on how long the pandemic lasts and how quickly we are able to find a vaccine for the virus. So it becomes important to save some room to use fiscal measures as and when needed in the future.

Breaching the norms of fiscal deficit (The FRBM Act) should not be a major concern right now. As unusual circumstances call for unusual measures.

As you are aware MSMEs are the most impacted. How should they function during these times?

As mentioned earlier, around 90% of jobs are in the unorganised sector. The MSMEs do not provide social security to its employees. There are an estimated 6.33 crore unincorporated MSMEs engaged in non-agricultural economic activities, employing 11 crore persons across the country. MSMEs contribute nearly 30 per cent of India's gross domestic product and close to half of the country's total exports. The Government needs to provide social security measure to these unorganised sector employees. As these segments account for nearly 90% of the country's 500 million workforce and do not fall under traditional employer-employee relations.

When it comes to functioning during these times, the MSMEs could provide a safe working environment by following the norms of social distancing and work at a lesser capacity.

Social Distancing is the new norm. Under the circumstance how can exports get back on course?

Even though the rupee has depreciated our exports are unlikely to increase until the logistics issues are sorted. India's merchandise exports slumped by a record 34.6% in March while imports declined 28.7% as countries sealed their borders to combat the COVID-19 outbreak.

The course that the trading activities take for the entire world will very much depend on how the different countries are able to curb the spread. For exports to get back on track we need other countries to open their borders for trade. So this is not just an issue of whether we are able to produce but also the markets outside the country are accessible to us.

The total world export amounts to approximately USD25 trillion of which 5.5 trillion is services and 19.5 is merchandise exports. India's share in the world export is very low, around 2% if we are able to increase our share to 4% it would make a considerable difference. The depreciation of the rupee (USDINR:76.67) will help us in the current situation.

One positive aspect for India with this crisis is that there is bound to be an acceleration of the movement of multinationals out of China into other parts of the world. We should take advantage of this opportunity.

Also, given the current circumstances, India has shown the potential to become a reliable supplier of Paracetamol, generic drugs and vaccines to countries across the world.

What are your suggestions to the government to help the Indian economy to chug along and sustain itself?

Some suggestions would be:

- The government should not hesitate to take stern measures to curb the COVID numbers
- When talking about Government expenditure, we as a country are in a position to take bold steps in view of the fact that the inflationary pressure in the economy is low
- The Government should make sure that the Fiscal and Monetary progress are in sync
- The unorganised sector worker problem is a long-term issue that needs to be addressed in such a way that in case of a future crisis like events this segment of the country is better provided for
- The country is in dire need of a strong social security scheme. The expenditure on health has to increase significantly in both Centre and States. Also, the management of health services, hospitals, immunisation, health insurance, etc. need to improve considerably.

NOTIFICATIONS

Press Release, Government of India

- Industry should ensure health precautions as they resume operation
- PIB’s Daily Bulletin on COVID-19
- Government clarifies on misplaced apprehension about liability of company heads

DGFT

- Procedural details for extension of import validity and export obligation

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