

**'DWARF' FIRMS' CONTRIBUTION TO EMPLOYMENT IS ONLY 14%**

## Attention on MSMEs, especially young firms, to create more jobs and raise productivity

**ENS ECONOMIC BUREAU**  
NEW DELHI, JULY 4

THE COUNTRY should focus on policies to unshackle micro, small and medium enterprises (MSMEs) to create more jobs and raise productivity, with a special focus on promoting young firms that have the potential to turn big rather than MSME firms which remain small, the Economic Survey for 2018-19, which was tabled in Parliament Thursday, said. The Survey also suggested deregulating labour law restrictions to create more jobs, citing the recent changes in Rajasthan.

To unshackle MSMEs and thereby to enable them to grow, all size-based incentives must have a sunset clause of less than ten years with necessary grandfathering, the Survey said.

The Survey said that the perception that small firms are significant job creators is not a true representation as small firms destroy jobs as much as they create. The Survey said 'dwarf' firms (with less than 100 workers and more than 10 years old) account for more than 50 per cent of all organised firms in manufacturing by number, but their contribution to employment is only 14 per cent

and to productivity is a mere 8 per cent. Whereas, large firms (more than 100 employees) account for 75 per cent employment and close to 90 per cent of productivity despite accounting for about 15 per cent by number.

"Perverse incentives" targeting "dwarf" companies must be replaced with prioritising start-ups and "infant" firms, it said. "Our policies – across the board – protect and foster dwarfs rather than infants...these policies create a 'perverse' incentive for firms to remain small. If the firms grow beyond the thresholds that these policies employ, then they will be unable to obtain the said benefits. Therefore, rather than grow the firm beyond the said threshold, entrepreneurs find it optimal to start a new firm to continue availing these benefits," it said.

It added that labour legislations which exempt firms with less than 100 employees to get permission from the government before retrenching their employees, incentivises a large majority of firms to prefer to be below the threshold of 100 employees.

Citing the example of Rajasthan, the Survey said the average number of firms with 100 employees or more was similar for Rajasthan and the rest of the coun-

**"Perception that small firms are significant job creators is not a true representation as small firms destroy jobs as much as they create"**

try, but after the law change in 2014-15, the number of firms with 100 employees or more increased at a significantly higher rate in Rajasthan than in the rest of the country. The Survey suggested using Aadhaar to promote age-based incentives to firms. "Misuse of the age based criterion can be easily avoided using Aadhaar. For instance, if a promoter starts a new firm, utilizes the benefits for ten years when the age-based policy is available and then closes the firm to start a new one to avail the age-based benefits through this new firm, then the Aadhaar of the promoter can alert authorities about this misuse," it said.

The survey calls for focus on high employment elastic sectors such as chemicals and chemical products, textiles and leather & leather products to enhance direct credit flow to sectors that can create the most jobs in the economy

and service sectors like tourism. "According to the extant policy, certain targets have been prescribed for banks for lending to the micro, small and medium (MSME) sector that exacerbates perverse incentives to firms to remain small," the Survey said. According to priority sector lending (PSL) guidelines, 75 per cent of adjusted net bank credit or credit equivalent amount of off-balance sheet exposure, whichever is higher is applicable to micro enterprises. Under MSME's PSL targets, it is necessary to prioritise 'start-ups' and 'infants' in high employment-elastic sectors, it said.

The focus also must be on service sectors such as tourism, which has high spillover effects on other sectors such as hotel & catering, transport, real estate, entertainment etc. Identifying and promoting tourist spots for development will help create jobs, it said. "It is possible to identify 10 tourism spots in each of the larger 20 states and 5 spots in the 9 smaller states and build road and air connectivity in these tourist attractions, which would boost economic activity along the entire route and would also reduce the migration of the rural labour force who form a major proportion of the total labour force," it said.

**The 7% growth pegged by the Economic Survey for 2019-20 is a pragmatic target and with the right policy levers in place, we can step up growth to sustain an average growth rate of 8% over next 5 years"**

**CHANDRAJIT BANERJEE**  
DIRECTOR GENERAL, CII

**7% growth projections for the current fiscal, as stated in the Economic Survey, on back of investment revival and rural consumption, point towards a cautious optimism about the economy, but the economic survey clearly outlines that India would need at least 8% annual growth to be a \$5 trillion economy by 2024-25"**

**B K GOENKA**  
PRESIDENT, ASSOCHAM



Chief Economic Advisor KV Subramanian and his team presents the Economic Survey 2018-2019 on the eve of the Union Budget in New Delhi on Thursday. Tashi Tobgyal

## 'Need foreign investment to trigger the virtuous cycle'

In the Economic Survey for 2018-19, Chief Economic Advisor KV Subramanian has pegged that India needs to accelerate investment in excess of 35 per cent of the GDP to achieve 8 per cent sustained growth which is essential for becoming a \$5 trillion economy by 2024-25. In an interaction with reporters, Subramanian pointed out that India should look at bringing in foreign investment to kick-start the virtuous cycle that would lead to increase in productivity, creation of jobs and foster exports to create demand. He also pointed out that structural problems in the non-banking financial company (NBFC) sector need to be fixed to solve the crisis. Edited excerpts:

**"One thing we knew very well when we started contemplating on the survey is that this will be the survey of a new government that might potentially have five years to implement policies"**

**KV SUBRAMANIAN**  
CHIEF ECONOMIC ADVISOR

reason I bring this up is that in order to trigger this virtuous cycle, we have to rely on these foreign savings that can come in and create investment. Once the investment starts, it will enhance productivity that will create jobs, foster exports, thereby demand. This is followed by very careful evidence that we have provided from China and other east Asian economies as well. Each one of them at their particular stages of development followed the same path.

**Your first survey gives a big miss to the banking reforms and to solutions for the NBFC crisis. What is the reason behind this?**

As I articulated, we wanted to focus on the big picture. We will be writing another survey in six months – January 2020 before the Budget. So we had to make a choice. One thing we knew very well when we started contemplating on the survey is that this will be the survey of a new government that might potentially have five years to implement policies. The choice we made was to lay out a big picture blueprint on what is the thought process we need to change in order for us to hit that 8 per cent growth. When we speak of the NBFC crisis, we have to ensure that we do not perpetuate a situation of private profits and socialised losses. The moral hazard that comes from it is something we have to be very cognizant about. What we have to think about are structural issues, especially in the NBFC situation – the asset-liability mismatch. The asset-liability mismatch is not an accident. If you look at the ratings of the commercial papers, almost 95 per cent have a rating of L1+,

which means that there isn't enough distinction between these firms. These firms are clubbed under one category on the basis of short-term ratings. Their long-term ratings are actually substantially different and the spread they actually pay is related to the long-term rating. By clubbing them all together, the incentive is for the not so good firm to pool with the good firm. This creates an incentive for the asset-liability mismatch to be created endogenously and that has what has happened in the NBFC sector. These are the structural problems that we need to fix.

**Are a large number of dwarf firms a consequence of policy rigidity or the fact that they have misused the policy incentive given to them?**

When we create policies, we have to recognise that those policies are not being created for Harishchandras. Those policies are being created for real humans. Seven decades of policies have been on the line that we have created dwarfs in the system. As a child, there are support wheels to help you learn bicycling. Those support wheels were there so you do not fall. But at some point your parent would have removed those support wheels so you can cycle on your own. Good paternal instinct is also about protecting the child when the child is learning something but at the same time paternal instinct is also about equipping that child to go and basically live in the real world that does not make you those cuts. We need to tell our MSMEs that when you grow you are the first beneficiaries of that because you take the profits and in the process you also contribute enormously to the economy – you create jobs, which is a national priority, you also create productivity. So that's the key mindset change we need to make. When you look at Mexico and the US – take a firm that's 40 years old, it creates seven times as much employment as a young firm. In India, it's only about 40 per cent and it is because of these policies where we just fostered dwarfs in the economy.

Transcribed by Pranav Mukul

## Well designed minimum wage system can 'help reduce inequalities'

**ENS ECONOMIC BUREAU**  
NEW DELHI, JULY 4

THE ECONOMIC Survey 2018-19, released today, makes a strong case for rationalising and streamlining the current minimum wage architecture in the country. This is in line with the revised version of the code on wages bill approved by the Union Cabinet on Wednesday. A well designed minimum wage system can help "reduce inequalities in income, bridge gender gaps and alleviate poverty," says the survey, penned by chief economic adviser KV Subramanian.

Over the past decades, the minimum wage system in India has expanded greatly, thereby increasing the complexity of the system. Currently, there are around 429 scheduled employments and 1,915 scheduled job categories of unskilled workers for which minimum wages are specified. This expansion has led to variations not just within but also across states. But despite this proliferation of minimum wages, "one in every three wage workers in India has fallen through the crack and is not protected by the minimum wage law," it noted.

To address these issues, the survey recommends a simplified architecture where minimum wages are fixed based on either the level of skill – different wages for unskilled, semi-skilled, skilled and highly skilled – or geographical regions or both. This simplified structure is expected to bring down number of minimum wages in India to 300 from about 2,500 wage rates that exist today.

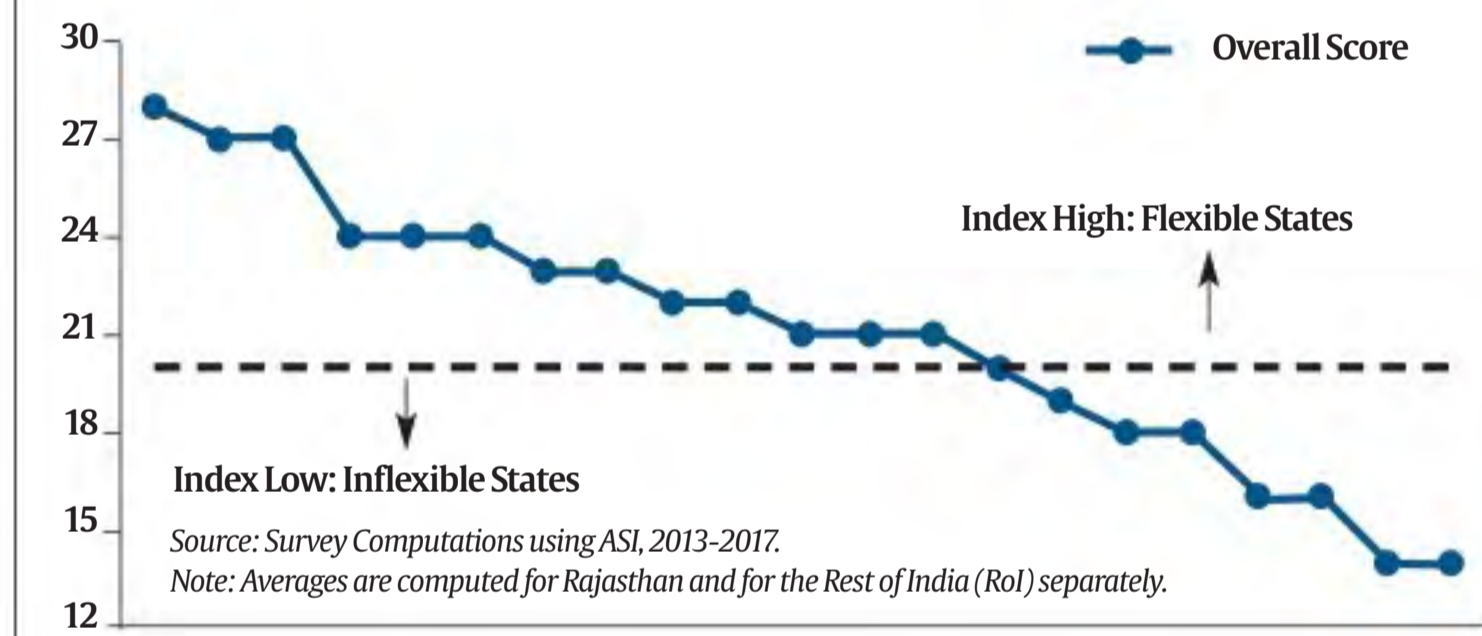
Under this architecture, the Centre would notify a "national floor minimum wage" that could vary across the five geographical regions that were determined by the Expert Committee formed to design the methodology for fixing the national minimum wage. This national wage would serve as a "floor wage", ensuring uniformity across the country, and that minimum wages of states are not lower than the national wage. States, though, would have the option of fixing wages at higher levels. The Survey has also recommended that the minimum wage be regularly adjusted.

Presumably, this adjustment would be based on the consumer price index for industrial workers. It has also suggested that the minimum wage be extended to all the sectors.

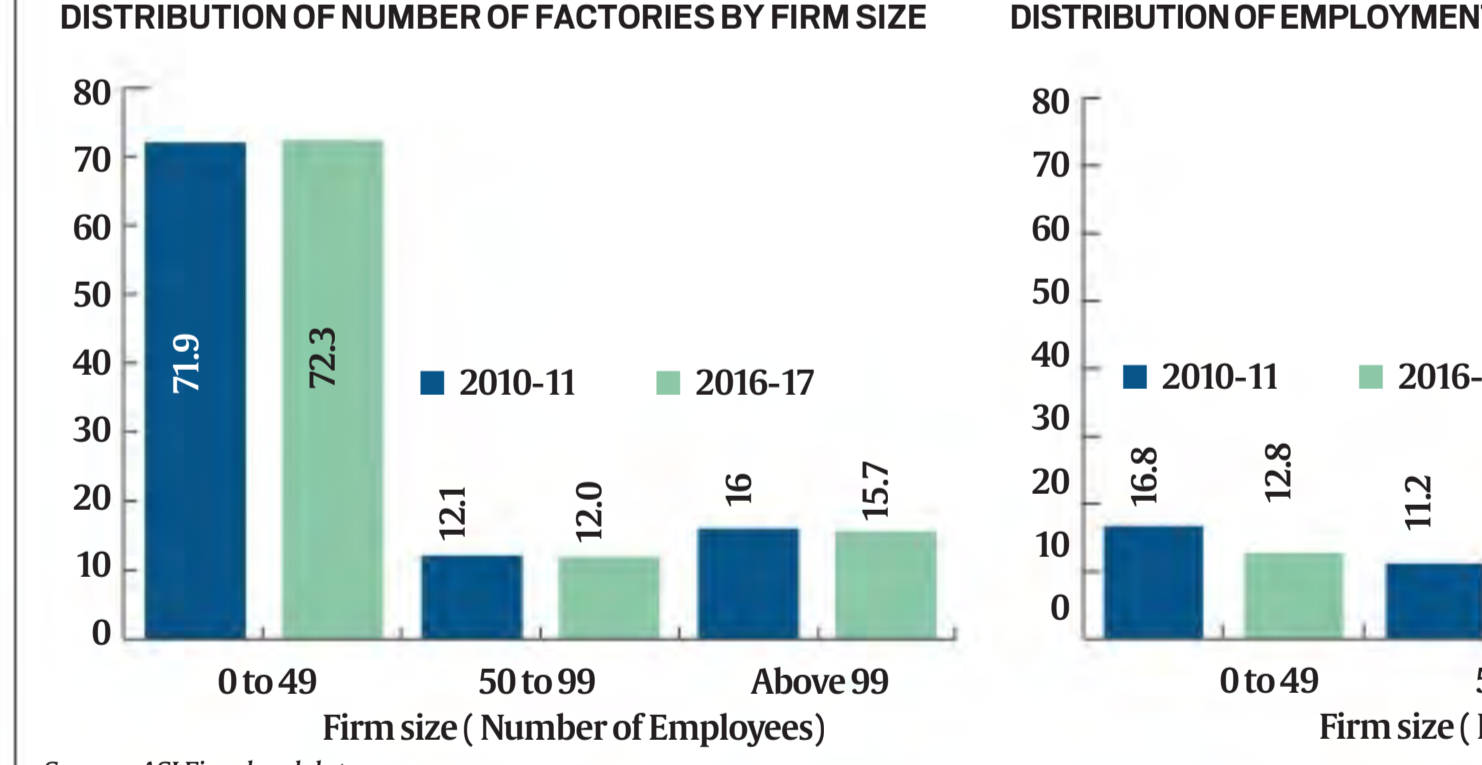
## 'Small firms' proportion in organised manufacturing at around 85%

Small firms dominate economic landscape, but their contribution to output and employment in manufacturing sector is insignificant. The proportion of small firms in organised manufacturing at around 85 per cent. However, small firms accounted for 23 per cent of total employment in organized manufacturing in 2016-17

**CLASSIFICATION OF STATES AS FLEXIBLE & INFLEXIBLE BASED ON LABOUR RESTRICTIONS**



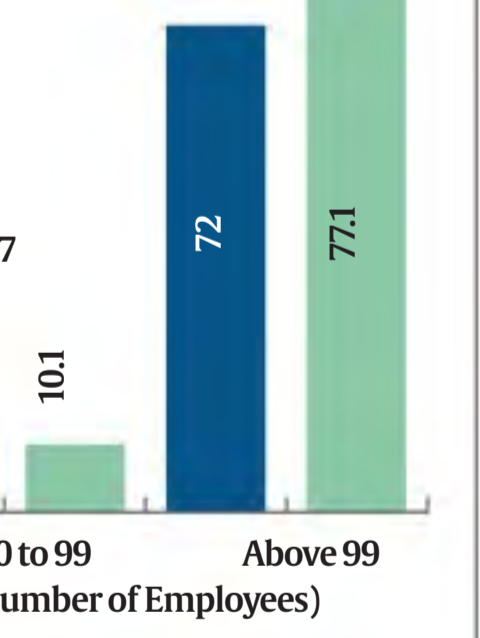
**DISTRIBUTION OF NUMBER OF FACTORIES BY FIRM SIZE**



**THIS DISPELS** the common notion that small firms generate most employment. "Small firms may generate a higher number of new jobs. However, they destroy as many jobs as well," Survey for 2018-19 said

**NO MAJOR** labour reforms were initiated by states from 2007 to 2014. In 2014, Rajasthan was first state that introduced labour reforms in the major Acts. With 2014 as the cut-off year, flexible states include those states that score 20 or more out of a maximum score of 50, that is, states that have reduced transaction costs by at least 40 per cent

**DISTRIBUTION OF EMPLOYMENT ACROSS FIRMS BY FIRM SIZE**



## The Subramanians: KV carries through legacy of Arvind, with more grounded projections

**ENS ECONOMIC BUREAU**  
NEW DELHI, JULY 4

NEARLY SEVEN months after his appointment as Chief Economic Adviser, Krishnamurthy V Subramanian broadly carried forward the legacy of his predecessor, Arvind Subramanian, while presenting the Economic Survey 2018-19 by sticking to a colour-themed Survey copy and presentation enlisting the key points from the Survey.

The survey, the first by the new chief economic adviser Krishnamurthy V. Subramanian, however, is more realistic in its assessments, especially with respect to the macroeconomic prospects. In noting that "India's economic growth will rebound from a five-year low this year, but would need "a huge boost" in spending and reforms to accelerate higher rate of expansion to double the economy's size to \$5

## 'Invoke pious obligation doctrine to make people pay their debts'

**New Delhi:** Invoke the doctrine of "pious obligation" as well as blend principles of behavioural economics with spiritual norm to tackle tax evasion and wilful defaults, suggests Economic Survey.

Bringing in a sense of novelty into the survey, that provides a detailed picture of the economy in 2018-19 and the

trillion by 2024-25", his assessment is in sharp contrast to his predecessor Arvind Subramanian's first survey, which had gone on to proclaim that "India has reached a sweet spot – rare in the history of nations – in which it could finally be launched on a double-digit, medium-term growth trajectory".

Where the two are similar is in the flavour and feel is in resorting to acronym-heavy associations and a heavy play of theme-based schemes. While Arvind Subramanian had resorted to acronyms such as JAM—Jan Dhan, Aadhaar, Mobile—in his first survey, Krishnamurthy V.

Subramanian has introduced *Beti Aapki Dhan Lakshmi Aur Vijay Lakshmi (BADLAV)* in the Survey authored by him and tabled in Parliament on Thursday.

Thematically as well, both Arvind Subramanian and Krishnamurthy V. Subramanian touched upon the topic of women empowerment in their respective first surveys. Arvind Subramanian talked about unleashing nari shakti building upon the 'Beti Bachao, Beti Padhao' campaign of Prime Minister, Krishnamurthy V. Subramanian also has written about 'Beti Bachao, Beti Padhao' campaign helping in improving child sex ratios, particularly in large states where the child sex ratio was poor and has attempted to further the cause of gender equality by coining the slogan of BADLAV to enhance contribution of women in the workforce and the economy.

## Secular drop in economic policy uncertainty in the last four years

**SUNNY VERMA**  
NEW DELHI, JULY 4

THE ECONOMIC Survey 2018-19 introduced a unique idea of Economic Policy Uncertainty (EPU) index, which indicates that a stable policy regime promotes investment activity and economic growth. The Survey says surges in economic policy uncertainty increase the systematic risk, and thereby the cost of capital in the economy.

An increase in economic policy uncertainty dampens investment growth in India for about five quarters. "Unlike generic economic uncertainty, which cannot be controlled, policymakers can reduce economic policy uncertainty to foster a salutary investment climate in the country... policymakers' must make their actions predictable, provide forward guidance on the stance of policy, and reduce ambiguity/arbitrariness in policy implementation," it said. EPU index must be tracked at the highest level on a quarterly basis.

The survey pointed out that EPU index for India shows peaks in few months of 2011 and 2012, reflecting the policy paralysis during that period, which witnessed the problems of the high twin deficits and high inflation, thereby exacerbating macroeconomic vul-

**The survey pointed out that EPU index shows peaks in few months of 2011 and 2012, reflecting the policy paralysis during that period**

nerability. The index is also high in the second half of 2013 when the economy faced the episode of "taper tantrum" leading to volatile capital flows, depreciation of rupee vis-à-vis US dollar. EPU index is created by quantifying newspaper coverage of policy-related economic uncertainty and it has found to be effective and useful in measuring uncertainty. The EPU index correlates very strongly to macroeconomic stability, the survey said. It strongly correlated to volatility in exchange rate, stock market & inflation and various other macroeconomic variables.

"India has secularly decreased domestic economic policy uncertainty since 2012 and has been exceptional in reducing this uncertainty since 2015 amidst a global environment of increases in the same. However, policymakers need to double down on reducing domestic economic policy uncertainty," the Survey concludes. It suggests that the government must encourage construction of economic policy uncertainty sub-

indices to capture economic policy uncertainty stemming from fiscal policy, tax policy, monetary policy, trade policy, and banking policy. Tracking these sub-indices would enable monitoring and control over economic policy uncertainty.

To ensure predictability, the horizon over which policies will not be changed must be mandatorily specified so that investor can be provided the assurance about future policy certainty, the survey said. While this will generate some constraints in policy making, such voluntary tying of policymakers' hands is undertaken in several cases including the Fiscal Responsibility and Budget Management Act, the Monetary Policy Framework of the Reserve Bank of India. A similar constraint placed on ensuring no changes in policy for a specified horizon would go a long way to ensuring policy certainty.

Baker et al. (2016) developed the Economic Policy Uncertainty (EPU) index for various countries including India, looking at certain key words appearing in newspapers. The survey adopted the model to arrive at the economic policy uncertainty for India based on articles published in newspaper including *Economic Times*, *Times of India*, *Times*, *The Hindu*, *Financial Express*, *Indian Express* and the *Statesman*.

## ESSAR STEEL ACQUISITION

## NCLAT rejects Ruias' plea; approves bid with modification by ArcelorMittal

ArcelorMittal had told NCLAT it would pay ₹42,000 crore for acquiring debt-laden Essar Steel

ENS ECONOMIC BUREAU  
MUMBAI, JULY 4

THE NATIONAL Company Law Appellate Tribunal (NCLAT) on Thursday rejected a petition filed by the promoters of Essar Steel challenging ArcelorMittal SA's proposed takeover of the debt-ridden steel company, paving the way for LN Mittal's entry into the Indian steel sector.

Essar Steel Asia Holdings Ltd (ESAHL), which holds a significant stake in Essar Steel, had moved the appellate tribunal seeking rejection of ArcelorMittal's Rs 42,000 crore bid to acquire the steel-maker, alleging that its promoter LN Mittal hid his association with loan defaulting firms run by his brothers.

The plea by ESAHL, which is owned by the Ruias, alleged that Mittal was a promoter of GPI Textiles Ltd, Balasore Alloys Ltd

## 'ASSOCIATION WITH DEFAULTING FIRMS'

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■ The plea by ESAHL, which is owned by the Ruias, alleged that Mittal was a promoter of firms that are run by his brothers Pramod and Vinod Mittal, which were classified as non-performing assets (NPAs) by different banks

and Gontermann Piepers (India) Ltd — firms that are run by his brothers Pramod and Vinod Mittal — which were classified as non-performing assets (NPAs) by different banks.

On the issue of eligibility of ArcelorMittal, NCLAT said the apex court had already settled the issue and the same "cannot be re-argued again and again."

"Any such attempt is clearly barred by the principles of res judicata," it

said. "Therefore, the Application preferred by the Appellant — Mr. Prashant Ruia and Intervenor — 'Essar Steel Asia Holdings Limited' deserves to be rejected."

"We note today's ruling by the NCLAT. We need to review the full written order to understand any implications on completion of the transaction," a spokesperson for ArcelorMittal said on Thursday.

The company's resolution plan, with modifications, for Essar

Steel will now reflect the distribution of amount for all operational and financial creditors.

The apex court had earlier halted distribution of funds among operational and financial creditors from ArcelorMittal's resolution plan for Essar Steel. Insolvency and Bankruptcy Code (IBC) rules had earlier compelled Mittal to shell out an additional Rs 7,000 crore to clear bank dues of Uttam Galva Steels and KSS Petron, where he held some stake and reportedly sold his holdings in one of them for Re 1 a share.

"It appears that new facts regarding ineligibility under Section 29A, which emerged only after the previous judgement of the Supreme Court, have not been given due consideration. We are awaiting the detailed order and will decide our course of action thereafter," an Essar spokesperson said after the NCLAT ruling.

On March 8, ending months of

uncertainty, the Ahmedabad bench of the National Company Law Tribunal (NCLT) had approved ArcelorMittal's Rs 42,000 crore resolution plan for the debt-laden Essar Steel.

However, directors of Essar Steel's promoter firm, the Ruias, had challenged the NCLT order, saying that ArcelorMittal was ineligible to bid under Section 29A of the IBC, alleging his association with delinquent of loan defaulting firms. The takeover proposal of ArcelorMittal for the Essar Steel was approved by the latter's Committee of Creditors (CoC) in October 2018. It had rejected the settlement proposal of Rs 54,389 crore made by Essar promoters.

ArcelorMittal countered this saying the plea was one of the multiple mala fide attempts to derail the corporate insolvency resolution process and Ruia had no locus standi as his resolution plan was disallowed.

## 'Govt to probe Jet Airways'

REUTERS  
NEW DELHI, JULY 4

THE GOVERNMENT has ordered an investigation on Thursday into alleged mismanagement of funds at Jet Airways, which halted operations in April after running out of cash.

The Ministry of Corporate Affairs has ordered India's Serious Fraud Investigation Office (SFIO) to carry out the investigation, a government order seen by Reuters showed.

The order refers to alleged siphoning of funds and unspecified financial irregularities at Jet Airways, which was once India's largest private airline, but did not include details on the allegations or name any individuals. A Jet Airways spokeswoman did not immediately respond to a request for comment on the order, which also called for investigations into Jet's group companies including low-cost Jet Lite and Jet Privilege, which manages its loyalty programme. In a separate development, a government source told Reuters that the former chairman and founder of Jet Airways, Naresh Goyal, had approached Delhi High Court, seeking to overturn an order that stops him from travelling abroad.

## SpiceJet landing incidents: DGCA finds safety breach, issues notices to four senior executives

PRANAV MUKUL  
NEW DELHI, JULY 4

FOLLOWING A series of runway excursion incidents this week involving SpiceJet flights, the Directorate General of Civil Aviation (DGCA) conducted an unplanned audit of the budget carrier's premises at Gurgaon, which led to discovery of lapses on the airline's part, a senior official told *The Indian Express*, adding that four senior executives of the airline have been issued show cause notices by the aviation regulator.

SpiceJet executives who have been served notices are its senior vice-president (operations), chief of flight safety, accountable executive and head of training.

A SpiceJet spokesperson,

confirming the development, said: "We are in receipt of the show cause notices issued by the DGCA. The concerned officials will submit their replies within the timeframe given by the regulator. Safety is the core value of our operations and is a shared objective of both the DGCA and SpiceJet. We will take all possible steps that may be required to further strengthen our safety mechanism."

The DGCA official said that the SpiceJet executives have been found breaching certain safety standards, such as the

operations department not taking any remedial action on safety violations it was given by the flight safety department.

In the notices that were sent by the DGCA on Thursday, the regulator has given the executives 15 days to respond. The official said that four Air India Express pilots have also been given notices.

Meanwhile, DGCA has also started a special audit of all airlines and airports in monsoon-affected areas, in light of several incidents across the country. The aviation watchdog

has also suspended 12 personnel, including pilots and engineers for lapses in safety standards.

On Tuesday, a SpiceJet aircraft veered off towards the right from the runway centre during landing roll at Kolkata airport, damaging four runway edge lights. This was preceded by an incident at Mumbai airport late Monday, where another SpiceJet plane shot off the runway during heavy rains.

Prior to the two SpiceJet incidents on Monday and Tuesday, another aircraft operated by the low-cost carrier veered off the runway at Surat on Sunday. This came after an Air India Express plane veered off the taxiway after landing and got stuck in soft ground at the Mangalore airport earlier that day.

## US drags India to WTO over duty hike on 28 American goods

PRESS TRUST OF INDIA  
NEW DELHI, JULY 4

THE US Thursday dragged India to the WTO by filing a complaint against New Delhi's move to increase customs duties on 28 American goods, alleging the decision is inconsistent with the global trade norms.

According to a communication of the Geneva-based World

Trade Organisation (WTO), the US said that the additional duties imposed by India "appears to nullify or impair the benefits accruing to the US directly or indirectly" under the GATT 1994.

The General Agreement on Tariffs and Trade (GATT) is a WTO pact, signed by all member countries of the multi-lateral body, aims to promote trade by reducing or eliminating trade barriers like customs duties.

The US has alleged that the duties imposed by India appears to be inconsistent with two norms of GATT. The US has stated that India does not impose these duties on like products originating in the territory of any other WTO member nation.

"India also appears to be applying rates of duty to US imports greater than the rates of duty set out in India's schedule of concessions," the communication said

quoting the US application.

The duties are inconsistent because "India fails to extend to products of the US an advantage, favour, privilege or immunity granted by India with respect to customs duties and charges of any kind imposed on or in connection with the importation of products originating in the territory of other members..." the US has alleged.

As part of the dispute, the US has sought consultations with

## INTERVIEW WITH EXECUTIVE DIRECTOR, HDFC BANK

## 'We need land and labour reforms and a big focus on developing infrastructure'

While some NBFCs have come under stress over the last nine months following the IL&FS default in September 2018, there has been overall slowdown in consumption. KAIZAD BHARUCHA, executive director, HDFC Bank, told Sandeep Singh that as NBFCs had a fair share in retail and rural consumption, it slowed as NBFCs got constrained. He however, added that government spending post the Budget and some policy announcements to provide an impetus to industry may help improve things. Excerpts:

**Do you see the current liquidity issue being faced by some NBFCs and HFCs to spread across the sector?**

It is well known that that there are concerns over the quality of the assets of certain NBFCs. But are we in a crisis? I don't think we have one. Yes, we had one stumble, but I don't think we are in a situation where a large part of that sector may go under. In fact, we are not anywhere close to that. Also, we need to make a clear distinction between NBFCs that are facing solvency and liquidity problems. If it is a solvency issue, then it is a different matter altogether. Those facing a liquidity problem can work themselves through by putting the right mechanisms in place and with some support. The sector is now of course being watched closely, but again a distinction needs to be made between stronger and weaker NBFCs. The ones that have given loans which carry a higher risk will have to take a longer walk than those who have lent prudently. The prudent ones have hedged their bets by spreading the risk across products, geographies and have ensured that their portfolio concentration is not on the high risk sectors.

**Do you see the need for the government and the regulator to step in as they have largely stayed away till now?**

I think there is an issue but it has not reached a stage where the regulator needs to step in.



**"... we need to make a clear distinction between NBFCs that are facing solvency and liquidity problems. If it is a solvency issue then it is a different matter altogether,"**

KAIZAD BHARUCHA

While a certain segment would seek intervention, I feel there are some alternate resolutions that should be looked at by these entities. These include raising funds through ECB (which may be a tad expensive), securitisation and raising funds through issuance of bonds. The concerned entities should explore such options first.

**Do you see it hurting the sector and economy?**

Yes, the sector does come under stress. Over the last several years, while the private sector capex remained tepid, growth was driven by government spending coupled with growth in consumption and services. However, since the event in September 2018, the consumption part has also slowed down as it was retail consumption and the NBFCs had a fair participation there. So, when NBFCs got constrained, they obviously lent less and as a result, the consumption demand is also being affected.

**With consumption slowing down, how bad is it for the economy?**

Is there a slowdown? Publicly

available numbers suggest that. Some of the numbers announced by the FMCG, auto and two-wheeler companies too seem to bear this out. While there are other reasons as well, especially in the case of the automobile industry, one factor has definitely been less access to credit. If the monsoon is not normal, it could aggravate the problem.

However, I remain optimistic and it comes from the fact that the government spending is expected to increase after the Budget. Also, if some policy announcements are made which give an impetus to industry. Further, in order to bridge the current account deficit, we can step up exports across sectors. Ranging from engineering, auto, textiles, garments and commodities. And if there is a normal monsoon, it can bring back a rural demand which is important. After all, over half of India lives in semi urban and rural areas. On the whole I remain optimistic.

**Where do you see growth coming back first?**

One sector that has done well and will continue to do well is roads, thanks to the Government focus on this. We are also seeing demand in industries like chemicals, specialty chemicals, transmission, light engineering and food processing. This is being reflected in the demand for working capital. What is also noteworthy is that while cement and steel plants may not be operating at optimum capacity, the capacity utilisation has not gone down either. All this make us optimistic.

**What do you think needs urgent attention?**

We have to look at land reforms. If you have to set up a plant, you need a few hundred acres of contiguous land to be made available. Along with land reforms, you need labour reform. I also think that for a country like ours that has huge requirements for infrastructure, just focusing on water, sanitation and irrigation can push the economy for five years. That's the potential we are sitting on.

tain export promotion schemes of India, while India has challenged USA's unilateral hike on customs duties on certain steel and aluminium products.

The US has rolled back export incentives from India under its GSP programme and New Delhi has imposed higher customs duties on 28 American products including almond, pulses, walnut, chickpeas, boric acid and binders for laundry moulds.

## ECONOMIC SURVEY 2018-2019

## ELECTRIC VEHICLES

## 'Policy push' needed for universal charging standards

ENS ECONOMIC BUREAU  
NEW DELHI, JULY 4

WITH ADOPTION of electric vehicles in being India slow despite their increasing demand, the NDA-II government's Economic Survey has called for a "policy push" to devise universal charging standards and provide adequate charging infrastructure.

"Electric vehicles (EVs) represent the next generation in sustainable mobility and need to be

encouraged. The adoption rate of electric vehicles has been slow, largely due to the lack of charging infrastructure in the country and the time taken for completely charging the EVs," said the survey.

Globally, EV sales have been rising at a "fast" pace to over 10 lakh units being sold in 2017 from just over 2,000 in 2008. Over half of the sales were in China, which had a market share of around 2 per cent for electric cars. In comparison, the Indian market share of electric cars is a "meagre" 0.06

per cent, stated the survey.

Given India's "large" import dependence for petroleum products, the survey stated that it is "imperative" that there be a shift of focus to alternative fuels to support the country's mobility in a sustainable manner. India could emerge as a hub for manufacturing EVs, it added.

However, limited availability of charging infrastructure for the batteries of these EVs, which provide limited driving range, was pegged as a major impediment to

increasing their adoption. The time taken to completely charge these EVs, anywhere between half an hour to eight hours, depending on how fast the charger is, is also an impediment, as per survey.

"It is, therefore, an important policy issue to come up with universal charging standards for the country as a whole to enable increased investment in creation of such infrastructure. It is equally important to provide information on public chargers to the users of EVs through online maps and

other means such as physical signage," it stated. "Also, since the battery is the heart of any EV, development of appropriate battery technologies that can function efficiently in the high temperature conditions in India need to be given utmost importance."

"Future policy direction should orient itself to enhanced energy efficiency programmes in different sectors of the economy as well as technological solutions to better utilise India's natural resource endowments," it added.

## 'Diplomatic'-type privileges, 'club' membership proposed for each district's top-10 taxpayers

ENS ECONOMIC BUREAU  
NEW DELHI, JULY 4

TO IMPROVE tax compliance, the Economic Survey 2018-19 Thursday suggested that the government could consider giving top-10 taxpayers in each district recognition by way of "diplomatic"-type privileges at immigration counter, express boarding at airports, and even naming of roads, buildings and schools.

It said that since people often indulge in conspicuous consumption to convey their social status, top-10 taxpayers within a district can be highlighted and accorded due recognition. This may take the form of expedited boarding privileges at airports, fast-lane privileges on roads and toll booths, special "diplomatic"-type lanes at immigration counters, etc. Further, the highest taxpayers over a decade could be recognised by naming important buildings, monuments, roads, trains, initiatives, schools and universities, hospitals and airports in their name, the Survey suggested.

"The idea is to create exclusive membership of 'clubs' that exclude not only social status but also honour. Such steps can also help propagate the social norm that 'paying taxes honestly is honourable'," the Survey said. The Survey, also suggested propagating the social norm that 'paying

**EXPLAINED**

## Idea to correct perceptions of horizontal unfairness

THE IDEA is to create exclusive membership of 'clubs' that exclude not only social status but also honour. Such steps can also help propagate the social norm that 'paying taxes honestly is honourable'.

Highlighting the tax paid by other taxpayers, especially self-employed individuals, in the panchayat/district through SMS, billboards etc, can correct perceptions of horizontal unfairness.

taxes honestly is honourable' by way of displaying signboards showing 'tax money at work' in construction projects could lower perceptions of vertical unfairness. "Similarly, highlighting the tax paid by other taxpayers, especially self-employed individuals, in the panchayat/district through SMS, billboards etc, can correct percep-

tions of horizontal unfairness," the Survey added.

It said across countries, researches have highlighted that tax evasion is driven significantly by tax morale — the intrinsic motivation of taxpayers in a country to pay taxes. Tax morale itself is driven primarily by two perceptual factors: (i) vertical fairness, i.e. what I pay in taxes is commensurate to the benefits I receive as services from the government; and (ii) horizontal fairness, i.e., differences in the taxes paid by various sections of society. For instance, citizens perceive vertical fairness to be low if they find their tax payments being squandered in wasteful public expenditure or by corruption. Similarly, perceptions of horizontal fairness suffer when the employee class is forced to contribute disproportionately to income taxes while the class of self-employed gets away paying minimal taxes. Both perceptions contribute to high tax evasion in a country, the Survey said.

"In order to enhance tax compliance, behavioural insights need to be employed to modify the social norm from 'evading taxes is acceptable' to 'paying taxes honestly is honourable'. A start has been made through budget speech of February 2019, which publicly and explicitly thanked taxpayers... thereby seeking to honour honest taxpayers," said the Survey. **WITHPTT**

**FY20 GDP growth seen at 7 per cent on stable macroeconomic conditions. To become \$5 trillion economy by FY25, India must sustain 8 per cent growth.**

**Need for a "virtuous cycle" of savings, investment and exports. Private investment to be a key driver for demand, capacity, labour productivity, new technology, creative destruction and job creation.**

**Investment rate is expected to pick up on the back of higher credit growth and improved demand. The higher capacity utilisation and uptick in business**

**expectations should increase investment activity in fiscal 2019-20.**

**Accommodative monetary policy is expected to lower lending rates. Capex cycle might see an uptick with signs of continuing resolution of stressed assets in the banking sector.**

**Calls for incentivising smaller firms to grow big. Bats for a sunset clause of less than 10 years, with necessary grandfathering, for all size-based incentives and deregulating labour law restrictions to create more jobs, as evident from Rajasthan.**

## LOOKING AHEAD



**Nudge people for desirable behaviour to enable transition from 'Beti Bachao Beti Padhao' to 'BADLAV' (Beti Aapki Dhan Lakshmi Aur Vijay Lakshmi), from 'Swachh Bharat' to 'Sundar Bharat', from 'Give it up' for the LPG subsidy to 'Think**

about the Subsidy'.

**Need to prepare for ageing by investing in healthcare and by increasing the retirement age in a phased manner, need to consolidate/merge schools by states to make them viable rather than build new ones with significant decline to be seen in elementary school-going children (5-14 age group) over next two decades**

**Delays in contract enforcement and disposal resolution are the "single biggest hurdle" to ease of doing business. 100 per cent clearance rate achievable by filling out 2,279 vacancies in**

the lower courts and 93 in High Courts, with states of UP, Bihar, Odisha and West Bengal needing special attention.

**Rural consumption is expected to rise with cash transfer scheme (PM-KISAN) along with pick up in food prices resulting in increasing rural incomes and spending capacity and hence rural consumption demand. However, this will depend on turnaround of monsoon.**

**Oil prices are expected to fall in FY20 from the current level which is expected to provide a positive push to consumption.**