Moving the Needle

...ideating the journey from policy to implementation...

April 2023

Dear readers,

There has been significant progress over the last few years to push India's economic growth and global geopolitical standing.. From assuming the G20 presidency to making sure the country's interests are protected to further enabling growth in infrastructure – the Government has made significant efforts. A fast developing economy requires sustainable infrastructure, a secure border with state-of-the-art, successfully tested and certified security systems, a healthy population, as well as a skilled and technologically adept workforce to ensure a focussed growth trajectory towards becoming a developed economy. This issue discussed important markers in these areas.

In the Expert section, Dr Charan Singh, CEO and Founder Director - EGROW Foundation, and non-executive Chairman, of Punjab & Sind Bank, shares his view on the banking sector and global monetary scenario.

We endeavor to cover above key areas in this edition of the now christened "Moving the Needle". The intent is to highlight and converse on the most critical topics in the most strategic sectors for India.

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POLICY SQUARE.
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Interview Series by Primus Partners

In Association with BW BUSINESSWORLD

01 – Policy Square

Policy Square | A Primus Partners initiative to understand the more fundamental questions in policy making

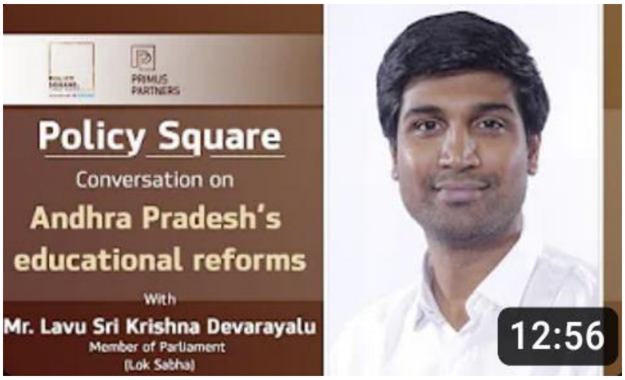
Primus Partners on 28th December 2021, launched **Policy Square** in association with Businessworld.

Policy Square, an initiative by Primus Partners, is a monthly expert interview series wherein key constituents of the public policy ecosystem – senior policy-makers, civil society members, business executives etc. – are interviewed on critical issues and policies of national importance to explore their impact on the country and industry at large.

The motivation for the Policy Square series is driven by Primus Partners' diverse policy-regulatory knowledge bank, as well as experience in delivering projects across multiple sectors.. Our aim is to leverage this knowledge and create a platform to enable in-depth discourse.

With this initiative, we have attempted to engage with experts at various levels within the country's ecosystem. Each expert has brought in a new perspective – all towards enabling India's growth both in absolute and relative terms.

Latest episode...



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Primus Partners India

02 – Economy

India's G20 Presidency – Steps in the Amrit Kaal towards a cleaner, greener and bluer future

G20 is the premier forum for international economic cooperation and holds a strategic role in global economic growth as its members represent **over 85% of global GDP, 75% of global trade and two-thirds of the world's population together.**

The forum plays an important role in shaping and strengthening global architecture and governance on all major international economic issues. This time, the theme of our Presidency, **"One Earth, One Family, One Future"**, highlights the importance of environmentally sustainable and responsible lifestyle choices, both at the individual and the national level, in creating a cleaner, greener, and bluer future.

The country aims to ensure that this belief of going digital and promoting green and sustainable technologies is not confined to a smaller part of the human race and is used as a massive opportunity to transform the world. Therefore, these meetings are not confined to the capital or big metropolis but are hosted in over 50 cities across workstreams with the involvement of various Ministries, giving opportunity to delegates across countries a glimpse of India's rich cultural heritage.

The country has got the presidency at a very crucial global and economic point in time. It contributes to providing a platform to emerging economies such as Indonesia and Brazil, a voice to raise concerns common to these countries.

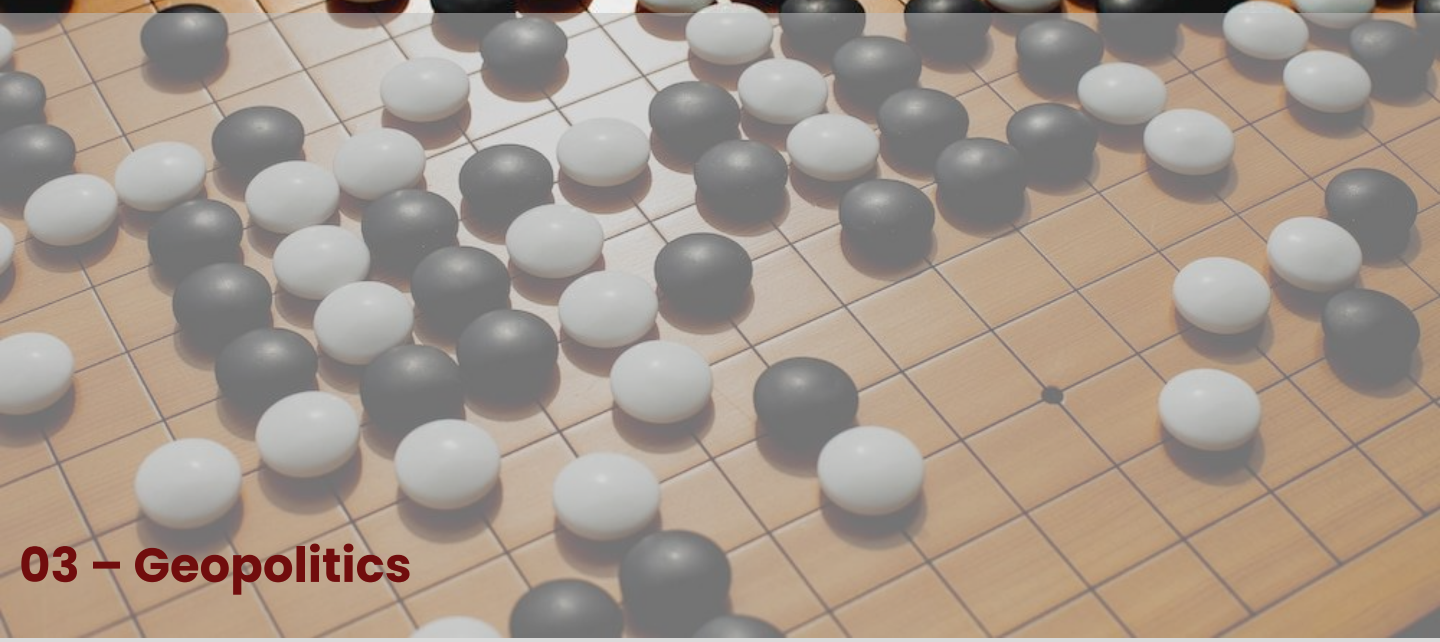
In addition**, India will set the global economic governance agenda for the year, giving an opportunity of aligning its national priorities with global aspirations and spearhead policies at the table**. For these reasons, it gives India a unique opportunity to strengthen its role in the world economic order.

The country has taken several steps to ensure outcomes in areas of critical interest such as food and energy security, climate financing, digital transformation and accelerating progress towards the SDG 2030 mandate among others. India organized a virtual Summit on "Voice of the Global South for Human-Centric Development", with a focus on bringing prosperity and global well-being.

Another important priority for the country is to highlight inclusive growth and development to boost socio-economic development and promote sustained, inclusive, and sustainable economic growth, i.e Goal 8 of the SDGs. Seeing the rapid industry changes, advances in artificial intelligence and innovations are expanding the frontiers of the digital revolution and fostering innovation.

The three main priorities identified by India in this subject are "Digital Public Infrastructure", "Cybersecurity in the Digital Economy", and "Digital Skilling", which will act pivotal in the promotion and implementation of a secure, interconnected, and inclusive digital economy.

Therefore, the troika comprising the current, past and future Presidencies of G20, comprises three strongly emerging economies (Indonesia, India and Brazil). In the Amrit Kaal, hosting the prestigious G20 Presidency brings an opportunity for the country for a paradigm shift towards tabling human-centric globalization agendas that focuses on bridging the gap between regions and countries.



03 – Geopolitics

Necklace of Diamonds strategy

The Indian Ocean Region today is the most watched region in global polity. It boasts of highest container traffic, the most strategic trade routes, densely populated mass consumer markets and economies of scale. India has always been a non-expansionist country and has also walked the talk in that regard for instance by being one of the founding members of SAARC which is the body for south Asian regional collaboration. However, having experienced China's "string of pearls" strategy and expansionist mindset, it was important for India to also accordingly prepare. The path hence taken was to weave a necklace larger than the string – India widened her geopolitical reach.

The genesis of India's unsaid 'Necklace of Diamond' strategy lies in this hypothesis. The term was first used by India's Former Foreign Secretary Lalit Mansingh in 2011 as India's move to contain China's 'String of pearls' strategy. And this was not done with an intend to expand presence but to outreach and bring aligned nations together.

What was the String of Pearls Strategy?

Alfred Thayer Mahan had once said, "Whoever controls the waters of the Indo-Pacific will control the world". China in its attempt to secure its sea lines of communication and dominating the sea trade routes devised the string of pearls strategy.

The two-pronged policy practiced by India's northern neighbour was aimed at not just controlling the choppy waters of the Indian Ocean but also to encircle India by controlling most of the strategic ports and naval bases around it.

Through tools such as the One Belt One Road (OBOR) initiative and following the principles of Debt Trap Diplomacy, China started obtaining controlling stakes in most of the operational military and non-military ports of the Indian ocean. Security was further threatened with the deployment of People's Liberation Army Navy (PLAN)'s warships, submarines, and naval destroyers.

The Necklace of Diamond was India's answer to this growing Chinese hegemony in the region. By drawing a bigger circle around the existing encirclement, India started placing strategic assets such as coastal surveillance radar systems to track Chinese warships and submarines, operating airports in strategic locations to watch out for the ports and strengthening bilateral ties in South-East Asia.

India has also been at the forefront of efforts to recognise ASEAN's centrality to the strengthening of Indo-Pacific. Nourishment of bilateral relationship with each of the ASEAN nations while also reaching out to the extended western neighbourhood has kept India's strategic balance at its fulcrum.

Focussed policies such as SAGAR (Security and Growth for All in the Region) and Act East were structured attempts at strengthening relationships with the extended neighbourhood and bringing together stakeholder nations of the region to achieve greater harmony and comradery.

While a lot has been said and written about this silent strategy of competitive alliance building, encapsulating all of the military, security and economic angles, it still needs more active involvement of concerned countries. This ambitious but peace-driven approach needs to add and factor in the non-military aspects of influence being wielded in the region. Through greater development assistance on unreasonable terms being popularly termed as 'debt trap diplomacy' China is drying up India's neighbourhood of strategic autonomy. A strong India serves in global interest for the rise of free, open inclusive and rules-based Indo-Pacific. Other participating and concerned countries need to be able to see India's alignment with their socio-economic objectives as well. Countries in this necklace need to work more cohesively for mutual growth and development.

It is important that these alliances are built with the objective to be robust, concrete and above all, result oriented.

04 – Infrastructure

In infrastructure, enough of private sector will never be enough

The Indian government has committed to a significant investment in infrastructure, raising the capital investment outlay for infrastructure by 33% to INR 10 lakh crore. Infrastructure funding is a complex issue that touches upon multiple aspects of society, such as job creation, economic growth, and environmental sustainability.

On the other hand, private sector participation has become increasingly important in recent years, with initiatives like the National Infrastructure Pipeline (NIP) aiming to attract private investment. Private companies have faced challenges in raising funds due to the high cost of capital and the long-term nature of infrastructure investments.

Like the government, the private sector also has a critical role to play in supplementing government investments in infrastructure. Non-banking financial companies and international finance corporations have overtaken commercial banks as the largest source of funds for infrastructure projects, and the National Monetisation Pipeline has expanded funding mechanisms to include instruments like infrastructure investment trusts and infrastructure debt funds.

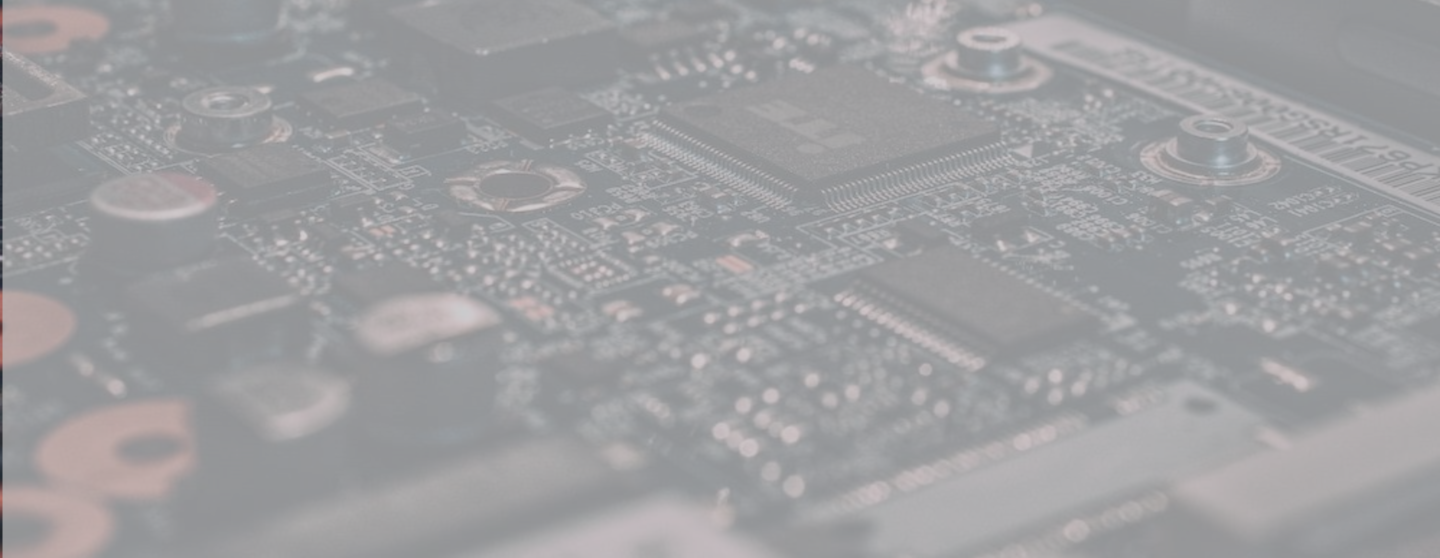
The government has also taken steps to create an enabling mechanism for private sector investment in infrastructure. Credit guarantees and securitization-cum-asset-backed securities (ABS) could be effective ways to raise funds for infrastructure projects. Additionally, the establishment of a credit guarantee facility to raise the credit perception of PPP projects would enable private players to raise long-tenure loans. However, infrastructure projects have a long gestation period, which can make them less attractive to private investors looking for quicker returns on their investments.

Despite the potential of private sector participation in infrastructure investment, challenges and risks remain. Land acquisition has been a significant challenge, leading to project delays and cost overruns. The Mumbai-Ahmedabad bullet train project, for example, has been facing delays due to land acquisition issues. Aggressive bidding, non-performing assets, and unstable credit interest rates are also significant risks associated with private sector participation.

To strengthen capex investment in infrastructure, **India needs to take several measures, including ensuring consistency in policy and regulatory frameworks, addressing stressed assets through dedicated policies, implementing reasonable user charges, and promoting autonomous regulation of infrastructure. The utilization of asset recycling, domestic funds, and global funds can also provide a significant boost to the sector.**

India’s ongoing G20 presidency provides an opportunity to learn from other countries and set new infrastructure principles to achieve its goal of becoming a developed nation with world-class infrastructure.

Private sector participation is essential in infrastructure funding, but government investments are still necessary to provide momentum for private investments. **A balanced approach to infrastructure development that considers both private and government capex investment is critical to achieving India's infrastructure development goals.** A careful assessment of the headwinds (if any) with respect to private sector participation is necessary to ensure the success of private sector investment in infrastructure funding.



05 – Technology

Products vs services mindset – no points for guessing what should be the future

The unprecedented growth of the Indian IT industry in last two decades has changed global perception towards India. According to a NASSCOM report, **the Indian IT industry is projected to reach $350 bn by 2025**. Another study by CII suggests that India is expected to add 1.3mn new jobs in the technology sector by 2025. **The contribution of the IT sector in India's GDP rose from 1.2% in 1998 to 10% in 2019.** This underlines the growing importance of the technology sector in India's economy, and the need for a skilled workforce to drive innovation and growth.

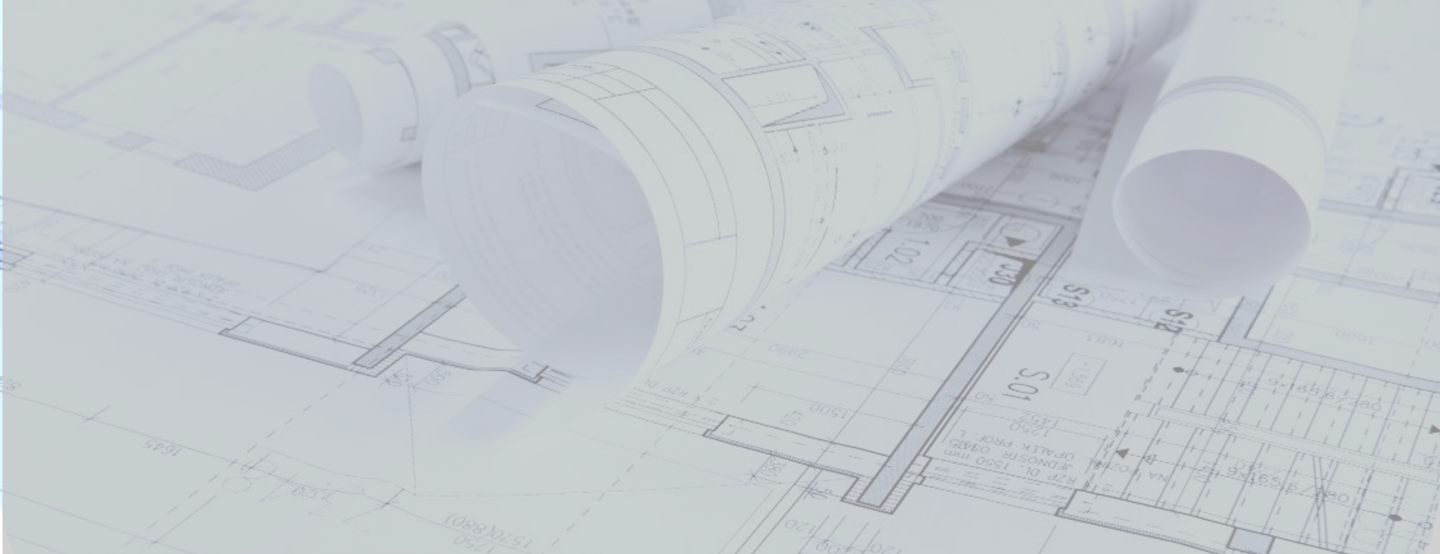
Indigenization refers to the process of developing and utilizing domestic resources, capabilities, and technologies to promote self-sufficiency and reduce reliance on external sources. **Skilling in technology is a crucial aspect of indigenization, as it empowers individuals and organizations to develop and implement native technological solutions that are tailored to their local needs and requirements.** These skilled professionals can leverage technology to solve complex problems, create new products and services, and drive innovation across verticals including healthcare, agriculture, manufacturing, and finance. Furthermore, indigenous technologies can contribute to the economic growth and development of a country by reducing the cost of imports, creating local jobs, and promoting innovation and entrepreneurship.

Why is Indigenization of Technology needed?

The Indian IT Industry's market size of ~$200bn in 2020 with almost 70-75% in IT services-oriented work has been a great driving factor up to now, but now we need to move the needle towards a product-centric approach. Moreover, products are more likely to create a differentiation compared to services. **From a revenue standpoint, the average employee billable rate for a product-based company is 10-20x that of a typical service-based company.** Thus, evolving from a services-focussed industry to a product-based industry is only a natural progression, and it needs to happen now in order to leverage the larger opportunities at hand. This change in mindset has to be driven at an individual, organizational as well as national level. All three must work in tandem to nurture an innovation-driven culture that will help India take this quantum leap into the future of technology.

For the above to happen at a national level, it is crucial to mandate investments in product driven values through public expenditure as well. A time driven model needs to be developed within the ecosystem as a whole and the budget can ensure this at a holistic level. From policy to infrastructure to funding – the government has a huge role to play for this mindset change to happen. Policies to incentivize product-based companies, infrastructure to support the setup, maintenance and obsolescence management of such products as well as moving towards capacity building – they are all important from a time perspective to ensure that we don't miss the bus.

As part of the Digital India movement, **the government recently announced a Digital Skilling program in emerging and future technologies focussed on skilling, reskilling and upskilling students, and provide employment to 1 crore students in the Emerging Technologies field –** a first-ever national level collaboration between Ministry of Education, the Ministry of Skill and affiliated NSDCs, Skill India programs (National Educational Alliance for Technology) and AICTE. Over 100+ technology corporate/manufacturing firms have come on board to provide emerging technology certifications on this platform free-of-cost. Initiatives and cross-industry/ministry collaborations like these are set to get the ball rolling in the right direction of building a skilled Indian workforce in the domains of product development, data analytics and innovation-driven emerging technologies.



06 – Aerospace and Defence

Trials procedures in defence procurements - Weighing the scales and doing what is best for the nation

The trial procedures in India for defence procurements is one of the most stringent and extensive process in the world. India's field trials are conducted at varied scales, ranging (1) across terrains from plains to deserts to mountainous and (2) across temperatures from -40 to +40 degree celsius. On one hand, given the different terrains and varying climatic conditions in India there is an inherent need to have equipment and weapons that work in most, if not all, such conditions. On the other hand, this tends to delay the procurement process which when coupled with other possible reasons sometimes, results in the procurement timelines getting significantly delayed. It is therefore important to have a mechanism whereby trials are also carried out and it also does not result in significant delays in the procurement processes.

In that regard, few key suggestions as below can be considered:

- Further integrating the private industry in the procurement process ab initio, beginning from finalization of the SQRs. This would enable a convergence of expectations with existing capabilities.
- Composite trials in one location, where possible, so that the logistics involved in visiting different places for different set of trials is minimized.
- Further enhancing the coverage for self-certification and / or accredited third party certifications to more components / sub systems. The validity of such self certifications can possibly also be increased further to maybe 5-10 years as well.
- The two Third Party Inspection (TPI) agencies, currently approved by DGQA, are both based out of Mumbai. It is required to have a more diverse spread so that it is convenient for both the vendors and the TPI. The range of products / equipment / stores that these TPIs are responsible for and those which are eligible for self-certification also needs to be looked into – maybe beginning with the negative list as well.
- Provisions could be made to ensure that trials are not conducted on a NCNC basis (especially where they require significant logistics) and the industry is provided enough cushion to be compensated / reimbursed such costs
- The DAP suggests that trials will be conducted only pertaining to conditions where the equipment is most likely to be deployed. In addition to subjecting the applicability of trials to usage locations, possibly only the evaluation of those parameters which have a direct impact on operational performance of the services could be carried out. For the balance, avenues maybe explored for certification from accredited labs / agencies.
- Another important avenue that can could be evaluated is to further leverage simulation to cut development and trial timelines. The DAP does indicate simulation based testing and trial but this can be further enhanced in scope. *For instance: A $2mn simulator facility for pilots to fly aircraft to and fro the UK's Queen Elizabeth class aircraft carrier gave them a 360-degree view and vital information on the kind of obstacles especially behind them.*
- A domestic set up similar to that of the *DoD Modelling and Simulation Coordination Office (DMSCO) in the US* could be created to further enhance simulation based testing and trials.

07 – Healthcare

The Free Healthcare Debate – too novel an idea for an imperfect world?

In the pursuit of Universal Health Coverage, the most important base to be covered is Affordability. **Even with Ayushman Bharat Jan Aarogya Yojana, the out-of-pocket expenditure on healthcare remains higher than government expenditure** just as the dependency on private healthcare institutions remains high compared to the government facilities because of poor doctor-patient ratios and questionable quality of services. These factors make healthcare out or reach for a very large population in the country especially for those in rural areas.

As people become more aware of the importance of formal healthcare, the question arises whether Free Healthcare is a fundamental human right like Right to Education and whether inaccessibility to healthcare is in violation to the same. While from a humanitarian point of view, it does make sense to declare free healthcare for everyone as it promotes equity and equality, but it can be argued that delivering free healthcare to all citizens can have severe economic repercussions.

Countries like Canada and UK have been providing Universal Health Coverage to its citizens for years now, however it is important to note that the public health system in these places is not "free" but paid for by a Public Funding System. **This means that the government collects the contribution towards the public insurance scheme in form of taxes from the citizens**.

It is also important to note that most of the countries with functional Universal Health Coverage are High Income Countries with low populations and even then, cases and complaints of low funding to healthcare facilities, poor working conditions of the providers, long patient waiting times are very common. People become heavily dependent on the public funded systems in the HICs because private healthcare is only affordable by the HNIs of these countries which fortunately is not the case with India.

The challenges with Universal Health Coverage and Free Healthcare in India are many. Any service that requires highly skilled professionals, continuously advancing technology, physical infrastructure, investment in population education cannot be, in essence, "free".

However, several government programs and schemes ensure that basic healthcare is provided to the public for free in public facilities. **In a country like India where 70% of the population depends on the private health system for secondary and tertiary care, the free healthcare debate is mostly one sided.** For such a system to work, It will take heavy investment from the government and continuous contributions from an already economically backward population.

All being said, an argument can be made that primary healthcare especially for expecting women and children should be considered a human right and must be provided for free as that will reduce the risks for many future diseases, substantially reducing the economic burden of healthcare. AB-PMJAY has correctly assessed the target audience that needs free healthcare and as the coverage of the scheme increases, the gap in accessibility and affordability of healthcare closes.

There is no such thing as a Free Lunch. Free Healthcare comes with lots of compromises on part of the government and public alike. What we really need is regulation of prices and maintenance of standards of practices and delivery of services to truly achieve Universal Health Coverage.

08 – Financial Services

Start up valuations – Fact or Fiction?

The Indian startup ecosystem has a valuation of ~INR 3 lakh crore and is home to over 110 unicorns and 75 “soonicorns”. There are more than 80,000 registered startups with the Industry Ministry, directly engaging over a million people, with many more indirectly involved.

Valuing a startup is a critical aspect of venture capitalism, as it directly impacts an investor's decision on how much capital to infuse into the company. While traditional businesses are valued based on revenue and profit margins, startups are assessed based on their potential to generate future profits.

Although various methods exist for startup valuation, it is essential to note that not all methods are suitable for every startup, and selecting the most appropriate approach necessitates meticulous analysis of the startup's distinctive characteristics and market conditions.

Seed-stage startups, in their nascent and unproven state, pose a considerable level of risk to potential investors, and accurately ascertaining their value through rational valuation methods is a daunting task. In actuality, these startups may harbour negative worth as they incur expenses without any discernible revenue stream. Nevertheless, the introduction of a product and the subsequent cash inflow can potentially overturn this predicament. However, the likelihood of failure remains palpable at this point, thus investment decisions ought to be predicated upon a comprehensive comprehension of the startup's business model and market potential.

Whilst revenue is an integral component in the assessment of a startup's value, it is not the sole determinant. Numerous startups may not yield substantial revenue in their early stages but possess the potential to grow rapidly and attain profitability in the future.

Startup valuations are inherently volatile and subject to sudden shifts stemming from market conditions, competition, and other variables. For instance, securing a major partnership or investment can prompt a rapid escalation in a startup's valuation. Conversely, setbacks or failure to meet growth expectations can result in a decrease in valuation.

One of the key challenges in valuing start-ups in India is the lack of reliable data. Many start-ups operate in untested markets, where there is limited data available to support their growth projections. In addition, most start-ups are privately held, making it difficult to determine their true market value.

Another challenge is the tendency for start-ups to overestimate their valuation, especially in the early stages. Furthermore, the start-up ecosystem in India is characterized by an excessive amount of hype, with numerous investors seeking to capitalize on the next big thing. This can result in over-inflated valuations, with certain start-ups being valued well above their actual worth.

To overcome these challenges, investors and entrepreneurs must approach start-up valuations with prudence. They must concentrate on establishing pragmatic projections and conducting comprehensive due diligence to ensure that they are making informed investment decisions.

The current economic slowdown is expected to make it difficult for startups to raise funds, especially those with a high burn rate and limited runway left. Investors are now looking at public market benchmarks to gauge the worth of private market valuations. As a result, startups with solid fundamentals and tighter cost controls may still be able to secure funding.

However, startups with overpriced last-round valuations may have to settle for flat or down rounds. Some investors are now shifting their bets towards more fundamentally strong companies, and startups will have to significantly cut down expenses to survive the funding winter.

09 – Impact

Climate proofing infrastructure – Towards more sustainable development

The vulnerability of India's transport infrastructure was laid bare during the 2018 Kerala floods. As per The World Bank, **flooding, landslides, earth slips, and rock falls destroyed around 25% of the state's highways and key district roads in 2018.** Similarly, Hurricane Sandy that struck the United States in 2012, caused damages of about $70 Bn, and led to disruption in transport, energy and communications services.

Infrastructure sector's contribution to GDP and employment makes it a crucial pillar in the world economy. The sector is, however, extremely vulnerable to the changing climate, particularly in developing countries. Extreme weather events, triggered by climate change, may affect the sector through increased infrastructural damage, collapse of critical systems, increase in operating costs and, business disruptions, among others.

India has witnessed a 45% increase in economic losses from weather- and disaster-related events over the past 20 years. As per CEEW, extreme climate events have caused **infrastructural damage of over $48bn in the country**, over the last few decades. This highlights the need for integration of climate proofing solutions with the country's infrastructure planning and development process. The EU defines climate proofing as *"a process that integrates climate change mitigation and adaptation measures into the development of infrastructure projects"*. As per the World Bank estimates, **investing in climate proofing solutions can fetch benefits of over $4.2tn**.

It is also essential to take cognizance of challenges such as **limited funding and awareness, inadequate data and information, limited public participation, lack of coordination and governance,** that may serve as impediments in climate proofing India's infrastructure. In this context, targeted interventions such as the ones suggested below, would not only aid in overcoming the challenges but also enable the sector to become climate-resilient and sustainable:

Incorporation of climate mitigation and climate adaptation aspects into infrastructure projects at the planning stage. Initiatives such as the National Infrastructure Pipeline, Atal Mission for Rejuvenation and Urban Transformation (AMRUT), Smart Cities Mission, along with government's housing schemes present an opportunity to **incorporate climate risks and nature-based solutions into infrastructure**.

Undertaking city or region specific assessment of climate risks or hazards, for development of climate resilient infrastructure. Considering India's geography and varied climate zones, it is essential to **assess the specific vulnerabilities of cities and regions, instead of adopting a one-size-fits-all approach**.

Enhancing disaster preparedness and response to protect infrastructure and communities from the impacts of extreme weather events. This can be achieved by **ensuring adequate investments in mechanisms such as early warning systems, particularly in vulnerable cities and locations**.

Accelerating investments for climate-proofing of infrastructure. As per McKinsey, **infrastructure is envisaged to account for 60-80% of climate change adaptation spending globally, averaging $150 Bn-$450 Bn per year in 2050**.

It is, therefore, essential to scale up climate financing through public and private investments that are tailor made for this purpose. The **Coalition for Disaster Resilient Infrastructure (CDRI), led by India, should be leveraged** for channelizing and deploying funds received from member countries, in order to promote climate resilience of new as well as existing infrastructure.

Dr Charan Singh

CEO and Foudner Director, EGROW Foundation

Non-Executive Chairman of Punjab & Sind Bank.

In his earlier roles, Dr Singh was also the RBI Chair Professor at the Indian Institute of Management Bangalore, India; Senior Economist at the IMF, Washington DC; and Research Director (Economic Policy, Debt Management) at the RBI. Among other positions, Dr Singh has also served on the Board of NHB and NABFINS.

10 – Expert speak

Three biggest learnings for India from the current situation at Silicon Valley Bank and Credit Suisse

I think the key issue here is as to who has to learn from the Silicon Valley Bank (SVB) and Credit Suisse (CS). It is the Western World, especially the Advanced Economies (AEs). The AEs have experimented a number of times in the last two decades with the light touch regulation which has repeatedly resulted in taking the world to the brink of a major crisis. In 2008 before the global financial crisis (GFC), the subprime market was created with teaser rates and then the Lehman Brothers happened. It is important for economists and policy makers to understand that financial and monetary issues are different from grain or commodity markets.

Thus, financial instruments like Derivatives have to be carefully used. The ultra easy monetary policy pursued in AEs since 2008, without any global accountability and responsibility, created a substantial amount of liquidity floating around the global markets which was neither good nor required, both in AEs or emerging economies (EMEs). Then happened COVID-2019 while still the global economy was recovering in the ICU. Once again, the AEs, without any accountability and responsibility started opening the fiscal purse widely with debt and deficits increasing rapidly. The central banks were not left behind and their balance sheets expanded. And then, the last straw, Russia Ukraine war in Europe.

Thus, most importantly, the learnings for the AEs from the SVB and CS are – a) The Central banks of AEs have to pursue more responsible monetary policy as interest rate risk can manifest in a vulnerable institution; b) The regulation and supervision has to be appropriate, neither too loose to hide gaps nor too tight to stifle innovation; and c) The role of rating agencies and auditors need to be examined.

The lessons for India are – a) To confidently continue with the appropriate regulatory and supervisory mechanism of the financial sector, including NBFCs, with renewed strength; b) The monetary policy has to be carefully crafted without the imitative style of matching every step of the US Fed, as each country is different as also the inflationary pressures; and c) To prepare scenario analysis and plans because the rise in interest rate cycle can stifle economic growth, causing an increase in fresh stressed assets.

There is a common lesson for all central bankers and that is, the role of inflation targeting (IT) in GFC and the recent crisis. Is it that the focus of the policymakers was on IT, providing false reassurance while all other vulnerabilities were blinkered away. In such circumstances, the multiple indicator approach minted in India during the Asian crisis, would have served better during the period after the global financial crisis. Secondly, countries need to guard against regulatory capture. Otherwise, how can one explain the repealing of Glass Steagall Act, 1933 and diluting of Dodd-Frank Act, 2010? Finally, the issue of maintaining trust in the credibility and strength of the financial system is important.

The steps required to ensure that the contraction of the economy does not take place due to rising import costs

The Indian economy is very large with various sectors which contribute significantly in demand and supply side factors of growth. The global economy is passing through a difficult time with growth rates in most of the AEs suffering severely. Obviously, this implies that exports from India can suffer significantly. There is the fear that the growth can suffer because of rising input costs especially in the manufacturing sector.

The geopolitical situation is expected to continue to be grim due to the war in Europe and disturbed relations between China and America, contributing to the supply chain disruption. GVC has already been impacted and yet to recover. In such circumstances, a number of steps can be considered that – a) Trade and general commercial agreements can be signed with important trading partners by India; b) The government can consider offsetting some amount of increase in import costs and input prices through reduction in duty, providing subsidy to the specific industry or even a tax holiday; c) Explore opportunities within the country, encourage and establish similar industry, even if required through foreign collaboration (like Maruti Suzuki). The vibrant MSME sector can be effectively engaged while industry associations can identify segments / sectors / geographical clusters that can help produce goods within India. In general, an attempt can be made to develop virgin lands within the country. Illustratively, in the Northeast, domestic industry can be encouraged and located.

Interest rates and inflation scenario in the next six months to one year.

The global economy is passing through a very uncertain phase. There are a few economists who have argued that the interest rate sledgehammer used aggressively by the US Fed as well as UK and Euro were unwarranted in this episode of supply driven inflation, mainly because of the war in Europe and disrupted GVC. The sanctions against Russia only worsened the situation. The anticipation of the markets that inflation will continue to be high for next few months in Europe and the USA imply that the interest rates will continue to be high. This will lead to higher sacrifice ratio due to impact on growth in the AEs.

Thus, some economists argue that the rising interest rate cycle will soon come to a halt and then there can be reduction in the interest rates in the US. This leads to extreme uncertainty into the movement of interest rates, their implication on the transmission mechanism of the monetary policy, and its effect on the growth pattern. In these uncertain times, mature AEs are no longer serving as a benchmark to decide the interest rates in other economies of the world.

In India, the recent interest rate hikes have no economic justification from the angle of monetary policy except guarding against the capital outflows. In AEs like the US, UK and Euro, inflation was as high as five to six times their 30-year average. These countries are accustomed to record inflation generally in the range of 1 - 2% annually. In the last one year, due to the war as well as accumulated liquidity because of the expanding balance sheet of their central banks, inflation had increased to nearly 10%.

The aggressive nature of high interest rates in AEs was arguably justified on grounds of very high inflation. In contrast, inflation in India has ranged between 6 - 8 % in the last year as measured by CPI. The CPI food has also not been outside the limit of 8%. The inflation targeting band ranges between 2-6%. However, if analyzed granularly the high inflation of about 2% above the band, was not due to any demand pressures or expanding balance sheet of the RBI or due to high liquidity in the system. But inflationary pressure was due to oil prices, mainly imported inflation.

In such circumstances the interest rate instrument can hardly play a role in taming inflation. And that is exactly what has happened in India and across the world: despite raising interest rates aggressively inflation has neither been tamed nor brought down to tolerable limits in AEs or in India. Thus, while it is difficult to forecast interest rate and inflationary scenarios, my informed guess is that as interest rates slow down the economy, RBI will soon halt interest rate hikes. The rising interest rates have started to impact the flow of credit as the amount of EMI on loans is rising, which then have to be restructured, and can impact the stressed assets in the country.

Measures required to enhance export competitiveness

The Government has successfully experimented with the PLI scheme which has clearly demonstrated very positive results. This scheme needs to be strengthened so that more products and sectors benefit from the scheme. Secondly, the help of the Indian Embassy in each country can be tapped to enhance exports, following a country by country approach. Thirdly, trade associations in India can be tapped to explore possibilities with their counterparts outside India. Finally, due to COVID, there have emerged big trade gaps in terms of non-traditional requirements and disrupted GVCs in different countries of the world. These requirements can be assessed and explored in trade agreements. The multilateral institutions like the IMF, World Bank, WTO as well as the UN can assist in these initiatives. Further, India's strength in terms of pharma has been recently established and that needs to be strengthened now. Similarly, medical tourism can be strengthened.

Fiscal prudence at the national and sub-national level.

In the uncertain circumstances since 2008 and especially since Dec 2020, the role of Government has only been strengthened. The traditionally accepted safe indicators of fiscal policy enshrined in the Maastricht Treaty were for normal times and not troubled times. Events like the COVID 19 are once in a century, and the government had to play an important role in stabilizing the economy under such difficult circumstances. It is not only in India, but even most AEs as well as fiscally prudent countries, that limits of debt and deficit have been breached in the last three years. Therefore, the rating agencies have been accommodative to the deteriorating fiscal indicators. To sustain demand and to keep the economy moving it is obvious that the national and the sub-national governments will have to provide resources to economic agents. This is exactly what was done by both national and sub-national governments in almost all countries of the world.

Now that the economic conditions are improving and the economy is returning to normal times, it will become important to observe fiscal prudence and resume fiscal responsibility by bringing back deficit and debt limits to 3 percent and 60 percent of GDP, respectively. These ratio adjustments should not be done abruptly but follow a glide path over a period of three to five years. I must empathetically add that India stands as a shining star in observing fiscal prudence during the COVID 19 phase, a lesson for other countries to follow.

About Primus Partners

Primus Partners has been set up to partner with clients in 'navigating' India, by experts with decades of experience in doing so for large global firms. Set up on the principle of 'Idea Realization', it brings to bear 'experience in action'. '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.

Our core strength comes from our founding partners, who are goal-oriented, with extensive hands-on experience and subject-matter expertise, which is well recognized in the industry. Our core founders form a diverse cohort of leaders from both genders with experience across industries (Public Sector, Healthcare, Transport, Education, etc.), and with varied specialization (engineers, lawyers, tax professionals, management, etc.).

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