Our View

A comprehensive prescription for the economy in the RBI Annual Report

A lot has been written from the RBI Annual Report – a lot of assumptions, deductions, and expectations on the performance of the economy and banking in general. However, something very interesting which has not been much spoken of, is the set of initiatives advocated by the RBI to revive the economy. I must say, most of the initiatives articulated, if implemented by the Government, will change the color of our country. Here is a take on some of the suggestions which should hit all the right chords with any discerning policy maker:

Investment and infrastructure – Our infrastructure gap remains large, requiring around US$4.5 trillion of investment by 2040. A targeted push on public investment and infrastructure projects such as speedier implementation of the national infrastructure pipeline, some large new projects like a north-south and east-west road corridor together with a high-speed rail can reignite the economy.

Annual report also suggests that the funding for these investments can be met by monetization of assets in steel, coal, power, land, railways and privatization of major ports by Central and State governments under an independent regulator.

Land, Labour and Power – As we know these subjects involve both state and central governments. To tackle the issues around these, the RBI report makes a very interesting suggestion that a good and services tax (GST) Council type of apex authorities can be set up in respect of land, labour and power to drive structural reforms. The states can be encouraged to publicize the availability of litigation-free land in their jurisdictions with access to modern infrastructure. For Power sector, the report emphasizes the importance of renewable energy and suggests incentivizing the domestic production of solar panels and connecting dispersed transmission links with remote areas. For the sector provision of subsidy through direct benefit transfer (DBT) should be a priority. Also, due consideration should be given to privatization of the electricity distribution companies (DISCOMS).

Railways – The annual report makes some practical suggestions such as corporatization of the manufacturing units and FDI into railways. In metropolitan areas, the growth potential of land banks can be exploited by long term leasing to the private sector, including for development of commercial real estate.

Diversification of Financing Options – RBI has underscored the need for diversified financing option. It recognizes that the country's financing needs cannot be solely met by the banks therefore it's important to create alternative to the bank finance. Capital markets and foreign direct investment (FDIs) can help attract long term capital in the country. While setting up of NIIF was a good strategic move by the Government, there is also a need for expanded footprints of specialized NBFCs classified as Infrastructure Finance Companies. Promotion of the corporate bond market and securitization would help enhance market-based solutions to the problem of stressed assets.

Unlocking of Entrepreneurial Energies – It is high time the country focused on unlocking entrepreneurial energies and risk appetite by improving the business environment. As per RBI, faster enforcement of contracts, including through expansion of judicial and insolvency capacities, would be a game changer. Property registrations can be speeded up from the current 58 days, and a centralized website can provide real time information on all regulatory compliance requirements.

Exports – A vibrant manufacturing sector and a sustainable balance of payments situation requires a robust growth in exports. RBI recommends identification of sunrise export categories that are reaping productivity gains and have dynamic linkages, both horizontal and vertical. The focus should be to strengthen their footholds in the emerging global value chains.

Foreign Trade Policy (FTP) – Here too, RBI has made a very interesting point. It says that FTP should increasingly focus on leveraging exports via free/preferential trade arrangements. In this context, completion of the Indo-EU free trade agreement/ preferential arrangement with the UK may confer early mover advantages.

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Agriculture – Ensuring a sustained increase in farmers' income alongside reasonable food prices for consumers, should be the policy priority. An efficient domestic supply chain is also critical. The focus must be on the major reforms that are underway to facilitate free trade in agriculture.

Manufacturing – RBI says that Indian manufacturing has been locked in a structural slowdown for quite some time. Reversing this decline warrants a complete rethink. The quality and efficiency of the physical infrastructure, which still significantly lags the global median, must be enhanced to help manufacturing take off. Benchmarking systems and procedures with the best in the world could galvanize growth in the sector, aided by cleaning up of stressed balance sheets of corporates by raising the efficiency of bankruptcy and solvency procedures.

MSME – RBI says that the MSME sector has the potential to become the engine of growth, but it has been underperforming for too long owning to various structural reasons. This sector has been constrained by lack of modern technology, no research and innovations, insufficient training, and skill development, complex labor laws and high cost of credit due to lack of adequate information.

Services sector – This sector has been driving the Indian economy over the last two decades. However, after a peak in 2014-15, the services sector has undergone a substantial moderation. This sector is the biggest employer in the country with a share of 44.4 percent in measured employment. Therefore, it assumes importance from the perspective of employment generation and for productivity gains that boost output.

Financial sector – This point has been well picked up in most articles. As per the report, Indian banking must be liberalized from the risk aversion that is impending the flow of credit to the productive sectors of the economy. This is undermining the role of banks as the principal financial intermediaries in the economy.

Non-Banking Financial Company (NBFC) – Non-traditional players with innovative digital platforms are entering the financial services space. The goal of the Reserve Bank is to strengthen the sector, maintain stability and reduce the scope for any regulatory arbitrage.

All the points are very valid and this note in the Annual Report of RBI is an extremely pointed and comprehensive checklist of things to look after and execute, to take the country into a different orbit. ***Policy makers in the government, please take note!***

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