Expert Speak

Indian economy in focus: Insights from experts at Delhi Day

Motilal Oswal Financial Services organized the Delhi Macro Day on 10th Jan'25. The event featured five experts (mentioned below) from diverse fields, each addressing various segments of the economy:

1. ***Dr. Siraj Hussain,***
2. ***Dr. Surjit Bhalla,***
3. ***Dr. Pronab Sen,***
4. ***Mr. Subhash Chandra Garg, and***
5. ***Mr. Ashok Bhattacharya***

The primary objective of the meetings was to gain first-hand insights regarding the sentiments of experts in the Capital and their expectations from policymakers in relation to the upcoming Union Budget, as well as the RBI's monetary policy. The key consolidated findings, accompanied by detailed accounts from each expert are presented below:

- **The rural economy has shown signs of improvement, but uncertainty prevails:** It is widely acknowledged that the rural economy is turning the corner, bolstered by elevated food prices and fiscal assistance emerging from numerous welfare schemes. Nevertheless, the situation varies notably depending on the crop and the state in question.
- **The employment situation has improved, but concerns regarding its quality and wage growth persist:** While the headline data indicating an increase in employment levels and a rising female labor force participation ratio are highly encouraging trends, the growth of agricultural and unpaid family labor raises significant concerns. Additionally, there is a broad consensus regarding the stagnation of wage growth.
- **Expectations from the Union Budget 2025-26:** The Government of India (GoI) is widely anticipated to achieve a fiscal deficit of 4.5% of GDP in FY26. Following this, the GoI is expected to shift its target debt ratio, which is likely to be a bit trickier. However, it remains uncertain whether the GoI has the intent or willingness to boost consumption growth within the country. Nevertheless, some tax changes to support low-income individuals, employment schemes, or investment allowances can be expected in the forthcoming Union Budget.
- **The business-to-consumer (B2C) MSMEs suffered more, possibly making a recovery now:** Within the household sector, micro, small, and medium enterprises (MSMEs) experienced greater economic distress compared to individual households. Within MSMEs, producers of final goods & services appear to have suffered more, while those affiliated with the corporate sector performed better. The silver lining is that the former group also seems to turning the corner.
- **The decline in government capex perplexing; albeit, capex will likely recover soon:** While there are no definitive explanations for the significant reduction in fiscal capex in FY25, it is widely regarded as a temporary occurrence. The government is projected to maintain its investment-driven spending strategy in FY26.
- **Expect a rate cut by the RBI in Feb'25; strict regulations on unsecured lending to continue:** With the appointment of the new RBI Governor, it is anticipated that rate cuts will commence with the upcoming policy meet in Feb'25. Concurrently, the RBI is not likely to lower its guard on unsecured retail loan growth.

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Dr. Siraj Hussain, former Union Agriculture Secretary, Advisor FICCI

- **Agriculture growth is dependent on climatic factors:** Dr Siraj Hussain mentioned that India's agriculture sector will likely grow at 3.8% YoY in FY25, according to the First Advance Estimates (FAEs) released by the NSO. This growth is largely attributed to a good monsoon and better prices of several crops (except for soybean). However, better projections are also based on a low base, making it uncertain whether similar growth will be observed next year. A lot will depend on the 2025 monsoon season. Mr Hussain emphasized that the sector's performance hinges on climatic factors. Food inflation has remained high and volatile in FY25, particularly due to high vegetable prices, but he anticipates food inflation to come down in the coming months. He also mentioned that it is challenging to assess the rural situation country-wide for the next fiscal year due to the uncertainty involved in weather, prices, pests, and the global situation.
- **Oilseeds and pulses sold at prices lower than MSPs:** Mr Hussain mentioned that several pulses and oilseeds (especially soybean) have been sold at prices lower than their Minimum Support Prices (MSPs). No other incentives have been announced for these crops. For instance, private traders in MP are paying only INR4,100/quintal for soybean compared to its MSP of INR4,892/quintal, resulting in losses for soybean farmers. In contrast, incentives have been announced for wheat and paddy. For instance, in MP and CT, paddy farmers are receiving higher prices (INR3,100/quintal) compared to its MSP (INR2,300/quintal). This is the reason why farmers are unwilling to diversify and grow other crops. According to Mr Hussain, this has led to excessive production of rice at the cost of oilseeds and pulses. He further mentioned that India should become self-sufficient in all crops, which can be achieved only if farmers receive fair prices for all crops. This requires productivity enhancement and reforms in marketing, coupled with government support through procurement, tariffs, and stable policies. He mentioned that sugarcane is the only crop where the private sector is mandated to pay a price fixed by the government (FRP). No sugar mill can pay a lower price than what has been fixed by the government, and farmers expect similar guarantees for other crops too..
- **Use of food grains for ethanol is a wrong policy choice:** Mr. Hussain mentioned that using food grains (rice, maize) for ethanol production is a wrong policy choice for an undernourished country such as India, especially in a period of uncertainty regarding the impact of climate change on agricultural production. Using central pool stock of rice, which is procured from farmers at MSPs for ethanol production, is even more concerning. Government policies should not lead to excessive procurement, resulting in a huge build-up of stock with the government.
- **Why are agri wages stagnant?** Agriculture accounts for only about ~18% of India's Gross Value Added, but around ~46% of our labor force is employed in agriculture. Mr Hussain mentioned that the supply of labor in the agriculture sector is far more than its demand. For agri wages to rise, there has to be higher employment in other sectors. For instance, during FY04-09, many agri workers migrated to construction, which led to an increase in wages.

Dr. Siraj Hussain,
Former Union Agriculture Secretary,
Advisor to FICCI

Dr. Siraj Hussain is an Advisor to FICCI. He joined IAS in 1979 and has served the Government of Uttar Pradesh in various capacities. In the Government of India, he has worked as Joint Secretary in the Department of Food and Public Distribution, and as Chairman and Managing Director of the Food Corporation of India (FCI). He also served as the Union Secretary in the Ministries of Food Processing Industries and Agriculture. Several schemes of the first Modi government were formulated under his supervision as Secretary, Agriculture.

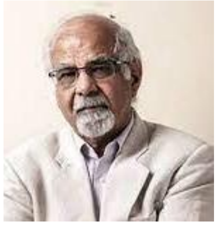
Dr. Surjit Bhalla, former part-time member of PM Narendra Modi's Economic Advisory Council

There is no employment problem in India:

- Dr Surjit Bhalla mentioned that FY18 and FY19 PLFS data is not comparable to any other employment data in India as it is inconsistent and, therefore, should not be used to draw conclusions regarding India's employment situation. He emphasized that it provides a false indication, a view shared by the ILO as well.
- He mentioned that from FY20 onwards, India's employment growth has been the highest ever, with more than 10m jobs per year, compared to only 1m jobs per year during FY04-FY11.
- He mentioned that India needs only 6-8m jobs per year vis-à-vis the consensus estimates of 10-11m jobs per year (to keep the unemployment rate constant). Thus, there is no employment problem in India.
- The unemployment rate for individuals aged 30-64 years is only 0.6%. There is a huge wedge between private and government jobs (wages, security, accountability, etc.) in India. This has created a huge demand for government jobs. Not all of this arises from the unemployed; in fact, it is likely that most applicants for government jobs are already employed – they apply in search of a "better" job, a phenomenon familiar to all job applicants worldwide.
- He mentioned that the notion of an increasing share of unpaid family labor in India is a myth. In 1983, the share of unpaid family labor was 17-19%, as it was in 2011 and 2023.
- The Female Labor Force Participation Rate (LFPR) rose sharply post 2018-19 in India. This is due to a decline in fertility rates and a rise in education opportunities for women. Himachal Pradesh and J&K have the highest female LFPRs in India.
- He mentioned that the FY24 PLFS suggests an increase in employment in the agriculture sector, which is not necessarily negative, as within agriculture, there has been a rise in the number of workers in the modern agriculture sector (horticulture, animal husbandry) and a decline in the traditional agriculture sector (cereals, pulses, fruits and vegetables, etc).

It is the 'wages' problem:

- Mr Bhalla mentioned that there is no employment problem in India, but rather an issue with a lack of increase in wages in the skilled sector (salaried employees, college educated, etc). He further explained that the supply of workers for a similar skillset has increased sharply in India (much more than demand), leading to a stagnation in real wages. While the number of college graduates has surged, this has not been matched by a corresponding boom in the demand for college graduates (quality adjusted).
- Real wages for casual laborers have increased at a 3%+ rate since 2011. For other categories, such as salaried workers and self-employed workers, real wages have remained largely constant.
- He mentioned that allowing foreign investments (FDI brings in technology) and increasing infrastructure investments in the country are some of the ways through which output and real wages can increase.
- Mr Bhalla mentioned that India needs to grow at its potential growth rate of ~7-8%. GDP growth rate has been lower due to high interest rates and very high personal income taxes in the country, leading to lower spending power and lower consumption.



Dr. Surjit Bhalla, former part-time member of Prime Minister Narendra Modi's Economic Advisory Council

Dr Bhalla is a former part-time member of Prime Minister Narendra Modi's Economic Advisory Council. He has served as Chairperson for the High Level Advisory Group on Trade at the Ministry of Commerce, and as Economic Adviser to the Fifteenth Finance Commission, Government of India. He is also a regular invitee to the Aspen Institute Program on World Economy (USA) from 2002 to present. He was a Contributing Editor for the Indian Express (2014-2020). Additionally, he was the Founder-Chairman of Oxus Research & Investments, 1997-2017.

Dr. Pronab Sen, Professor at ISPP

India's MSME sector is not doing well:

- Dr Sen mentioned that there are two categories of MSMEs: a) MSMEs that are ancillaries to the corporate sector and b) MSMEs that are involved in the final production of goods and services (entire rural and semi-rural sector, providing bulk of non-agricultural employment).
- He mentioned that the entire damage due to COVID has been felt by MSMEs, which are involved in the final production of goods and services, leading to fewer job opportunities. However, MSMEs that were ancillaries to the corporate sector have survived.
- However, recently, there may have been some improvement in the MSME sector, measured by a fairly substantial growth in credit to MSMEs and increase in fixed capital spending by MSMEs. Banks are now offering term loans to MSMEs, which were negligible a few months back. But we do not know if the credit to the first category of MSMEs (ancillaries to corporates) is going up or the independent units.
- Money supply growth has been much lower in the recent decade (10-11% during FY14-FY24) compared to 18-20% during FY04-FY14. This is due to lower cash generation, as the demand for money is low. M0 and M1 (used by MSMEs) growth is muted and the entire growth in money supply is coming from M3, which is mostly used by corporates.

India's employment situation is concerning

- According to the latest employment data provided by the PLFS survey of 2023-24, India's unemployment rate has come down to 3.2%. Despite this, India's employment situation is not optimistic. The reasons for this are mentioned below:
- Female LFPR has gone up significantly, due to which employment in the agricultural sector has increased. Dr Sen has mentioned that the mechanization in agriculture has remained muted, leading to lower productivity in the sector (need more workers for the same work). Consequently, disguised unemployment in agriculture has increased.
- He mentioned that the number of casual laborers and self-employed workers has increased, while the number of regular salaried workers has gone down. The number of unpaid family work laborers has also gone up by ~65m. Improvement in employment has come from activities that reflect distress.
- There is a shortage of skilled workers in India's labor force. Employers are not getting workers with the right skills.

Corporate investment is weak:

- Dr Sen mentioned that private sector investment has remained muted in India, with a significant decline in investment in the MSME sector and partly in the corporate sector. The corporate sector is not yet willing to invest even when the profit to the corporate sector is growing decently, largely due to a serious loss of confidence in India's growth story.
- On the other hand, the share of public investment in total investment has gone up, but this has not been effective in spurring private sector investment.
  India's Incremental Capital Output Ratio (ICOR) is around 4-5 and may increase further.

Dr. Pronab Sen, Professor at ISPP

Currently a professor at ISPP, Mr Sen most recently served as the Chairman of the National Statistical Commission. He has held several significant positions, including Principal Economic Adviser at the Government of India's Planning Commission, and as the first Chief Statistician of India, acting as the functional and technical head of the national statistical system in India. Additionally, he served as the Secretary, Ministry of Statistics & Programme Implementation, Government of India (2007-2010). As a representative of the Planning Commission, he was a Principal Author and Coordinator of a) the Mid-term Appraisal of the Eighth Five Year Plan, b) the Ninth Five Year Plan, c) the Mid-term Appraisal of the Ninth Five Year Plan, d) the Tenth Five Year Plan, e) the Mid-term Appraisal of the Tenth Five Year Plan, and f) the Mid-term Appraisal of the Twelfth Five Year Plan.

- Sectorally, the infrastructure sector (roads) has the highest ICOR, and the ICOR of the corporate sector is also high due to the use of more capital-intensive methods. On the other hand, MSMEs (highly labor-intensive) and agriculture have low ICORs.
- According to Dr Sen, India will grow at ~6.5% in the medium to long run, which is decent and not bad.

Mr. Subhash Chandra Garg, Former Finance Secretary

Mr. Subhash Chandra Garg, Former Finance Secretary

Mr. Garg, the former Finance Secretary of India, played a key role in shaping economic policies. With a distinguished career, Mr Garg contributed to financial reforms, fiscal management, and economic development during his tenure.

<u>Government to support consumption in the upcoming budget</u>: Mr Garg mentioned that the government, as a political institution, is primarily concerned about raising the living standards of the poor through social welfare schemes, including what are pejoratively termed freebies, but essentially are redistribution schemes. He further mentioned that the government does not usually focus on supporting discretionary consumption. Reduction/rationalization in tax structure to support discretionary consumption may not be the area of concern for the government as of now. Mr Garg categorized government expenditures into the following four categories:

- **Non-productive consumption:** This includes the committed expenditures of the GoI, which do not yield any service at present, such as interest payments and pensions. These are unproductive in nature.
- **Expenditure to deliver public goods and services:** This is the most essential government expenditure and is made on services that the government is primarily responsible for, such as defense, policing, and law & order. However, it is not the largest. It also includes expenditure on public infrastructure such as roads and railways, metros, and ports, as well as spending on merit goods such as health and education services.
- **Expenditure through redistribution schemes**, such as NREGA, PM Kisan, and other schemes, including direct benefit transfers to the poor, is a key area of focus for the government, according to Mr Garg. Hence, in the upcoming budget, while the government is facing large fiscal resource constraints, *more welfare schemes might be announced or allocation under existing schemes might be increased*.
- **Expenditure on schemes to support economic growth** - for instance, PLI and capex on roads, railways, metros, etc.
- Mr Garg does not expect the government to cut taxes/rationalize the taxation structure in the upcoming budget. He mentioned that the tax-exempt income of individuals in India has remained at the same levels in the last 10 years, which is around INR2-2.5lakhs.

<u>Real government capex has not gone up:</u>

- Mr Garg mentioned that the total public sector capex (budgetary plus IEBRs) has not gone up in real terms in the last five years. It has only grown at ~6% CAGR.
- Budgetary capex includes 'loans and advances' given to state governments and others. These loans may lead to capex by recipients, but they are not capex for the Union Government.
- Much of India's capex is allocated to rail, roads, and defense equipment. He mentioned that rail capex does not add much to the economy since the share of railways in terms of passenger and freight traffic has declined substantially, and its GVA is not growing commensurate with the investment.

- The Union Government undertakes capex through two channels — the budgetary and public sector Internal and Extra-Budgetary Resources (IEBR). During 2019-25, there was a substantial shift, with the government significantly replacing IEBR capex with budgetary capex. In the FY25 budget, the government allocated a substantial amount for capital infusion into BSNL and new schemes under the Department of Economic Affairs. Capital infusion into BSNL is not essentially capex and the allocation for new schemes under DEA might not actually take place.

Mr Ashok Kumar Bhattacharya, Editorial Director at Business Standard

Expectations from the upcoming budget:

- Mr Bhattacharya expects the government to rationalize income taxes in the upcoming budget for FY26 to support consumption.
- Shifting of Mr Tuhin Kanta Pandey into the revenue department. Hope for a major asset monetization drive is far away. No big push to privatization.
- Mr Bhattacharya mentioned that capital infusion into BSNL and the allocation to new schemes significantly contributed to capex in this year's budget. However, these funds remain unspent and could potentially help achieve expenditure compression without any major hit to the growth-enhancing impact of the capex. Capital spending growth is expected to remain decent in the upcoming budget. The government is serious about getting the private sector to invest and this is a good policy move.
- Mr Bhattacharya mentioned that he expects fiscal consolidation to continue on the premise of debt anchoring. The Union Government will stick to 4.5% of fiscal deficit for FY26 and project a trajectory to bring down the Union Government debt to 50% of GDP from 58% of GDP currently.
- The Central Government is keen to involve state governments in implementing factor market reforms.
- Mr Bhattacharya expects the government to bring out a tax incentive package for the services sector.
- He further mentioned that the government is concerned about unchecked exposure to external debt. India should prefer domestic debt as compared to external debt, although at present, the current account deficit is not a concern for India.

Hopes for rate cuts in Feb'25 policy:

- Mr Bhattacharya expects the RBI to cut rates in Feb'25 monetary policy, based on a fiscally prudent Budget for FY26.
- He does not expect RBI to relax its guard on unsecured lending.

Mr. Ashok Kumar Bhattacharya, Editorial Director at Business Standard

Mr. Bhattacharya is a senior economic journalist with over four decades of experience. He has authored two volumes on India's Finance Ministers, 1947-1998. Currently, he serves as the Editorial Director at Business Standard, where he was formerly an Editor. Additionally, he is the writer of the long-running column – Raisina Hill.

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