

## **Industry and infrastructure: Some key takeaways**

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The main concern of this article is the state of industry and infrastructure, as is evident from the economic survey and the budget proposals therein. It begins with certain observations made in the economic survey in the context of pandemic. Then, in the next part, we will see what's the corresponding response in the budgets and later we will compare between these two and and highlight the missing links.

### **Take away from the economic survey**

From the survey it is evident that apart from electricity and coal, various components of industry exhibited negative growth. However, that is quite understandable because around 70% of india's electricity is produced by coal. So, if electricity is registering a positive growth rate, coal will obviously register a positive growth as well. The same is observed in the eight core industries data as well. The economic survey talks about a V shaped recovery. So, it is claimed that we are back to the pre pandemic scenario. But to begin with, the pre- pandemic scenario was not that great, so now we are back to that point. The broad-based recovery in the IIP resulted in a growth of - 1.9 per cent in Nov-20 as compared to a growth of 2.1 per cent in Nov-19 and the lowest of -57.3 per cent inApr-20.

The GoI announced a remedial and reform package (Atmanirbhar Bharat Abhiyan) comprising of stimulus of package amounting to 15 per cent of India's GDP.However, majority of these measures are supply side oriented.As per the Doing Business Report (DBR), 2020, the rank of India in the Ease of Doing Business (EoDB) Index for 2019 has moved upwards to the 63rd position amongst 190 countries from a rank of 77th in 2018.India has improved its position in 7 out of 10 indicators, inching up to the international best

practices. The DBR, 2020 acknowledges India as one of the top 10 improvers, the third time in a row, with an improvement of 67 ranks in three years. It is also the highest jump by any large country since 2011. During FY20, total FDI equity inflows were US\$49.98 billion as compared to US\$44.37 billion during FY19. For FY21 it was US\$30.0 billion (up to September). The bulk of FDI equity flow is in the non-manufacturing sector. Within the manufacturing sector, industries like automobile, telecommunication, metallurgical, non-conventional energy, chemical (other than fertilizers), food processing, and petroleum & natural gas get the bulk of FDI equity flows.

### **The corresponding response in the budget**

Atmanirbhar Bharat-Production Linked Incentive Scheme, 1.97 Lc crores was announced in the budget. Further, Mega Investment Textiles Parks (MITRA) will be launched. Increased outlay of 5.54 Lakhs towards infrastructure in 2021-22 was proposed as against Rs. 4.39 Lakhs in 2020-21 (RE), which translates to an increase of 26%. Further, the creation of an infrastructure-focused Development Finance Institution with a capital base of Rs 20,000 Cr is shown as one of the highlights of this budget. For increasing entrepreneurial activities, the Govt has permitted one-person companies or OPCs in India.

Another major announcement in this budget is regarding the vehicle scrapping policy to phase out old and unfit vehicles. All vehicles shall undergo fitness test in automated fitness centres every 20 years (personal vehicles), every 15 years (commercial vehicles). This move is aimed at reducing environmental pollution. However, it will boost the automobile sector as the shelf-life of vehicles are drastically reduced.

The govt proposed a National Asset Monetising Pipeline in order to monitor asset monetisation process. However, it is nothing but a fancy term for selling of PSUs and other related assets.

The government has made some significant announcement in the infrastructure sector. 100% electrification of Railways to be completed by 2023 Further, Metro services were announced in 27 cities, plus additional allocations for Kochi Metro, Chennai Metro Phase 2, Bengaluru Metro Phase 2A and B, Nashik and Nagpur Metros were proposed. An enhanced outlay of Rs. 1,18,101 lakh crore was proposed for Ministry of Road Transport and Highways, of which Rs.1,08,230 crore is for capital expenditure. A sum of Rs. 1,10,055 crore is provided for Railways of which Rs. 1,07,100 crore is for capital expenditure. A new scheme will be

launched at a cost of Rs. 18,000 crore to support augmentation of public bus transport services.

The budget proposed National Hydrogen Mission to generate hydrogen from green power sources. Further, Recycling capacity of ports are to be doubled by 2024. A new Gas pipeline project is to be set up in Jammu and Kashmir. The Pradhan Mantri Ujjwala Yojana (LPG scheme) to be extended to cover 1 crore more beneficiaries.

### **Reading between the lines**

Here, I would like to discuss two things. First is related to the proposed capital expenditure. We are actually posting a capital expenditure increase of 26%, but how these funds are going to come? There are two ways, one is the 75,000 crores supposed to be raised from the disinvestment drive. The second one is from this creation of DFI. Now, Here lies the problem. What is this DFI? It's basically something very much similar to KIIFB, but window dressed in a much grand manner. And a lot of things are quite ambiguous about this institution. First is the type of debt instruments they are going to float. Second is the currency in which they are going to borrow, and third is the repayment mechanism. If we are raising money from foreign markets, we have to see whether the repayment is in foreign currency or local currency. If you are repaying in the foreign currency, you will have exchange rate risk. Any DFI should have an action plan regarding how they are going to retire their debts. The proposed repayment mechanism for this DFI is quite vague at this point. As it is borrowing as a national entity, there are no real limits. Left unchecked, it will lead to a debt trap.

Second thing that I want to discuss is about the policy side. If you go into the economic survey they talk about both supply and demand side action. But we look into the policy measures taken by the government, it is quite asymmetrical and skewed towards the supply side. The direct fiscal stimulus in the Atmanirbhar Bharat was roughly only 1.3%. Rest was all about pumping liquidity into the economy through various measures. But the liquidity infusion will work only when there is demand for credit. The demand for credit, it is dependent upon investment demand. Investment demand is again dependent upon profitability of the products and services and profitability is again dependent upon demand for goods and services. And this demand for goods and services is dependent upon income and purchasing power of people that was very low during this pandemic and I don't think the

aggregate demand has picked up. So this response to pandemic was quite skewed or supply side oriented where the demand side was virtually ignored. So, comparing what's there in the economic survey what it's actually being done, I am not sure to what extent the infrastructure and industry is going to recover. Because there needs to be a huge demand side action, otherwise things may not pick up like what is projected in the economic survey or in the budget.