

'Monetising fiscal deficit via secondary OMOs right way'

Kotak Mahindra Bank Managing Director and Chief Executive Officer **UDAY KOTAK** has taken over as president of the Confederation of Indian Industry (CII) at a time when the economy has been hit hard by the lockdown to fight the spread of coronavirus. Kotak tells Subhayan Chakraborty and Indivjal Dhasmana that as the government incurs higher expenditure on health and sustainable development, it will have to make hard choices on whether it should support weak enterprises or not. He talks about getting growth back, import duties, migrant labour, bank recapitalisation, etc. Edited excerpts:

How do you rate the performance of the Modi government during the first year of its second term, given that economic growth had slowed even before the Covid-19 outbreak?

The one-year performance of any government will be determined by what has happened with the Covid-19 outbreak. It has disproportionately dominated the psyche of every government in the world. It's correct that growth was slower initially. But we are seeing an unprecedented event in the history of the world. I would much rather focus on how we get out of this and use this opportunity to structurally get better for our future. We can drive the car looking at the mirror or looking at the windshield in front. I would much rather look forward to ensure we get the car moving in the right direction.

Prime Minister Narendra Modi, at the CII annual general meeting, talked about getting growth back. What is your advice to the government on this?

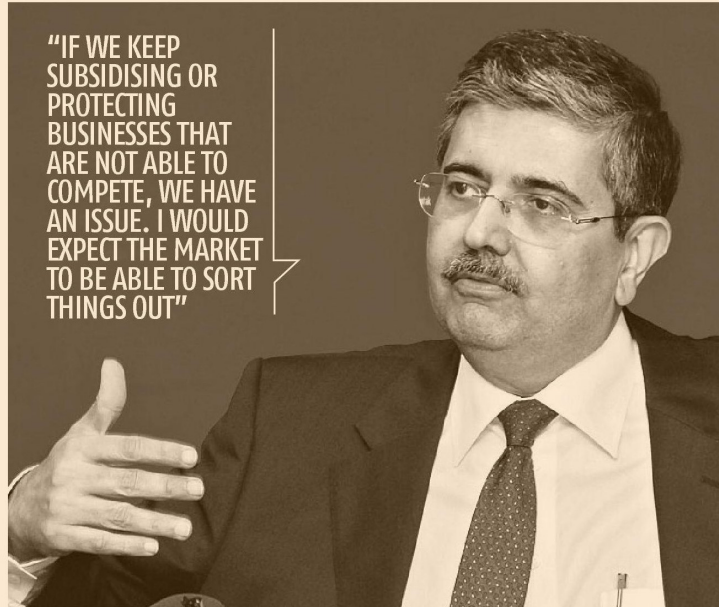
Our theme for the year is "building India for a new world". In the short run, the immediate objective has to be protecting lives and livelihoods, and whatever it takes to do that. In the medium term, we have laid down our priorities. I will give you the example of what is happening in the capital markets as we talk. Most investors in capital markets are saying that we know the year is a difficult one and most companies will report poor earnings. They are looking beyond 2021. They are looking at trend growth in earnings as the basis of their investment decision. The same philosophy applies to India's GDP growth. This is a time for us to pause and invest in structurally important things rather than being everything to everyone.

Where does this place health care and sustainable development?

We need to prioritise health care. We spend 1.3 per cent of GDP on it. I would dramatically increase that. Prioritising mother nature is important. It may be unusual for an industry body to talk about this. But we need to look at the economic and social aspect of what mother nature has done to us in the past three-four months — a virus, a locust attack, and cyclones on both coasts. It is time for us to wake up to sustainability as an extremely important part of life and the economy.

You have suggested increasing health

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expenditure. Given that there's a resource crunch, where should the government cut spending?

Let's take the example of the aviation sector, which is facing a lot of challenges. There are probably six airlines. Let us assume that three or four among these are able to sustain themselves. But should the government support the other struggling ones with money or should it spend on health care? Assuming that the government does not support the airlines, these risk going out of business and creating job losses, and should they be protected in place of medium-term investment in health care? These are tough choices we have to make as a society.

The government has announced a ₹20-trillion package without sops for beleaguered sectors like tourism and hotels. Do you think it's time for a sectoral approach?

That is where the question comes whether the government should protect a weak business or let the market forces determine how things play out.

The government has stated it will come up with a public sector enterprise (PSE) policy with only four PSEs being allowed to remain in certain strategic sectors ...

The government is planning to move out of business. It is unlikely that it will continue to support weaker businesses in a sector where there is enough competition.

Would you suggest increasing import duties in certain sectors in the context of self-reliance in manufacturing and reducing imports from China?

My view is that the Atmanirbhar Bharat also has to be a competitive Bharat. A competitive India will have to engage

with the world. Having said that, we can't allow unfair imports to come into India from countries where the pricing of products is not fair or prices are subsidised by the state. If there is any counter-duty for manipulative pricing, I would gladly support that. Otherwise I would like the duties to be fair and reasonable.

You have said that there's an urgent need for recapitalising public-sector banks to the tune of ₹3-4 trillion. What is the need for this, given that currently many banks are doing lazy banking by parking their money in the reverse repo window?

There are two parts to it. One is that there will be credit losses, which will erode the capital base. Your existing loan book will feel some pain, which will reduce the capital because that will be a capital hit through P&L (profit and loss accounts). Secondly, there is some mark-to-market gain in bonds, which will help banks recapitalise to an extent. But I still believe additional capital of ₹3 trillion will be required for banking. My advice to private-sector banks and non-banking financial companies (NBFCs) is to raise capital.

As the economy revives in subsequent months, there may be a resource crunch. The government has decided to raise ₹4.2 trillion from the market. Do you think a point will come when the Reserve Bank of India will have to monetise fiscal deficit and print more notes?

Monetisation is happening but not through the primary route. It is happening through OMOs (open market operations), where the RBI is expanding its balance sheet and monetising the deficit. You can monetise directly through primary or secondary

OMOs. The correct approach to do it should be through secondary OMOs because then the placement by the government is at market prices and the RBI is also dealing with the market at market prices.

You asked private-sector banks and NBFCs to raise capital. Will there be enough capital in the market for both the private sector as well as the Centre and state governments?

For the right investment opportunities, there is enough capital in the market.

Most migrant workers have gone back to their villages. Will that require more investment in rural areas?

We have a big agenda on the rural-urban re-balance. We have seen massive migration from urban to rural areas. This is the time for us to create better-balanced regional growth. We should invest in rural infrastructure, rural digital, and rural medicine. I'm not saying the people who have gone back to villages won't return to cities. Some of them will. But if we create an enabler in rural India right now, we can ensure that urban India gets little less cluttered. Migrants who have come to urban India have had a very rough time. Many of them stayed in slums and had insecure jobs, and the virus itself has been urban-centric. With such odds, the workers deserve to live in villages better than they did in cities. Getting them back to cities will not be easy.

How would you suggest to the government to create jobs in the traditional manufacturing sector, given that unemployment has become a major issue?

We are seeing a complete re-balance between the digital and the physical worlds. To that extent, it's much less in the control of the CII and the government and much more in the hands of the consumer. If a consumer decides to buy groceries online instead of going to a shop or a mall, despite the economic impact of that on physical stores, it's his or her decision. Consumers decide whether a business is worthwhile continuing or not. We have to respect that. If we keep subsidising or protecting businesses that are not able to compete, we have an issue. I would expect the market to be able to sort things out.

Moody's Investors Service has cut India's sovereign ratings recently. Do you think it gives a depressing signal for foreign investors coming into India?

Ratings are a view. They have no legal liability as has been proved during the global financial crisis. Investors look at ratings from the point of view of the cost of money. Despite Moody's cutting the rating, it remains at investment grade. According to Moody's ratings rationale, it's not only about this year's budget deficit but the medium-term trend growth rate that has to be focused on. We at the CII believe that's the right thing to do.

Q&A

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