

ET Q&A

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With a good monsoon and increased government spending, we'll have a GDP growth in the range of 8%, says CII President Naushad Forbes

'Indian Economy Too Robust, Resilient to be Affected by Exit of Any Individual'

India Inc is cautiously optimistic about the country's GDP growth projections, says CII President **Naushad Forbes**. In a wide-ranging interview to **ET's Rajat Arora**, he says increased government salaries without increased productivity of public services could trigger inflation. While hailing RBI's role in forcing banks to recognise bad loans and reducing crony capitalism, he says Indian economy is too resilient to be affected by the exit of any individual. Edited excerpts:

What did the CII discuss at its recent national council meeting in Bengaluru?

It was the first operational meeting where we had the top 80 industrialists of the country in one room. The agenda was to discuss the economy and how top industry leaders can help push growth. If you look at the data, the macroeconomic indicators are healthy. There are many positives stories but a few sectors aren't in good condition. During the meeting, we got a sense from these industrialists what they see in their own firms and their sectors, which gives us a true insight. We had a lot of detail and colour to the macro data. After getting the feedback on different sectors and the upturn we are seeing, I would say that currently India Inc is cautiously optimistic about India's growth projection for this year.

How does the CII assess this government? Are you satisfied with the pace of reforms?

I would categorise this government's work in three buckets – useful reforms undertaken, steps that are yet to show results and third bucket is of reforms that have been announced but not implemented. In the first category, we have the ease of doing business initiative. It's a complete change in direction. We have become an easier place to do business. The rankings have shown some improvement. The states are now competing to get investments.

The second bucket contains bankruptcy code, where results are yet to be seen. The Apprenticeship Act and Companies Act amendment are yet to have an impact. Some states have taken up labour reforms but the outcome is to be seen.

The third bucket is things announced but yet to turn into reforms. The finance minister in his last budget speech said he wanted to provide fertiliser subsidy directly to farmers through direct benefit transfer to plug leakages. There was a plan to undertake a pilot project. That is yet to happen.

The other announcement in the budget was to have a sunset clause for central government schemes. The scheme will have a clearly defined outcome and an expiry date. We are looking forward to when these schemes are implemented and how they will play out.



ON INTEREST RATES

Industry would always like lower interest rate. There is an argument for a modest lessening in interest rate

What are the key reforms that you would like to see?

When we talk of big bang reforms, they have to start with Goods and Services Tax (GST). If you look at labour reforms, it's a concurrent subject and states are yet to act fully on it. If you want to promote labour intensive manufacturing, it can't be done without having flexibility in labour laws. The recently released textile policy has provisions which provide labour flexibility but states have to be more proactive.

The government has repeatedly said it wants to root out crony capitalism. What is the progress on this?

It is happening in a very direct way through central government and also through the Reserve Bank of India's initiative. If you go to ministries today, you will see far fewer industrialists hanging around. It's a very positive signal because it removes the potential for influence that leads to crony capitalism. Also, if you talk to bankers today they will tell you that they get almost no calls from ministers saying take care of so and so. There is a change in the culture.

RBI is now forcing banks to recognise

doubtful loans. RBI is doing the best service to the country by changing the institutional mechanism to stop crony capitalism. Earlier, even if PPP (public-private partnership) contracts were not commercially viable and one-sided, the company would still take them because it could secure a loan. The company would expect to manage the process later on.

There is still a legacy of some of it from the past that needs to be cleared. In fresh contracts, these things have been addressed. Some of it leads to the less economic movement on the ground but it's a healthy thing in long run.

Why has the industry not joined hands with the government in seeking to build consensus on passage of GST Bill?

We have been constantly in touch with the government and the Opposition, particularly Congress. We have been told very clearly that the obstacles to GST passing are purely political. There are no tangible differences that couldn't be sorted if there's a will to move ahead on GST. Now, building a political consensus is not the job of CII.

Indian industry has been a reluctant investor while FDI is rushing in. Why are you not so bullish?

We still have 25% of capacity unutilised because of weak demand. With a good monsoon we would see rural consumption go up. In industries like tractors and two-wheelers, we have seen an uptick. There has been a slight upturn in food processing, construction equipment and textile. By the end of this financial year, you would see domestic industry investing more robustly.

Has the government's crackdown on black money caused some anxiety among the business community?

There's some anxiety because people are still sceptical whether there will be confidentiality on the black money

disclosures. The government has assured that there will be strict confidentiality but that promises need to be 100% credible.

Do you think the Brexit fallout will be severe on India?

There's a big question on what impact Brexit will have on sentiment. If you look at the reality on ground, then there will be an impact as we are a part of the global economy but we won't be dramatically affected. We are not dependent on Europe. And if you look where Indian growth comes from, it comes from domestic consumption.

How do you view the controversy regarding RBI governor Raghuram Rajan's exit after his term ends? Is it likely to deter foreign investors?

The Indian economy is too robust and resilient to be affected by the exit of any individual. I don't think it will have any impact and also we are sure that the government will get a worthy successor.

However, there's a wider issue that his exit raises. If we want to be a truly vibrant and dynamic economy in the long run, we should be the place where the world's best talent, be it NRI or foreigners, should come and work.

Is interest rate a big issue with the industry and are current rates undermining investments?

Industry would always like lower interest rate. There is an argument for a modest lessening in interest rate.

What are your views on bank NPA clean-up? Has it dented industry sentiment?

I don't think that the NPA clean-up has hurt industry sentiment. It is one of those things where you take the bitter medicine to cure the sickness. It does cause a slowdown in activities on the ground but then it gives you stress-free banking system that's very credible.

In April, you said that CII expects a GDP growth in the range of 8% in 2016-17, more than what RBI has estimated. Are you still as optimistic?

The reports on monsoon till now have been fine. I'm sure it will lead to a quick recovery in agriculture sector and we'll soon see a revived rural demand. With a good monsoon and increased government spending, we'll have a GDP growth in the range of 8%.

The pay commission is expected to push growth and boost demand. But won't it put a lot of stress on government finances?

Anywhere in the world, if you have a higher pay without higher productivity, it will always be inflationary. So, the important measure would be how we are going to improve the productivity of the public services. If we see productivity flowing through the economy, then we can afford to increase the pay.

ON PASSAGE OF GST BILL

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