- **FICCI COMMENTS ON RBI MONETARY POLICY**
  (2nd August 2017)

Commenting on the monetary policy statement FICCI feels that the 25 bps cut in repo rate is a welcome move. The current situation, however, warranted a steeper cut of at least 50 bps in the repo rate if not 100 bps. The private investment cycle remains weak and the reduction in the rate will be an investment sentiment booster. According to FICCI's latest Business Confidence Survey findings, companies are still operating at sub-optimal capacities and the demand conditions also remain a concern for businesses. Normal monsoon and forthcoming festive season is expected to aid rural consumption and a further decline in lending rates will send a positive signal to investors as well as consumers.

Further, the setting up of an Internal Study Group to assess the marginal cost of funds based lending rate (MCLR) system with the objective of improving monetary transmission is a positive step. FICCI also looks forward to constitution of a High-level Task Force which would put in place a transparent and real time Public Credit Registry system.

- **FICCI COMMENTS ON WPI NUMBERS**
  (14th August 2017)

Commenting on the wholesale based inflation rate, FICCI feels that the wholesale prices have edged up in the month of July on back of sharp increase in vegetable prices. However, the broad conditions for agri-prices remain conducive given normal monsoon in most parts of the country and stable global commodity prices. This outlook is also corroborated in the second part of the Economic Survey.

Given the trend and outlook for inflation, we see clear space for a more accommodative stance in the monetary policy. This is all the more important given the state of industrial sector where growth is anaemic. The latest index of industrial production numbers indicate a fall in manufacturing activity. Private sector investments continue to remain weak which is key concern for now. We look forward to a further cut in the policy rate by the RBI at the earliest. This along with forthcoming festive season demand and expected improvement in rural incomes should help propel consumption and thus investment sentiment.

FICCI's Voice – SG's Desk is a service to all our members and also shared with key policy makers and thought leaders. The document is a compilation of FICCI's views on macro-economic issues that confronts the nation. These issues come to us directly from members, or through deliberations in conferences, seminars etc. on sectoral issues, as also through Government notifications.

**** This issue of FICCI's Voice is a compilation of issues for the month of August 2017**

- **FICCI COMMENTS ON GDP DATA**
  (31st August 2017)

According to FICCI, the GDP growth numbers indicate a moderation in agriculture and industrial sectors. The uncertainty surrounding implementation of Goods and Services Tax did impact industrial production in the first quarter. FICCI hopes there would be a pickup in economic activity can be expected in the second half of this fiscal year.

A marginal improvement has been reported in fixed capital formation numbers which is positive and is probably supported by the increasing public investments. However, the persistent slack in private domestic investments remains a concern. The cost of finance for industry remains high. Though the Reserve Bank of India had cut the repo rate by 25 bps in the monetary policy announced earlier this month, a steeper cut at this juncture would have given a stronger signal. A turnaround in domestic private investments is critical to push growth and employment generation in the economy.

- **FICCI COMMENTS ON ECONOMIC SURVEY 2016-17 VOLUME II**
  (11 August 2017)

Reacting to the Economic Survey 2016-17 Volume II, FICCI observed that the Survey clearly lays out the opportunities and the risk factors that could have a bearing on the near to medium term growth performance of the Indian economy. While developments such as introduction of GST, in principle decision to privatize Air India, steps taken to address the twin balance sheet problem and the continuous roll out of reforms across segments lend confidence, there is an element of anxiety on account of factor such as farm loan waivers, dip in non-cereal food prices and weakening performance of sectors such as power and telecommunications. The deflationary impulses in the economy need to be countered through all possible policy levers as identified in the Economic Survey.

The Economic Survey confirms that there is a need to substantially cut down the policy rates by the RBI and ensure its full transmission by the banks in the form of lower lending rates for consumption and investment activities. A cut in interest rates would spur demand, push up capacity utilisation rates and help reduce pressure on the corporate balance sheets thereby enabling them to plan for fresh investments. Unless the private investment cycle revives, sustaining growth and generating jobs in large numbers would be difficult.

- **POLICY MUST FEEL LOW CARBON PATHWAYS**
  (31st August 2017)

FICCI is of the view that the markets will provide the signal to scale up business action on climate change. To this end, the process to initiate the architecture for a future carbon market will be crucial. Business needs policy stability in order to fuel larger investments in low carbon path pathways. Any policy reversal at the domestic and international levels will jeopardize business action on climate change.

Financing is the backbone for low carbon investments and infrastructure. To meet the goals made at the Paris Summit, it would be important that future financial flows are directed towards low carbon priorities. Global financial sector including institutional investors, capital markets and banks will have a crucial role to play. The future policy measures and economic instruments should be designed to support the ambition and goals that have been set out as a part of NDCs rather than impose a deterrent to future action on climate change by business and industry. Climate change, should offer a strong business case, business opportunity and business responsibility for businesses. A low-carbon economy is the only way to achieve a sustainable economy and therefore business needs to call on governments to keep climate change high on the political agenda, FICCI has emphasized.

- **FICCI RECIPE FOR BALANCED MEDICAL DEVICES POLICY**

(25th August 2017)

FICCI has suggested to the Government to adopt a four pillar balanced approach while drafting a policy on medical devices to assure the sustainable growth of this nascent industry.

Prioritizing on Universal Health Care Access: FICCI strongly proposes that a careful evaluation based selection be made on manufacturing of certain targeted medical devices that can fit the current Indian manufacturing skills and manufacturing ecosystem, along with prevalence of disease that they address, and that the Government facilitates local manufacturing of them in a targeted manner towards the Make In India Program. FICCI suggested that targeting all complex medical devices for Make In India will neither find success nor will make healthcare cost effective in the country. The current consumption levels of medical devices in India at $3 per capita is far lower than the $50 to $70 per capita consumption of China, Brazil and Russia, thus making Make in India a challenge. Universal Healthcare Provision, by significantly enlarging India's healthcare market from its currently abysmal 0.8 beds per 1000 population will expand the supply side market size of medical devices.

Focusing on export promotion, rather than purely seeking import substitution: Since it is proven that the world over medical device is a global supply chain, as evidenced by the fact that even China is more than 70% import dependent in this sector, FICCI suggests that the Government focus on building India's global medical devices export competitiveness without seeking to curb imports. Importing low volumes of high quality and novel medical devices will facilitate market adoption, and scale the Indian market, which will eventually benefit domestic manufacturing to acquire both skill and scale. If this strategy is not adopted, India will have to direct far larger resources towards novel innovation, for which both funds and medical research capability is currently in short supply.

Adopting a sub-segmented policy approach for medical devices: FICCI observes that, in the absence of a cogent policy, currently all medical devices are treated the same from a policy standpoint. Since both technology and market adoption vastly varies from such low risk devices as a syringe, I.V. catheter or a blood bag, to high risk – high complexity devices as pacemakers and equipment such as MRI machines, FICCI urged the Government not be make a blanket un-segmented policy. The policy should acknowledge the sub-segmentation of medical devices into simple engineering and complex engineering, and apply distinct policy treatment, wherever applicable.

Facilitating an innovation centric approach: As the medical device is a fast innovation driven industry, it will be of utmost importance for the Government to promote an innovation ecosystem approach. This can be driven by keeping innovative devices outside price control, scaling currently abysmal number of innovation incubators such as School of Bio-design to several such institutes, and launching a fiscal incentive mechanism for attracting top global med-tech innovators to India.

- **<u>FICCI-IBA BANKERS' SURVEY</u>**
  (10 August 2017)

The fifth round of the FICCI-IBA survey was carried out for the period of January to June 2017. A total of 20 public, private and foreign banks participated in the survey. These banks together represent 64% of the banking industry, as classified by asset size.

The survey has been conducted at a time when NPAs are at a worrisome position, especially for the Public Sector Banks. The amendment to Section 35 of the Banking Regulation Act enables banks to resolve the NPA problem. The current round of FICCI-IBA Bankers' survey covers respondents' views on this subject as well as about the recent RBI's suggestions for Wholesale and Long Term Finance Banks, Bank Account Number Portability and Bank Consolidation.

NPAs in public sector banks have shot up considerably, with 91% respondents from public sector banks reporting an increase in NPA levels. Private sector banks and foreign banks both have mixed experiences with regards to NPAs with 71% of private bank and 50% of foreign bank respondents stating that NPAs have increased during Jan-Jun 2017. During this period, metals, infrastructure and textiles have witnessed high level of NPAs with at least 50% of total respondents stating the same. Forty per cent of respondents also mentioned an increase in requests for restructuring of advances as against 18% in the previous round of the survey.

Banks were confident that the recent amendment to the Banking Regulation Act will help them with NPA resolutions. The participating banks have given several suggestions for dealing with the issue of stressed assets. One of the suggestions is to set up industry committees to determine valuation of large stressed accounts and get large PSUs in respective sectors to bid for the said accounts at such valuations. Banks have recommended easing of provisioning norms for stressed assets referred to IBC. They have also urged for strengthening the legal infrastructure to facilitate quicker disposal, such as setting up of more benches of Debt Recovery Tribunal and National Company Law Tribunal.

A large majority of respondents have not changed their credit standards for large enterprises or SMEs in first half of 2017. However, about 35% of the respondents reported tightening of credit standards for large enterprises in first half of 2017 and about 40% respondents expect further tightening in the next six months. On the other hand, about 15% of respondents have eased the credit standards for SMEs in the first half of 2017 and about 20% expect further easing of standards in the next six months.

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