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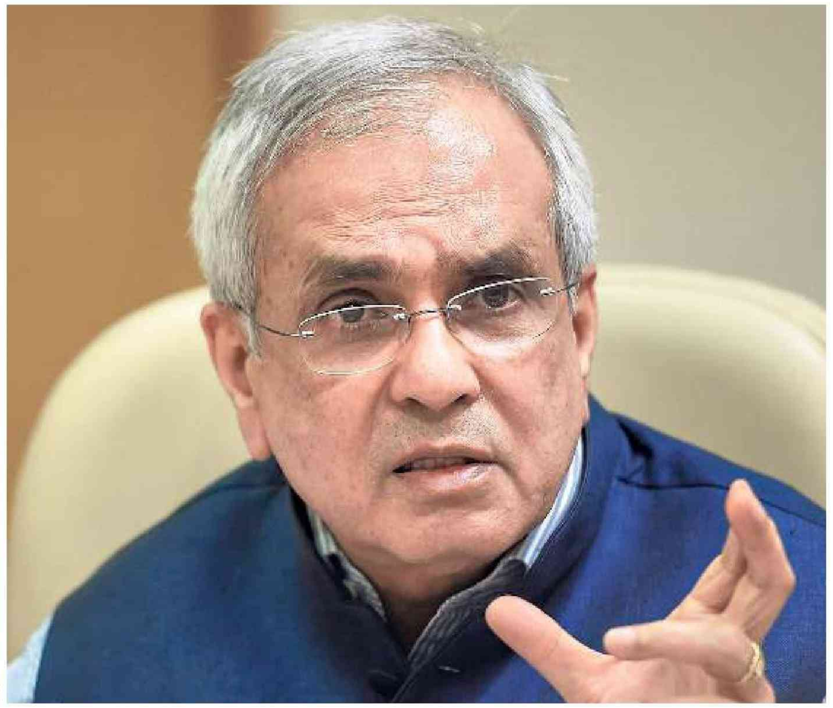
THE WEDNESDAY INTERVIEW| RAJIV KUMAR

'We expect the economy to grow at 7.3% this year'

The vice-chairman of NITI Aayog on the NPA problem, disinvestment, and the need to focus on India's competitive advantages

YUTHIKA BHARGAVA

To tackle the rise in non-performing assets (NPAs), India needs to take measures to address the root cause of the problem instead of finding short-term solutions, says Rajiv Kumar, the vice-chairman of NITI Aayog. With "inherited problems somewhat behind us", the economy is set to grow above 8%, he says. Excerpts from an interview: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There is a slowdown in economic growth. The growth in GDP is estimated at 6.7% for 2017-18. When can we realistically expect this to go above 8%?

■ The economy is now on track to go above 8%. All our inherited problems are somewhat behind us. This government came to office with a huge mountain of NPAs, an inherited policy paralysis, the economy was going down and inflation was very high. So, it has taken a while to get it [the economy] back on track. Private investments had simply stopped at that point due to issues such as the twin balance sheet problem. All that is behind us. If you even see successive quarters, the economy is on the path of growth. We expect the economy to grow at 7.3% this year. My own expectation is that we will cross 7.5% this year. We should be able to cross 8% next year and reach 9% by 2022-23. The reason for my bullishness is that a huge amount of work has been done. Difficult structural reforms have changed the game, and the game going forward will be more robust and sustainable.

But now do you see private investment coming in?

■ If you see some of the details, you will find that the growth of commercial bank credit to non-agricultural businesses has increased. It is now about 12%. While it is not yet as high as 21-22%, as it was in 2011-12, it had become negative in 2016. So far, commercial banking credit has largely been for retail loans that include housing and automobiles, and actual commercial credit growth to industry – manufacturing and services – is not that high. That is a cause of concern. But commercial bank credit is one of the engines on which private investment fires. The second is IPOs [initial public offerings] and the third is corporate bonds. Luckily for us, the other two engines have started firing.

The short point being that private investment has finally picked up. Though not financed by commercial banks, it has picked up with the necessary finance coming from the capital markets and FDI.

An issue that India seems unable to get a handle on is NPAs.

■ It is a systemic problem. We have had this issue in the past as well. This time, the magnitude is much bigger. In my mind this is related directly to corporate governance within commercial banks. If you look across commercial banks, some banks, largely in the private sector, have done very well in the same atmosphere.

For me, the NPA issue is what [former Reserve Bank of India Deputy Governor] Rakesh Mohan called the result of 'lazy banking'. By lazy banking, I mean the lack of capacity within commercial banks to properly and diligently assess credit risk and manage credit risk. Unless we address that issue, any other measure that we take will only be a short-term palliative. I don't see much point in that because it is just pushing the problem down the road.

The issue needs an in-depth diagnosis and a careful and sustained handling. This is something I hope that the Department of Financial Services will put its mind to rather than finding short-term solutions. We need to address this issue in a manner that we put the problem behind us, once and for all.

What measures would you suggest?

■ If I suggest anything I would be doing it without the required diagnosis. However, in my perception, the P.J. Nayak committee had done a careful diagnosis of all this. Therefore, that should be looked at more carefully. But maybe we need to go beyond that and look at things from another dimension. All the measures in the past such as Indradhanush and recapitalisation have not done the trick. Therefore, it is time to go to the drawing board for a careful diagnosis and then a sustained handling rather than rushing to some other measure in the hope that that will address the issue.

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Is there a need to rethink the privatisation strategy?

■ It is a process and we can't rush through it. The fact is that the government's commitment to it is very clear. NITI Aayog has been given a clear mandate to push for it. We have put out five lists for disinvestment, including a list for closures. Of the dozen units we recommended to be closed, I believe two have been done. People don't focus on this but it is also part of rationalising the public sector enterprise structure.

Disinvestment has to be done in consonance with existing market conditions. We don't want to do a fire sale. All these are government assets, and we want to get maximum value out of these assets. I think, therefore, that the pressure to keep counting how many [have been] done in a week or month is not fair. Last year, we had exceeded the disinvestment target. I am sure we'll do that again this year.

You have spoken in favour of a cut in duties on petrol. Do you think that is feasible, given that the government is also talking about rationalising GST rates?

■ The Prime Minister has made it clear that he is committed to the fiscal targets. So, whatever is done must be done in that context. You need to find additional fiscal space if you are going to rationalise GST rates or cut excise duty on fuels. I'm not saying there is a trade-off here. If you can, do both. But if you can't find the necessary fiscal space and may have a fiscal slippage, the Prime Minister is clear he doesn't want that to happen.

I have always said that excise on petrol should be cut as, in my view, there is additional fiscal space available. But I don't [think] there is additional fiscal space available at this time to do both.

Do you think petroleum should be brought under the GST?

■ It is a very attractive proposition but you should look at the current incidence of tax on petroleum. It is about 85% to 90%, so at what band will you bring them into GST? I think it should be brought under GST but it will have to be fairly sequenced. In that sense, maybe over a medium-term period. With that you will have to grow additional sources of revenue to achieve that. And we are on the right track. The direct tax net has increased from ₹3.7 crore to ₹6.4 crore. There is scope perhaps to grow more. Similarly, with indirect tax, GST collections are at a lakh crore rupees/month level. This is despite the fact that only about 90 lakh businesses have registered, of which 67 lakh now pay or file a return under GST. But if you compare that with the total number of business units in the country with a turnover of ₹20 lakh, we are still at a fairly small percentage of the potential indirect taxpayers.

All of this is to say that there is potential revenue space going forward. As we grow, we can start reducing dependence on oil taxes. But at the same time, I am very careful to point out that expansion of the tax base is not in any sense dependent on, or related to, any form of high-handedness of the tax administration. It is just the opposite. If the tax administration becomes more friendly, tax compliance improves. But we have not let that happen in our country.

The government has said that one of the reasons for lower growth is that the global economy is still performing below par and that countries are increasingly looking inward.

■ I don't think the government has done that this year. The government is acutely aware that you have had synchronised recovery of the global economy after a very long time. The growth of global trade is higher than that of the world economy in many years. Despite all the talk of protectionism, all this noise that you hear coming out of [Washington] DC particularly, the multilateral trading order has held and global trade is growing.

An important issue is to take the entire exports sector and efforts well and truly into our hands to make sure that our share of exports, especially manufactured exports, in world trade improves and is not stuck at 1.6% as it has been for a while. Even our services exports, which I think have a share of 3.2%. They have been facing some headwinds because of issues relating to H1B, automation, Internet of Things and AI. These are big-time structural issues and it's time now to look again at this whole external sector, especially exports of manufactured good and services. The Department of Commerce is seized of the problem and is devoting time and effort. I am hopeful that we will come out with a set of measures to improve this.

Will we look at newer markets for exports?

■ There is this constant temptation to go for newer markets and newer commodities, and I use the word temptation for a very valid reason. Because it is just that. What we need, in my view, is to identify after careful analysis where our current competitive advantage is and then push for it. Then try and grab a much larger share in the world trade and use them as drivers of export growth rather than spread yourself very thinly. In India, if you see export figures, you will see that the 'other' category is a very large chunk – maybe more than 30-35%. That needs to change. For example, gems and jewellery is our competitive advantage. Why can't we make sure that 30% of the world's gems and jewellery come out of this place? There are other sectors like that which can also be related to domestic demand... use the emerging demand in the domestic market to create globally competitive and global scale capacities in your country and get on in those sectors rather than constantly look to diversify your export efforts because that I don't think is a good idea.

This happened in auto [the automobiles sector]. As domestic demand and localisation has grown, India has emerged as a major component exporter which no one thought of 10 years ago. So why not do the same in other areas? For example, demand for metro coaches is going up. We should build capacity here which is export competitive and use India as a hub for exporting them. We already have two-three plants for production. Try and scale them up to global levels.