THREE YEARS OF THE MODI GOVT

THE GOVT MUST CONTINUE TO MAKE A STRONG EFFORT TO TAP GLOBAL MARKETS, DESPITE RECENT MOVES TOWARDS DE-GLOBALISATION BY SOME COUNTRIES

Growth drivers have been accelerated

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THE LAST THREE years have seen considerable acceleration in the reforms pace of the country. The list of notable reform policies is impressive and the overall shift in underlying structures is significant. The government led by prime minister Narendra Modi has engendered confidence in the Indian economy and reinstated growth drivers.

Prudent fiscal management has been a highlight of the period. Despite the imperative to keep public expenditure high to counter subdued global and domestic demand, the government has succeeded in maintaining a declining trend in fiscal deficit, which has gone down from 4.5% of GDP to 3.5%. With some subsidies being phased out and others placed on the 'direct benefits transfer' mode, higher government spending was made possible, contributing to capital formation ratio.

The signature policy reform of the government would be the legislation of the Goods and Services Tax (GST). A transformational move, it can place the Indian economy on a faster growth trajectory, add efficiency and lower costs. The commitment of the government towards its introduction and the cooperation of all state governments has helped fructify its implementation from July 1. The four-rate structure is a good beginning, and we hope that issues such as multiple state registrations and e-way bills would also be simplified going forward.

Lowering corporate direct tax rates for new manufacturing companies and companies with a turnover of up to ₹50 crore from 30% to 25% is a big move towards streamlining of the tax structure and brings comfort to most enterprises. Its expansion to all corporates, including large ones, would be a natural progression. Demonetisation was a courageous step with long-term gains in bringing in more tax-payers and discouraging tax avoidance.

The replacement of the Planning Commission by the NITI Aayog ended the era of planning and signalled a new model for Centre-state relations. Larger allocation of revenue to states and closer engagement with them for issues such as ease of doing business and investment promotion has given them a stronger role in development and social sector. This has taken the reform process to the grassroots level and is most welcome.

The government has placed strong emphasis on investor facilitation and ease of doing business with the intent to create jobs and encourage entrepreneurship. Foreign direct investments were progressively liberalised during these three years, opening up sectors such as real estate, defence manufacturing, aviation and so on. It is noteworthy that FDI inflows in the last two years and nine months registered $158 billion, a substantial jump.

The accent has also been on digitisation of government processes to streamline clearances and approvals. More than 30 government-to-business services have been brought online, with e-filing, single-windows and automation being rolled out. Over a thousand obsolete laws have been repealed, cleaning up the system. Schemes such as Shram Suvidha have helped companies in labour compliances.

The Insolvency and Bankruptcy Code, 2016, is a major step to help failing companies exit from business, while the amendment of the Arbitration and Conciliation Act reduces time taken in arbitration.

While policy reforms have attempted to improve the operational environment for business, the large-scale campaigns launched by the government have enabled new investment platforms to gain pace. Make-in-India converges several policy reforms aimed at attracting manufacturing investments. It represents a mind-set change towards manufacturing to boost the share of the sector in overall GDP. The Smart City mission creates a new template for India's urbanisation process, involving foreign governments and the private sector. Renewable energy has been a major success story, with solar and wind power capacity addition surging in the last two years.

Digital India is a multi-pronged effort that would bring the optical fibre network to villages, create new electronics manufacturing facilities and promote e-governance. It has achieved notable results, with over 2 lakh kilometres of fibre optic cables connecting 100,000 panchayats. This can be a big boost to internet access, enabling millions of people in rural India to reach markets and knowledge.

Going forward, it will be important to revive private sector investments. Credit offtake has slowed and the investment-GDP ratio is flagging

Such proactive and intensive policy development and actions are a defining feature of this government and have gone a long way towards imparting new growth impulses to the economy despite two consecutive years of drought and a moderate global growth environment. A holistic approach to addressing issues is apparent—for example, Make-in-India outlined policies in areas such as infrastructure development, intellectual property rights, sectors, and skill development in tandem.

Regarding the road ahead, it is important to revive private sector investments. Credit offtake has slowed and the investment-GDP ratio is flagging. While public infrastructure spending will provide an impetus, the larger boost to demand will emanate from the rural economy where most of the population resides. The government's aim to double farmer incomes must be quickly translated into actionable points including in ancillary activities such as livestock rearing, fisheries and horticulture. Technology, access to inputs, and irrigation will be central to building a dynamic and vibrant rural economy.

On the supply side, there is still space to lower interest rates as inflation is under control. Banks must also be enabled to advance credit by addressing the non-performing assets conundrum. The recent ordinance is a step in the right direction. It is also important to look at encouraging public private partnerships in the infrastructure sector by implementing recommendations of the Kelkar Committee. In sectors such as defence manufacturing and railway production too, measures must be taken to boost private sector participation meaningfully.

The country must continue to make a strong effort to tap global markets, despite recent moves towards de-globalisation by some countries. India's share of global merchandise trade remains below 2%, so there is high potential to address new geographies and diversify the export basket.

India has reached an important juncture in its economic development with favourable demographics and income status. The government is innovatively leading the country in the right direction, at an accelerated pace with impactful reform measures.