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A year of reforms and shifting paradigms

2016 has been the year of demonetisation and the GST legislation

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The industry would like to see a cut in corporate and personal income tax rates accompanied by higher public investments next year

THE outgoing year has been a momentous one for the Indian economy—landmark reforms and economic strategies were rolled out even as the global economic environment turned increasingly complex.

In terms of economic growth, the prospects remained buoyant as the rural economy benefited from normal rainfall after two back-to-back drought years. GDP growth picked up in the second quarter to 7.3%, compared with 7.1% in the first quarter. However, this was lower than the previous year. The gross value added in agriculture was robust at 3.3% with 5.2% in industry and 8.9% in services. Most macroeconomic indicators such as fiscal deficit, inflation, and current account deficit performed positively over the year. Industry was particularly encouraged by the cut in interest rates.

The slide in exports came to a halt during the year although the April-October data remains negative. The index of industrial production in the first half of the year was also in negative territory at -0.1%. The global economy remains uncertain and fragile, and developments such as Brexit, a new regime in the US, and slowdown in China as also pick-up in commodity prices add to its complexities.

The year commenced with a reformist and progressive Budget that targeted rural development, infrastructure, and skill development through a range of measures and higher allocations. Innovative initiatives were announced, such as providing gas cylinders to poor rural households, a health insurance scheme and setting up of multi-skill centres in districts. Over the year, government spending on infrastructure helped boost the economy.

The GST is widely acknowledged as a transformational indirect tax reform, and will unite the country as a single market with a common tax structure under the rubric of 'one country, one tax'. It promises to deliver significant impact on bringing more small traders and manufacturers into the tax system. Preparations are underway to roll it out in 2017 while the last few issues are sorted out by the Council. CII suggests a transparent procedure for working out the new tax rates for different sectors with most rates in the 18% band, and others in line with current rates.

Demonetisation and withdrawal of high-denomination notes from the system pushes more of the cash-based economy into the formal financial channels. This infuses transparency and clarity, and can be expected to have significant benefits over the medium to long term. After the transition process, the gains in terms of wider tax net, more predictable business environment, and better calculation of national income would be significant. The government would need to compensate for the temporary fall in the demand by strategising for higher investments, particularly in infrastructure, education and healthcare.

On the 'ease of doing business' front, the movement of more administrative clearances and procedures towards online platforms and single-window systems has been notable. While India's ranking on the World Bank Doing Business indicators covering Delhi and Mumbai did not show much improvement, the monitoring process conducted by department of industrial policy and promotion with the participation of the Bank showed remarkable changes at the state level. Ten states achieved over 90% in the 340 reform areas identified by DIPP, compared with the highest at 71% last year.

Under Make-in-India, a substantial shift is visible in the electronics sector as more than 50 new handset-makers are now present in India. A new national policy for textiles, garments and made-ups has revitalised the sector. For the automotive sector, the Automobile Mission Plan 2016-2026 sets the target of becoming the third-largest global sector with $300 billion turnover by 2026. Steps have also been taken for food processing, leather, and other sectors identified under the campaign, while states too are coming out with innovative policies to attract investments and create jobs.

The foundation for a strong innovation culture was another highlight of the year. The national intellectual property rights policy aims to strengthen administration for the sector and boost industry linkages. An action plan was launched under Start-up India in January this year, including incubation facilities, a fund of ₹10,000 crore, and tax incentives. FDI inflows reinforced the positives of the economy with over 20% increase during the calendar year to September.

In 2017, industry expects a visionary Budget, now merged with the rail budget and brought forward to early February. We would like to see a cut in corporate and personal income tax rates accompanied by higher public investments for which the space will be available through various means such as disinvestment and asset monetisation. Challenges such as high bank non-performing assets, ease of doing business, and slack domestic and global demand would need to be addressed, but there is much for the industry to look forward to in the coming year.

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