

One year of Modi govt: Global challenges could make economic revival a tougher ask

The summer of 2015 looks different from 2014. The year gone by has seen several changes that have had an impact on the economy. While the changes may not quite qualify as "big-bang reforms", the Modi government in its first year has taken measures that could lay the foundation for long-term growth.

Arguably this government's biggest achievement has been its success in injecting optimism in the economy, after months of despair. Contrary to expectations, the government hasn't pressed the pedal hard on reforms and relied on gradual steps to repair the economy. Living up to its promise to tame inflation, it has tackled the problem with a little help from sliding global crude oil prices.

"The first year saw policy initiatives that sowed the seeds of growth. The coming years should see harvesting of the fruits of these initiatives, and the economy in full bloom," said Kumar Mangalam Birla, chairman, Aditya Birla group.

The focus now must be on tackling the adverse impact of a patchy Monsoon and dealing with farm distress.

Finance minister Arun Jaitley's two Budgets ensured the growth momentum is sustained. Growth is expected to be in the 8.1%-8.5% range, thanks partly to changes in the way the economy is measured. While the jury is out on growth numbers, there's a belief that revival of growth has begun.

"India is a bright spot, and economic development holds promise. India has an opportunity to become one of the world's most dynamic economies. My message will be: Seize it," IMF chief Christine Lagard had told TOI recently.

REFORM MOVES

The government raised the FDI cap in insurance to 49% from 26%, opened up defence production to foreign investors and ushered in fuel subsidy reforms, linking diesel to market prices. To bring states on board as partners to push growth, the government transferred significant resources to them accepting the 14th Finance Commission recommendations.

To its credit, Modi has initiated the tough task of reforming labour laws and ending "inspector raj". The theme has been to make life simple for investors and ease setting up of

businesses to push manufacturing.

Graphic: Sunil Singh; Source: Gol Data

MAKING IT EASY



STARTING A BUSINESS

Businesses need **11 steps in Delhi** and **13 steps in Mumbai** to start ops. They need **27 days in Delhi** and **30 in Mumbai**, to set up shop

MEASURES SO FAR

- Both states asked to initiate a series of measures to reduce time taken
- In Mumbai, VAT & professional tax registration compressed into one
- Registration under Shops & Establishments Act to be done in a day and online
- Govt moves amendments to Companies Act
- EPFO, ESIC registration made online
- Easier to get PAN and TAN or Tax Account Number

ENFORCING CONTRACTS

India ranks **186th** among **189** countries

due to poor enforcement of contracts, including those between phone users and telecom companies

MEASURES SO FAR

- Special commercial courts have been set up in Delhi and Bombay High Courts to speed up cases
- Govt admits it is tough moving up the ladder

STEPS THE GOVT HAS TAKEN TO MAKE IT EASY TO DO BUSINESS IN INDIA

EASE OF DOING BUSINESS

India ranks a poor **142nd** among 189 countries on Ease of Doing Business rankings

Govt target is to move to the **top 50**

All depts at the Centre are focusing on **reducing paperwork**, making rules easier for doing business

Focus is on Delhi and Mumbai, the two centres that the International Finance Corporation will assess when deciding the country's rankings

It will take time before all changes announced are implemented

TRADING ACROSS BORDERS

Seven documents needed for exports, 10 for imports

MEASURES SO FAR

- DGFT has now said only three documents are needed
- Online single-window mechanism being put in place for customs clearances such as those for food safety, plant quarantine, clearance of medicines
- Yet, customs authorities and those for trade promotion usually not on the same page

RESOLVING INSOLVENCY

India ranks **137th** due to the cumbersome process

MEASURES SO FAR

- Little progress—issue of setting up National Company Law Tribunal
- pending in courts for a decade
- Govt's announced introduction of a Bankruptcy Code

PROTECTING MINORITY INVESTORS

India ranked (globally)

7

CONSTRUCTION PERMITS

On this count, India ranks **184th** among **187** countries and the problem lies with local authorities who issue the permits

MEASURES SO FAR

- Delhi's launched common application forms. MCD will get clearances from all departments, doing away with the running around involved
- Online colour-coded maps for Delhi and
- Mumbai airports for easier process to get a no-objection certificate from the Airports Authority of India. Similar steps being taken for approvals from Archaeological Survey of India and the National Monuments Authority

PAYING TAXES

Total tax rate estimated at **61.7%** in India, compared to 41.3% for OECD countries. India placed **156th**

MEASURES SO FAR

- Data doesn't factor in exemptions given by authorities
- Govt's announced reduction in corporation tax rate to 25% in the coming years
- Introduction of GST will help reduce time taken, ease process

REGISTERING PROPERTY

India ranked **121**

India takes **47 days**, compared to 24 in OECD. Cost estimated at **7%** of property value compared to 4.2% in OECD countries

ELECTRICITY CONNECTIONS

MEASURES SO FAR

- Maharashtra gov't has reduced the number of steps from seven to three, and number of days needed to get a connection from 67 to 21
- Similar steps underway in Delhi
- Online tool launched in Delhi for businesses to get permission within 15 days to cut roads
- Central Pollution Control Board's clarified there's no need to get approvals for a power connection

GETTING CREDIT

India ranked (among 189 countries)

36



The government has pursued introduction of the Goods & Services Tax, the most ambitious indirect tax reforms. A legislation to amend the Constitution, critical for the rollout of tax reform measure, is in the Rajya Sabha. The monsoon session will decide this bill's fate.

TAX POLICY

But it's the tax policy that continues to be the government's problem child despite measures to unveil a non-adversarial tax regime. Despite steps to stamp out what it called UPA's "tax terrorism", steps on imposing minimum alternate tax (MAT) on capital gains of FIIs has again put the spotlight on the tax department.

While authorities have moved to calm foreign investors, experts say the task of repairing the tax system and getting investor faith back remains a challenge.

"Greater clarity over tax rules — whether around personal I-T or MAT — would be reassuring. We can't assume investments will happen just based on our demographics, market size or growth projections," said Sri Rajan, India MD for consulting firm Bain & Company. "More must be done on ease of doing business."

The wave of uncertainty over tax policy and slow reforms has frustrated some in India Inc and they've made their views known. While everyone agrees there's no magic wand to fix the myriad problems afflicting Asia's third-largest economy, a view is gaining ground that the government should display urgency in implementing decisions. Communication with investors and the financial markets is an area where more work is needed.

The government must ensure complacency doesn't set in and policy missteps aren't routine. "Investors have started looking at India. They're giving us a second chance and, if we fail this time, they'll not forgive us," an industrialist told TOI.

In the months ahead, the global economic situation is likely to become challenging. Exports have fallen for five consecutive months as of April and steps are needed to reverse the trend in the face of a global slump.

For much of the year gone by, developments in global economy helped meet key objectives. With that looking likely to change, the test of its economic management skills may be just beginning.