IMMEDIATE MEASURES TO BOOST INDIAN ECONOMY

Postdemonetisation, the economy is reeling under heavy pressure. In the short to medium terms, the economy is widely expected to slow its pace of growth. This is evident from the Government and RBI's lower GDP growth estimates.

The sales of cars, two-wheelers and commercial vehicles have fallen by 18.7%, the biggest drop since 200 as per the Society for Automobile Manufacturers. State Bank of India has accepted that bank credit off take has declined to a historic low. Similarly CMIE has reported that the average daily value of new investment proposals announced since November 8, 2016 has declined by 60%. The retail sales has witnessed nearly 30% slump. In such a situation, the preponement of Union Budget presents excellent opportunity for the Government and Hon'ble Finance Minister to make bold reforms to address and arrest job loss, revenue loss, receding GDP growthand boosting trade and industry that thereby accelerate the economic growth. MSME and corporate sector is desperately looking forward to government's definite direction to wither out this unfortunate and sudden economic slowdown.

All India Association of Industries would like to put forward its strong recommendation in following areas –

Stimulus package to boost trade and industry – Latest data suggests that since November 2016, foreign investors have pulled out Rs. 71,652 crore from the market. This indicate growing high concerns about the 'lower growth' of Indian economy as compared to other emerging economies. Corporate earnings are expected to come down sharply in Q3 due to high input costs, shrinking sales and lower margins. In this situation, Government must use the upcoming Budget to provide stimulus and structural reforms.

Government must prioritise spending on infrastructure, education and health to maximize benefits at the micro level. Government must rationalise current taxation system to lower average tax rates for corporates from 30% to 20% in an attempt to be revenue neutral. This should also include reducing MAT. Government must take additional efforts to improve tax-GDP ratio. Traditionally lower tax limit has always generated higher revenues for the Government.

Infrastructure lending –Today, many infrastructure projects are stalled due to non-availability of funds. Government must support these infrastructure projects by facilitating long term infrastructure bonds at various levels. This will boost public-private partnership and will further boost employment.

Support to MSMEs –Government must prioritise finances to MSME sector under credit security scheme up to 2.0 crore without any collateral security towards their bill discounting, against stock and against government stock orders for execution. Today, banks have received nearly Rs. 4 – 5 lakh crore of money into banking system. Loans to MSMEs / medium scale sectors should be made available at 10%. MSMEs are the backbone of inclusive economic growth and substantially contribute to job creation. The access to cheaper loans will help MSMEs to sustain their businesses. These are necessary to revive that sluggish demand and improve the consumption and thereby help accelerate the economy. This would help to stimulate consumption demand and propel private investment post demonetisation.

Enhance income tax limits –Government should double the basic income tax exemption limit to Rs. 5 lakh per year. It should also lower the peak personal tax rate to 25% from the existing 30% along with enhancing its limit to Rs. 20 lakhs. This will help to generate more disposable income in the hands of common man to increase consumption and would further stimulate demand.

Rationalise the excise duty and VAT on petrol and diesel - In the recent past, the Centre and state governments have steadily increased excise duties and VAT, thereby meeting its short-fall revenue target and have kept fuel prices substantially high for retail consumers. Apart from excise and VAT, many State governments levy octroi and additional surcharge / cess.Government must realign its taxes particularly the excise and state VAT to rationalize petrol and diesel prices to reasonable and acceptable levels.

Capital gains taxation–Government must abolish capital gains (long and short) taxation regime to enhance contribution of financial market to Government revenue. Any changes or fresh provisions to tax capital gains would make Indian equity market unattractive to global markets at the time of lower GDP growth numbers and higher withdrawals by foreign portfolio investors.

Encourage digital economy –Demonetisation has encouraged use of alternate channels such as digital technology for financial transactions. Government has earlier promoted digital platforms by offering various incentives to retail consumers. Government must continue this by offering discounts and thereby promote cashless economy. The additional thrust on Unified Payment Interface (UPI) and the subsequent introduction of multilingual Bharat Interface for Money (BHIM) has strengthened the digital payment ecosystem. Additionally, Government must increase the tax collected at source (TCS) to buy goods and services (from the existing 1%) using cash above Rs. 1 lakh (from Rs. 2 lakh at present). By bringing down the limit for TCS using cash as well imposing higher taxes will discourage cash transactions and will further boost Government's aim to promote digital economy.