The Week

Revival Plan

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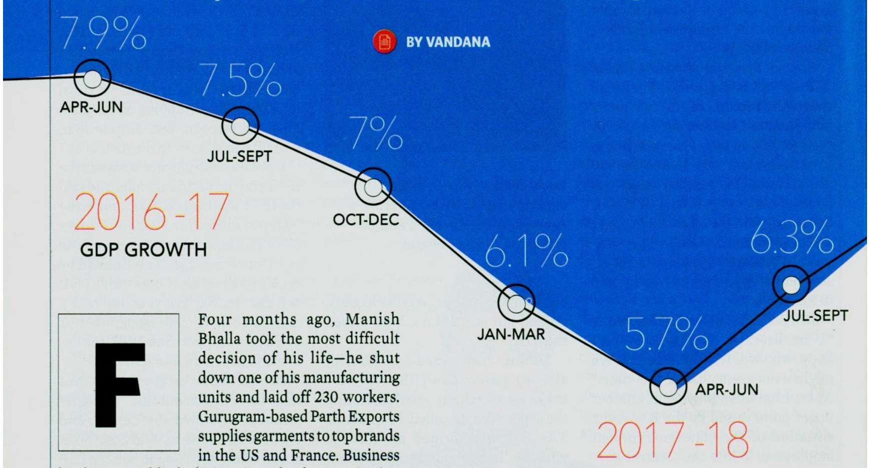
REVIVAL PLAN

Job creation, infrastructure and SMEs likely to be the focus areas of Budget 2018

BY VANDANA



Four months ago, Manish Bhalla took the most difficult decision of his life—he shut down one of his manufacturing units and laid off 230 workers. Gurugram-based Parth Exports supplies garments to top brands in the US and France. Business has been steadily declining since the demonetisation of ₹500 and ₹1,000 notes in November 2016. Bhalla has not yet found a way to get back on track. "The government's moves, one after other, have dealt a body blow to the business. First, it was demonetisation, then the goods and services tax, and now the duty drawback has been lowered, impacting exporters negatively. Some of the small exporters I know are on the verge of going out of business," said Bhalla.

As Finance Minister Arun Jaitley gets ready to present the last full budget of the Narendra Modi government, small and medium enterprises (SMEs) such as Parth Exports are expecting a balm. And, they really need one. Said to be the growth engines of the economy, SMEs are struggling to recover from the effects of demonetisation and GST. Rahul Gupta, who owns an SME in Faridabad, which exports electrical stampings for motors used in appliances, said he had been depositing ₹6 lakh a month to the tax department but had not received any tax credit so far. "This has disturbed my entire cash flow. My turnover has gone down by 20 per cent and I had no option but to cut the headcount by 25 per cent," said Gupta.

Given this ground reality, it should not be a surprise that the economy is expected to grow 6.5 per cent in the financial year 2018, the lowest in four years. This should be a worry for Modi, as only a year is left for

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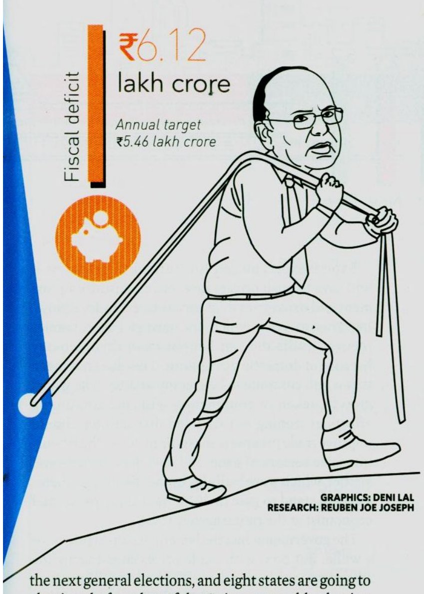

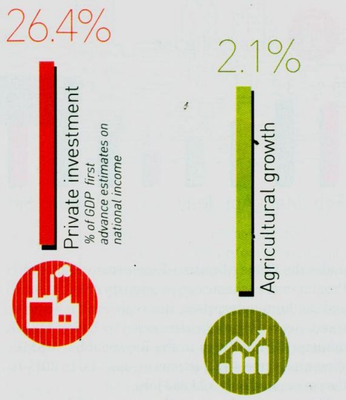

the next general elections, and eight states are going to elections before that. If the Gujarat assembly election results are any indication, some disenchantment has already set in. Modi's economic policies, in part, can be blamed for it. Though he inherited a weak economy, growth had picked up afterwards. The GDP grew 7.5 per cent in 2014-15, 8 per cent in 2015-16 and 7.1 per cent in 2016-17. Then, it slowed down.

While demonetisation and GST are the main culprits, there are other reasons as well. Poor agricultural growth has spoiled the mood of the rural voters. And, they showed their displeasure in the Gujarat elections. "If development remains lopsided, people become disillusioned and that's what has happened with rural voters. As a country, we are growing at 6-7 per cent, but that has not made a significant difference to the lives of people in these areas. Signs of rural distress are all across," said Dr Sunil Sinha, principal economist at India Ratings.

And, it is not getting any better. Planting of wheat, the main winter crop, between October and early January was 5 per cent lower this year, because sowing in Madhya Pradesh was less by ten lakh hectares. The area under oilseed cultivation was lower by 5 per cent, because Rajasthan sowed mustard in seven lakh fewer hectares than the previous year.

Similarly, nominal rural wages, a bellwether for rural consumer demand, has been growing sluggish. According to the Labour Bureau, in October 2017, nominal rural wages for ploughing (men) rose 6.6 per cent year-on-year. It had grown 17 per cent in October 2014, and 17.6 per cent in October 2013. Data from the Central Statistics Office says the overall agricultural growth in 2017-18 was 2.1 per cent. It was 4.9 per cent in the previous year.

"The droughts and the sudden collapse of prices after August 2014 have aggravated rural misery," said former Union minister Yoginder K. Alagh, who is a noted agri-economist. "The way to address problems of Indian agriculture would be to address problems of declining yield, lower than remunerative prices because of lack of marketing infrastructure, and profiteering by middlemen."

Experts say the government should increase public spending to relieve rural distress, and reinforce social protection measures. "For all crops where the Central government intervenes to reduce prices of food, a minimum price must be set. For such crops the government should shell out the shortfall between market price and minimum price," said Ajay Vir Jakhar, chairman of the Bharat Krishak Samaj, a farmers' association.

A slowdown in agriculture has a direct impact on jobs and consumer demand. Labour Bureau's data says the rate of creation of jobs deteriorated substantially between 2013-14 and 2015-16. Jobs grew at a meagre 0.2 per cent a year although the real GDP grew at a faster 7.8 per cent. The unemployment problem has been exacerbated by automation. Most IT firms have embraced automation for lower-end jobs. According to the World Bank, automation threatens 69 per cent of jobs in India. The number of jobs created

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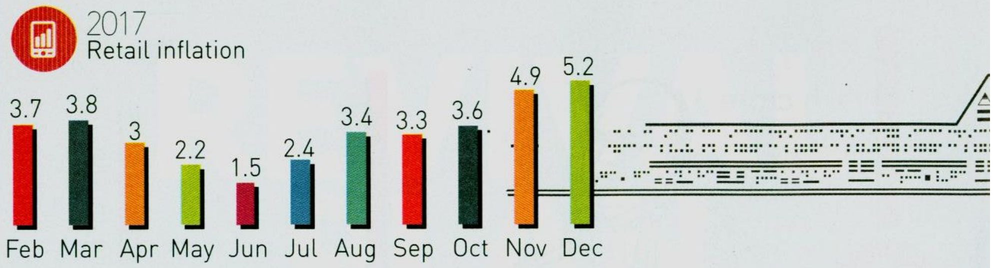


under the Prime Minister's Employment Generation Programme, a scheme run by ministry of micro, small and medium enterprises, has registered a negative trend. According to the data given by Union MSME minister Giriraj Singh in the Rajya Sabha, MSMEs generated some 4,28,246 jobs in 2012-13. In 2015-16, they generated only 3,23,362 jobs.

Things are not better in the unorganised sector as well. "Construction jobs have been growing slowly since 2011-12, as public investment has fallen. And, with the rising non-performing assets of banks, private investment has fallen as well," said Santosh Mehrotra, professor at the Centre for Informal Sector and Labour Studies at Jawaharlal Nehru University, Delhi. And, it is not just about the jobs. "Everybody who wants a job has a job, they just don't have the wages they want," said Manish Sabharwal, chairman of Teamlease, an employment consultancy firm.

A large part of the job crisis can be attributed to the drop in private investment. Investments declined from 34.3 per cent of the GDP in 2011-12 to 27 per cent in 2016-17. The first advance estimates on national income show that investment as a percentage of the GDP has fallen to 26.4 per cent in 2017-18. A reason for the falling private investment is that many big companies are saddled with debt. Other reasons are lack of demand, over-capacity in some sectors and banks' inability to lend because of non-performing assets.

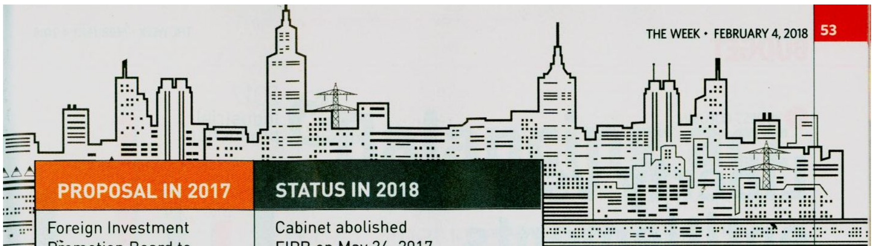
A LARGE PART OF THE JOB CRISIS CAN BE ATTRIBUTED TO THE DROP IN PRIVATE INVESTMENT.

Industrialist Harsh Pati Singhania said demand was recovering but it was mostly met by imports, leaving domestic capacities in surplus and delaying the pick-up in investments. "Imports have gone up by more than 21 per cent y-o-y in the first nine months of this year. And, this is not just because of rising oil prices inflating our import bill, but in core manufacturing, too. Non-oil, non-gold imports were up by 13 per cent so far in this fiscal, which accounted for more than 48 per cent of total imports bill," he said.

Experts expect Budget 2018 to fix all these issues—it will have to push private investment, ensure employment and drive growth in agriculture. "India is slowing down in a year which saw most global economies recover. India did not benefit from this recovery because of domestic disruptions. This does not mean that it will continue to be gloomy in 2018. The global growth, taken in conjunction with the continuing efforts at ironing out GST-led disruptions, should improve trade prospects for India in 2018. The labour-intensive sectors of gems and jewellery, textiles and leather, which were badly hit by the disruption, therefore can stand to gain in 2018," said D.K. Joshi, chief economist at the rating agency Crisil.

The government had the benefit of soft oil prices for a while. But now, with crude prices shooting up, the advantage is no longer there. The import bill increases by around $1.5 billion for every dollar increase in crude price. On the other hand, the government's revenue collections are not strong. GST collections fell from ₹94,063 crore in August 2017 to₹80,808 crore in December. The outlook also seems bleak as experts predict that GST collections will take some time to stabilise.

The government has raised ₹54,337.60 crore through disinvestment of public sector companies so far this year, against its target of ₹72,500 crore. And, the Reserve Bank's dividend to the government stood at ₹30,659 crore; less than half of the last year's₹65,876 crore. "Challenges on the revenue front continue to remain because of concerns around GST collections," said Madan Sabnavis, chief economist,



PROPOSAL IN 2017	STATUS IN 2018
Foreign Investment Promotion Board to be abolished	Cabinet abolished FIPB on May 24, 2017
Create an integrated public sector oil major	For a start, ONGC signed a deal to acquire the government's 51 per cent in Hindustan Petroleum.
Begin the process of listing of Indian Railway Catering and Tourism Corp, Indian Railway Construction Co and Indian Railway Finance Corp	The proposed IPOs are reportedly on hold. RITES, another company incorporated by the railway ministry which provides transport consultancy and engineering services, has filed draft papers with SEBI for an initial share sale
Complete **15,000km** road construction	About **5,000km** was completed between April and November 2017
Raise **₹72,500** crore through disinvestment of public sector companies	Till January 11, the government raised around **₹54,337** crore

RESEARCH: NACHIKET KELKAR

Care Ratings. "Given falling private sector capex, government will have to loosen its purse strings to revive growth."

Government spending has been the main driver of GDP growth of late. So any dent on it is likely to stall the growth recovery. "I foresee no harm in breaching the fiscal deficit target by 20-30 bps. After all, government spending is the need of the hour as private investment remains subdued and not expected to revive anytime before 2019-20," said Singhania.

Jobs are likely to be a main focus area in Jaitley's budget. The government might come up with a national employment policy to boost job creation. The aim is to link various policies and incentives with job creation. It has already happened with some policies such as Startup India and Make In India. SMEs that create jobs might be incentivised.

The government is also working on a social security scheme for informal workers. This will give a big boost to job creation in the unorganised sector. The scheme will offer mandatory pension, insurance against disability and death, and maternity coverage, alongside optional medical and unemployment coverage.

For agriculture, experts say, instead of giving waivers and freebies, the government might look at structural changes in the marketing and distribution of produce. There are expectations that the government may sharpen the crop insurance scheme.

Economic Affairs Secretary Subhash Chandra Garg recently said that the government was planning to dedicate a large part of the budget towards capital expenditure on infrastructure, and would push for foreign investments in the sector.

There is widespread anticipation that the corporate tax rate of 25 per cent available to select companies will be extended to all. Dividends may become taxable in the hand of investors. "A dividend tax on those receiving dividend of over ₹10 lakh per annum already exists. Therefore, this line of thinking may be extended to all dividend receipts to make the tax on dividends more equitable and also to reduce the total load of tax on companies," said Jiger Saiya, partner, tax and regulatory services, BDO India.

There might be some tinkering with personal income tax slabs. "The basic exemption limit of ₹2.5 lakh might be increased to ₹3 lakh, keeping in view the inflation and the fact that the same has not been increased for the past three years," said Dr Suresh Surana, founder, RSM Astute Consulting. Specific regulations regarding the taxation of cryptocurrencies may be introduced. There might be an extension of Section 80EE, which provides additional deduction up to ₹50,000 to first-time home buyers.

This is Jaitley's last chance to revive the economy and ensure that his party faces the 2019 elections on a sound footing. While the BJP has been on a roll in the assembly elections, a weak economy might play spoilsport next year. That is something Jaitley and his party cannot afford. ◆