Contrarian view is fine, but govt is trying hard

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A ny debate on real issues facing the economy is always welcome. So welcome Yashwant Sinha’s concerns on the state of the economy. Prime Minister Narendra Modi has acknowledged that the first quarter GDP figures are a cause of concern. The economy has problems such as private investment, financial institutions’ distress and employment. But we have to look at what the government is doing.

One can always have a contrarian view and get statistical data to back it up. It is therefore not surprising that Mr Sinha chose the wrong figure of 66,000 crore as input tax credit under the GST. Hence, the returns for input tax credit claims have not yet been filed. These assumptions of tax credit demand are based on GST figures alone and therefore wrong estimates.

Second, the negative impact of demonetisation was due to the initial liquidity crunch. With fresh currency in circulation by June-end 2017, this was a short-term pain. Also, currency does not have shades of black and white. Once currency is demonetised, it is reduced on the basis of ownership. With identity clearly established, tax evasion will be checked and black money traced.

Demonetisation has pushed people to prefer cashless payments and banking channels, establishing audit trails. This is a prerequisite for successful implementation of the goods and services tax (GST). Once the GST has been implemented as input tax credit and removal of the cascading effects of tax are implemented, consumer prices will come down. But tax rates will also be lower in the long run. This has been already given by the Union finance minister.

The complete structure of the GST Network, after full implementation by December 2017, will bring ease of doing business (EOB). Once initial transactions are uploaded into the system, other information will be transmitted automatically. With online registration, returns, assessment and refunds without intervention by tax personnel, the day-to-day life of businesses will become hassle-free.

For the first time, the government has made a concerted bid to enhance manufacturing in India with EOB. The World Bank has recognised 20 economic reforms of the Modi government that will be considered in this year’s ease of doing business ranking. This will significantly improve India’s ranking, pulling in foreign investment.

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In the current financial year, the government has spent 1,000 crore on infrastructure projects. Power, steel and coal under the Pradhan Mantri Uday Samvardhan Yojana (PMUY) and MNRE’s Merger Plan, have been included in the budget.

The UP government has committed loans from the Union government. The present government has inherited the NPA problem along with several macroeconomic destabilising factors — high inflation, a fiscal deficit of over 4.5% of GDP and falling GDP growth. The government is now identifying 200% of the total NPA of the banks, in a cumulative review of 391 projects with a total investment of 88,790 crore.

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The government is now considering implementing the Pradhan Mantri Jan Dhan Yojana (PMJDY), the Insolvency & Bankruptcy Code and the Benami Transactions (Prohibition) Amendment Act, which was passed 28 years ago but was not notified. India is among the world’s fastest growing economies, the seventh largest economy by nominal GDP and the third largest by purchasing power parity (World Bank, 2015). But the benefits of this growth are unevenly distributed. As per the Global Wealth Report, 2016, the top 10% of our population has over 86% of the total wealth of the country.

Curb corruption and eliminating black money is a key component of the government. Mr Modi’s initiatives to fight this menace include the setting up of a special investigation team, the Foreign Assets Declaration Scheme, repatriation of bilateral treaties on double taxation avoidance agreements with Mauritius, Cyprus and Singapore; the Income Disclosure Scheme (IDS); and the Benami Transactions (Prohibition) Amendment Act of 2016, demonetisation, deregistration of shell companies and GST. These steps have helped establish a clean business environment.

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