

President's Message

Friends,

There seems to be a burgeoning sense of optimism with the recently announced Cabinet reshuffle. With merit and performance as the deciding factors for India's leadership, the path towards inter-sectoral development is getting formulated and concretized. There is an increasing focus on macro economic indicators, along with impetus towards good governance and upliftment of weaker sections of society. Ameliorating poverty is a national agenda and the government is all keen to build a New India with its newly elected think tank.

The Asian Development Bank forecasts India to achieve a GDP growth of 7.4 percent in 2017 and 7.6 percent in 2018, primarily due to increased consumer spending and encouragement with indigenous initiatives such as 'Make in India,' 'Digital India,' amongst others. IMF's Economic Outlook Update for 2017 projects a growth of 7.2 percent in 2017-18 with an incremental jump to 7.7 percent in 2018-19. By 2020, our country is expected to become the fifth largest manufacturing destination, with a potential to account for 25-30 percent of the country's GDP.

The implementation of Goods and Services Tax (GST) has been a historical transformation for the Indian industry with an impressive revenue collection of Rs. 92,283 crores since July 2017. Inflation too has fallen to the lowest levels seen in past few years, probably as a result of the monetary policies of the Reserve Bank of India and is expected to come down further as GST rates for most essential goods have been fixed at a lower rate.

Having said this, I must flag the phase of economic slowdown that exists due to a disruption in economic activity. GDP growth of 5.7 percent in April-June 2017, the first quarter of the current fiscal year, was the lowest in the three-year tenure of the Modi government. This was an outcome of the roll-out of the GST, leading to confusion over new procedures and pricing. De-stocking of stocks by companies in anticipation of GST brought down the



Mr. Gopal S. Jiwrajka
President, PHD Chamber

manufacturing growth rate to a low of 1.2 percent in April-June 2017 from 5.3 percent in January-March 2017. Services as per the Purchasing Managers Index have also fallen leading to a slump in exports. The infrastructure sector as well seems to be challenged by GST-led changes such as works contracts being treated as service contracts, imposition of revised tax rates on ongoing projects and change in costs of construction materials.

With manufacturing activity contracting and retail inflation slowing, the Reserve Bank of India has taken a judicious step recently by lowering its key lending rate by 0.25 percent, a move that will translate into lower interest rates for home, auto and other loans. At this juncture, I must comment that the twin balance sheet problem of high corporate debts and rising non-performing assets (NPAs) with banks has been discouraging corporate investments. As a result, both borrowing and lending activities have been affected. As of March 2017, India's corporate debt stood at 55 percent of GDP, one of the highest among the emerging economies. Bank credit to the commercial sector has fallen to 38 percent in FY 2017, down from 50 percent a year ago. Corporates are tapping more into the corporate bond market and resorting to external commercial borrowing routes for their financing instead of relying on banks. Tackling NPAs of banks and reviving private investments will continue to be a challenge for policy makers.

I hope the economy will pick up momentum once the GST procedures get effectively incorporated and industry is able to stabilize. This shall require attention towards investment in sectors such as affordable housing and transport, manufacturing and SMEs. A recent Niti Aayog's report on Ease of Doing Business conducted in collaboration with IDFC Institute has depicted the situation of Ease of Doing Business entirely different as envisaged by the World Bank which indicates the reforms are needed at the grassroots level to improve and realize the visible effects of Ease of Doing Business. Employment situation in the economy also needs to be improved as the latest UN labour report projects unemployment in India to witness a marginal increase between 2017 and 2018. This can only happen if growth in the manufacturing sector rebounds. Further, with impetus on developing industrial corridors and smart cities, a conducive environment for industrial development needs to be created which shall promote advanced practices in manufacturing.

To achieve double digit growth and increase job opportunities for the people, the government needs to develop state-of-the-art infrastructure including agri-infrastructure and also social and industry-based infrastructure. For this, the government should utilize the revenue from GST on infrastructure development for economic expansion. Simultaneously, reforms in labour laws, education and skilling the youth to tap the vast potential of the demographic dividend is crucial for productive employment.

And thus, the reshuffle comes at an opportune time with an able leadership promising inter-sectoral progress, paving the way for a New India.

Let's work with dedication and team spirit to deliver the government's vision of housing for all, education, easy access to medical and health facilities as well as better standards of living for the masses. The New India will promise every citizen to realize his or her potential and contribute towards self, family and the country.

