

Mint, 18 December 2019

'Reforms will result in higher growth'

2020
THE FUTURE IS HERE

As 2020 draws to a close, Mint is inviting thought leaders to share ideas that could impact the country in the decade ahead. Vikram Limaye, CEO, NSE, lists the five big challenges facing the country as we enter the next decade. **P7**



'REFORMS WILL HELP RETURN TO HIGHER GROWTH TRAJECTORY'

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As 2019 draws to a close, Mint invites thought leaders to share their ideas for the coming decade. **Vikram Limaye**, CEO, NSE, lists the five big challenges facing the country as we enter the next decade. He tells **Jayshree P. Upadhyay** that addressing several short and medium term challenges is critical to India becoming a \$5 trillion economy by 2024.

CONSUMPTION STORY TO REMAIN INTACT

Consumption growth fell to an 18-quarter low of 3.1% in the first quarter of FY20, only to rise modestly in the second quarter, supported by festival-led demand. Consumer confidence dropped to a six-year low, according to the Reserve Bank of India. Despite near-term challenges in the demand environment, demographics remain favourable, keeping the consumption story intact in the medium to long term.

DECLINING TAX COLLECTIONS

While weak consumption demand has hit collection of goods and services taxes (GST), direct tax collections have also remained short of budgeted targets. The cut in corporate tax rates, while positive for business confidence and long-term competitiveness, further restricts revenue generation for the Centre, potentially leading to spending cuts by the Centre as well as states.

TAX REDUCTIONS WILL IMPROVE INVESTMENTS

Private investments have remained weak amid muted demand conditions, low capacity utilization and lack of business confidence. Muted tax collections leave limited scope for fiscal expansion. Savings arising out of corporate tax cuts should gradually translate into higher investments by corporates, and better coordination through public-private partnerships would help address investment needs.

ENVIRONMENT FOR FUNDING TO IMPROVE

A tight funding environment, partly led by a drop in risk appetite following the NBFC crisis, has been a factor behind the slowdown. On the positive side, the banking sector is better positioned to address funding needs of the economy, supported by IBC. As confidence improves, facilitated by easy systemic liquidity, lower interest rates and government intervention, funding environment will improve.

TURNAROUND IN TRADE LIKELY

In the medium-term, measures like higher export credit, electronic refund of input tax credits, attractive export incentive scheme, should turn trade around. Notwithstanding short- and medium-term challenges, a gradual recovery is expected, as accommodative monetary policy and reforms feed into the real economy, resulting in a return to a higher growth trajectory.

