

PRESS RELEASE

Massive structural reforms needed to achieve \$5 trillion GDP target

Q2 number to be 4.5%; Double digit growth required to meet \$5 trillion target, says Sameer Kochhar

New Delhi: 29-11-2019: A series of structural reforms including simplification of GST, direct tax code, access of credit to MSMEs, enhancing money supply and monetisation of assets and innovation, are needed to reverse slowdown in economic growth and achieve the \$5 trillion GDP target, SKOCH Group Chairman Sameer Kochhar said here on Friday.

In his presentation on 'Outlook of the Indian Economy' at the India Economic Forum, Kochhar said the real GDP growth in the second quarter is likely to fall further to 4.5 per cent and uptake is expected only from the fourth quarter. Around 500 delegates, including top economists, policymakers and industry leaders are participating in the India Economic Forum organised by SKOCH Group.

"In the current fiscal the number is going to be around 5 per cent. But for 2020-21 at least 7 per cent growth is assured. So it's not all gloom and doom. If the structural reform measures are taken, growth will jump in the coming years," said Kochhar while addressing the inaugural session of the Forum in the presence of K V Subramanian, Chief Economic Adviser, Government of India, Arvind Virmani, senior economist and former Chief Economic Adviser, and Gopal Krishna Agarwal, National Spokesperson – Economic Affairs, Bharatiya Janata Party.

"The external environment is not very kind and hence structural reforms are critical to do anything higher than that," he said, added that to achieve \$5 trillion GDP target by 2024-25, a compound annual growth of over 10 per cent would be needed.

Kochhar, a reform historian and author of several books including the bestseller *ModiNomics*, said apart from the global economic scenario and some pressing structural issues, the poor narratives have also dampened the economic growth. "My estimate is that at least 0.5 per cent drop in the GDP in the Q1 was because of the poor narratives. The similar impact will be in Q2 and Q3 also."

"Without massive structural reforms achieving \$5 trillion GDP target is going to be an uphill task. The global macro-economic scenario is not favourable. So the only thing which can boost our growth is the structural reforms and massive improvement in the incremental capital-output ratio," he said.

Kochhar stressed on the need for a massive reform and changes in the Goods and Services Tax (GST) framework and introduction of Direct Tax Code. "A lot needs to be done in terms of tax reforms. The GST chain seems to be quite broken. Some of these are expected to happen through the GST Council and some in the next budget."

In order to give a boost to MSMEs, Kochhar said steps should be taken to ease access to capital by the small firms, who are the major employer and among the top drivers of economic expansion. GST bill discounting would be very helpful in this regard. A large number of MSMEs suffer due to delay in payments from customers, often big companies and MNCs. As per the Micro, Small and Medium Enterprises Development (MSMED), Act 2006, there are provisions for heavy penalty if the payment is not made within the timeframe, which will not exceed 45 days.

On paper this looks very good. But in reality this is hardly happening. The onus of bringing the buyer to book lies with the supplier (MSME). They can't afford to lose a big client and thus hardly complain. Why can't government introduce a system where such default is automatically flagged and penalised. Even if that penalty goes to the government coffer MSMEs won't mind. This can be easily done through the GST framework. GST bill discounting is the way forward, he said.

In order to revive rural growth, Kochhar said increase in wages, especially the NREGA wages would be very helpful. It would help boost consumption and savings.

SKOCH Group chairman emphasised that there was no distress in the rural economy but the consumption might be subdued due to a transformative change in the way rural India was spending. "A large percentage of public expenditure is in the nature of welfare schemes and people just do not realise that the work done may not be as visible in Urban India but enormous amount of change is happening in rural India. Assetisation replacing consumption and lower spending on food due to the Food Security Act, for example."

He said all the government programmes and schemes targeted at addressing the same or similar issues need to be converged. "In almost all sectors we have multiple government programmes and schemes trying to solve the same problem. This is causing a huge problem and wastage of scarce government resource. Schemes need to be converged. For example, all health related schemes can be converged with Ayushman Bharat."

To raise resources, the government should focus on monetisation of assets and innovation and plug the loopholes in taxing MNCs especially those involved in digital and e-Commerce business. "Big multi-national digital firms have been avoiding and evading tax for years. They mostly generate bills from tax haven countries leading to billions of dollar in losses to the



exchequer. They must be made to pay tax on all the revenue generated from India. Cash burns by e-Commerce firms should be treated as capital expenditure and taxed accordingly.”

Notes to the Editor:

About Sameer Kochhar

Reforms historian and author of best seller *ModiNomics* and *The Untold Story of Indian Reforms*, Sameer Kochhar is Chairman, SKOCH Group. He is a passionate advocate of social, financial and digital inclusion and a foremost expert on governance and inclusive growth. His work has been acclaimed globally and endorsed by Narendra Modi, M Venkaiah Naidu, Manmohan Singh, Arun Jaitley, P Chidambaram, Yashwant Sinha, C Rangarajan, Vijay Kelkar and Montek Singh Ahluwalia amongst others. In his thinking, writings and activities, his profound admiration for India’s economic reforms – an extension those outstanding personalities who strive to make these reforms more meaningful and broad-based – comes out clear and unambiguous. He has published over 17 volumes, the notable being, *Defeating Poverty: Jan Dhan and Beyond* and *Modi’s Odyssey: Digital India, Developed India*.

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About SKOCH Group

SKOCH Group is India’s topmost think-tank for socio-economic issues with a focus on inclusive growth since 1997. Its research is accepted across political spectrum and is used for parliamentary replies as well as policy formulation. SKOCH Group specializes in action research that brings felt-need of the grassroots to the policy table. It has published seven books thus far that are valued as recommended reading. The repertoire of services includes field interventions, consultancy, research reports, impact assessments, policy briefs, books, journals, workshops and conferences. SKOCH Group has instituted India’s highest independent civilian honours in the field of governance, finance, technology, economics and social sector.

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