India requires policies towards liberalisation

DOHA DATELINE
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INDIA HAS shown a history of bouncing back. The process of economic liberalisation in India began in 1991 after the country saw a balance of payment crisis and had to pledge gold to bail out. The government including then finance minister Dr Manmohan Singh started taking strong steps towards liberalising the economy and bringing progressive development. India is not immune to the global financial crisis; moreover, internal policies have amplified the impact on the economy. The government panel has warned that the country was on an edge of fiscal abyss because of high subsidies. The growth story has been losing its sheen and decline in growth is sharp, with growth expected to fall below six per cent. The budget deficit could hit above six per cent.

Indian government just in time proposed reforms which brought encouragement back in the market. Some of the recent reforms/initiatives taken by the government are as below:

a. Raising diesel prices hence mellowing down pressure on subsidies.

b. Allowing multi brand in retail, aviation sectors.

c. Raising cap on foreign direct investment (FDI) in insurance and pension to 49 per cent — a $40 billion annual premium insurance and nearly $300 billion pension industry. Foreign investment in Indian insurance companies is currently capped at 26 per cent, and the pension industry is not available to foreign investors.

d. The Securities and Exchange Board of India (Sebi) to prepare draft guidelines so that uniform guidelines are made for investor categories such as Foreign Institutional Investors (FII), NRIs, Foreign Venture Capital Investors (FVCIs) and QFIs (Qualified Financial Investors) to harmonise different routes for foreign portfolio investments in India.

e. Proposal to bring more classes of financial instruments such as FD's and insurance policies to be held under electronic/demat form.

f. Relaxing the limit for investing in debt mutual funds, for housing finance companies.

g. Revival package for life insurance sector. The package includes easing investment norms for insurers, faster clearance for new products, easing of procedures and allowing banks to sell products of more than one insurance company.

h. Proposal to set up mega funds to finance infrastructure projects.

i. Amended companies bill/Act to overhaul corporate governance norm.

The finance ministry and the cabinet have indicated that they are considering number of other crucial measures like giving more powers to commodity market regulator FMC, reduction in service tax, tax treatment of annuity products on a par with the New Pension Scheme and Tax Deducted at Source on commission payments made to agents, of insurance companies etc.

The budgeted level of plan expenditure for 2012-13 is 26 higher than the previous year. Radical measures are required to be taken to prevent the declining trends of growth.

Some of the suggested economic reforms to spur growth and for fiscal consolidation are:

a. Reforms /recommendations to net higher taxes including measures like direct taxes code.

b. Measures in pipeline to raise resources by selling unutilised and under-utilised land of PSUs, Port Trusts etc. Given the subdued market conditions it is difficult to move ahead with disinvestment program, hence, the need for raising resources by selling of unutilised /under-utilised assets of the PSUs and Port Trusts etc.

c. Right sizing the plan expenditures, including Policy measures for pruning expenditure on subsidies.

d. To spur growth in employment opportunities. Growth in Indian economy is correlated to growth in employment opportunities.

e. Phased termination of subsidies in petroleum, food and fertilisers.

f. To pursue reforms in other areas such as: Infrastructure; simplifying regulations to improve business climate; impetus to manufacturing and exports sectors important for employment generation; initiatives contemplated to improve agricultural sector productivity; steps contemplated to mitigate the sufferings of the poor.

Indian labourers work at a steel factory on the outskirts of Agartala. India is likely to see budget deficit above six per cent. — *AFP*

Execution of these reforms remains a challenge for India. Another challenge remains tackling inflation. The RBI has been taking various measures but real impact is yet to be seen. There has been a mixed reaction to announcement of Indian reforms. While there were strikes and political pressures on the negative side, the rupee showed a positive momentum. It is expected that these reforms with others in pipeline should spur growth momentum and should bring India to a growth of eight per cent.

All these reforms are at announcement or at very nascent stage; it will take some time for them to bring positive momentum to the economy. Apart from this, Europe crises will continue to pose threat to the world economy hence bringing the contagious effect to India.

In a nutshell, we can say that reforms are bold and expected to yield positive results but do they signal end of policy paralysis in India? It is yet to be seen.

The author is the group chief executive officer at Doha Bank. Views expressed are his own and do not reflect the newspaper's policy