Opinion

MONDAY, JULY 8, 2019

BENGAL POLITICAL VIOLENCE

Chief minister of West Bengal, Mamata Banerjee

Anti-socials are anti-socials, they should not be related with any religion. A thief is a thief. If an incident happens, the government will take action. The BJP is trying to politicise everything.

Govt borrowing abroad is too risky, drop the idea

A better way to keep local interest rates low is to raise FPI-limits in India, attract more FDI, or for the govt to simply spend less

GIVEN HOW RESOURCE-CONSTRAINED the government is, and the fact that higher government borrowing tends to raise interest rates—and, therefore, crowd out private sector borrowers—it is not surprising it is contemplating borrowing abroad; the fact that India's foreign debt is low makes the move seem relatively risk-free. Last Thursday, the chief economic advisor had suggested India should tap the global markets because money was abundant and, therefore, cheap; and on Friday, the finance minister announced this in the Budget. However, former RBI deputy governor Rakesh Mohan was quick to denounce the suggestion, saying it would be an imprudent and dangerous move. Forex markets are choppy, especially now, with US-China trade tensions so high, so any adverse movement can throw off all calculations and make overseas borrowing even more costly than that from local markets. To be sure, there will be good appetite for India bonds listed in London or even Luxembourg; after all, investors would be spared the exchange risk unlike in an investment made in India via the foreign portfolio investment (FPI) route. That is why, JPMorgan's chief India economist Sajjid Chinoy said it could even cannibalise rupee-denominated FPI investments.

More important, a sovereign India bond means foreign investors will be in a position to influence interest rates in India in a manner similar to the offshore speculative rupee-dollar trading affecting onshore volatility. The volatility in interest rates can be worse than it is in currency trading, and the last thing we need is for investors to be indulging in arbitrage.

It is true that large levels of local borrowings could drive up interest rates and crowd out the private sector. But a market-determined price of government borrowing helps maintain some discipline; once the government has the option of borrowing abroad, this snaps the discipline and encourages the government to borrow more. Also, while the government may feel it is borrowing cheaper in New York, that may not necessarily be true once you factor in exchange rates. In which case, it may be better to simply raise the limit for FPI investments in the local bond market, both for gilts and corporate bonds. RBI could make the terms of investing somewhat more liberal; in the past, for instance, it has often insisted on residual maturities of, say, two years or three years—it could relax these if the forex situation is more comfortable. Attracting more FPIs in the corporate bond segment, in particular, would help take care of the additional demand expected this year. It is not clear whether RBI has been sounded out and what it feels. The government may be hoping RBI would enter into some kind of forward transaction to ensure supply of dollars five or seven years down the line. The better way to tap foreign resources, if at all these are needed, is to attract NRI deposits without overpaying for them. The best option, of course, would be to ease FDI norms—for defence and other big sectors—and have an industry-friendly policy that will pull in sticky FDI, so that it is not vulnerable to fickle FPI flows.

You have to woo investors

Difficult to see them bidding for right to set up fabs, etc, here

GIVEN RISING US-CHINA trade tensions, and the chance of them boiling over even if they get resolved for now, it is not surprising that several top US manufacturers located out of China should be looking to diversify their export bases. After all, if US president Donald Trump is to slap large tariffs on China, their exports to service the US market will be badly hit versus exports that come out of production bases in Vietnam, for instance. And, given the size of their export operations—Apple exports around \$180 billion out of China as compared to India's total exports of \$330 billion—it is not surprising that several countries are trying to woo these firms, to get them to set up manufacturing units. With so many countries wooing these firms, it is obvious that the country with the best offer will win. The best offer comprises all manner of tax breaks, free land, low-cost electricity, zero import duties, etc. Indeed, in areas like semiconductor fabrication units, the quality of electricity supply can even be the determining factor in whether or not a unit moves operations to India; in one Japanese technology-park in Haryana, even power generation was to be done by a Japanese company. Apart from these tax and other sops, other factors that make a difference are the size of the domestic market, the availability of top-class engineering and other such talent.

What is odd is that while India is trying to woo several US firms that have significant operations out of China, the latest budget has a different spin on it. According to the Budget, "in order to boost economic growth and Make in India, the government will launch a scheme to invite global companies through a transparent competitive bidding to set up mega-manufacturing plants in sunrise and advanced technology areas such as semi-conductor fabrication (FAB), solar photo voltaic cells, lithium storage batteries, solar electric charging infrastructure, etc"; India's imports of just phones and electronic components was \$33.7 billion in FY19, so boosting local production is a big policy imperative. Does the government actually think that global players that are being wooed by various countries will participate in a bid where, presumably, the one that wants the least tax incentives or offers to invest the largest amount, will be allowed to set up operations here?

It is true that several corruption scandals dogged the UPA and the NDA has been reluctant to give concessions to various firms—or even sectors—for fear of being labeled *suit-boot-ki-sarkaar*, but wanting firms to bid to set up operations in India is ridiculous. It is high time the government realised that capital is mobile and will move to whichever country offers it the best deal. The government is free not to want to offer incentives to a firm that are different from those offered to others. This may not be a great idea since one firm may offer better exports/employment than others, but if this is what the government wants, it can fashion a uniform policy for all investors; but expecting global firms to bid to set up manufacturing facilities here is deluding ourselves.

ResearchFOCUS

NRF a good idea, but govt must ensure that a "basic science focus" doesn't come at the cost of tech, social sciences, etc, R&D

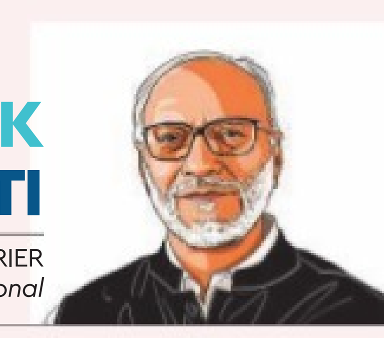
THE BUDGET PROPOSAL to consolidate the various research funding currently under ministries under a National Research Foundation (NRF) should seem a good idea. Indeed, for a R&D-deficient nation like India—R&D expenditure has dropped from 0.84% of GDP in 2008 to 0.69% over the last few years, compared to the US's 2.8%, China's 2.1%, Israel's 4.3% and South Korea's 4.2%—any bid to avoid "duplication of effort and expenditure", as FM Nirmala Sitharaman pointed out in her Budget speech, will only be a gain for R&D. The pittance that India gives to R&D is reflected in the fact that there were only 15 researchers in India per 100,000 population compared to 111 in China, 423 in the US and 825 in Israel in FY17. No wonder, thus, while China made over 13 lakh patent application with just 10% of this being filed by non-resident Chinese researchers, India made a mere 45,057, of which >70% were by non-resident Indians.

While there is reason to cheer the NRF, the government needs to make clear what it means by its announcement that the NRF will have a focus on "national priorities" and "basic science". There is, no doubt, a case for a step up in funding of basic science (physics, chemistry, biology) research, but does the government mean to say that this will come at the cost of, say, technological research or social sciences/humanities or arts research? Also, "national priorities" need to be clearly defined, lest, with the mandate it has received, the ruling party or its ideological fount conflate their research priorities with the national priorities. On both concerns, the government will do well to stick to the NRF vision outlined in the National Education Policy (NEP). NEP, which says the NRF must fund research across the academic landscape, talks about the need to foster interdisciplinary research. Even when research must contend with challenges such as access to drinking water, healthcare, energy, pollution and infrastructure, the NEP sagely notes that it will need approaches backed by technology and "in a deep understanding of the social sciences and humanities". It makes clear that while the NRF may periodically identify areas of research important to the country and prioritise funding to these, "all proposals" have to be considered.

FROM PLATE TO PLOUGH

LACK OF EFFECTIVE REGULATION AND POLICY OF CHEAP OR FREE POWER SUPPLY FOR IRRIGATION HAVE INTENSIFIED FRESHWATER CRISIS BEYOND TECHNOLOGICAL REDEMPTION

Harvesting water: Technology vs policy



ASHOK GULATI

Infosys Chair Professor for Agriculture at ICRIER
Views are personal

A ONE-WEEK DELAY in Indian monsoon showed how precarious our situation is on the water front. The images that BBC and CNN telecasted across the world showed thousands of Chennai residents running after water tankers to get a bucket of water for drinking. In parched lands, several people had to walk for miles to get drinking water. If this was the condition of humans, one can only imagine in what condition cattle and crops would have been. These images clearly expose that the Indian Lion, symbol of Make in India, has feet of clay.

No wonder prime minister Narendra Modi, in his first 'Mann ki Baat' in the Modi 2.0 innings, gave a clarion call to save every drop of water, and take water as a mass movement on the lines of Swachh Bharat Abhiyan. This is commendable. But he has already given commitment to deliver tap water, hopefully safe for drinking, to every household by 2024 under 'Nal se Jal' programme. These are commendable programmes and one hopes they can deliver results in time, and of good quality.

But, the issue that we want to dwell on here is how did we reach this situation? And, how best and how fast, we can get out of it for sustainable water use in the country.

First, let us note a few facts about water availability and use in India. India has only 4% of global freshwater resources while it has to quench the thirst of about 18% of global population. Of the total freshwater resources available in the country, as per Central Water Commission, 78% was being used for irrigation in 2010, which is likely to be reduced to 68% by 2050. For domestic use, it was just 6% in 2010, likely to go up to 9.5% by 2050 (see graphic). So, by far, agriculture will remain the biggest user of water to produce enough food, feed and fibre in the foreseeable future. And, unless this sector is geared to improve in terms of water supplies and efficiency in water use, the situation on the water front is not going to improve much.

Second, of the total of about 198 million hectares of India's gross cropped area, roughly half is irrigated. The major source of this irrigation is groundwater (63%); canals account for 24%, tanks 2%, and all other sources for about 11%. So, groundwater bears the real burden of irrigating Indian agriculture, driven by private investments from farmers.

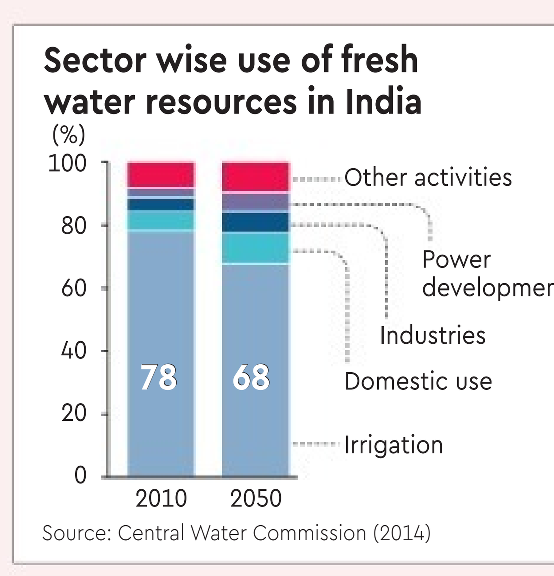
There is hardly any effective regulation of groundwater. The policy of cheap or free power supplies for irrigation has led to an almost anarchic situation in the use of groundwater. Power subsidies to agriculture cost the exchequer roughly ₹70,000 crores each year while depleting groundwater in an alarming manner. Overall, about 1,592 blocks in 256 districts are either critical or overexploited. In places like Punjab, water table has been going down by almost a metre a year for almost two decades. Almost 80% of the blocks in Punjab are overexploited or critical (see graphic). It only shows how indifferent and short-sighted we are while taking away the rights of our own future generations.

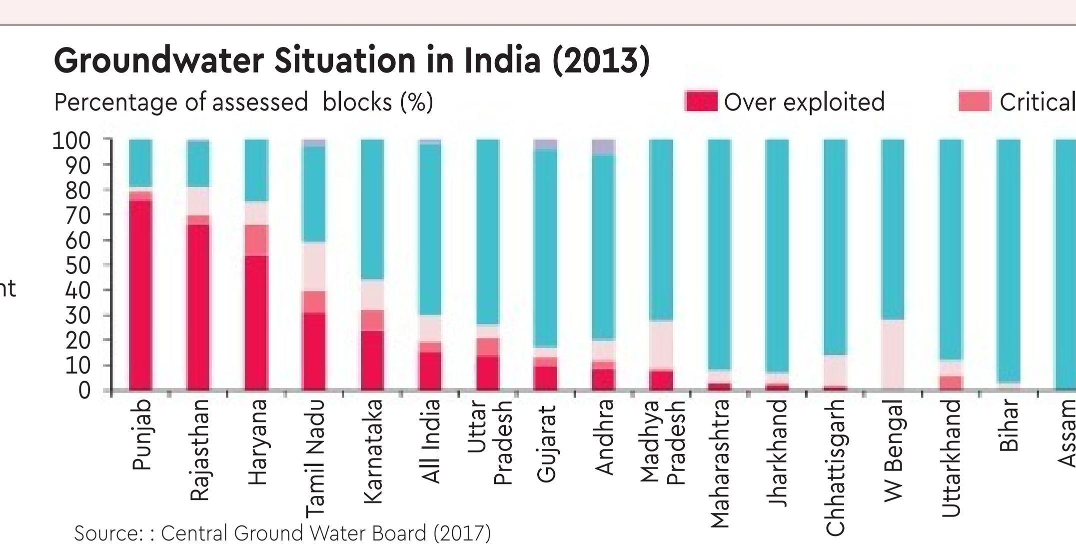
Paddy and sugarcane, both water-guzzling crops, take away almost 60% of India's irrigation water. One kilo of rice produced in Punjab requires almost 5,000 litres of water for irrigation, and one kilo of sugar in, say Maharashtra, requires about 2,300 litres of water. Estimates vary on how much water the plant really consumes, how much evaporates, and how much percolates back into groundwater. But traditionally, say a hundred years back, eastern Uttar Pradesh and Bihar used to be the sugarcane hub while rice was grown largely in eastern and southern India, where rainfall was high and water plentiful. All that changed with new technology and populist policies like free power.

No political party wants to touch rationalisation of power pricing for agriculture. Technological solutions, like drip, sprinklers, etc, cannot make much headway unless policies are put on the right track. Israel has perhaps the best water technologies and management systems, ranging from drips to desalinisation to recycling (87%) of urban waste water for agriculture. PM Modi also visited Israel to find solutions to our water woes. But, my interactions and visits to Israel revealed one thing very clearly: technologies can not go far enough unless pricing is put on track.

One way out is to give farmers monetary rewards for saving water and power. The existing situation can be taken as a sort of current entitlement, and if those who agree to get power supplies metered save on power consumption compared to current levels, they can be monetarily rewarded. Along with that, there could be income support on per hectare basis (say, ₹15,000/ha) for less water-guzzling crops, say maize or soyabean in Punjab during kharif season. This would save power subsidy and, more importantly, precious groundwater. At least one million hectares of paddy cultivation needs to shift away from the Punjab-Haryana belt to eastern India. Eastern India can develop better procurement facilities for PDS system for paddy, and procurement from Punjab-Haryana needs to be discouraged/curtailed.

Similarly, sugarcane needs to be contained in Maharashtra and Karnataka belt and expanded in UP/Bihar belt. With new Co238 varieties that give recovery rates of more than 10.5%, there is a good case that cane can be developed for ethanol from this belt. Will Modi Government 2.0 move in this direction to save water? Only time will show.





A Budget for *vikas*

In her maiden budget, FM Nirmala Sitharaman's focus was on long-run developmental goals, not short-run political gains

MEGHNAD DESAI

Prominent economist and labour peer. *Views are personal*

IN MY VIEW, Budgets are unnecessarily hyped up. Newspapers want to display family pictures illustrating how much taxes were cut or prices raised. They create a human interest in a dry-as-dust document. Budgets, in fact, should be technical documents for specialists. Instead, in India it has become like the second speech after the President, laying down the government's vision.

Nirmala Sitharaman had a hard Act to follow. Arun Jaitley is a finance minister who will go down in history as one of the best. He came with a sharp lawyer's brain, a big position in the party and the government, and the prime minister's trust which meant that his budgets launched some new policy initiatives, such as Aayushman Bharat in his last budget.

This year's budget is remarkable for not giving in to shrill demands in the past few weeks about reviving the economy as consumer spending was slowing down. Tax cuts is the only thing newspapers want out of a budget. My view is that the slowdown of only 50 basis points in GDP growth rate was a temporary cyclical dip rather than a secular trend. Uncertainty in pre-election days plus the crisis in the NBFC sphere had tightened credit. Car sales were down but no surprise. The FM refused to panic and fixed her sights firmly on the long run rather than the short run. The only concession to short term pressures was not to reduce the deficit below what Jaitley had set in his 2018 Budget. But, the income tax rate on top incomes was raised making this a rare redistributive budget.

That apart, the Budget was for the long term and concerned with growth. Issues of water, energy, and environment (e-vehicles) were put in the front. Investment, raising labour productivity, rationalising the R&D infrastructure, and attracting FDI were the themes. This was a way of declaring that the BJP is now getting used to being the governing party. Even if there are state elections later in the year, the FM's focus was not short-run political but long-run developmental. Modi 2.0 is continuous with Modi 1.0.

Modi has focused on human development since the beginning. Cleanliness, toilets, electrification, solar energy, rural housing, transport infrastructure, and cooking gas have all been his concerns. He is the first Human Development Prime Minister of India. The focus of the economy has shifted from the visible headline concerns—labours and land market reform, entitlement proliferation as happened during UPA, and the India/Bharat Debate. From the outset, Modi has accepted the economic governance machinery as it is and sought to make it work better. He is not a radical reformer but a determined implementer of programmes—his own and those which he has inherited incomplete from the preceding UPA-II. Bharat has been as central to his focus as India has been.

The Budget was for the long term and concerned with growth. Issues of water, energy, and environment (e-vehicles) were put in the front.

The India/Bharat cliché is now outdated. Much has been done with rural electrification, housing, toilets and connectivity to bring rural India closer to the urban one.

This is why the themes in the Budget harked back to the themes previously discussed—Make in India, attracting FDI, making business easier, advancement of next-generation technology, and environmental concerns. There is an ambition to make India a hub for a number of new products, especially electric cars. Here is where the goal of a \$5 trillion economy comes in. It is not just the present economy enlarged; it will have to be a different economy altogether. Words like Artificial Intelligence, robotics are not shunned.

The one specific policy move which will be criticised is the tax on petrol/diesel. In my view, this is distinctly progressive and crucial, if India is to meet the challenge of clean air. Some of the most polluted cities of the world are in India. Though people will complain about the hardship this move causes to middle class and its likely impact on inflation, it is right that the real social cost of individual transport should be forwarded.

Another complaint is that the deficit target has remained where it was last year. Last year the deficit was not achieved, albeit by 0.01% .The sooner the deficit is brought down the better.

LETTERS TO THE EDITOR

Sunset for the Nehru-Gandhi family

All speculation on whether Rahul Gandhi would continue as Congress President has finally been laid to rest with the scion of the Indian political dynasty putting in his papers. Training his guns on senior leaders for the party's debacle in the Lok Sabha polls, Rahul made it clear that accountability is critical for the future growth of the party. Mr.Gandhi also changed his Twitter handle status from 'party president' to 'Congress member'. The development brings the curtains down on the sway the Gandhi family had on post-independent India and it will be interesting to see the baton change hands to a non-Nehru-Gandhi family member.

— NJ Ravi Chander, Bengaluru

Lacklusture budget

While much was expected from a budget, particularly after BJP's massive electoral victory, people have been disappointed with such a lacklustre budget. Sitharaman scripted a sizeable portion of her budget speech notes to eulogise the BJP government, but she failed to enthuse listeners with any concrete proposals to boost the economy of the country, either on the macro level or on the micro level. The budget disappointed the agricultural sector, SMEs and even the heavy industries, but seemed to indicate the government's support of privatisation. An incisive analysis would prove that this is not a pro-*Aam Aadmi* budget but that of the affluent and the rich. The fiscal deficit percentage quoted is highly debatable and the trillion-dollar economic growth envisaged, highly utopian.

— Anna Mary Yvonne, Chennai

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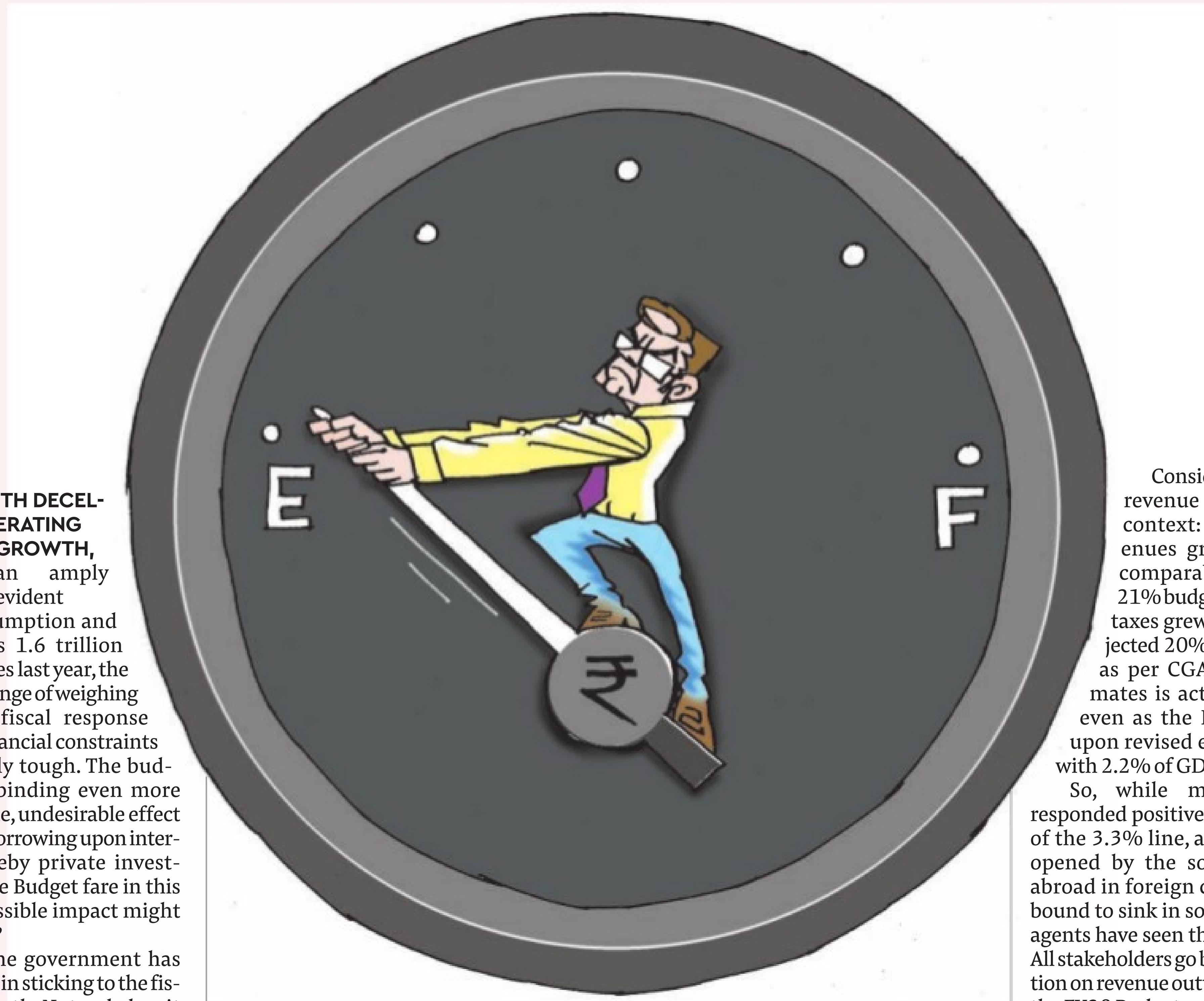

ILLUSTRATION: ROHNIT PHORE


RENU KOHLI
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UNION BUDGET

Hope is not a strategy

The government is yet to come to terms with low revenue realisations. A return of fiscal dominance could close the window for further easing of monetary policy; it would also disincentivise global capital the Narendra Modi government plans to attract

WITH DECELERATING GROWTH, an amply evident slowdown of consumption and the exceptional Rs 1.6 trillion shortfalls in revenues last year, the government's challenge of weighing a countercyclical fiscal response against the tight financial constraints was understandably tough. The budgetary check was binding even more because of the visible, undesirable effect of excessive public borrowing upon interest rates and thereby private investments. How does the Budget fare in this light? And what possible impact might this balancing have?

To start with, the government has done the right thing in sticking to the fiscal consolidation path. Not only has it stuck to the fiscal deficit target of 3.3% of GDP, it has gone one step ahead and included the extra-budgetary resources it has been raising into the stock of central government public debt—at 0.7% of GDP last year, the addition of extra-budgetary liabilities show the debt-GDP ratio at 48% of GDP in FY20 against an estimated 47.3% a year ago. The Centre's public debt-GDP ratio is seen declining 40 basis points from 48.4 last year. Equally laudable is the medium-term target outlined by the government to reduce accretions to the EBR stock to zero in five years' time.

So, if a government adopts a fiscal consolidation strategy at a time of no fiscal space but with pressures of reviving growth, how does it set its fiscal policy? How does it stimulate growth and stick to fiscal consolidation at the same time? With such a macroeconomic configuration, a government should not raise taxes (procyclical) and more specifically, focus on revenue expenditure reform to move scare resources to public capex to encourage growth. On this measure, the Budget scores very poorly. There should have been dramatic revenue expenditure reforms to release resources for spurring growth. Unlike structural reforms, expenditure reforms are very much a part of the Budget, which makes no such effort. There is no cut in subsidies, where their respective shares in GDP remain constant. Even the food subsidy, which could have constituted a great start for reforming expenditure at an optimal time of low food prices, increases by Rs 129 billion. It is most unfortunate that there not even a single reform step in this direction to carve out space for scaling up public expenditure.

This aside, many commentators have noted the discord in growth assumptions underlying the budgeted revenues. Specifically, these are predicated upon the older, revised estimates of FY19 (RE) instead of the most recent, provisional estimates (PE) that have been published by the government accounts controller. The problem is the vast gap in tax revenue growth between these two sets of estimates: Substitute PE in place of RE to see the incredibly overoptimistic projections: in reality, net tax revenues would have to grow nearly double the more sober growth rates shown in the Budget, personal income taxes would have to grow more than three times and GST revenues would have to increase four-fold! The government is not oblivious to these factors, but is hoping to turn the tide.

To be fair, the government has not departed from tradition—in FY15 too, the full Budget rested upon revised estimates for FY14. But then the Interim Budget was presented in March, when a reasonably credible idea of tax collections is obtained. The problem is that since then, the Budget presentation has advanced to February 1, when there is little or no information available about the last quarter's outturn. This is leading to larger gaps between revised and provisional tax revenues. In turn, this is becoming an issue of credibility and a source of uncertainty. The government must re-look this pattern in the context of advancing its Budget presentation time.

Consider last year's (FY19) revenue performance in this context: Overall net tax revenues grew a mere 6% on comparable base against the 21% budgeted growth; income taxes grew 13% against a projected 20%. The revenue deficit as per CGA's provisional estimates is actually 2.3% of GDP even as the FY20 Budget based upon revised estimates continues with 2.2% of GDP!

So, while markets may have responded positively to fiscal discipline of the 3.3% line, as also the prospects opened by the sovereign borrowing abroad in foreign currencies, reality is bound to sink in sooner than later once agents have seen through the numbers. All stakeholders go by the latest information on revenue outturns no matter what the FY20 Budget may show.

The real consequences of such overoptimism on the revenue side could be serious and negative for growth should actual performance not match projected outcomes. GST revenues have grown a measly 7.2% in April-June so far, while corporate revenue growth was -51% in April-May. These facts are neither unknown nor gone unnoticed. A replay of last year's interaction between overoptimistic revenues and sharp expenditure compression with dire growth consequences cannot be ruled out therefore. In the second half of last year (FY19), as tax revenue collections lagged severely behind, the government was forced to cut spending, pulling down growth into a vicious spiral compounded by the negative shock of the NBFC crisis. While total expenditure cut was 6% against revised expenditure estimate, the pressure to retain spending in an election year spilled over upon off-budget borrowings and subsidy rollovers with disturbing consequences for long bond yields and monetary policy transmission.

There is some hope that RBI may decide to transfer a good sum of past reserves to the government. We don't know yet its quantum and if this comes free of conditions attached. Once agents have seen through the actual revenue performance and factor that in, bond yields could respond adversely. Uncertainty could increase as agents speculate on how the government could possibly meet its targets—through off-budget borrowings, even more subsidy rollovers, and so on. On its part, the government could once again be compelled to cut expenditure, extracting a cost from growth and causing uncertainty on this front as well. Producers would bear the brunt of higher interest rates and the refusal of monetary easing to transmit. Consumers would suffer from reduced spending as expenditures are squeezed. The promise of sustained welfare spending in the first Budget of the second tenure of the government may not materialise.

The government selling an aspirational goal of a $5-trillion economy by 2024-25 must remember the old adage 'hope is not a strategy.' It must come to terms with prospects of low tax revenues, focus upfront upon divestment proceeds and other non-tax revenue sources. A return of fiscal dominance could close the window for further easing of monetary policy; it would also disincentivise global capital the Narendra Modi government plans to attract.

Do or dry

Thirsty Indian cities have a management problem, not a water problem

BETWEEN DECEMBER AND June, the largest reservoir supplying Chennai shrivelled and then vanished. From the window of a plane, darker patches suggest Puzhal Lake still holds some water. Close up, the "water" turns out to be just a different shade of mud.

Puzhal is indeed "bone dry," says T Prabhushankar, the head of Chennai's water board, and so are three more lakes that are the other main sources of water for the city's 8 million people. In his AC office, a computer screen indicates that the city's reservoirs, which have a total capacity of 11 billion cubic feet, contain a minuscule 25 million cubic feet. "There is nothing to hide about it," he shrugs. "There has been no rain for 190 days, so there is no water." Yet Mr Prabhushankar is not worried. Not only does he expect to get through the current dry spell—Chennai's worst since 2004—he also insists that, for the city, water scarcity will soon be a thing of the past.

As with India as a whole, the growing city's demand for water has placed huge stress on traditional sources such as groundwater, rivers and lakes. And, like all of India's 1.3 billion people, Chennai's thirsty inhabitants may very well face long-term dangers from climate change, one effect of which is more erratic rainfall. But while it is easy to blame both the city's and India's water woes on nature, a closer look reveals a legacy of poor management, lax laws and underinvestment. Most of the time, the two annual monsoons suffice to top up lakes and groundwater. The trouble comes when leaks spring in the system.

To allay Chennai's acute scarcity, which is likely to last until the winter monsoon in November (for India's east coast this is heavier than summer rains), the water board has contracted an impressive 1,000 GPS-tagged water tankers, each making up to a dozen daily runs. Free deliveries of drinking water reach every street in the city once every two days. Local volunteers ensure it is rationed fairly—typically 30 litres a day for each household.

If the govt stopped promoting greedy crops such as rice and sugarcane, did more to curb pollution, and regulate water consumption, India would not have to worry about going thirsty

As neighbours in the middle-class Mylapore district line up brightly coloured pots for the scheduled tanker to fill, there is more good humour than annoyance. It was worse in the 2004 drought, recalls the tanker driver: there were so many fights he needed police protection. Kamala Kanan, a local businessman, says it is a bore having to wait for and haul water, and it is barely enough for the 13 people in his house. But the distribution is reliable, free and fair. And luckily his family has access to groundwater. This has grown saltier but they use it for washing and sanitation. Residents of two different slum districts say they get piped water for a few minutes a day. It is also enough, but sometimes stinks of sewage, so for drinking they buy 20-litre drums for about $0.5 each.

Mr Prabhushankar explains that the city has been able to sustain about two-thirds of normal supply because it planned ahead. Two recently built desalination plants, new borewells, expanded facilities to recycle sewage and a new 220km pipeline from a distant reservoir all add to supply. Both desalination and recycling capacity are set to triple within five years. Faced with complaints of dwindling groundwater, the government promises to enforce long-standing laws mandating that all buildings should be equipped to harvest rainwater. It has also pledged to maintain not only its big reservoirs, but hundreds of smaller bodies of water that could help insure against drought.

The promise is welcome, but not convincing to Sekhar Raghavan of the Rain Centre, an NGO that lobbies for better water management. Its research shows that, despite 99% compliance on paper, only 40% of buildings actually do trap rainwater and store it or inject it into aquifers. The severity of floods that hit the city in 2015 was largely owing to the government's failure to clean and desilt canals and lakes or to build an adequate sewer system, Mr Raghavan says: "They are jokers. They would rather spend huge money on big new projects and giant storm drains than on fixing what is broken, which is our natural water-storage capacity."

Still, Mr Raghavan is optimistic. When he started out decades ago, his was a lonely voice. Now, he says, ordinary citizens are demanding action, or acting themselves. He has another new ally, too. Spooked by rapidly depleting groundwater, the central government plans a vast nationwide campaign to revamp local reservoirs. Perhaps if the government also stopped promoting greedy crops such as rice and sugarcane, did more to curb rampant pollution, and considered installing meters and applying realistic prices to regulate water consumption, India really would not have to worry about going thirsty. As Mr Raghavan says, "You cannot complain about nature. It's we that have to adapt to nature."

THE ECONOMIST

INDIRECT TAXES

Effort towards stable economic growth

The government has laid the foundation for India's growth and development for the times to come


GAUTAM KHATTAR
The author is partner, Indirect Tax, PwC India

FINANCE MINISTER NIRMALA Sitharaman presented her maiden Budget with encouraging remarks that the Indian economy had reached from $1.85 trillion in FY14 to $2.7 trillion by FY19. The government has set the aspirational target of taking it to $5 trillion by FY25 with considerate focus on three main growth pillars: investments in infrastructure, digital economy and job creation.

From an indirect tax standpoint, the FM indicated that indirect tax landscape has significantly changed with the implementation of GST, which subsumed 17 taxes and 13 cesses into one single tax. The teething problems with regard to GST implementation have more or less settled and there is a considerable reduction in tax rates on majority of goods and services in the last two years. Now there has been buoyancy in revenue collections.

The GST Council is further aiming towards simplifying GST processes. In this regard, the proposal for a single monthly return has been rolled out. Furthermore, taxpayers with annual turnover of less than Rs 5 crore are required to file GST returns on a quarterly basis. The FM also highlighted its recent proposal to move towards electronic invoicing from January 2020, which is expected to reduce the compliance burden and will eventually phase out the e-way bill system. Other GST proposals such as facility to transfer the cash balances available in the electronic cash register from one head to another head for discharge of tax liability, payment of interest on net cash tax liability, constitution and other administrative aspects relating to setting up and functioning of National Appellate Authority Ruling, etc, are welcome provisions to boost the confidence of India Inc in the new tax regime.

Other indirect tax proposals are largely focused on promoting 'Make in India', reducing import dependence, protection to MSMEs and promoting clean energy.

Defence being the priority sector, the government has proposed to exempt the import of defence equipment that are not manufactured in India, from the levy of the Basic Customs Duty (BCD). This exemption has a sunset clause of June 30, 2024.

In order to provide the domestic industry a level-playing field, BCD is being increased on certain items such as cashew kernels, PVC, auto parts, CCTV camera, IP camera, digital and network video recorder, etc. Also, BCD exemptions on certain electronic items such as microphones, receivers, SIM sockets and connectors for use in cellular mobile phones, etc, which are now being manufactured in India, are being withdrawn.

To further promote domestic manufacturing, customs duty reduction is being proposed on certain categories of raw materials and capital goods such as inputs for manufacture of artificial kidneys and disposable sterilised dialyser and fuels for nuclear power plants. At the same time, special additional excise duty and road and infrastructure cess has been proposed to be increased on petrol and diesel by Rs 1 a litre. Customs duty on gold and other precious metals has been increased from 10% to 12.5%.

The Budget proposals has specific mention towards the use of cleaner energy and providing affordable and environment-friendly public transportation options for the common man. The government has sent a proposal to the GST Council for reduction in GST rate on EVs from the current 12% to 5%. Also, an income tax rebate scheme has been proposed providing a rebate of Rs 1.5 lakh on interest on loan to the buyer to boost the sector.

In order to curb bogus transactions and unfair trade practices relating to misuse of duty free scrips and drawback of value more than Rs 50 lakh, prosecution provisions have been made more stringent by making such unfair practices cognisable and non-bailable. The government is mindful of the fact that the GST regime is two-year old. Despite this, India Inc is grappling with large pending litigations pertaining to the erstwhile tax regime. Realising the need for minimisation of tax-related disputes and focus on restructuring of tax administration, the FM has proposed to roll-out a Legacy Dispute Resolution Scheme to facilitate trade and industry in quick closure of pending disputes.

The government has laid the foundation for India's growth and development for the times to come. With a special impetus on digital economy and start-ups, the government is likely to transform the current assessment model to faceless e-assessments involving no human intervention. To begin with, such faceless assessment shall be carried out in the sphere of direct taxation and will eventually be rolled out under indirect taxes as well.

(With inputs from Kishore Kumar, director, Indirect Tax.)