

## **Finance Ministry preparing next phase of economic reforms; to focus on manufacturing, infrastructure development**

The finance ministry is preparing an outline for the next phase of economic reforms that can be presented to the new government to bolster manufacturing, infrastructure development and farm productivity.

Top officials in North Block, which houses the finance ministry, told ET that they are reviewing customs duty structure and ways to ease regulatory approvals.

"We are working on deepening reforms in key sectors that will build on the growth momentum...The idea is to have a plan ready that can be tweaked quickly," a senior finance ministry official said, requesting anonymity. The immediate urgency is to temper inflation expectations and revive growth, the official said. Although wholesale price-based inflation eased to 4.68% in February from 7.52% in November, retail inflation was still high at 8.1%.

India's industrial production slipped into negative territory once again, contracting 1.9% in February because of poor performance in manufacturing, especially capital goods and consumer goods, suggesting that both investment and consumption demand remains weak. Manufacturing, which constitutes over 75% of the index of industrial production, contracted 0.7% between April 2013 and February 2014, after growing by just 1% in 2012-13. This has left policymakers as well as companies worried.

All main political parties have in their election manifestos listed measures to boost growth with special emphasis on manufacturing and infrastructure. Experts bat for comprehensive steps to boost growth. "What is needed is concerted policy action, which would revive manufacturing and growth....Manufacturing and the farm sector are of crucial importance to the economy and sustainability of our growth model," said Chandrajit Banerjee, director-general at Confederation of Indian Industry.

Abheek Barua, chief economist at HDFC Bank, said it is time India launched fresh infrastructure initiatives. "We need something big-bang both on the supply side as well as demand side and more on the demand side...we need huge infrastructure push," Barua said.

The finance ministry's plan includes creating an ecosystem of "nuts and bolts" that will not just boost growth but help the government tackle food inflation, which has become a policy challenge in recent times, forcing a tight monetary policy. The high interest rates have, in turn, depressed investments.

"The focus will be on process reforms....To cut down on transaction cost and procedural bottlenecks and move towards self-certification," the finance ministry official quoted earlier said. Multiple trade agreements and reduction in import duties as a consequence has created inverted duty structure for many goods and, thereby, eroded their competitiveness vis-avis imported goods.

The plan being prepared will focus on removing inversion in import duty structure and clean up the import duty regime to make India-made goods and local inputs more competitive. Despite a large domestic market, India is importing a number of consumer goods that can be easily manufactured here given the level of demand.

The share of manufacturing in GDP, which is seen as the key to creating more jobs, fell to 15% in 2013-14, almost on par with 14% of agriculture.

"In a number of cases, inputs attract higher duty than the final product-...This is not good for domestic manufacturing and also discourages foreign investment," the official said.

Besides, transaction costs and government intervention in the form of inspection needs to be brought down. "There is a need to encourage selfcertification or certification by government accredited agencies...Government intervention should come down," the official added.

Infrastructure sectors suffer from a regulatory and procedural overhang, leading to delays and cost inflation. The plan will suggest a way forward to bring about more efficiency in implementation of projects.

The ministry-promoted idea, cabinet committee on investments, is already making a difference to timely approvals to projects.

The plan will specially deal with measures to raise farm sector productivity— boost production of fruits and vegetables, create an ecosystem for better remuneration to farmers and reasonable prices to consumers. "There is a need to create end-to end solutions such as cold storages and free movement of goods," the official said.

It will also suggest strengthening of forward and commodity markets to enable efficient and transparent price discovery mechanism for farm goods, the official added.

*(Economic Times)*