# Chicken & Egg Situation for Demographic India

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While the China Plus 1 strategy is the underlying theme, India has rolled out the red carpet in form of Production Linked Incentive (‘PLI’) Scheme for around 14 sectors across industries. The idea behind these incentive measures was to move the needle for Indian economy from a service-oriented economy to manufacturing based economy. While these incentive schemes are forward looking, the bigger challenge for the Government is how to make India an attractive manufacturing-cum-export hub and withstand the headwinds posed by other South East Nations as an alternative to China Plus 1.

Given that the Union Budget 2023 is around the corner, Government’s endeavour is to bring more sectors under the PLI. In one of CII Global Economic Policy Summit, we did hear the Honourable Union Minister for Commerce and Industries mentioning and ***I quote “the government is trying to rejuvenate the textile and cotton sector and is working actively to revitalize this industry, from farmers to exports - as PM Narendra Modi articulated - from farms to fibre to fabrics to fashion to foreign.”***

In the past couple of quarters, we have seen the Consumer Discretionary sector under stress, especially due to curtailment of spend by Rural India. Given the vision set by our Hon’ble PM and the present Government, the road map would make us see light at the end of the tunnel.

Days before presenting Union Budget 2023, Finance Minister Nirmala Sitharaman said that she was aware of the pressures of the middle class but also recalled that the present Government has not imposed any fresh taxes on them.

The easing of retail inflation to 5.72% and good monsoons has placed India in a sweet spot in the turbulent global environment. Falling food prices, cooling energy basket has proved to be a game changer. Unfortunately, rural India is yet to catch up on the above matrices, which is somewhat hurting the consumer discretionary spending.

With Union Budget round the corner in the next couple of weeks, what can Government further do to up the ante in consumer spending? We normally hear the term that there is no room for extending any further benefits to middle class in form of tax cuts/ exemptions. Typically, we see tax benefits in form of reduction of taxes, exemptions etc. being extended more to industries rather than middle class. The argument for this is that the industries create capacities, jobs etc. However, the flip side is that capacity augmentation by industry can only be done provided the consumer class is willing to spend. A perfect chicken and egg situation which needs be examined under a magnifying glass by the Government.

Given this backdrop how do we see expansion in Consumer discretionary spending.

The simple answer we all know is to make available more disposable income in hands of consumers. During Covid, since people were not able to travel, the Government allowed the Leave Travel Allowance to be utilised against white goods purchases. Can the Government this time bring in similar scheme to increase the consumer discretionary spending? Sometimes direct tax benefits extended to middle class can be made good through an increase in GST collection through increased consumption.

**Housing Sector:** An individual person is entitled to claim / offset INR 0.2 million as maximum interest on housing loan. With the rising ticket size for housing, the INR 0.2 million exemption of interest is not adequate. The INR 0.2 million limit on interest on housing loan was introduced in order to cool off the real estate prices and make the sector more affordable to the middle class.

Practically, even the carry forward of housing loan interest beyond INR 0.2 million is only on paper since for a higher home loan, the offset beyond INR 0.2 million every year is not possible, unless there is an exponential rental income. Considering that the prices in real estate has cooled off over past 10 years, the Government can consider removal of maximum offset limit of INR 0.2 million.

Growth in housing sector will ensure the allied sector growth cement, building material, paints, steel etc. would gain traction and would be a boost to consumer discretionary sector. Considering PLI in some of these sectors, two fold objectives can be achieved e.g. industries can either focus on export market or focus on domestic market or a combination of both.

**Abolishing Dividend tax:** The profits which are distributed by Corporates are already subject to Corporate Tax. Since the underlying income has already suffered tax once, just because the profits are distributed as dividends, the same should not once again subject to tax. This would be against the principle of natural justice as same income suffers twice the tax. Middle class is already burdened with huge taxes, a relief in dividend tax would certainly help to increase disposable income in their hands.

In case the Government decides to bite the bullet by extending more tax sops to middle class / salaries class, which leads to reduction in direct tax collection, the same can be made good from higher collection in form of GST due to increase in consumption spending.

Indian economy has navigated the global turbulent environment of rising energy cost, accelerated inflation in developed economies, now is the time for India to step on the paddle of growth with easing inflation and budget to open the door of discretionary spending for middle class by making available more disposable income in their hands. An inclusive approach by rolling the PLI benefits to agricultural sector, textile, fashion with the reduction of taxes / exemption mechanism to middle class for spending on discretionary products would provide catalysts to the Indian economy.

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