MSMEs call for rollout of GST, exchange rate correction to boost business growth: FICCI Study

NEW DELHI, November 8, 2012. India's Micro, Small & Medium Enterprises (MSMEs) feel that the country's tax structure is not conducive to business growth and suggest rollout of Goods & Services Tax (GST) to reform the present distortionary tax regime. At the same time, there is broad agreement amongst MSMEs on the need for exchange rate intervention to plug the slide of the Indian currency, according to a **FICCCI-BRIEF (Bureau of Research on Industry & Economic Fundamentals) study on Business Perception of Indian Industry with Special Focus on Micro, Small and Medium Enterprises.**

The Study surveyed 2257 firms, spread in 16 cities across all over India, representing both the manufacturing and service sectors. The sample covered firms, mostly belonging to the micro, small and medium segments (78% of the sample firms have a turnover of less than Rs. 100 crore) but also covered some of the larger firms, on the growth prospects of their business and the perception on the economy for the short (next 6 months) and the medium (next 2 years) term.

The study was released at a FICCI event here today by Mr. Vivek Rae, Secretary, Ministry of Micro, Small and Medium Enterprises.

Present on the occasion were **Mr. Sanjay Bhatia, Chairman, FICCI MSME Committee and Chairman and Managing Director, Hindustan Tin Works Limited; Dr. Alwyn Didar Singh, Secretary General, FICCI and Dr. Arbind Prasad, Director General, FICCI.**

The study reveals that 49 per cent of the businessmen in micro, small and medium segments are of the firm view that India's tax structure is proving a big stumbling block to business growth. Inflation is also perceived to be another obstruction to growth of the Indian economy by 41 per cent of the respondents.

Industry has sought early roll out of GST. This is evidence by the finding that 49 per cent of the surveyed firms feel that rolling out GST can reduce the negative effects other schemes have on business growth prospects.

Exchange rate volatility is seen as another barrier to business prospects, especially in SME segment, by 33 per cent respondents whereas 36 per cent respondents feel that the impact of technological bottlenecks to business growth is moderate.

Inaccessibility to global markets surprisingly is the lowest of concerns for firms as only 16 per cent believe this to be a high impediment to business growth. Interestingly, the study also notes that 49 per cent of firms feel that rolling out GST can reduce negative effects other schemes have on business growth prospects.

The study reveals that only 36% of firms could avail financial assistance from banks due to strict procedural norms, lengthy documentation and high interest rates.

The highlights of the FICC-BRIEF Study were presented by Mr. Saqib, CEO, BRIEF.

The following are some of the important observations by the respondents for the short (next 6 months) and medium term prospects (next 2 years):

- Distribution of the short and medium term optimism about economy shows a clear distinction for firm size with lowest turnover, compared to the larger ones. The respondents from the firms with lowest turnover range expect better growth in the next two years (66.7%), compared with next six months (58.4%), while firms in the higher turnover range shows little or declining optimism.
- Distribution in the short and medium term optimism in GDP growth and economy is robust. Firms surveyed believe that GDP growth will rise in the both terms ranging between 5-7 percent. Some firms take one step further perceiving the GDP growth to rise above 7 percent within the coming 2 years.
- Distribution of the short and medium term optimism about the investment environment too shows a clear distinction for firm size with lowest turnover, compared with the larger ones. The respondents from the firms with lowest turnover range expect better business growth in the next two years (59.2%), compared with next six months (49.5%), Respondents from the firms in the higher turnover range show negligible growth in optimism.
- Infrastructure and capital goods sector seem upbeat about medium term prospects of economic growth while food processing, auto components and chemical sectors are less confident.
- Lower turnover firms are more confident about the future of the economy in both terms than larger firms.
- Smaller firms are optimistic on increase in utilization of capacity while larger firms don’t believe that utilization will increase anymore than it already has.
- While parameters of the economy like interest rate, fiscal and trade deficits have opinions simmering, positive perceptions on parameters such as inflation, employment, exchange rates and trade negotiations remain high thus pushing optimism in the future of the economy for both short and medium term
- 36 percent of firms are availing financial assistance while the majority of them, 64% refrain. Smaller firms tend to seek financial assistance while larger firms do not. Reasons for not taking financial assistance include, bank formalities, large collaterals and lengthy documentation procedures.
- Technological upgradation for increase in productivity is important to most firms. The study observed that up to 44 percent of firms opt for technical upgradation. These upgradations are usually imported from countries like USA, Japan, China and UK.
- The study discovered that most firms, 51.6 percent of the lower turnover category do not have investment plans, though this trend reverses as firm size by turnover grow. Expansion though seems important to respondents much more than investment plans.
- Tax structure (49%) and inflation (41%) are the biggest causes of challenges to business growth. While export volatility, exchange rate volatility, environmental laws and other such parameters are important, firms do not believe they hold as much importance as the tax structure and inflation. Inaccessibility to global markets, is surprisingly the lowest of concerns for firms. Only 16 per cent

believe this to be a high impediment to business growth. Interesting to note that 49 percent of firms feel that rolling out GST can reduce the negative effects other schemes have on business growth prospects.

- Most firms agree that GDP growth is between the 5-7 per cent range, while some believe that it may grow more than that in the next two years. No firm responded that GDP growth will decline, though a majority mention high inflation and low capital investment to be the root causes of moderate range of 5-7 per cent.
- Firms believe the major cause of the economic slowdown of the country is not industrial production, exchange rate or trade and fiscal deficit but rather the cost of raw materials increasing.

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