Telecom Sector crisis

What is the issue?

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Despite its considerable place in the Indian economy, the telecom sector is under stress due to mounting debt and other issues.

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How significant is the telecom sector?

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- Telecom sector has greatly contributed to the increased GDP growth rate that India has had over the last few years.
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- The sector has contributed around 6% to the GDP and it is expected to increase to an even more significant level.
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- This is given the rising mobile phone subscribers and those accessing the Internet via phones.
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- Also, government's ambitious plans like Digital India and Smart-cities are dependent on this sector and its sound financial health.
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What is the present scenario?

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- Despite its importance, the sector is currently witnessing its worst phase ever.
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- There is a cumulative debt of around Rs.5 lakh crore in the telecom sector.
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- Also, the revenues are constantly falling down, further worsening the debt crisis.
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- Telecom service providers pay as much as 30 per cent of their revenues in taxes and levies for spectrum and operating licences; the tax component alone being 15 %.
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- The increased 18% under the GST regime has made the services more expensive at a time when it should have been reduced.
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How has the government responded?

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- The sector’s rising debt and falling revenues will impact broadband penetration and act as a drag on growth.
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- Responding to this, the government recently formed the Inter-ministerial Group (IMG) to look into the issues.
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- The IMG recommended a number of short-term and long-term measures which include -
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1. lowering levies such as i) annual licence fee, ii) spectrum usage charges (SUC), iii) GST.
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2. deferring of spectrum auction to the next fiscal.
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3. more time for payment of auctioned spectrum.
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4. cut in interest rates.
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What are the concerns?

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- Despite some bold recommendations, the IMG seems to have addressed only the debt issues of the sector.
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- The licence fees and spectrum usage charges are more pressing issues that

need immediate relief to free the sector of the financial struggle.
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- Despite India’s telecom tariffs being some of the lowest, telecom service providers are unable to raise tariffs.
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- This is because of the high competition prevailing in the sector at present due to over-the-top operators and coming in of new technologies.
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What is to be done?

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- The need of the hour is for the government to see the sector as an essential service and not a revenue generator.
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- The annual charges should be rationalised so as to cover only the administrative expenses; the other source being money from spectrum auctions.
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- Government should ensure a regulatory environment which facilitates innovation and investment, and addresses the financial woes of the sector.
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Source: BusinessLine

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