THE HINDU BusinessLine

4 July 2019

Budget challenges

Boosting consumption, investment is vital

CHANDRAJIT BANERJEE

Over the last five years, a series of landmark economic reforms such as Goods and Services Tax, Insolvency and Bankruptcy Code, Ease of Doing Business, and many more have changed the policy environment for industry. However, a fresh set of challenges confronts us now which requires new policy responses.

The Budget needs to address the issues of boosting demand, energising investments, and accelerating India's path to becoming a $5-trillion economy. The foremost consideration for the Budget should be to retain the fiscal deficit discipline. The current level of 3.4 per cent appears prudent at this juncture. Simultaneously, the government's spending programme will be crucial to overall health of the economy, and the aim should be to maintain expenditure on key infrastructure sectors with high multiplier effect.

A key area of concern today is the cost of consumption and investments. According to a CII estimate, India would need an investment of ₹451 lakh crore over the next five years, to take GDP growth rate to the desired 10 per cent by 2023-24. To raise resources, the Budget may consider keeping a strong disinvestment programme going through the year. Recycling of brownfield government assets with sale of financially viable facilities such as airports, power plants, roads, and so on could also add greatly to its funds for new capital investments.

High tax rates on capital need to be brought down by lowering corporate tax rates. CII has suggested 25 per cent corporate tax rates for all enterprises with few exemptions and a movement towards a revenue-neutral rate of 18 per cent without exemptions as a desirable future target. The dividend distribution tax may be halved from 20 per cent to 10 per cent. While this is under consideration, an immediate step to attract investments could be to extend investment allowance to all sectors.

Similarly, the personal income tax burden also needs to be brought down. It is important to simplify tax administration over the next three years to infuse greater consistency, certainty and continuity into the process.

The financial sector has been subdued over the last year. Bank recapitalisation will be a priority area for the upcoming Budget to enable banks to lend more. The CII has suggested that government stake in public sector banks should be brought down to 51 per cent and thereafter to 33 per cent in stages to promote capital inflows and efficiency.

With non-banking financial companies (NBFCs) a major source of consumer finance, it is important that their current problems should be addressed. Currently, NBFCs have no recourse to the Debt Recovery Tribunal and should be allowed to exercise the right of recovery of dues under this and under the provisions of the SARFAESI Act for ₹1 lakh and above. Further, a unified regulator for the financial sector could be considered.

With employment generation as a high priority, specific labour-intensive sectors may be taken up for promotion by the Budget such as textiles, housing and construction, agriculture, food processing, tourism and so on.

Boosting corporate sector participation in agri marketing is critical. A level playing field between private direct purchase centres and mandis would help in this effort. A critical area that the Budget must take up is export promotion. While global supply chains are restructuring and trade is slowing down, India needs to redouble its efforts to access overseas markets. India must phase out direct incentives for exports and replace them with those that conform to WTO norms.

The writer is Director General, CII