Will Budget 2018-19 be another pathbreaker?

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Finance minister Arun Jaitley's previous Budget had broken new ground by converging the Plan and non-Plan distinction, advancing its presentation by an entire month and merging the General and Railway Budgets. In Budget 2018-19, the excise rate section becomes redundant with the introduction of the Goods and Services Tax (GST), which places all local indirect tax matters with the GST Council. Thus, the coming Budget promises to be yet another innovative and pathbreaking document.

Macroeconomic conditions are favorable as we head towards February 1. Advance growth estimates for 2017-18 stand at 6.5 per cent, but the slowdown in the GDP growth rate was arrested in the second quarter of the year and most analysts expect a strong recovery as the impact of GST implementation and demonetisation wane. Global economic conditions too present a positive framework for India's growth. Inflation and other macroeconomic indicators stand at acceptable and stable levels and exports and imports are trending up.

The key challenges for the economy now that the Budget needs to address are the falling investment-to-GDP ratio, backlog of non-performing assets of banks, and issues in the rural sector. It would also be pertinent to take strong steps in building social infrastructure with accent on education, healthcare and social security.

India's gross fixed capital formation, a proxy for investment, expanded by only 2.4 per cent in 2016-17 as compared to 6.5 per cent the previous year but continues to fall as a proportion of GDP, owing to excess capacity and poor domestic demand. Revival of investment depends on a continued push to infrastructure, where public-private partnership models are constrained due to regulatory bottlenecks. For example, land availability is a key challenge and the Budget would do well in developing a comprehensive database on land parcels available for industry.

Further, businesses in India face significantly higher tax rates than those in other countries, particularly emerging economies like Vietnam and Bangladesh. Recently, the United States passed a law to drastically lower corporate tax rates from 35 per cent to 21 per cent and encourage on-shoring of investments. Budget 2017-18 had lowered corporate tax rates to 25 per cent for 96 per cent of enterprises, and we expect that this measure would be extended to all enterprises in the new Budget. The government should also announce a roadmap to bring down the tax rate to a competitive 18 per cent while eliminating most exemptions.

The Minimum Alternate Tax must be lowered as well, given that it has increased over the last few years. A rate of 10 per cent would be a prudent level. The same goes for the Dividend Distribution Tax, which should stand at 10 per cent to avoid any cascading tax impact.

The issue of non-performing assets of banks has received high attention through the Insolvency and Bankruptcy Code and bank recapitalisation measures. To further strengthen banks, the Budget may consider announcing a bank holding company for all public-sector banks (PSB) and restructuring them for greater efficiency. Infrastructure Debt Funds could be proposed to refinance infrastructure credit, and securitisation of loans could allow banks to dispose of these loans profitably. As PSBs require more capital, it would be relevant to bring down government shareholding in them to the current norm of 52 per cent while shifting to 33 per cent over time.

Another major intervention that industry would appreciate is reviving domestic demand in the rural economy. The government's target of doubling farmer incomes by 2022 is laudable and requires action on multiple fronts. Rural infrastructure is the need of the hour in the Budget, to be set up at a fast pace to connect markets and create new livelihood opportunities.

Post-harvest infrastructure like warehousing and cold storage facilities should be made available in each agricultural district, so that produce can be processed and evacuated speedily. Such facilities can be leased out to the private sector including food processing companies. Irrigation must remain a major objective as most farms are still dependent on the monsoon.

An expanding market for India's agri produce is the export sector. While agri exports have declined in the last three years, a consistent trade and pricing policy and greater attention to building quality as per global standards can reinvigorate the sector and enhance farmer incomes.

Most of all, the government would wish to ensure speedy creation of jobs. While the desired overhaul of labour regulations will take time, the Budget could consider incentives for job creation such as fixed-term employment in all sectors, contribution to pension funds, and tax incentives for higher employment. Some of these measures were announced in the new textile and apparel policy, and should be extended to all labour-intensive sectors.

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The export market is a key driver of employment generation and may be leveraged through a policy of gradual exchange rate depreciation for enhancing competitiveness of Indian products and services. It is also important to develop the right infrastructure for exports, including at the state level. Export credit is another underserved area that deserves attention in the Budget.

The Niti Aayog, in its three-year action plan, has recommended setting up two coastal employment zones with more liberal labour laws and tax holidays based on new jobs created. It also envisages infrastructure and housing for workers to be developed in these zones, and quick action on these in the Budget could add to employment as well as to exports.

Trends in social sector spending by the government have been positive over the last three years, with expenditure on health, education and others going up significantly in the previous Budget. However, this momentum needs to be stepped up. The target for public expenditure on education has been set at six per cent of GDP while for healthcare, it is 2.5 per cent.

Apart from increased spending, the government should also look at new delivery models that are more effective than presently. A high emphasis is needed on technology infusion in education and healthcare so our children can access new knowledge and medical care costs are brought down. The Budget could look at a separate technology fund for these sectors.

While major reform policies are being announced regularly throughout the year, the Budget remains a key statement of the government's intentions. Industry looks forward to a progressive and reform-oriented statement that will drive India's growth to the next trajectory in the coming years.

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