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Reviving growth: Govt needs to do a fine balance in Budget on Feb. 1

With economic activity resuming and the vaccine becoming a reality, the challenge of lives versus livelihoods is largely addressed. The next big challenge facing the government is getting growth back.

The government has been fiscally prudent in its Covid interventions, with support to industry coming in the form of loan guarantees and reform measures. However, as private consumption, investments and exports remain sluggish, the burden to nurture the unexpected but buoyant recovery falls primarily on public expenditure, at least in the immediate term.

Government spending in areas with high multipliers is important for demand creation, employment generation and catalysing private investments. The RBI estimates the Central government capex has a multiplier effect of 2.45 in the year the expenditure is incurred and 3.14 next year. This shows a hike in capital expenditure by the government crowds in higher private investments benefiting the economy in the next few years. Private investments have been slow even before the pandemic, and this boost can get them back on track. Higher investments, public and private, will lead to employment generation, boosting consumer demand and savings.

The virtuous cycle of public expenditure, demand generation, private investment and employment generation can put the economy back onto a high growth trajectory.

However, the fiscal situation is now under stress driven by a shortfall in revenue collections due to a fall in GDP induced by the Covid-19 crisis, constraining higher public spending.

Supporting economic recovery and growth via greater public expenditure as well as ensuring prudent fiscal management to safeguard macro-economic stability is an immediate concern the Budget must address.

CII suggests a seven-point agenda.

One, prioritise public investment in infrastructure and health. Infrastructure has one of the highest multiplier effects on the economy and boosts long-term competitiveness. Therefore, the government must hike its infrastructure spend by one per cent of GDP, including higher allocations for Pradhan Mantri Awas Yojana and Pradhan Mantri Gram Sadak Yojana.

The pandemic highlighted the importance and need for a robust public health infrastructure. India should look at increasing its public health expenditure to three per cent of GDP by 2025.

Two, the government should look at fiscal deficit management from a three-year perspective. The deficit target for next year should be realistic.

Three, the government should ensure greater transparency in the deficit numbers, inspiring confidence in markets, rating agencies and investors. This implies realistic revenue projections, avoiding off-Budget borrowings, realistic estimation of costs of schemes and accounting fully for borrowing for food subsidy. Last year's Budget listed off-Budget expenditures and their financing as an annexure. This year it should build on this positive step.

Four, given the uncertainties set a range-bound deficit target, instead of pursing a single number, as was recommended by the economic advisory panel of the 15th Finance Commission.

Five, adopt a suitable Fiscal Performance Index framework to capture both the quantum and quality of the deficit. Higher expenditure on areas like infrastructure, healthcare, education and sustainability boosts the economy's productivity and efficiency, leading to higher growth, which helps pay for itself in the long run.

CII wants a composite Fiscal Performance Index with six components: (i) Quality of revenue expenditure: measured by the share of revenue expenditure other than interest payments, subsidies, pensions and defence in GDP; (ii) Quality of capital expenditure: measured by share of capital expenditure (other than defence) in GDP; (iii) Quality of revenue: ratio of net tax revenue to GDP (own tax revenue in case of states); (iv) Degree of fiscal prudence I: ratio of fiscal deficit to GDP; (v) Degree of fiscal prudence II: ratio of revenue deficit to GDP; and (vi) Debt index: Change in debt and guarantees to GDP.

Six, the government should look at raising revenues through non-tax measures. It should look at aggressive disinvestment, taking advantage of booming capital markets. The disinvestment plan should include both loss-making and profit-making PSUs. To get better valuations, that is often a concern, the government could announce a list of PSUs where it plans to bring down its holdings below 51 per cent. The positive market sentiment this creates may lead to higher interest and valuations.

Monetisation of assets of the government and public sector enterprises, like surplus land and buildings, profitable brownfield assets like roads, transmission lines, airports, power plants, etc, could be another source of significant revenue. State governments should also be encouraged to do so.

The proceeds should be ring-fenced for creating health infrastructure and other physical infrastructure in both urban and rural areas.

Seven, further rationalise subsidies and non-productive expenditure. Some of the measures that can help achieve this objective include: pursue Aadhaar-enabled direct benefit transfer (DBT) for food and agri-input subsidy. A policy of giving subsidised kerosene and LPG through DBT only to BPL families should also be explored.

The term for extension of the urea subsidy, given by the CCEA, will come to an end in 2020. The government should use this opportunity to carry out urea price decontrol and rationalise the fertiliser subsidy based on soil heath card scheme data.

Savings can accrue from rationalisation of power subsidies. For the deserving, the subsidy could be provided through direct benefit transfer. This will also reduce the cost of power for industrial users, helping Indian manufacturing become more competitive.

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