

The budget must aim at reforms and create new shock absorbers

An infrastructure focus with a health, jobs and exports thrust could aid our recovery. Reforms can act as economic cushions



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The Union Budget for 2022-23 is being announced in exceptional circumstances—a nascent economic recovery is gathering pace, investor confidence is on the upswing and Indian stock markets are booming. Yet, a spike in covid infections led by the Omicron variant and a third wave of the pandemic are creating some apprehensions over a loss of the country's growth momentum. If handled well, the present strain may not derail the economy. But the uncertainty and threat remain.

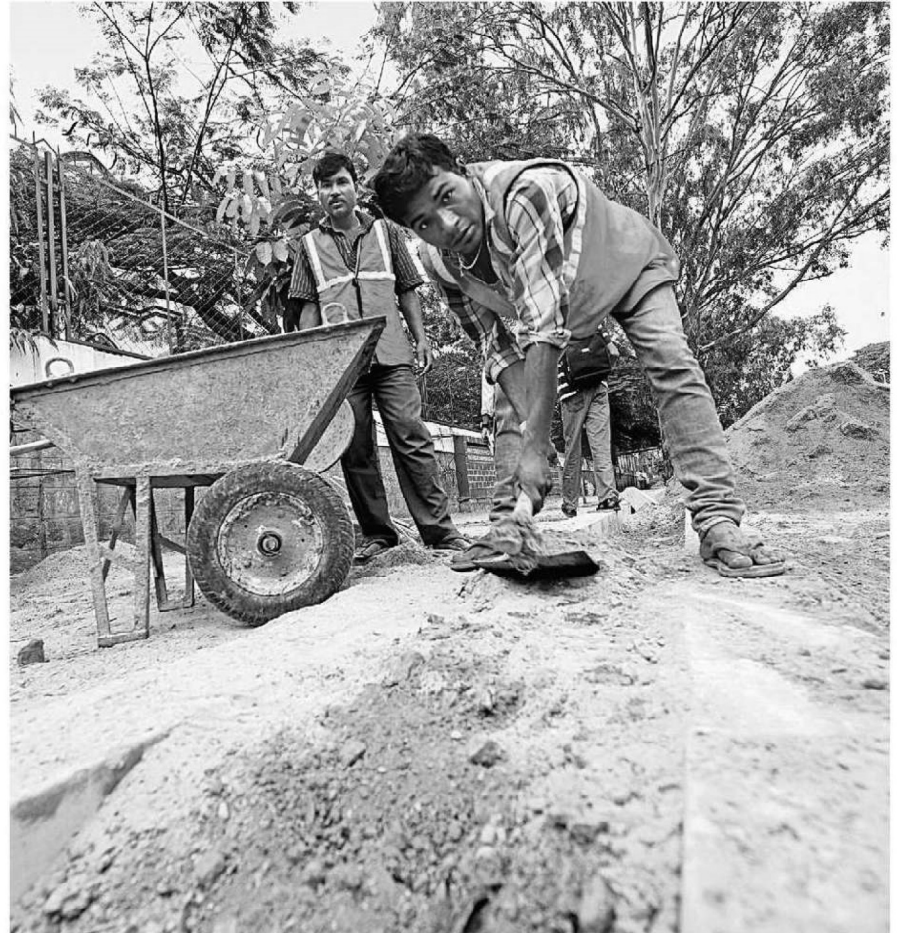
The government has been proactively taking all possible steps to ensure that growth remains on an uptrend. Bold and broad-based reforms have been undertaken to strengthen infrastructure development, privatization has been fast-tracked, and production-linked incentive (PLI) schemes have been put in place to fulfil the quest for a self-reliant India. At the same time, an active vaccination drive and tabs on health infrastructure assure that the Omicron wave need not diminish the recovery. Despite this, the economy is not yet out of the woods and the budget may take measures to keep the economy on a sustained growth path.

Under the circumstances, there are hopes that the finance minister will address prevailing concerns and announce measures with a thrust on growth and reforms to de-bottleneck the economy and set it on a firm course for rapid and inclusive expansion.

Since India's recovery is still fragile, the need for fiscal support is paramount. Hence, the government should maintain its focus on public investment in infrastructure. While some reduction in the fiscal deficit will be required in 2022-23, there should not be any compromise on capital expenditure, as it is critical to boost demand in addition to creating jobs and strengthening the economic recovery.

At the same time, a credible fiscal consolidation path should be delineated with the objective of maintaining interest rates at a moderate level. Such an approach would set the template for higher growth, resulting in smaller deficits in the future.

Public investment in infrastructure has a huge positive spin-off effect on the economy. Not only does it create jobs and demand in the near-term, it also improves the competitiveness of the economy in the medium-term. The government should fast-track existing infrastructure projects, rather than go for new ones, since they generally have long gestation periods. Perhaps, the projects intended to be completed in two years should be finished in one. The government should also notify shelf-ready projects in the National Infrastructure Pipeline for implementation. This would crowd in private investment, create demand and kick-start a



virtuous cycle of revenue generation, job creation and private investment.

The government should consider replacing bank guarantees with surety bonds and develop the municipal bond market so that urban local bodies are able to raise funds to invest in infrastructure.

The National Highways Authority of India now prefers the hybrid annuity model, in which the concessionaire gets compensated through fixed annuity payments during the construction as well as operation and maintenance (O&M) phases. The tax treatment of construction contracts based on this model requires clarification.

Resources for capital expenditure could be raised in several ways, including through the privatization of public sector undertakings and other forms of asset monetization. In this regard, the announcement of the ₹6 trillion National Monetization Pipeline to enable private sector participation in government-owned infrastructure facilities is commendable. It is essential to fast-track approvals from identified ministries so that clearances for projects are expedited.

It is also important to consider expenditure rationalization to free up fiscal space. The outcomes of government expenditure on social programmes should be improved by plugging leakages, reducing corruption and preventing cost overruns, among other steps.

With Omicron risks in the air and on the horizon, it is critical to have adequate provisioning in the budget for the continued strengthening of surveillance, testing, vaccine research, therapeutics and healthcare infrastructure. An allocation may

be made for additional vaccination required. Public spending on healthcare needs to be raised to at least 2.5-3% of gross domestic product (GDP) by 2025 from the current 1.5%. The government should also consider creating real estate investment trusts to invest in healthcare infrastructure.

Two other areas that deserve special consideration are employment and exports. Providing sustainable employment opportunities for job seekers is crucial to give a push to consumption and demand. The country's unemployment rate—at a four-month high of 7.91% in November, according to the Centre for Monitoring Indian Economy—is elevated and a cause for concern. The government should speed up the creation of at least four coastal economic zones to boost manufacturing and create jobs. Similarly, more labour-intensive industries should be included under the PLI scheme to aid job creation. Employment-intensive sectors such as tourism should be incentivized.

On exports, all export products should be covered under the remission of duties and taxes on exported products (RoDTEP) scheme. Rates under the scheme should be enhanced to bring them in line with the actual embedded/unrefunded taxes and duties. Clearance of stuck claims of previous years under the merchandise exports from India scheme should be expedited on a priority basis.

The economic recovery in 2021-22 has been aided by supportive policies not only in India but across major economies where stimulus levels have been at record highs. This may change in the coming year. So, the budget must persist with reforms to enable India to withstand any headwinds from the global economic environment.