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The Budget can reset growth

The Centre must carefully calibrate a range of policy and tax measures

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The Centre has taken up the challenging task of transforming India's growth processes and building a new foundation for the economy. Exciting and innovative campaigns — Make in India, Digital India, Smart Cities, and others — have been launched that channelise investments in the necessary directions. Budget 2016-17 must consolidate and fast-track these drivers and reset growth.

With India the one bright spot in a glum global economy, we can aspire for a sustained 8-10 per cent GDP growth rate; industry strongly believes this is possible.

At the same time, it is important to go beyond GDP numbers and focus on the quality of growth. The impact of growth should be felt in the sections of society where it most matters — employment opportunities for the youth, income generation for the poor, and a better quality of life for all.

Show the money

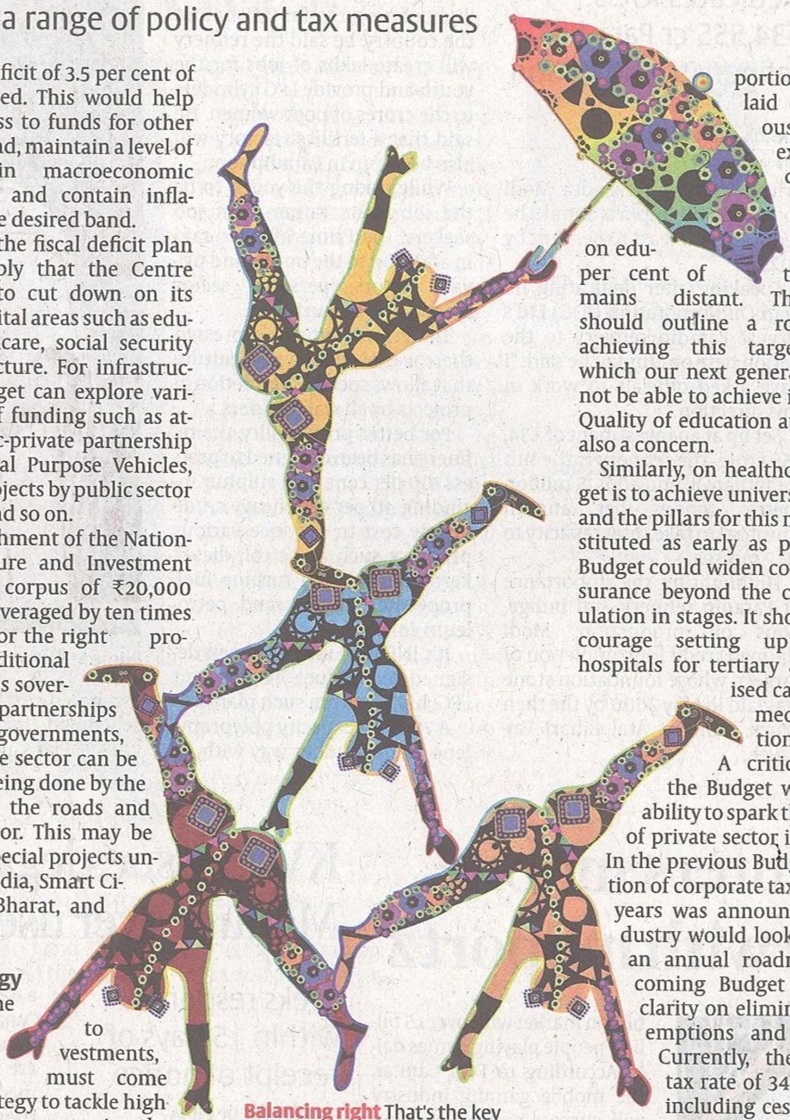
The key question today is whether the Centre has the fiscal space to undertake the responsibility for driving higher growth, given the weak domestic demand and drop in gross fixed capital formation. We feel that however much the government expands its own expenditure, it may not be able to compensate for these factors. Hence, the Budget must take care to adhere to the targeted fiscal deficit of 3.5 per cent of GDP as planned. This would help open up access to funds for other sectors to spend, maintain a level of confidence in macroeconomic management, and contain inflation within the desired band.

Keeping to the fiscal deficit plan does not imply that the Centre would need to cut down on its spending on vital areas such as education, healthcare, social security and infrastructure. For infrastructure, the Budget can explore various sources of funding such as attractive public-private partnership models, Special Purpose Vehicles, increase in projects by public sector enterprises, and so on.

The establishment of the National Infrastructure and Investment Fund with a corpus of ₹20,000 crore can be leveraged by ten times this amount for the right projects. Non-traditional sources such as sovereign funds, partnerships with State governments, and the private sector can be tapped, as is being done by the Railways, and the roads and highways sector. This may be extended to special projects under Make in India, Smart Cities, Swachh Bharat, and so on.

Need a strategy

To enable the private sector to step up its investments, the Budget must come out with a strategy to tackle high non-performing assets in the bank portfolios as this is hobbling additional lending. It is suggested that a national asset reconstruction company or asset management company be set up to take bad assets off the bank balance sheets.



Balancing right That's the key
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Spending on education, skill development and healthcare is still much below the aspirational proportion of GDP as laid out by various reports. For example, the desired government expenditure on education of 6 per cent of the GDP remains distant. The Budget should outline a roadmap for achieving this target, without which our next generation would not be able to achieve its potential. Quality of education at all levels is also a concern.

Similarly, on healthcare, the target is to achieve universal coverage, and the pillars for this need to be instituted as early as possible. The Budget could widen coverage of insurance beyond the current population in stages. It should also encourage setting up of more hospitals for tertiary and specialised care as well as medical education facilities.

A critical aspect of the Budget would be its ability to spark the new cycle of private sector investments. In the previous Budget, a reduction of corporate taxes over four years was announced and industry would look forward to an annual roadmap in the coming Budget as well as clarity on elimination of exemptions and incentives.

Currently, the corporate tax rate of 34.61 per cent, including cesses and surcharge, adds up to one of the highest among emerging economies. Industry suggests that this rate can be brought down to 22 per cent without additional levies. Simultaneously, the applicability of the Minimum Alternate Tax may be withdrawn and the Dividend Distribution Tax, an anomaly among emerging economies, could be revisited.

The game-changer

Among indirect taxes, the introduction of the Goods and Services Tax would be a game-changing reform. We look forward to rapid movement on the applicable legislation in Parliament. CII is in agreement with the revenue neutral rate of 15-15.5 per cent as suggested by the chief economic adviser, along with a standard rate of 17-18 per cent and a lower rate of 12 per cent for essential items. This would lower the existing tax burden on the consumer.

We also recommend that in the interim, excise duty, service tax and peak customs duty may be maintained at the current rates. The Budget needs to also revisit inverted duty structures and rationalisation of the Cenvat credit scheme.

The recommendations of the Tax Administration Reforms Commission (TARC) are very relevant to a simple, predictable and non-adversarial tax regime and should be taken up quickly. Dispute resolution would also help add predictability. For example, the advance pricing agreements (APAs) applications should be accelerated, while more benches are required to handle the cases pending with the Authority for Advance Rulings (AAR).

The upcoming Budget presents a challenging balancing act and the Centre would need to carefully calibrate a range of policy and tax measures to spark the next growth cycle. We have full confidence that this can be achieved.

The writer is the president of CII