

# Write A Goldilocks Story

*Modi government's first full-fledged budget must kickstart growth*

Ajay Shriram



When finance minister Arun Jaitley presents his budget at the end of next week, his foremost objective will be to put the economy on a sustainable growth path. I must first acknowledge that government has already taken a slew of measures outside the budget to put fresh life into the economy.

These include forward movement on GST, moving ahead on reallocation of coal mines and spectrum sales, and increasing limits on FDI in some critical sectors. Ordinance route has been taken where speed was required, such as to make land acquisition easier and to increase the foreign investment limit on insurance.

In the last few years, several challenges emerged that have slowed down growth of the Indian economy. Given that uncertainties around the global economy continue, Jaitley will have to grapple with both domestic and international challenges.

Fortunately, key macroeconomic indicators are currently looking much better than in the last two years, especially on the external front. Current account deficit has moderated and exchange rate volatility has subsided. With oil prices down, fiscal deficit has been affected positively while inflation has climbed down.

Although the economy has performed well in the last few months with clear signs of a recovery in growth, this performance needs to be sustained and strengthened in the next 2-3 years. This will require a clear strategy to attract investments, generate employment and improve domestic demand.

Government's first full-fledged budget assumes importance as a key policy instrument for delivering on its economic blueprint. It will be a delicate balancing act between maintaining fiscal discipline and stimulating the economy. Needless to say unproductive expenditure should be rationalised, as over time several schemes continue because of vested interests. I hope that the Expenditure Management Commission will be coming out with some proposals that can be implemented immediately.



Arundhati Das Basu

For growth to gather pace it is crucial to put in place policies which would trigger an upturn in the investment cycle. In order to promote investments, a judicious mix of increasing public investments and easing the path for private investments is best.

Public investment can be increased to create infrastructure assets, which can then be given to the private sector for operation and maintenance on a revenue sharing basis. For the private sector to start investing again, the critical need is to increase lending capacity of the banking system. Government should consider the creation of a National Asset Management Company which would take non-performing assets off the balance sheet of banks and also enable recapitalisation of banks.

Prime Minister Modi has launched the Make in India campaign with the objective of promoting the domestic manufacturing sector. In order to make this a success, work on National Investment and Manufacturing Zones should be fast-tracked and government should announce timelines

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At the same time, the Special Economic Zones should be revived by restoring the fiscal benefits originally available to them, which were negated through the imposition of MAT and DDT on developers and units in SEZs. In fact, the rate at which MAT is imposed has more than doubled in the last 7 years from 7.5% in 2007 to 18.5% currently, which is detrimental to manufacturing competitiveness. CII has therefore suggested that MAT should be restricted to 10%.

Investors, particularly foreign investors, have repeatedly pointed out that regulatory uncertainty remains a key hurdle to doing business in India. In this context, the finance minister should provide an assurance that tax administration will be kept simple, consistent and predictable.

A framework for dispute settlement without going into litigation is recommended so that disputes can be resolved at a speedier rate. On the indirect tax front, implementation of a uniform GST will simplify the tax structure which currently seems overly complicated to businesses newly entering the market.

Finally, the budget must contain some measures to boost the disposable incomes of households. This is critical for reviving consumer demand. Households are not yet spending adequately, as is evident from the continuous decline in the consumer goods index. An extended period of soft growth together with high inflation has dented households' spending ability and requires a dose of incentives.

These could be in the form of an increase in the investment limit under section 80C, linking of income tax exemption slabs to inflation and removal of surcharge. Monetising households' large stock of gold by introducing gold-backed savings and investment products is another important way in which household savings can be unlocked.

In the short period that this government has been in power, it has made a strong pitch to investors on the attractiveness of doing business in India. One of the key tasks for the finance minister will be to make this a reality, as the budget will be widely watched and commented upon.

In the current global context, India stands out as one of the few economies whose prospects are bright in the near future. With growth recovering and inflation moderating, it can be the proverbial Goldilocks phase. A budget that provides the right mix of feel-good and austerity will be appreciated by the global business community. At home, the need of the hour for both households and businesses is a more optimistic outlook on employment and growth.

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