

BY INVITATION

'FM will need to do a fine balancing act'

To support the nascent recovery on one hand while maintaining macro-economic stability on the other

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The Finance Minister will be presenting the Union Budget for 2020-21 under extraordinary circumstances — with challenges brought on by an epoch-making year marked by the Covid-19 pandemic. The GDP figures have contracted for the first time in four decades, and livelihood is a serious concern.

The government has sought to address the uncertain milieu by timely intervention and relief packages. And it speaks of the commitment of the Finance Minister that the economy is recuperating faster than anticipated. Many high-frequency indicators have shown improvement. And we hope that the next year would bring growth back to over 8 per cent by 2021 as predicted by the IMF.

Yet, the challenge arising from the pandemic is far from over. The major economic engines — namely consumption, private investment and exports — are performing below potential. The re-emergence of inflation is another concern, while signs of fiscal pressure are evident.

Hence, the Finance Minister will need to do a fine balancing act to support the nascent recovery on one hand while maintaining macro-economic stability on the other — a fact she is well aware of. To quote her "...100 years of India wouldn't have seen a Budget being made post-pandemic like this."

Investment focus

Given the challenges, it would be imperative for the government to intervene aggressively to accelerate public investment, especially in areas such as physical and social infrastructure, which would have high multiplier effect on growth and a positive impact on employment.

The government should fast-track projects nearing completion, ie, open stretches of new road construction for traffic, commission new railway lines, electrification projects, etc. It could also consider bringing projects that are supposed to be actioned in

the next few years to this year. The Budget should also set aside funds for use by the State governments to spend on infrastructure.

The pandemic has exposed the inadequacy of our healthcare infrastructure. India needs to build up government expenditure on health to at least 3 per cent of the GDP by 2025. Funding is required not only for building hospitals, but also for improving the availability of frontline health workers and developing technology and skills in healthcare.

Second, to deal with rising pressure on expenditure, the Finance Minister is expected to focus on revenue-enhancing measures. To generate revenue, the government should constitute a group to come out with a clear implementable roadmap on divestment and on asset monetisation, and use the proceeds for investment in infrastructure.

Financial measures

Third, the Centre's fiscal deficit may need to be viewed from a medium-term view of three years. A bigger deficit today could boost the economy, resulting in faster growth and smaller deficits in the future. Growth would, in turn, hasten fiscal consolidation. Transparency in deficit numbers is also essential. The government had taken steps in the last Budget towards this, and now could be the opportune time to include off-Budget expenses and present a realistic fiscal deficit.

Fourth, a strong financial sector is a key to sustaining growth. The government should bring down its stake in PSBs to below 50 per cent through the market route, announce a concrete plan for notifying three large DFIs for long-term financing in agriculture, small scale and infrastructure, and constitute several bad banks by enabling AIIFs to take over NPAs, among others.

Fifth, considering the unprecedented economic and humanitarian crisis caused by the Covid-19 pandemic, employment generation has emerged as a key policy imperative. The government should allow a contribution holiday for employers not to contribute to the ESIC. This Scheme would facilitate liquidity in the hands of the employers and encourage them to generate employment opportunities for the younger generation. Another way to encourage job creation would be to fast-track coastal employment zones.

To conclude, industry looks forward to a 'Budget like never before' to support the economic recovery.

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