

AYUSH SAXENA

Will Budget 2021 provide the impetus the economy needs?



The right policy decisions can revitalise industry and lift the country out of macro-economic woes

It's been seven months since Finance Minister Nirmala Sitharaman bucked the trend of carrying budget documents in a briefcase when she presented the 2019-20 Budget on July 5, 2019. A lot has changed since then. There has been much hand-wringing by economists about the slowdown in the economy. The nominal GDP growth rate has fallen below the returns on the 10-year government bond, which makes risk-taking difficult for the government. The economic slowdown, coupled with the high inflation rates, has worsened stagflation fears.

The Finance Ministry has sought recommendations for the upcoming Budget from the industry representatives across different sectors. Such consultations will help formulate robust policy decisions that will eventually kickstart the slowing economy. Here are some of the big-ticket reforms expected from Budget 2021:

Tax rate cuts

A cross-country study by Young Lee and Robert Gordon in 2005 found that the economic growth of a country increases by 0.1 per cent for every 1 per cent reduction in taxes. It corroborates the theory that lower income-tax rates would lead to higher consumption, resulting in a boost to the economy due to the multiplier effect playing its part. However, a tax cut alone is not sufficient. Structural changes in the taxation system are required to yield better results through greater compliance and bringing a larger population under the taxable income umbrella. Structural reforms such as GST and IBC have been pivotal in helping the country take a massive leap in World Bank's Ease of Doing Business rankings from 142 (in 2014) to 63 (in 2019).

Along with tax cuts, the expectations of individual tax-payers are extremely high this time and they also expect better incentives for investing in tax-saving options, such as a revision of the investment ceiling under Section 80C.

Modernisation of Defence forces

There is a very high probability of increased spending in the Defence sector as the present government has been highly active in fulfilling demands for modern weaponry for all the three forces. The current army chief once remarked that building 'leaner and meaner' forces is the need of the hour to tackle the complex security threats in the hostile neighbourhood. He probably meant that future warfare would require surgical military operations carried out by leaner forces equipped with modern weaponry involving cutting-edge technology. Therefore, one may anticipate increased spending on modernising the Defence forces.

Sops for ailing sectors

The current slowdown has been fuelled primarily by the ailing automobile, aviation, real estate, and telecom industries.

The real estate sector has been choked due to subdued demand and lack of funds available, following the NBFC crisis, which started when IL&FS defaulted in 2018 and led to a chain of events triggering a liquidity crisis among the NBFCs. These companies have historically been the most convenient source of financing for the real estate sector and the NBFC crisis crippled the real estate industry's ability to source funds. To solve this problem, it is expected that the government will allocate funds to complete stalled projects and also lower the interest rates on loans for raising capital.

The automobile sector has been witnessing declining sales because of rapidly changing customer preferences and business models. Tax sops don't seem to have a major impact as even significant discounting had a tepid response. Proposing a strong framework where older, polluting vehicles are not allowed to ply would strengthen the demand for newer ones and also help combat the air pollution menace.

Similar to the real estate sector, the automobile sector too is in dire need of finances. FADA, the automobile dealers' body has requested the government to give it industry status, which would make it easier for them to raise funds.

The telecom sector has been battered and bruised due to competitive pricing and having to pay the Centre the adjusted gross revenue (AGR) which amounts to ₹1.47 lakh crore for all the companies combined. The Government is expected to give the companies some relief in terms of the time limit for payment of dues.

The aviation sector too has been grappling with high operating costs and poor profit margins due to competitive pricing and unpredictable fuel prices, given sharp fluctuations in the rupee value. Oil Minister Dharmendra Pradhan hoped that Aviation turbine fuel (ATF) would come under the ambit of GST in the coming Budget. Currently, it attracts VAT and its cost varies from State to State.

Prominent industrialists have suggested tweaking the Insolvency and Bankruptcy Code for more efficient mergers, de-mergers and acquisitions.

Railways

The Centre had made announcements on proposed high-speed train systems in previous Budgets. So, while new train announcements are unlikely, increase in capital expenditure could be announced to implement the existing plans.

FMCG

FMCG companies have requested the government for a stimulus package for demand revival, especially in the rural areas. Demand could be revived by income-tax rate cuts and rural support programmes which would be a shot in the arm for FMCG sales which have been tepid the past few quarters.

Agriculture

Higher allocations need to be made, to encourage farmers to promote high-yield, high-profit crop farming, and organic farming, especially in the north-eastern region. Bhartiya Kisan Sangh, at a meeting, had suggested that farm input materials such as fertilisers and seeds, and farm equipment must be given tax relaxations. The farmer association had also demanded an end to futures trading in agro-commodities, arguing that it does not benefit either the consumers or the farmers.

The PM Kisan Samman Nidhi Yojana, which provides income support of ₹6,000 annually to farmer families across the country currently only includes landholders and not tenant farmers and share croppers. Therefore, to benefit the vulnerable section of families involved in farming, this Central scheme is expected to cover tenant farmers as well as share-croppers in this Budget.

LTCG Tax

Long-term capital gains tax creates uneasiness among investors before every Budget. Currently, there is a 15 per cent tax on short term capital gains from equity held for less than a year. Beyond a year, all earnings are exempted from tax. However, last year Prime Minister Modi hinted in a speech that people profiting in the financial markets should make a fair contribution towards nation building through taxes. It may help increase revenue collections for the exchequer.

A lot of other expectations have been listed out by industry leaders and common public which may boost industrial and individual income. The Indian economy took 60 years after Independence to become a \$1-trillion economy, 12 years for a \$2-trillion economy and only five years to move from \$2 trillion to \$3 trillion. Also, in 2014, India was the eleventh largest economy and in 2020 the sixth largest one. However, the Prime Minister's target of \$5 trillion economy by 2024 is still a stretch, which is achievable but would require significant economic reforms. Morgan Stanley had, in 2017, forecast that India's GDP would grow to \$5 trillion by 2025. There are, however, multiple challenges, given the current global economic scenario as all major economies are facing a slowdown.

China's growth is at a 27-year low and industrial output at a 17-year low. The US is experiencing a slowdown, Germany is seeing a contraction in the economy, France's growth is declining across all industries and, in Britain, investments are at a 17-year low. Australia has witnessed the lowest GDP growth in 20 years and the world economy is growing at the slowest pace since the 2008 financial crisis. Amid the global economic turbulence, the Indian economy has the potential to rise above its past macro-economic woes. With the right political will, Budget 2021 could prove to be just the boost it needs.

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The article can be read online [here](#).