

Of, a buzz-less Budget and a fizz-less fiscal



The plain speaking and hard-hitting Nirmala Sitharaman is likely to present an economically astute budget. There is neither much buzz nor would there be any fizz in this budget. Interim budget had captured the buzz and provided loads of political fizz too. This budget has the opportunity of sorting out long term structural imbalances and fiscal anomalies accumulated from the past. The Index of Industrial Production (IIP) has grown at around 5% average for the decade which needs to be increased for creating adequate jobs and prosperity. Since Oct 2018, for five months it grew at 0.2 %, 2.5%, 1.6%, 0.1% and 0.4%. April 2019 saw it growing 3.4% which is better but not commendable. Unemployment is reported to be at 45-yr high of 6.8%. Allowing benefit of doubt in terms of changed methodology used this time in calculating unemployment, yet, the concerns about jobless growth are not new. Recall that jobless growth has been since UPA days. Agrarian distress has always been combated with doles. Emphasis now should be on removing long term structural weaknesses. A few days' back Fitch lowered India's GDP growth forecast from 6.8 to 6.6 % for 2019-20. Before that IMF had lowered the forecast from 7.5 to 7.3%. Government has gigantic task at hand in correcting the anomalies of forcing growth over the last several decades. The reduction in corporate tax, from 30% to 25%, up to Rs 250 crores turnover has benefitted all the small and medium enterprises. This probably helped the IIP to grow by 3.4%. The Nikkie PMI also shows a growth from 51.8 in April 2019 to 52.7 in May 2019. Sustained growth can be provided by extending this benefit to companies with turnover more than Rs 250 crores. Since, NDA government is already on that glide path therefore one can very well expect

this to happen. Indian corporate tax rate thus would get closer to the 23 per cent average tax paid by Asian companies. Resulting increase in competitiveness of Indian companies should trigger investment, employment and hence private consumption. Rs 1 trillion likely fall in direct tax revenue will probably get compensated from the Rs 1 trillion surplus with RBI as indicated by the Bimal Jalan Committee. Recall that the consecutive repo rate cuts could not enthrone adequate credit take-off as banking system reported daily average surplus liquidity of Rs 66,000 crore in early June. With this tax incentive, coupled with reduced repo rate, the surplus liquidity may get used up through investment demand. To unleash the full potential of investment multiplier the banks' lending ability also needs to be increased. Recapitalization of public sector banks hence becomes next agenda for the budget. A recapitalization up to Rs 25, 000 crore may be seen. Indian industry is also plagued by high logistics cost - 14% of GDP against 8-9% in US and Europe. The BJP manifesto promises to invest Rs 100 trillion in infrastructure till the year 2024. Nitin Gadkari's ministry has been the best performing ministry in NDA I and this momentum is likely to be seen through this budget in NDA II. 40% of the total logistics costs are attributed to lack of storage facilities, theft and delays etc. This also happens to be one the prime reasons for India's agrarian distress. Agriculture, today, sees problem of surplus. Indian farmer is the second highest producer of fruits and vegetables in the world after China, but they are unable to export due to lack of logistics support. Substantial allocations towards enhancing availability of cold storage, warehouses, eNAM and rural roads etc. must be an integral part of this budget. Cold storage in turn require robust power supply. Hence, this budget may also see allocations to resolve the problems plaguing the conventional and renewable energy sector. Healthy power sector will help revive the ailing manufacturing and banking sector in turn. New FM, we aspire to see the New India clear and soon.

Dr VP Singh is a Professor of Economics and Program Director - PGDM with Great Lakes Institute of Management Gurgaon.

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