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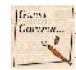
Tarun Das: Budget 2013 - Beware the hype

The global economy is in a mess. In this situation, the Budget cannot perform miracles. It is not a one-off "fix" for the Indian economy

February 28, Budget Day, is coming. There will be commentaries, analyses, forecasts and more; in the media, there will be hype and competitiveness. Perhaps it isn't possible to cool down the atmosphere — but it is essential to understand that the hype leads to unreal expectations which no Budget can fulfil.

After all, the global economy is in a mess. The US and the European Union are facing unprecedented economic challenges. Japan, likewise. China's growth is down. India's inflation-interest-rate-investment chain dragged growth down. In this situation, the Budget just cannot perform miracles. It is not a one-off "fix" for the Indian economy.

However, there is a process to bring back economic growth and recovery. That process is on; and it has been on. That's what's given India the upswing in sentiment, the $25 billion inflow of foreign investment, the upswing in the stock market and at least some rupee appreciation. The political challenge of tackling the fiscal deficit too has been taken on — increased diesel prices, a rise in railway fares, the limit on LPG cylinders are all steps in that direction. Another key initiative is disinvestment. There's also the clampdown on government expenditure to bring the fiscal deficit down to 5.3 per cent of gross domestic product. The process has to continue beyond February 28, because the fiscal deficit has to come down further by 2014.

The toughest challenge, however, is inflation. As high oil prices continue and the government has to raise the prices of subsidised products and services, inflationary pressure remains. True, there are signs of a decline in inflation — but it's a long haul. It calls for strong management of the supply of products, especially food items, because maintaining huge surplus stocks adds to inflation. One key agenda must be petroleum conservation — a 5 per cent cut in the import bill to begin with. It can be done, and would save Rs 620 crore against a total expenditure of Rs 12,500 crore.

One aspect is the "negative" — cut expenditure, inflation, the deficit. But the "positive" is equally important: raise growth, generate economic and investment activity, increase production and export. This is the real economy. How to get growth back? How to get to 7 per cent GDP growth by 2014? Look systematically at agriculture, manufacturing, services and infrastructure — the four key components of the economy.

Agriculture needs technology and productivity increases. That means Central-cum-state level action. Multiple agencies are involved in the agricultural sector, from research to output, from distribution to stocks. The Budget can help set direction, but it cannot change the agricultural picture overnight. What is now needed is a National Mission on Agriculture to drive the process, nationwide. This would also cover the challenge of food security. The fiscal year 2013-14 must

see crisis management to get agricultural growth to 3 per cent.

In manufacturing, early results are essential — but the main thrust has to come from domestic industry, which is not investing. The private sector has to borrow to invest and also raise equity. At the current rates of interest (because of inflation) investment is impossible and has dried up. Thus the inflation-interest-rate-investment chain needs to be broken first. But the public sector can invest. Their cash reserves are plentiful. Their growth needs to be fast-tracked by government. Defence industries, BHEL, SAIL, etc, are all directly under government, and all need support.

The third area is infrastructure. Here, too, the public sector has a major part to play. The power corporations NTPC and NHPC can lead the way. Likewise, the Power Grid Corporation and Power Finance Corporation, as well as DMIC and NHAI. What is needed is implementation by strong management action. Another infrastructure sector which can fuel growth is the railways, as also, inland water transport. The public sector can stimulate growth rapidly.

This will kick-start manufacturing and construction and give an impetus to the rest of the economy — including the private sector, which is often a supplier to the public sector.

Finally, the services sector, 50 per cent of GDP, which has shown a decline in growth from double digit to about 7 per cent. There are many sub-sectors, and each needs focused attention to ensure revival and higher growth. Who is looking at each sector and who is responsible? At one level, increased economic activity will stimulate services. This is at the macro level. At the micro level, each of the top 10 sub-sectors needs new momentum through specific action. The Budget just cannot stimulate all these sectors. It can provide resource allocation at a macro level, but the real growth will come from entrepreneurship. The Budget could announce a National Entrepreneurship Mission to facilitate new businesses being set up. That will help fuel growth. The 'animal spirit' of entrepreneurship has to be revived.

What the Budget can do most of all is tax reform. The GST is now very near, thanks to the finance minister reaching out to Opposition leaders and framing a compromise formula. In addition, transparency in tax laws and procedures will help bring investment, especially FDI. The finance minister, most importantly, needs to commit to stability, predictability and transparency in taxation. Plus, no retrospective taxes, and a bunch of smaller measures to remove irritants, complexities and unease. These will bring back confidence and investment.

Should the rich pay more taxes? Of course, they should. They must! Should another 20 million people, at least, pay taxes? Of course, they should. And, they must. These, too need to figure in Budget 2013 and will help to garner resources for social programmes and address the fiscal deficit. Management reinforcements from outside can help to make these happen.

But the Budget just cannot match the hype. Accept that in advance, and manage expectations accordingly. Budget 2013 will turn around the real economy and bring investment back — and that itself will be a huge success. This is the reality.

The writer is the former Chief Mentor of CII