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Survey is Optimistic & Realistic

It is reassuring that the Economic Survey predicts that the worst is behind us and that we are back in business. Stressing that a stable mandate for the government, backed by strong political will, is key to turning around the economy, the survey outlines labour, capital, land and market reforms to be the engines of growth.

It recognises that targeting inflation— along with a stable monetary policy framework — has reduced CPI and stabilised the economy. Current account deficit being under control and the economy's ability to comfortably sustain it at less than 1% target is a huge positive.

There is a promise of achieving the 4.1% fiscal deficit target comfortably on the back of increased duty on diesel and petrol (revenue yield of about ₹20,000 crore), reduced subsidies and expenditure compression, despite weakness in revenue collection and delayed disinvestment. The Survey reiterates staying put on fiscal consolidation with a focus of a 3.6% target.

The government may walk the extra mile to boost growth by balancing the short-term thrust on public investment to revitalise growth, at the same time maintaining fiscal deficit. It is expected that the Budget document will be in sync with this strategy.

ALL SYSTEMS GO

Introduction of GST, coupled with expenditure efficiency, will usher in a competitive and clean tax regime that is light on exemptions, lowers cost of capital & incentivises savings

The Survey acknowledges, for the first time, the ground reality of the private sector being under stress, adding that it may not be able to participate actively in infrastructure development. It also lays down challenges inherent to this development. The weak corporate balance sheets of developers, higher levels of NPAs in banking system, deficiencies of the public-private partnership (PPP) model and exit difficulties are issues to be dealt with urgently.

Revitalising the PPP model with adequate sharing of risk is essential. Further, funding infrastructure growth by recapitalisation of banks prudently, along with exploring additional avenues like pension funds, insurance companies and multilateral institutions, are extremely critical and must be explored.

It is not clear whether the Survey is advocating on compromising the goal of 3.6% fiscal deficit for the short term for providing the necessary fillip to the economy while keeping the medium term target on course. This will probably be answered by the Budget.

Fortunately, the government has reasonable space to increase capital expenditure. Reduction in oil prices has had a two-pronged effect — increase in taxes and reduction in subsidies. Further, thrust on divestments and auctions of spectrum and coal would help the government bridge the gap. Thus, expenditure control and expenditure switching, from consumption to investment, should be the mantra.

Another sector that the government emphasises on reviving is the fledgling manufacturing sector, the engine of economic growth. It plans to make it an important contributor to GDP growth and job creator. A fine balance needs to be achieved between Make in India and Skilling India.

The survey also sets the stage for the Goods & Services Tax, by clarifying the need to continually increase sources of revenue. GST when implemented is expected to optimise indirect taxation. Overall, the survey depicts the current reality and the way forward effectively.