Economic revival could take longer than expected

Now we have a medium-term macro vision for the Indian economy. It is the vision of achieving US $5 trillion by 2024-25. What the Budget tries to do is to focus on this vision and at the same time on improving the common man's life—'ease of living'. While the $5 trillion GDP target appears to be daunting in our view, the government appears to have made many right moves to disentangle the issues that are holding up the economy, especially investments.

Despite the calls for privatisation of public sector banks, the Budget actually tries to strengthen them by substantially increasing allocation for recapitalization. This, if it is implemented quickly, could enable a significant revival in credit offtake. The Budget also talks about increasing investments in infrastructure through PPP mode and has set a huge target of Rs 100 lakh crore. However, as the Economic Survey pointed out, in order to increase investments there is a need to augment savings too. In fact, the Survey argues that the savings rate should be higher than the investment rate in order to achieve 8% growth for the next five years. But the Budget ignores this issue with no specific proposal for savings. And it seems to take the Survey's view that it is only the lower cost of capital that would lead to investments. This in my view is not backed by the empirical data. What has been found of late is that interest rates are a major determinant of savings. Now, in the absence of any policies for domestic savings, it appears that we might have to depend more on foreign savings, which could be risky. And the government has already hinted about borrowing from abroad to finance the fiscal deficit!

On the fiscal side, the finance minister has said that the deficit for the year 2019-20 would be 3.3% against 3.4% in 2018-19. This suggests that if the government continues to follow the fiscal consolidation roadmap, it would eventually lead to achieving a public debt target of 40% by 2024-25, from the current level of 48.4%. This seems to be a hard task, especially when the quality of fiscal adjustment that the Centre follows is not likely to be expansionary. As shown on the expenditure side, it is the huge interest payments due to increasing public debt, which are reducing fiscal space for the government. It is important to take a relook at the FRBM framework that was adopted last year, which does not even take into consideration some of the anticipated expenditures such as on achieving sustainable development goals. And here is the major risk. If the proposals to revive investments (especially private investments) do not materialise and if the government does not undertake expansionary fiscal measures with its concern about fiscal targets, then the revival in the economy could take longer time than expected. Going by the recent experience, such situation could be the most plausible one and the government needs to be more cautious.

(Author's views are personal)

expert *take*

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