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Budget 2019: Focus is on structural issues that economy is facing

Published: July 9, 2019 4:36:54 AM

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By NR Bhanumurthy

Budget 2019: On the back of a growth slowdown, the Budget was presented with the expectations that it could revive growth prospects and, hence, generate more jobs. With the monetary stimulus in place, there were also calls for providing fiscal stimulus to improve demand conditions.

But what the Budget has focused is the medium-term growth instead of just focusing on current year prospects. Despite the 'time deficit' that the FM had in preparation of the Budget, it is laudable that the FM had tried to focus on some important structural issues that the economy is facing. As the Economic Survey pointed out, the medium-term focus of this Budget was to achieve the $5-trillion by 2024-25 and highlighted the necessary reforms needed to achieve this.

As it was promised during the elections, which was also reiterated by the Economic Survey, it is the investment-led growth that appears to be the strategy. Here the promise of increasing the infrastructure investments by `100 lakh crore by 2024-25 appears to be the main focus.

Towards this, the Budget has focused on expanding the government's flagship projects such as Bharatmala, Sagarmala, Jal Marg Vikas project, railway network, housing, power grids, rural roads, etc.

However, the focus on infrastructure is more on simplifying the processes in order to attract more private investments and not directly through government investments. Especially in the railways, it appears that there is larger emphasis to increase investments through PPP mode (targeted about `50 lakh crore by 2030!). One concern here is, based on the past experience on PPPs, it is not clear if one could depend more on this strategy.

Further, to remove the structural bottlenecks in increasing investments, the Budget proposes to allocate as high as `70,000 crore towards recapitalisation of banks. I guess, if this is implemented quickly, this could help improve the monetary policy transmission and, hence, increase the credit supply in the economy.

The proposal on NBFCs should also help in speeding up the insolvency and liquidation process and restrain the problem from aggravating.

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Another major positive for the banking sector is the shifting of regulation of NBFCs to the RBI, which will specifically help the public sector entities that have larger exposure to these shadow banks. The Budget also promises to improve the governance in the banking sector, but we need to see what reforms would be brought in here.

The Budget also proposes some more measures to attract foreign investments in sector such as insurance, real estate, civil aviation, single brand retail chains, etc. One major proposal in the Budget was that of government borrowing from the external markets. This could reduce the burden on domestic markets in terms of financing the fiscal deficits and could put downward pressure on the domestic interest rates while providing more resources for the private sector.

Although the Budget document does not specify the extent of external borrowing, there may be a need for some caution here and one may also look at the downside risks attached to such borrowing. The international experience suggests some mixed picture.

In all, with the given constraints, the FM had presented a very balanced and please-all Budget that could improve the medium-term growth potential in the country.

(The author is Professor, NIPFP, NEW DELHI.Views are personal)