15. Budget will need to tackle covid hurdles

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The government is aware of the pain points. It will make required interventions in order to propel our economy to the next level

Global economies have been hit hard by the Covid-19 pandemic, and India is no exception. Post-pandemic economic recovery is a big challenge for all of us. Governments and central banks across the world resorted to fiscal and monetary measures to ward off the negative impact of the crisis. These measures included liquidity infusion, credit enhancement, deficit financing, direct benefit transfers, even the printing of currency and distribution of helicopter money.

These stimulus packages did help in the economic recovery, but disruptions in the global supply chain and the resultant strengthening of commodity prices, and liquidity overhang have led to inflation. Now, when the central banks have started sucking the liquidity out of the system to contain inflation and governments are reversing the stimulus in the interests of fiscal consolidation, a sustainable global economic recovery seems to be a distant goal.

The Indian government also came out with a stimulus package in the form of Atmanirbhar Bharat (self-reliant India), which had several measures but stopped short of printing currency, and did not resort to the distribution of helicopter money. So, post pandemic, the Reserve Bank of India (RBI) is comfortably placed in its fight to contain inflation. It can reverse the excess liquidity from the economy in a phased manner while continuing to extend credit support to the needy segments. The government also has ample space for fiscal consolidation.

Our economy, at present, is in a resilient mode and we are witnessing a sharp post-pandemic recovery, thanks to the farsighted approach of the Narendra Modi government and RBI. This confidence in our economy is not only visible domestically, but also seen within the global investor community. Our macro-economic parameters are strong across segments. The government and RBI. This confidence in our economy is not only visible domestically, but also seen within the global investor community. Our macro-economic parameters are strong across segments. The government is continuing with its infrastructure spending and schemes such as Production Linked Incentives (PLI) are bringing the desired results in the domestic manufacturing sector.

It is against this background that the budget for 2022-23 will be presented. The first requirement to put economic growth on a sustainable path is to identify current challenges and to come up with a roadmap to address them.

The economic repercussion of the pandemic in India has not been equitable and it has been particularly harsh on the informal sector.

Consequently, there has been a deepening of income and wealth disparity in society. The last few years have seen very little growth in aggregate private consumption in the economy. Any support for the informal sector will help in increasing private consumption as well.

Micro, small, and medium enterprises (MSMEs) are the growth engines of the economy, but were severely affected by Covid-19 related disruptions. They require working capital and other credit facilities. It is expected that the government will extend the credit guarantee scheme for MSMEs. There is also a fear that the looming liquidity crisis might transform into a solvency crisis; it would, therefore, be advisable that the Insolvency and Bankruptcy Code (IBC) provide additional relief to small firms. There is a growing consensus that this segment requires new instruments for private capital formation.

It is expected that the government will focus on fiscal consolidation from the coming financial year. However, there is considerable uncertainty regarding its pace. A fiscal consolidation road map will help in the orderly working of the financial and capital markets. However, the glide path of fiscal consolidation should not be too steep.

Another important issue is the rapid rise in com commodity prices, affecting businesses because they are not able to pass on the increased costs to consumers due to weak demand. Reducing import duties on such products will tame costs and reduce inflation, particularly the wholesale price index (WPI). This will also help manufacturing industries, which were adversely impacted due to the rising costs of base metal and raw material.

Though Goods and Services Tax (GST) collections are increasing, over the years, the average tax rate under GST has come down to around 11.6%, much below revenue neutral GST rate of 15-15.5% as envisaged at the time of GST implementation. There is space to improve the average tax rate to bring it to around 15.5%. The government must improve the tax to Gross Domestic Product (GDP) ratio.

Corporate tax rate has also been reduced to around 25% on average. However, for the tax-paying middle and upper middle class, the highest marginal rate of taxation is above 40% right now. If the government introduces infrastructure bonds, which provide for additional investment related deduction from taxable income, then not only will it bring down its total tax liability but also generate critical financial resources to invest in infrastructure.

Disinvestment has been one of the focus areas of the Narendra Modi government and the driving principle behind this is the government's belief that public money locked in such assets should generate higher returns. However, a section of analysts and Opposition parties have tried to portray this as an exclusively revenue generating measure. The government needs to reaffirm the principles of better utilisation of public capital, underlying the disinvestment plan in the budget. Monetisation of assets of public sector undertaking has not been taken up as envisaged earlier and will require renewed efforts.

Our government is well aware of these pain points. The public is confident that it will make required interventions in this budget to propel our economy to the next level and this positive sentiment is quite visible in the business ecosystem. The government will continue on its path of economic reforms to build on this business confidence.