# Need to Push for Inclusive Growth

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*The major challenge facing the Indian economy at this juncture is to provide a big push to the growth momentum while striking a balance between the much-needed capital expenditure and fiscal consolidation. At the same time, there is a need to ensure that growth become more inclusive since the country ranks near bottom on inclusive growth Bringing in urgent farm and manufacturing sector reforms hold the key to ensure that growth becomes more inclusive.*

With the world economy in deep trouble and the country witnessing a crisis in agriculture, declining private investments and exports, the task facing the finance minister is indeed formidable. The total rate of investment in the economy has declined from a peak 38 per cent of GDP in FY 08 to 30 per cent in FY 15 and 28.1 per cent in the first half of FY 16. Of this, private sector investment as a percentage of GDP declined from 27.1 per cent in FY 12 to 23.3 per cent in FY 15. Since a large number of private sector projects are either stalled or under stress, there has been a dip in the announcement of new projects.

Another related problem concerning the private sector investments is the significant increase of bad debts of corporate and the banking sector and particularly the state-owned banks witnessed over the few years. Twenty-nine state-owned banks wrote-off a total of Rs.1.14 lakh crore worth of bad debts between financial years 2013 and 2015, much more than they had done in the preceding nine years. The bad debts written off during this period make up 85 per cent of such loans since 2013. This does not augur well for future private sector investments.

The Finance Minister is expected to provide Rs.25,000 crore in the forthcoming Budget to public sector banks as part of the revamp plan announced last year to infuse Rs.70,000 crore over a period of four years in order to strengthen their capital base. In addition banks are expected to raise Rs.1.1lakh crore from the market to meet their capital requirements in line with global risk norms under Basel III. Indications are that the finance ministry may have to provide some more funds for the revamp plan of the public sector banks in addition to the already announced amount of Rs.70,000 crore.

According to the Japanese financial services firm NOMURA, India's economic recovery is losing steam and there is likelihood of slowdown in the country's growth momentum. While improving urban consumption demand and a robust transportation sector are supporting growth, weak external conditions and sluggish investment demand are weighing on the pace of recovery, it said.

On the face of it, the NDA government seems determined to address a host of key issues, including the problems facing the rural economy, mitigation of weather effects on agriculture, creation of more employment opportunities, and enriching the lives of women, children, senior citizens and the people below the poverty line. But it will also face a serious resource constraint with the expected implementation of One Rank One Pension (OROP) for retired military personnel and the implementation of the Seventh Pay Commission recommendations for Central Government employees and pensioners.

Some economists have suggested that in order to significantly increase public investment in infrastructure development, the government should postpone the fiscal consolidation roadmap. Incidentally, it may be recalled that in 2015-16 Budget, the government had already delayed its fiscal consolidation target by a year revising its fiscal deficit target to 3.9 per cent of GDP from 3.6 per cent in the current fiscal. The target for 2016-17 is 3.5 per cent of GDP. The roadmap also talks of bringing down the revenue deficit to2.8 per cent of GDP this fiscal.

The Reserve Bank of India Governor Raghuram Rajan has rightly urged the Government to stay on the fiscal consolidation path and stressed the need for macroeconomic stability to support growth. A further deviation from the path could also increase the inflationary pressures, apart from the government losing its credibility with regard to its economic policy. Fortunately, the RBI and the finance ministry are on the same page in this regard.

In order to raise the required resources for massive public investment in infrastructure and agricultural sectors, some of the measures the government could resort to include: (a) selling the loss-making public sector entities like Air India that have been incurring huge losses year after year and eating up taxpayers' money; (b) Reduce a number of wasteful subsidies; (c) widen the tax base. In a country of over 120 crore people, there are only about four crore tax payers; (d) The most important measure could be to divest government's stakes in specified undertakings of the Unit Trust of India where the total holdings are estimated at $ 7.2 billion and this serves no socio-economic purpose.

Serious efforts are needed to undertake some of the much-needed tax reforms in order to generate more tax revenues. In its first two budgets, the new government had to address some of the legacy issues like retrospective taxation and a large number of tax litigations. At the end of FY 14, the arrears from various taxes had amounted to Rs.5.83 lakh crore or 5.1 per cent of GDP. Almost 86 per cent of this was held up in disputes. The upcoming budget will be a great opportunity to simplify the tax structure, undertake corporate tax reforms putting an end to tax terror, a phased reduction in corporate tax rate to 25 per cent as promised, and removal of several exemptions. There is also a need to do away the minimum alternate tax (MAT). On the indirect taxes front, major initiatives are needed to rational the structure of excise duty and service tax keeping with the objective of introducing the much-delayed Goods and Services Tax (GST).

The budget is certainly expected to initiate measures to revive the ailing agricultural sector which has suffered a lot because of two successive years of rainfall deficit. 302 districts in the country have been declared drought hit. A large number of farmers have committed suicide. The Finance Minister has already indicated that the outlay on rural irrigation schemes will be increased substantially. For rural India to be vibrant, the way forward is to address the twin challenges of reviving the dynamism of the farm sector by building its climate resilience and creation of quality employment in non-farm segments.

Apart from increased outlay on irrigation, there is a need to increase investment in agricultural science and technology and rural infrastructure by 25 per cent to deal with the declining yields in most crops in recent years. Small-scale subsistence farming must be gradually phased out by providing non-farm jobs to those engaged in such farming in order to raise productivity. Agricultural experts have repeatedly said that agriculture must grow at the rate of at least four per cent a year, without which there will be no real rural poverty alleviation and no relief to distressed farmers and also no guarantee of national food security. To ensure this, there is a need to re-orient food and fertilizer subsidies to have the fiscal space for investment in agri-R&D and irrigation.

Another area that needs attention is addressing the continuous decline in India's exports in successive months for more than a year which has affected the performance of the manufacturing sector and consequently the overall growth of the economy. Global slump alone is not responsible for the export crisis. In recent years, there has been an increase in incremental capital-output rations in manufactured products because of a number of reasons, including project delays. Hence our manufactured products have lost their competitive edge in world markets.

The composition of India's exports has shifted towards commodities. The share of manufactured products in total exports has declined from 80 per cent in 1999-200 to 67 per cent today. This has not only rendered India vulnerable to the crash in commodity prices of late but has also led to the neglect of labour-intensive sectors such as textiles and leather products. The other issue that requires urgent attention is the simplification of export-import procedures, as small exporters are put to great hardship in the offices of the Directorate General of Foreign Trade.

In fact, improving the overall ease of doing business and aiming at inclusive growth should receive high priority. It is a matter of concern that despite some improvement last year, India's ranking in the World Bank's Ease of Doing Business is still quite poor at 130 out of 189 countries. Prime Minister Narendra Modi has set a target of improving this ranking to 50 soon. Serious efforts would be needed on the part of the concerned ministries and departments at the Central and state level to achieve this and to make a success of the Prime Minister's "Make in India" and "Start up India" initiatives.

For ensuring a more inclusive growth, the micro, small and medium enterprises (MSMEs) should receive high priority in the coming Budget. This sector contributes 45 per cent of the country's industrial output and 40 per cent of exports. The sector also provides more employment. There are an estimated 4.67 crore MSMEs in India and they churn out over 6,000 products ranging from traditional goods to sophisticated products, besides offering a gamut of services The sector accounts for 8 per cent of India's GDP. A access to institutional finance is one of the biggest constraints in their healthy growth apart from limited access to power, water and other infrastructure. The MUDRA yojana, launched in April last year will to provide easy finance to tiny enterprises was a welcome step.

Some of the other areas that need attention include social infrastructure, education and health. Improving the skills and vocal training facilities should receive priority so that the total factor productivity of the economy is increased. As of now the country fares poorly in respect of factor productivity in comparison with not only the developed countries but also many of the developing economies. Efforts are also needed to improve the working of Indian institutions and governance for better co-ordination and implementation of projects.