Agenda for first 9 months

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The Elections results have been very convincing and indicate continuity in the regime. This is important because the government can continue to pursue its economic framework without any legislative hindrance as the majority is absolute. More importantly as there will be continuity there will be less time spent in formulating a new strategy. It will be more a case of making some changes to priorities and moderating the approaches that were being hitherto followed. We do hence view this result very positively for the economy as the way ahead is quite clear.

The government has worked hard on policies at both the macro and micro levels. At the micro level there has been direct action taken in terms of provision of electricity, LPG cylinders, toilets, housing access, direct benefit transfers, insurance –farm, health and life etc. to households in both urban and rural India. By using the JAM combination the existing policies have been more effective in terms of lowering costs and reducing leakages. These we believe will be persevered with and the funds allocated by the centre will increase within the limits placed by the budgetary numbers.

The macro-economic situation however has been mixed by the end of FY19 and would need some direct intervention by the government in certain areas which require attention. We place below the areas that would need attention in the first 9 months of the government's new regime which if accomplished successfully will place the economy on a strong footing for accelerated growth in future.

1. Agriculture

Here the thrust will be on focusing on both productivity and price realization. The former requires the Centre to work with the States to ensure that the input package provided, which includes seeds, irrigation, credit, fertilizers and pesticides is comprehensive and well integrated.

At the price level it would be necessary for the government to work to make the MSP more effective. For this the government should expand the scope of procurement and distribution to crops other than rice and wheat to maintain a balance in demand and supply. This can be done by targeting crops where the market price falls below the MSP in specific regions.

Here, there is need to balance the monsoon outcomes with prices as the former can be volatile and lead to pressure points if crop output falls. Therefore the provision of higher prices for farmers has to be calibrated to ensure that the entire process is non-inflationary. The fact that food inflation has been benign in FY19 is positive but the other development of food inflation rising very gradually should also be kept in mind.

In order to reduce the reliance on monsoons for agriculture production, the impending ambitious project of inter-linking Indian Rivers should be pushed as it can be a long term resolution for the agriculture related issues.

2. Employment

Employment generation has to be taken up with urgency as this is also linked with consumption where levels have tended to stagnate in the last few months. To begin with the government must look internally and fill up all the vacant positions that have been on hold. This can hold for the entire public sector.

For private sector employment generation, the government needs to focus on the SME segment as well as start-ups so as to increase the opportunities. Focus on 'Make in India' for both local requirements as well as plugging into the global trade value chain (can utilise disruption caused by US China dispute to move manufacturing jobs to India) can be the solution. But we need to ensure that core manufacturing takes place and not just assembly of components.

Further, a boost to general exports and specifically in segments that require high manpower should be a part of the overall plan.

There are schemes already in place such as access to effective infrastructure and finance which need to be revisited and accelerated so that employment opportunities are generated. The job losses of SMEs due to demonetization and GST have to be reviewed so that the action points can be well directed.

3. Banking sector

The banking sector is going through challenges of capital and asset quality; and while the latest results do indicate that the worst may be over, the government should do a full review of the banking sector and address the challenges of provision of capital, removal of banks from PCA framework, asset quality recognition etc. The banks continue to be affected by the delays in the NCLT resolution process. Hence review of the NCLT procedure with the view of speeding up the process, seems necessary. In this context, the IBC may need some amendments as the rate of resolution of bankrupt companies can be improved. IBC has been a positive and structural reform but there are still certain teething issues. Their resolution can help in freeing up capital for further investment.

Such a review will put their present state in perspective which can then be taken ahead along with the RBI.

4. Tax reforms

The last few budgets have been less focussed on direct tax reforms as the emphasis was on getting in the GST. The main budget should also look at reducing tax rates which will help in increasing consumption which is something that has been done in the USA. Similarly reduction in the corporate tax rate (for all companies) will be an incentive for increasing investment and hence should be introduced in this Budget. Also the GST rates should be reviewed; and depending on the trade-off with revenue, should be rationalized further to boost spending. Bringing in petrol and diesel within its ambit should be seriously considered.

5. Capex

The government has been the main driver of capex in the last 2-3 years and the steady pace of investment should continue. Continuity in investment in sectors namely roads and highways, urban Infrastructure, railways and renewable energy may be expected that will forge strong backward linkages with the rest of the economy.

The focus must now be on reinvigorating private investment and here it would be necessary to review the clogs that are in the way of investment. Besides looking at further improving the ease of doing business the government must look at tying up other ends such as taxation, credit, regulation (where sectors have regulatory issues), environment etc. to ensure that there is a pick-up in investment. A relook at policies surrounding land acquisition is a priority as this would not only improve implementation rate of projects but would also help bring funds from private and foreign investors.

6. State finances

While the central government finances have been very much under control, some of the states have been having issues with meeting the FRBM norms. The government would have to revisit the state finances and address issues that could be specific to some states to ensure that they are in a position to meet the fiscal targets and also contribute to the investment process.

Against the background of how the UDAY scheme has fared it may be necessary to kick start power reforms as State discoms not paying on time to the generators would have an impact on power producers and consumers.

Relaxation in fiscal policy of the central government to stimulate demand and investments can also be seriously considered for a year or so. This in turn would aid job creation.

7. Privatization

As distinct from disinvestment as a source of revenue for the government, it would be useful to take a stance on privatization of certain enterprises in the public sector from the point of view of efficiency enhancement as well as reduced dependence on the government for operations in future.

8. Labour reforms

This is a reform which is necessary from the point of industrial flexibility as well as employment. Economic cycles are going to be the norm and industry expects to have some degree of flexibility here. Therefore it would be necessary to look into this issue and come up with a solution in a time bound manner.

Looking ahead

Given the past experience, it may be expected that the government would take on these issues with urgency and set in motion these processes so that after 9 months most of these issues would either be addressed or be in an advanced stage of work-in-progress.

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