Business Standard

Ajay Chhibber: A Budget, not a moon shot

The Budget wisely refrained from excessive ambition - but it prepared the ground for lift-off later

Ajay Chhibber July 19, 2014 Last Updated at 21:50 IST

Given the frenzy in the run-up to the Budget from the media, the pundits and the various lobbies, you would have thought we were landing the first Indian on the moon. Yet the Budget, when it did come out, was no moon shot. But it was nevertheless a good first attempt, given what the new government had to deal with in such a short time, and leaves the door open for more significant reforms and a more defining budget to come. As the finance minister said in a post-Budget interview, " this is the beginning not the end".

There are three very strong fixed points in this budget.

First, is the ambitious but very creditable time path of fiscal consolidation. The FM accepted the fiscal deficit target set by the previous government of 4.1 per cent of GDP for 2014-15. This is tough to achieve, especially if oil prices rise and the monsoon fails and ambitious revenue targets are not achieved. He has also laid down a time path for future fiscal consolidation, with a target of 3.6 per cent of GDP for 2015-16 and three per cent of GDP by 2016-17. If these targets can be achieved they will help reduce inflation more rapidly and allow the Reserve Bank of India to reduce interest rates and help revive growth. With faster growth more revenues will make fiscal consolidation more achievable. Early introduction of the GST would help, as it will boost revenues albeit with some lags.

The FM has clearly understood that one of the biggest mistakes made by the United Progressive Alliance government was its inability to control fiscal deficits after 2009-10. This is the principal factor explaining high and persistent inflation and eventually lowered growth in the last two years. The FM was being advised by several well-known experts to live with a larger deficit and use the extra spending to increase public investment; but he has wisely refrained. A higher fiscal deficit would have crowded out private investment further by creating more uncertainty and slowed India's recovery or would have slowed down disinflation, and forced the RBI to keep interest rates higher.

Second, the budget put considerable emphasis on opening up India to foreign direct investment, and on disinvestment. Both are necessary to revive investment and meet fiscal targets. For the first time the defence sector will be open to FDI - although still at 49 per cent. We have seen that just announcing increases in FDI limits does not necessarily get investment. A lot of other factors must come into play, especially faster clearances, the removal of red tape, and good infrastructure. We should also move in some areas from disinvestment to outright privatisation as the goal, in many sectors, should not be just to raise revenue but to improve productivity and competitiveness, bring in new technology and managerial expertise. Disinvestment only brings in funding without the other benefits.

Third, the Budget puts considerable emphasis on improving connectivity and infrastructure. The most successful flagship programme so far - the Pradhan Mantri Gram Sadak Yojana - has seen a considerable increase in its funding. There is a huge emphasis on ports, shipping, inland waterways and road infrastructure with both new projects and completion of stuck projects. Getting coal supply to power plants is also critical to improving the power situation in the country and better utilisation of power capacity. E-Governance and digital connectivity are also rightly given very high importance.

The one weakness is the number of new schemes that have been announced - some 30 in all with start-up funding of Rs 100 crore each. What we need is a huge reduction and rationalisation of central schemes, not more of them. We also need more focus in these schemes which the government appears to be doing. For MGNREGA, ensuring it helps improve agricultural productivity and builds quality assets is a move in the right direction.

The groundwork for more significant reforms has also been set in motion. An expenditure commission has been set up to rationalise spending on subsidies, to achieve better targeting and to review spending more broadly. The government has decided to back the DBT delivery option with the UIDAI scheme, both necessary to help deliver subsidies in a more cost effective manner to the poor. Ways to streamline the land acquisition Act are under discussion and review. Rajasthan, a BJP-run state, has started to amend labour laws to attract more investment and it is an experiment that will show the path to more extensive labour reform. These are all positive steps which suggest that a more ambitious budget could follow next year.

While many experts are disappointed that the Budget did not deliver on Big Bang reforms, it was unrealistic to expect it so quickly after the government was formed. Fiscal prudence, determined administrative actions to clear bottlenecks and boosting the confidence of business to invest again will help revive the economy to over six per cent and moderate consumer price inflation to six per cent by the last quarter of this fiscal year. Wholesale price inflation is already trending down. If we get there it sets the stage for much bolder reforms next year, the reforms we need to achieve eight per cent-plus GDP growth by 2017-18.

We needed and got a prudent workmanlike Budget to stabilise the economy and leave the door open for more serious reforms. For the future we hope we will get a series of well-planned and coordinated booster shots - not a single moon shot - over the next two Budgets. And we need reforms in-between Budgets, to keep the momentum going as well.

The writer is director-general of the government's Independent Evaluation Office. These views are his own