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## Focus on growth

The Economic Survey underscores the need to support growth momentum in the economy. This reinforces the expectation that the government may opt for the escape clause in the Fiscal Responsibility and Budget Management Act or FRBM Act (that allows up to 50 basis point slippage to the Budgeted deficit under exceptional circumstances) and may settle for a 2019–20 fiscal deficit of 3.6–3.8 per cent of GDP, broadly in line with market expectations. However, if the fiscal deficit exceeds 3.8 per cent of GDP, it will likely trigger negative surprise and concerns not only about the potential immediate additional government borrowing, but also about its longer term commitment to the FRBM road map.

Clearly, there is no easy option for the Finance Minister (FM). A higher fiscal deficit might not necessarily be an immediate boost to near-term sentiment as the higher deficit would primarily reflect government's revenue shortfall and a steep slump in the nominal GDP. The government might have to cut spending below the Budgeted level in order to contain 2019–20 fiscal deficit within 3.8 per cent. Also, a significant dent in debt market confidence and additional upward pressure on bond yields will push the government's debt servicing costs higher, which is already sizeable.

The Survey forecasts 2020–21 real GDP to grow at 6–6.5 per cent. However, a number of forecasters (eg the IMF) currently expect it to be sub-6 per cent. Indeed, the ex ante growth forecasts of the Survey had often been somewhat higher than the eventual actual outcome. Also, real GDP growth of 6–6.5 per cent will likely prompt the government to build in expectations of nominal GDP growth of close to 11 per cent in FY21, materially higher than the single digit growth witnessed during the last two quarterly prints. Any disappointment on this front will complicate the FM's job to meet the targeted fiscal deficit.

Keeping in mind the narrow fiscal headroom, the FM's expenditure plan might focus on rural areas, affordable housing, support for MSME and infrastructure. Further, the government is expected to push social security programmes including healthcare, rural infrastructure such as electrification and irrigation, stronger focus on NREGA, and skill enhancement. Despite popular expectation of reduction in personal income tax, any relief on that front might be small, if at all. The emphasis of the Survey on furthering wealth creation, promoting pro-business policies and entrepreneurship at the grassroots, privatisation of PSUs, strengthening the financial sector, and helping job creation remains particularly noteworthy. Such a focus of the Survey once more flags the relevance of the government's big bang corporate tax rate cut a few months back which can potentially be a material positive in the long run, though likely with limited immediate impact.

Admittedly, there is no quick fix to the economic situation. However, the government is likely to lay down a credible medium-term roadmap towards combating the ongoing slowdown and boosting business and consumer confidence. Given the Survey's emphasis on reviving growth and boosting employment, one remains curious if the FM considers recalibrating the FRBM roadmap, potentially allowing a larger fiscal deficit in the near term.

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*(Shubhankar Chakrabarty contributed to this column. Views are personal)*