

Budget 2012-13 and Challenges of Indian Economy

As the saying goes, *economy is the method by which we prepare today to afford the improvements of tomorrow*. This saying has been successfully lived by India in the past decade. The \$1.3 trillion Indian economy, with strong savings, remains irrefutably robust even in present times of global slump. It continues to march ahead on the path of progress at a rate of around 7% even in the face of formidable challenges. According to top policy makers of the country, our economy will probably expand 7.5% for the year ending 31st March, 2012. Several recent economic reports glowingly predict that by 2013 to 2015, India will start outpacing China's annual GDP growth rate. However, the instant dream is to take the country into a double-digit growth trajectory. And this dream is quite realisable, provided India unleashes its full potential and dares to challenge the challenges which have been restricting its growth engine from going full throttle. And there are some encouraging signals to this effect. Foreign direct investment into India has gone up by an impressive 56% to \$2.53 billion recently, signaling improvement in investor sentiment.

However, Indian economy may have to walk a tight rope this year. There are some immediate concerns to be taken care of, viz. to keep growth rate high and inflation rate and fiscal deficit low. Towards that end, it is high time that a number of investor-friendly policies are unveiled to nudge the entrepreneurs to invest more. Driving investments has to be a key area of priority with focus on measures for sectors such as infrastructure and others that benefit agriculture and employment generation.

But the main challenges of our economy are to achieve 'inclusive growth' and eliminate 'economic inequalities'. As many as 37% population in India live below the poverty line, says the Tendulkar Committee report. According to a World Bank estimate, 41.6% of India falls below the international poverty line of \$ 1.25 a day. Generally, our economic progress has not touched the lives of our rural poor, the way it should have.

High level of illiteracy, with about 35% of Indian women still not able to read or write (as per the provisional 2011 census), is another big challenge. Shortage of skills required for sustained growth is yet another daunting challenge. Increase in students entering the higher education is merely 5%, i.e. from 12.5% in 2007-2008 to 17.27% in 2009-2010. Government has identified a skills gap in between 240 to 250 million persons in the next ten years. Current vocational and technical training schools unfortunately only have the capacity to absorb 1.1 million students a year.

Poor infrastructure with a huge number of families lacking basic amenities is another grey area which calls for urgent attention. Infrastructure sector, which has a multiplier effect on the economy, is also under serious strain with reducing investments in research and development. Shortage of long-term funds for the infrastructure projects also needs to be addressed more effectively.

Our budget deficit limits the scope for increasing investment in public services like health and education. The Centre has pegged the fiscal deficit target for 2011-2012 at 4.6% of GDP but in view of current estimates fiscal deficit can be on the higher side. So, in order to make substantive further fiscal correction this year, the government has to put in even more effort than it had assumed it needed to. So, while raising a toast to economic resilience in the past, the government would do well to tighten its belt a little harder in the present.

What is needed is to seriously heed to the issues related to regulation and moving more quickly on long-delayed business reforms by introducing new or changing existing corporate governance norms, an area on which Corporate Affairs Minister Dr. M. Verappa Moily is actively working on. We in India need reforms that can actually raise our sustainable long-term growth rate. These have to come in areas like better targeting of subsidies, making projects in infrastructure viable so that they attract capital, raising the productivity of agriculture, improving healthcare and skill-creating education, bringing the parallel economy under the tax net, implementing fundamental reforms in taxation like GST and the Direct Tax Code and finally easing the myriad rules and regulations that make doing business in India difficult besides eradicating corruption.

Meanwhile, agriculture and allied sectors, which contribute about 15% of India's GDP and play an increasingly important role in the all round development of the country, are also under the scanner this fiscal. It is welcome that India has taken effective efforts to achieve complete food security to prop up rural economy.

Mr. Montek Singh Ahluwalia, Deputy Chairman of Planning Commission, rightly says that the growth of an economy depends upon three main factors: availability of capital, availability of appropriately skilled labour, and productivity of the economy to convert labour and capital into final products.

It is hoped that Union Budget 2012-2013 will take all these complex challenges in stride and help propel India into double digit growth with all inclusive growth, stable prices, improved infrastructure, more and more skilled workforce, a more rationalised tax regime and better fiscal discipline and consolidation. And to help our Government's efforts to this effect, our basic credentials remain high. Indian economy is, in many ways, better placed than many other nations to withstand global economic turmoil. India's resilience results from the fact that the bulk of India's GDP is domestic demand driven.

Even though Budget 2012-2013 may not be a panacea, it will set the outline for the economy for the near future. The country expects the Budget 2012-2013 to make the impact India needs.

-Editorial Board

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