# Our Views

## The Finance Minister - Its an opportunity….not challenges!

The Lok Sabha election results last week did surprise the people of India. The fact that they were not in line with the exit polls, did create some uncertainty - not about who would form the Government, but about the construct of it and the BJP's ability to push large reform agendas in its third consecutive term. The uncertainty, to some extent, has been dispelled through retention of the cabinet to a large extent and with the continuity of most ministers in key portfolios. Next, all eyes will be on the Union Budget 2024 which will set the economic tone for the next five years.

The real GDP growth rate in FY24 was c.8.2%, one of the fastest amongst the growing economies. For FY25, the real GDP growth rate was recently projected by RBI at c.7.2%. While these growth rates are no doubt motivating, there is a need to address certain important economic challenges faced by the country. Appropriately addressing these challenges will ensure a smooth sailing towards achieving a desired growth rate and beyond. In my article on June 05, 2024, titled "Thank God it's over! People of India are the winners", I briefly touched upon the areas which potentially should be BJP's key focus areas given the outcome of the election results. In this article, I would like to discuss the key economic challenges faced by Modi 3.0 and some of the potential solutions to them.

For the Finance Minister this is the second inning at the back of a well played first one. The pitch is also looking good as the fiscal situation is balanced, the growth trajectory is maintained, and inflation is under check. This is an opportunity for the Finance Minister to play some good shots.

**Job creation - one of the most important areas to address is the concern around job creation**

One of the top topics in India today is unemployment. Centre for Monitoring Indian Economy's (CMIE) report for the last 3 months indicates an unemployment rate in the range of c.7.0-8.0%. Also, as per the report issued by International Labour Organization (ILO) in 2024, the share of unemployed youths in the total unemployed population in 2022 was c.82.9% and the share of educated (secondary level or high) youth was c.65.7%. India's young population is seen as a national asset which drives the optimism around the future of the economy. It is also a major selling point to international businesses and we celebrate the "demographic dividend". Hence, tackling unemployment and creating "good jobs" should be one of the top agendas of the government.

The question which arises is where can the jobs be created. Coming to the sectors, the share of jobs from Agriculture and Construction sectors have gone up due to Covid-19 and government's push to infrastructure respectively. In a developing country like India, the share of jobs should go up in Manufacturing and Services sector as well. However, the share of jobs in these sectors is going down slightly, understandably, because of automation. So, the key sector to focus on would be the MSME sector which is labour intensive. According to the data published on Udyam Portal (MSME Registration portal), the number of jobs created by all the MSMEs as on date is c.197.1 mn. The other benefit of providing a boost to MSME would be an increase in our exports. MSME exports accounted for c.43.6% of the total exports from India in FY23.

To boost the MSME sector, among other measures, government should allocate additional funds for various credit schemes, increase the number of quality incubation centers, make doing business easy, reduce a number of compliances, flexible labour laws and availability of land.

**Inflation is always important**

While core inflation is under control and coming down in line with expectation, food inflation which was at around 8.7% in May 2024 is a concern. Inflation in Cereals and Vegetables has been between 7.8% to 10.3% since Nov 23. In the first week of June, even the prices of milk rose by ₹2/litre.

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Reasons attributable to such inflation are extreme temperature and weather conditions, fuel prices, supply chain disruptions and global effect (high dependence on import of edible oils and pulses). No doubt, various measures like distribution of commodities like tomato & onion at subsidized prices, banning exports of rice/wheat and ban on stock piling has already been undertaken by the government to ensure inflation is under control. However, certain additional measures like increasing output (by maintaining the quality) & becoming climate resilient by investing in technology and improving supply chain by strengthening logistics & building more cold storage facilities are the additional measures that will be useful.

**Evergreen Tax Reforms**

Progressive reforms adopted by the government for income-tax like faceless assessment and receipt of income-tax refunds faster than before are some of the welcome moves. Having said that, simplification and rationalisation of taxes are the next big expectations from this government. It's well understood that a lower tax rate, ease of compliance and less harassment will increase the income tax collection just like the experience in GST.

Coming to indirect taxes, the GST collection for Apr'24 was highest at ₹ 2.10 lakh crore. While the GST revenue collections have been on the rise, GST rates structure requires some streamlining and simplification. The 4 main GST rates applicable are: 5%, 12%, 18% and 28%, but that's not all, there are several other GST rates applicable depending on different factors like selling prices, type of packaging, etc. Time has come for GST - 02. We need a simple, easy and reasonable GST regime. No doubt it will have its positive impact.

**The new approach to raising long term lower cost financing for investment - our sovereign Rating upgrade**

S&P recently revised outlook for the India to "positive" from "stable" and has affirmed the overall rating at "BBB-" citing reasons like robust economic growth and improved quality of government expenditure. As per S&P, India's rating is likely to be upgraded if the fiscal deficit rate narrows from the existing c.5.6% of GDP for FY24. The government expects to bring down this rate to c.5.1% in FY25 and to c.4.5% in FY26.

If we manage an upgrade to "BBB", it will lead to benefits like significant increase in investor confidence, lower borrowing costs and increase in the pool of capital invested in India. Just on the rate front there will be a saving of almost 30%. For instance, our quasi global sovereign bonds by AAA issuers trade around 7.4%. For a similar maturity, bonds from a country like Italy which is BBB (just one notch higher than our rating) trade around 4.6%.

It is indeed an opportunity for the government to propel India into a higher economic orbit. This is one time we don't expect any reverse swing as we wait for some glorious shots from the Finance Minister.

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