Budget to be pro-growth, not populist: Economists

ANUP ROY AND TOMOKO SATO
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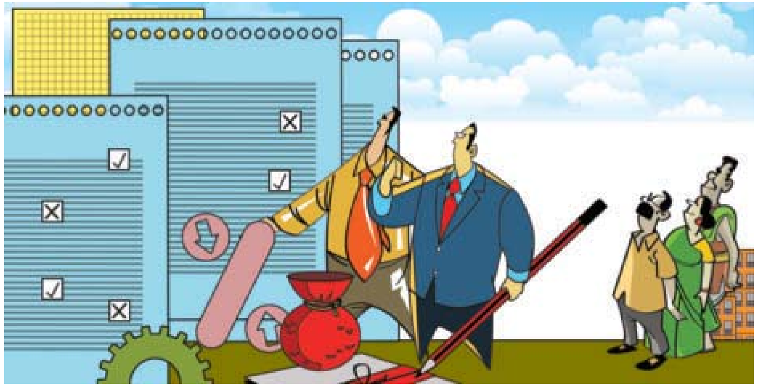
The government will look to maintain its pace of spending to bolster growth as it leans on asset sales while shunning subsidies to shrink the deficit, according to a survey of economists.

Finance Minister Nirmala Sitharaman will likely increase expenditure by about 12.5% year-on-year to ₹44.40 trillion in the year beginning April, according to the median of estimates in a Bloomberg survey ahead of the February 1 Budget.

The fiscal gap is expected to narrow to 5.9% of the gross domestic product, from 6.4% in the current fiscal year, according to the survey median. The government is expected to fund it partly through record gross borrowing of ₹15.8 trillion, or 11% higher than the current year.

Healthy revenues and privatisation proceeds, although seen lower than what was estimated for the current year, will help support the spending plan, the survey showed. Sitharaman is unlikely to tinker much with tax rates, yet will also



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WHAT THE SURVEY SAYS

- Govt unlikely to tinker much with tax rates
- Govt may indicate subtle support of consumption
- Focus on manufacturing expected to be a key theme
- Govt may tweak inverted-duty structure
- Production-linked incentives to continue

steer clear of populist measures, according to economists surveyed. The Budget comes amid a challenging backdrop as recessionary fears take center stage globally and higher interest rates at home temper domestic demand. While spending will be key to keep the growth engines fired up, investors and credit ratings agencies will watch closely to gauge whether Sitharaman provides a viable fiscal consolidation road map. The budget "comes at a crucial crossroads," said Sonal Varma, Singapore-based chief economist at Nomura Holdings. "The question, therefore, is what extent of consolidation will the government choose," she said. Sitharaman's final full-year budget before an election season will address issues of rising unemployment and look at supporting the poor and middle class, but she will stay away from spending way beyond the country's means as the government seeks to shore up investor sentiment, according to survey respondents. The withdrawal of the free-food plan and a lower fertilizer subsidy bill would likely give Sitharaman some fiscal space to support social welfare plans. As many as nine states will head to the polls in 2023 and national elections are due in the summer of 2024, when Prime Minister Narendra Modi is expected to seek a third term in office.

"Higher rural spending and some income-tax tweaks are possible, but we are not penciling in a populist budget," Varma said. A "subtle" support of consumption and a strong focus on manufacturing with an emphasis on small- and medium-sized enterprises will be a key theme, she said. Most survey respondents expect the manufacturing sector to be a priority, while some are seeing benefits for the country's agriculture sector, which is the primary source of livelihood for nearly 60% of the population.

"We expect the production-linked incentives to continue," said Rahul Bajoria, economist at Barclays Plc. "The government may also tweak inverted-duty structure wherever they can to encourage domestic manufacturing." The government will probably target asset sales of about ₹500 billion, according to the survey median, down from ₹650 billion it had budgeted in the current fiscal year. "On a strategic level, the broad reforms process should continue with outlays for rural development, boosting manufacturing, employment generation, and capacity-building ," said Indranil Pan, chief economist at Yes Bank. **BLOOMBERG**