INTERVIEW-India targets not just "hope and prayer".
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NEW DELHI, June 3 (Reuters) - India's fiscal targets for the current year are not just a "hope and a prayer" even if there is a trade-off between growth and inflation, the government's chief economic adviser said on Wednesday.

Shankar Acharya told Reuters he did not agree with critics who had labelled Finance Minister Yashwant Sinha's 1998/99 (April-March) budget a "tax-and-spend" package devoid of bold steps sought by investors to jerk the economy awake.

"I really don't see why this is being called an inflationary budget," Acharya said. "The point I am trying to make is that the 5.6 (percent fiscal deficit) is not just a hope and a prayer."

India's 1997/98 fiscal deficit of 6.1 percent was considerably worse than the government's target of 4.5 percent of gross domestic product (GDP). Sinha has set sights on a deficit of 5.6 percent of GDP in 1998/99.

Government figures show that the fiscal deficit in rupee terms rose to 863.45 billion rupees ($20.7 billion) in 1997/98 from 446.32 billion rupees in 1990/91, when an economic crisis propelled India into market-opening liberalisation. Sinha estimates it will rise to 910.25 billion rupees in 1998/99.

But Acharya noted that the fiscal deficit as a percentage of GDP had fallen sharply from 8.3 percent in 1990/91 to 5.2 percent in 1996/97 before rising again last year to 6.1 percent.

Acharya said there was a potential trade-off between growth and inflation. GDP grew by only 5.0 percent in 1997/98 after 7.5 percent in 1996/97; it was the slowest growth since 1992/93, the first full year of economic liberalisation.

Year-on-year inflation based on wholesale prices stood at 6.35 percent in the week ended May 16. The government has targeted inflation at between 6.5 and 7.0 percent in 1998/99.

"If you have excess capacity in the system, which I think today most people would say is the case after two years of very sluggish growth in industry, this kind of trade-off will be there in a very subdued fashion," Acharya said.

Industrial output grew by only 4.2 percent in 1997/98 after 7.1 percent in 1996/97 and 12.1 percent in 1995/96.

"If the budget is successful in regenerating growth impulses in the economy in general and in industry in particular, I would submit that the inflationary implication of such growth regeneration would be minimal."

Acharya said last year's budget had a strong direct tax package with personal and corporate tax rates cut, but expansion had been stymied by factors like political uncertainty.

"That probably played a significant role in why entrepreneurs and industrialists did not respond to the budget in the manner that a lot of people hoped and expected they would."

Acharya said the 1998/99 budget carried forward the direct tax regime. "Ergo, logically it should follow that this budget's very conscious decision to maintain the direct tax regime should continue to impart a good influence."

Acharya said the budget also had strong expenditure-related elements particularly with respect to infrastructure.

Plan outlays on the key sectors of energy, transport and communications had been hiked by 35 percent to 611.46 billion rupees in 1998/99 from 452.52 billion in 1997/98, and the housing sector as well as highways construction was given a push.

Acharya said the cascading effects of these increases would remove bottlenecks and encourage sectors like steel and cement.

"The short point is that the budget has a strong pro-infrastructure thrust," he said.

Acharya said the government was also very optimistic about the divestment of stakes in state-run firms.

The 1997/98 budget targeted revenues of 48 billion rupees from disinvestment, but final receipts totalled a paltry 9.06 billion.

This year's budget expects disinvestment will bring in revenue of 50 billion rupees and promises the government will reduce its stake in non-strategic public sector companies to 26 percent.

He said major subsidies, projected to rise to 198.83 billion rupees in 1998/99 from 183.66 billion in 1997/98, continued to be a problem. "At the same time, I think all governments feel that in a poor country like ours a lot of subsidies are desirable." ($1 = 41.80 rupees).

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