It is a pleasant surprise

ON the back of demonetisation as well as the Economic Survey's projection of higher GDP growth of 6.75 to 7.5% for 2017-18, there were apprehensions that the Union Budget could relax the fiscal deficit target. Within the fiscal deficit, based on last three trends, it was expected that revenue deficit target could be relaxed a bit more as it could enhance consumption demand.

This was more so when the external demand almost dried up and expectations of higher oil and commodity prices in the global markets intensified. But what is presented in the Budget is a pleasant surprise.

While the headline fiscal deficit is relaxed marginally and budgeted at 3.2% for FY18 (The earlier target was to contain it at 3% in FY18), the demand seems to have shifted from revenue to capital, which is absolutely consistent with the expansionary fiscal consolidation principle. Here the revenue deficit is brought down from 2.3% to 1.9% while capital expenditure has increased from 1.2% to 1.3% – a clear expenditure switching policy that should help revive growth. Indeed, this should also help improve government revenues.

However, there are some downside risks on these fiscal numbers, both on the revenue and expenditure sides. On the back of demonetisation as well as GST, it appears that the Budget seems to have assumed a higher tax revenue buoyancy of about 1.4. This is similar

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WHILE THE HEADLINE FISCAL DEFICIT IS RELAXED MARGINALLY AND BUDGETED AT 3.2% FOR FY18 (THE EARLIER TARGET WAS TO CONTAIN IT AT 3% IN FY18), THE DEMAND SEEMS TO HAVE SHIFTED FROM REVENUE TO CAPITAL

to the buoyancy that India experienced during 2003-2007 period. On the capital receipts, similar to last few years, the Budget assumes about Rs 72,500 crore under Other Receipts (largely disinvestments), which appears to be a difficult task. On the capital receipts, after adjusting for market borrowing, it appears that the government expects nearly Rs 2 lakh crore from drawdown of its cash balance!

On the expenditure side, major concern is on debt servicing, which reached to more than 1/4thof the total government receipts (including borrowings) and 3.1% of GDP! And this is despite the assumption of expected decline in the overall interest rate structure in FY18.

Or is that interest rates on public debt do not depend on market interest rates? Other concern is on the assumption of declining oil subsidy.

While the finance minister cautioned about the risk of increasing international oil price, which has already risen to $53 a barrel, compared with $40 in FY17 Budget and is expected to increase further to $58, such an assumption on declining oil subsidy appears to be unrealistic. Above all, the biggest risk to fiscal numbers is the GDP estimate for FY17 itself, which, in turn, is used for projecting FY18.

Despite these downside risks on the fiscal side, the Budget appears to have maintained a fine balance between growth and social sector development while achieving near-fiscal prudence.