The message in the median

The fiscal prudence is timely, but the Budget lacks measures to revive the economy

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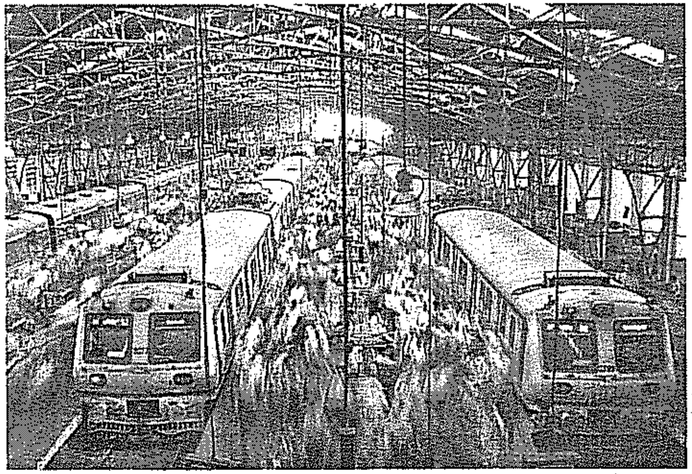
The Union Budget for 2017-18 has been presented against the background of a difficult international environment spiced with growing protectionism, poor investment climate in the country due to the stressed balance sheets of corporate and banking sectors, and severe distress caused by the demonetisation move. The quick estimate of national income released by the Central Statistical Organisation showed that even while the impact of the demonetisation is not considered, the growth rate of all sectors except agriculture and public administration were slowing down. The Economic Survey estimates that the decelerating in growth due to the demonetisation is a quarter to half percentage point. With much of the cancelled banknotes returning to the banking system, the hope of a windfall has evaporated and yet, there were considerable expectations that the Budget would initiate measures to revive the economy.

A premium on prudence

In many ways this year's Budget had a number of new features. Besides advancing it by a month to complete the process of passing the Budget within the financial year, the merger of the Railway Budget with the main Budget helps to plan and develop the transport sector as a whole. Second, the abolition of the Plan and Non-Plan distinction, which in fact was the recommendation of the Expert Committee on Efficient Management of Public Expenditure in 2013, helps to look at each of the sectors in a holistic manner and avoids distortions in allocating resources between maintenance of existing assets and creation of new assets. The Budget speech also refers to the Outcome Budget being placed in Parliament. Of course, it remains to be seen to what extent the Outcome Budget provides a link between outlays and outcomes.

The Finance Minister must be complimented for sticking to the task of fiscal consolidation. There was considerable apprehension that the Fiscal Responsibility and Budget Management Review Committee would provide a target range estimate to provide greater flexibility to the Finance Minister. The committee has done well to recommend a continued path of consolidation to reduce the overall debt-GDP ratio to 60% and corresponding ratio of the Centre to 40%. More importantly, the Finance Minister did not utilise the escape clause to relax the target. In fact, for 2016-17, the revised estimate of fiscal deficit at 3.2% of GDP is marginally lower than the budgeted, but that is mainly due to the change in the GDP estimate. Although for 2017-18,the path of adjustment required reducing the deficit to 3%, in the prevailing situation perhaps the fiscal deficit estimate unchanged at 3.2% should not be grudged.



NOT ON TRACK: "Much of the economic revival depends on the Union government's spending on infrastructure." Commuters at the Churchgate railway station in Mumbai. PHOTO: AP

> Very little has been done to rationalise tax preferences and reduce the rate to 25% for all corporates by 2019

The Finance Minister must also take the credit for resisting the temptation to increase measures to increase consumption. There has been a clamour for initiating economic revival by taking measures to boost private consumption expenditures through transfers or tax cuts. Apart from providing for the announcements made by the Prime Minister, the Finance Minister has refrained from this. He has also not ventured into the much-advocated universal basic income primarily because it is not easy to cut subsidies and transfers commensurately to release resources for the purpose. At the same time, it must be stated that he has done little to rationalise explicit subsidies which at ₹2.7 lakh crore constitute 1.6% of the GDP. In fact, subsidies claim as much as what has been allocated to defence and are just a little lower than capital expenditures. Food and fertilizer subsidies alone constitute ₹2.4 lakh crore.

In a situation where the growth scenario is severely hampered by a poor investment climate, and has been sustained only by private consumption which too has fallen sharply after the demonetisation, it was hoped that the Budget would make a substantial increase in capital expenditures and that hope has been belied. Much of the economic revival depends on the Union government's spending on infrastructure. The aggregate capital expenditure in 2017-18 as a ratio of GDP is just about 1.8%, which is the same as in 2016-17 (revised estimate). In fact, even within this, the capital expenditure under defence is about 0.5% of GDP — as much of it will be for imported equipments, the impact of that on the economy is negligible.

Mixed bag of tax sops

On tax proposals, the picture is mixed. Reduction in the rates of tax for companies with less than ₹50-crore turnover to 25% from the existing 30% brings in benefits to 96% of companies. At the same time, very little has been done to rationalise tax preferences and reduce the rate to 25% for all corporates by 2019, which was promised by the Finance Minister in the 2015-16 Budget. Although some of the concessions such as area-based exemption are likely to end in April 2017, the concessions already given will continue for 7-10 years. The point is, it is important to rationalise the tax system and avoid loading it with several objectives which only complicate the structure and provide avenues for evasion and avoidance. As far as personal income goes, the reduction in the tax rate to 5% for individuals up to ₹5 lakh income provides some relief. At the same time, the scope of surcharge has now been expanded to people with taxable income of ₹50 lakh to ₹1 crore at 10%; the present 15% surcharge on those earning more than ₹1 crore will continue.

On indirect taxes, given that the Goods and Services Tax (GST) is scheduled to be rolled out in July 2017, some rationalisation in excise duty could have helped to smoothen the transition. There are 300 commodities exempt from excise duties and the list could have been pruned. Similarly, there are several rates of tax, some of them specific, and these could have been aligned to the rates decided by the GST Council. It would also have been useful to increase the threshold for service tax to ₹20 lakh, the threshold for GST decided in the council.

The Finance Minister had to demonstrate that he will continue to wage the war against black money and take the bull by the horns by reducing the limit for cash donations to political parties. In a large country like this, it is not difficult to find people to make surrogate donations. Thus, it is not certain if the measure to cap individual donations in cash at ₹2,000 is merely cosmetic.

On the whole, the Budget is like a curate's egg — good in parts. The most important positive is the fiscal prudence and perhaps the most disappointing is the lack of measures to revive the economy in the prevailing difficult global and domestic environment.

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