'Robust, pragmatic fiscal policy targets the need of the hour'

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The Budget would be presented on the back of bleak First Advance estimates of GDP, which suggest a growth slow down to 6.5 per cent for 2017-18, as well as crisis in the agriculture/rural sector.

Added to this it is also the pre-election Budget, which, in the past, was mostly populist and had spoiled the fiscal math of the governments of the day. With many agrarian States going to the elections this year and the General Election the next, the Government might also be tempted to go for traditional pre-election Budget. However, the government that takes the rating agencies too seriously could think many times before it breaches FRBM targets.

For the year 2017-18, there are apprehensions that fiscal deficit target of 3.2 per cent might be difficult to achieve largely due to slippage in the revenues and, hence, that could make it much more difficult in achieving the 3 per cent target for 2018-19. There are arguments and counter arguments on whether government should go for fiscal expansion in order to revive growth and address rural sector concerns. But the question one must be asking is how robust and relevant is 3 per cent target? Does FRBM means only fiscal deficit target? Is this target consistent with other macro targets such as growth and inflation?

One needs to remember that 3 per cent target was derived under a business as usual scenario where there would be no (both anticipated and unanticipated) major policy shocks in the economy. However, since last year, India has faced two major shocks in the form of demonetisation and GST implementation, which, unfortunately, are still messy. It would be surprising to know that the 3 per cent target does not even include the most anticipated 7th Pay Commission impact! Very recently, the NK Singh Committee also recommended much more conservative fiscal targets. However, again, these targets do not include the most anticipated expenditures in achieving the Prime Minister's Vision 2022 targets (which itself is a subset of Sustainable Development Goals (SDGs) and India is a signatory)!

On the another issue, FRBM consists of three targets: fiscal deficit, revenue deficit and public debt. What market and economic analysts focus is only on fiscal deficit while forgetting the rest. This again is inconsistent and achieving only the fiscal deficit target while ignoring the rest need not be expansionary. Rather, most probably, it could be contractionary. In terms of macro consistency, elsewhere I have argued that tight fiscal target with very flexible monetary (inflation) target is inconsistent. One could think of a fiscal deficit range target. It is not about fiscal conservative versus fiscal profligate. For India, which is aspiring to grow faster and at the same time inclusive, the need of the hour is robust and pragmatic fiscal policy targets that take care of atleast the anticipated shocks with some flexibility to absorb the unanticipated ones (for instance the rising oil prices). One can only hope that the 15th Finance Commission will address this.

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