simultaneous elections are held.

The question of credibility

The entire fiscal adjustment path has been reworked in this Budget

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There were considerable expectations from the Budget. Given that this is the last full-year Budget by this government and the first one after the revenue uncertainties arising from implementation of the goods and services tax (GST) reform, there were apprehensions about the slippages as well. Indeed, there are electoral budget cycles in every democratic polity and considering the dissatisfaction shown by rural electorate in the recent Gujarat elections, there were definite apprehensions about fiscal laxity.

Focus areas

The Finance Minister devoted a considerable part of his speech to elaborate the focus areas in the Budget. These include strengthening the agriculture and rural economy, provision of good healthcare for the poor, taking care of the senior citizens, creation of infrastructure, and working with the States to improve the quality of education. A careful analysis of the allocations to various sectors, however, does not show any significant departures from the past except in the case of allocation to food storage and warehousing which is set to increase by 19.4% due to the assurance of minimum support prices at 150% of the cost. The total expenditure in 2018-19 is estimated to increase by about 10.2% over the revised estimate of the previous year, and the increase in capital expenditure is estimated at 9.9%. In fact, direct spending on social and economic services by the Union government is estimated to increase by only 7.8% and 6.7%, and increase in the grants to States for Central schemes is estimated at 13.8%. Thus, the objectives of improving the wellness of the people, removing the farm distress, improving the quality of education and augmenting infrastructure are supposed to be achieved by using extra-budgetary funds.

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The most important worry, however, is on the fiscal front. A close examination shows that there have been substantial slippages in all the deficit numbers. In fact, even for the year 2016-17, the fiscal deficit works out to 3.7% as against 3.5% shown in the Budget if the GDP estimate put out by the Central Statistics Office on January 31 is taken. The revised estimate of revenue deficit in 2017-18 works out to 2.6% as against the Budget estimate of 1.9%, and the slippage in primary deficit is from 0.14% to 0.38%. Much of this has happened not because of revenue shortfall or increase in capital expenditure. In fact, despite shortfall in indirect taxes, the tax revenue net of devolution to the States shows an increase of 3.4% over the Budget estimates. Similarly, even as non-tax revenues realisation was less due to the inability to generate spectrum fees and lower dividends from the banks, total revenues available with the government was higher than the Budget estimate by over 3%. The slippage happened even as capital expenditure was compressed by 12% due to a sharp increase in revenue expenditure. The capital expenditure in 2017-18, as also that budgeted for 2018-19, at 1.6% of GDP is perhaps the lowest since 2014-15. Thus, the slippage was mainly on account of higher than budgeted spending in revenue expenditure, particularly the grants given to the States for Central schemes, which was higher by 25.8%.

The Economic Survey had emphasised the need for ensuring macroeconomic stability in view of both domestic and global developments and in this the importance of fiscal discipline is stated to be paramount. However, this Budget has reworked the entire adjustment path. The estimated fiscal deficit for 2018-19 is 3.3%, and in addition, the government will issue bank recapitalisation bonds amounting to ₹80,000 crore. Proper accounting demands that this should be a part of the fiscal deficit as when the shares of public enterprises are sold, these are taken as non-debt capital receipts, but when the bonds are purchased by the government, they are not counted for the deficit! The Finance Minister states that he accepts the key recommendations of the FRBM Committee to bring down the debt-to-GDP ratio to 40% and the fiscal deficit target will be the key operational parameter, but does not adhere to the 3% target for the next year and 2.5% for the subsequent years set by the Committee! The medium-term fiscal plan states that the 3% target will be reached only in 2020-21. Fiscal management in the country suffers from credibility crisis.

On the taxes front, the most important issue is the proposal to levy the long-term capital gains tax above ₹1 lakh at the rate of 10% for instruments bought after January 31, 2018. Those who advocated the levy were clear that the tax policy should not affect the investors' choice of financial instruments, which meant that the treatment should be uniform for equity and debt-based instruments. This would require uniform application of the tax to all instruments and the abolition of securities and commodities transaction taxes. There is a case for the tax to be neutral between all forms of investments including immobile properties. In that sense, what has been attempted is a half-way house.

Too loaded

Furthermore, when the reform required that the tax policy should not be loaded with many objectives, the Budget goes on to use the instrument to promote post-harvest activities in agriculture, employment generation and incentivising micro, small and medium enterprises. On indirect taxes, increase in custom duties to facilitate "Make in India" is a retrograde measure. We have been advocating moving away from protectionism in global forums, but want to protect the domestic producers through higher import duties. This may make some producers happy, but will not increase the competitiveness.

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