EXPERT TAKE

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A realistic Budget with some compromise on growth

IN THE UNION Budget, the adverse impacts of two major policy shocks clearly show up in the fiscal numbers. The government not only deviated sharply from achieving the 3.2% fiscal deficit in 2017-18, which is revised upwards to 3.5% (and final number could be little higher), it also projects fiscal deficit to be at 3.3% in 2018-19.

While this deviation could be attributed to the populist expenditure proposals, this may be necessary when there is large demand deficiency in the economy. Elsewhere I have argued for relooking at the whole FRBM roadmap and, to be more pragmatic, provide flexible fiscal deficit targets. However, the fiscal adjustment appear to be growth retarding as slippage appear to be more on the revenue deficit (increased from 1.9% BE to 2.6% RE) while there is a squeeze on the public capital expenditures (reduced from 1.3% BE to 0.9% RE).

The Budget also proposes a new FRBM framework where it suggests fiscal deficit as the operational target as suggested by the NK Singh Committee (read ignoring the CEA's dissent and his proposal on primary deficit as operational target). However, if one has to aim for expansionary fiscal consolidation, in my view, the focus should have been more on revenue deficit rather than on fiscal deficit. This is more so when the private investment demand is subdued.

On the public debt, the government seems to accept the 40% target although achieving overall 60% (both Centre and State) could be a major challenge when the State finances are in bad shape.

On the revenue side, the government makes some heroic assumptions especially on the personal income tax buoyancy, which is estimated at 1.95 and 2.11 for 2016-17 and 2017-18, respectively. Based on this, it projects an increase of nearly ₹88,000 crore in personal income tax in 2018-19, which could be on a higher side, especially if there is no final numbers for 2017-18. The Budget also proposes to mobilise ₹80,000 crore through disinvestments. Although this is lower than the 2017-18 proceeds, it appears to be more realistic.

On the expenditure side, the government appears to be rightly focusing more on the rural sector. In 2017-18, one of the policy measures that have helped in reviving the economy is the focus on rural infrastructure. In the absence of private investments, the Budget proposals on rural development would help further revival of the economy. There could be some underestimation of subsidies (especially petroleum) and interest payments. This is more so when both oil prices as well as interest rates are expected to increase compared to 2017-18. If there is full pass-through of international oil prices, then its impact could show up on interest rate (through increase in inflation). In addition to this, there are some more measures, especially the revision in MSP prices, that might be inflationary.

Overall, while there are some signs of populist measures in the Budget, the FM tried to present a realistic Budget (especially being the pre-election one) with some compromise on the growth.