

INSIDE VIEW

Relax the 3 per cent fiscal deficit target

The forthcoming Budget is to be presented at a time when there are uncertainties in both the domestic and external environment. On the domestic front, the major uncertainties are



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with regard to the net impact of demonetisation on growth, employment and the ambiguous GDP advance estimates as well as their projection for 2017-18 (a crucial estimate for the Budget-making process). There are

other uncertainties in terms of revenue as well as expenditure projections. While on revenue it is largely due to unpredictable buoyancies, on the expenditure side, with the doing away of the plan/non-plan distinction, assessment on needs could be a problem.

There are uncertainties on the external front as well, especially from the protectionist policies of the developed world as well as due to the rising oil price.

The oil price, which was below \$40 during the last Budget, is now at \$53, and the futures price is close to \$58. This means that the Budget needs to focus more on increasing demand domestically rather than depend on external demand for reviving growth.

One important number that markets/rating agencies might be looking for is the 3 per cent fiscal deficit target. While there is the Fiscal Responsibility and Budget Management (FRBM) Committee to look into it, as the economy needs stimulus to revive growth and come out of the demonetisation pains, it would be wise to relax it. At least the target need not be achieved at the cost of capital expenditure. One hope is that the FRBM Committee will suggest a 'revenue deficit range' target, while keeping the capital expenditure target intact.

With the absence of Plan targets (both on growth as well as on human development), there is a need to provide medium/long term growth as well as a development target.

On the development side, as the country has already adopted the Sustainable Development Goals, there is a need for a Medium Term Expenditure Framework consistent with the SDGs, which some of the States have already adopted in their Budget-making process. Overall, it is going to be an 'Uncertain Budget'.