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Much ado

The budget has failed to further the reform agenda the government promised

IF THE UNION budget was to be given an imaginative title, like those in the Economic Survey, it would be "Much Ado About Nothing". The Survey raised the hope that something will be done to revive private investment and rationalise subsidies. The budget failed on both counts. Instead, it increased MGNREGA allocation to a record level, which is surprising since Prime Minister Narendra Modi had railed against this scheme in the run-up to the 2014 election. It seems that the prime minister has become its main champion now, perhaps realising its obvious vote-getting potential.

The Survey also raised hopes that something will be done to rationalise subsidies and aggressively push JAM (Jan Dhan, Aadhaar and Mobile), but no such luck. I suppose we should be grateful that at least the budget did not take up the Universal Basic Income (UBI) scheme on top of all the other subsidies. The suggestion to move towards direct benefit tax (DBT) — the logical way to go for food and fertiliser subsidies after the success with LPG — did not find any reference in the budget.

The hike in public investment — for roads, railways — is a positive step. But the number is a bit deceiving since a substantial share of the increase comes from PSU investment,

which by itself will not crowd in private investment. A better strategy would have been to extract a bigger dividend from PSUs and increase public infrastructure investment even more in roads, sewage systems and electricity, whose multiplier effects are greater. The budget is also silent on the National Infrastructure Investment Fund (NIIF) that was established with much fanfare last time.

The Survey again raised our hopes that a more aggressive resolution of the NPL (Non-performing loan) problem plaguing the banking and corporate sector was likely. But the budget does not even talk about the issue. Acknowledged NPL are now at around \$90 billion, but the real amount could be much larger. One of the big lessons from international experience is the longer you delay resolving the banking sector's problems, the longer it takes for the economy to recover.

The Survey talks of establishing a Public Sector Asset Rehabilitation Company (PARA), where the NPL could be transferred and settled, freeing up the balance sheets of banks and corporates. But it is unclear how PARA would be financed. Asking the RBI to transfer securities to this agency may further weaken the RBI, especially after the battering its credibility has taken due to demonetisation. A more aggressive resolution would be to

have banks and corporates take a hit on their balance sheets. It would at least create the right incentives for future behaviour and allow new private banks to expand more aggressively. The prime minister constantly reminds us, "pain now for gain tomorrow". The errant corporates and public sector banks should be made to feel some of that pain. Instead, we see more tax-payer money (Rs 10,000 crore) going to public sector banks through the "Indradhanush" scheme, with no word on the "bankruptcy law", which we need so badly now.

The budget does acknowledge that demonetisation was a disruptive reform. If the forecast growth for FY17 was 7.6 per cent, it is now expected to be around 6.5-6.75 per cent, amounting to a drop of around 1 per cent. Instead of bringing the budget forward, it should have been pushed back, so that the FY17 Q3 numbers were available for a better estimation of the disruption. But that would have meant acknowledging that demonetisation was a mistake. Instead, the budget has provided some sops to groups that may have been affected adversely by demonetisation. So, we see a tax relief for low income tax-payers and smaller companies and more money for MGNREGA to help create some income in rural areas.

While breaching the announced fiscal path from 3.0 to 3.2 per cent of the GDP, the FY18 budget does not also completely abandon it. This has been the pattern in the last two budgets as well. The government wants to spend more money but isn't sure what it might do to India's ratings. Given the international environment, any adverse impression could trigger a bigger outflow of funds from India.

FY17 and FY18 may well go down as two wasted years. In FY17, we dealt with an ill-thought-out, poorly implemented demonetisation. We will be on the back foot in FY18, trying to recover from it.

We wish the government instead would keep its focus on genuine reforms: Resolve the NPL issue by allowing corporates and banks to take a hit on their balance sheets, increase divestment with more funds for social infrastructure, shift more aggressively to DBT. This would have, in a year or two, set us on genuine recovery, created jobs and achieved the objectives for which this government was elected.

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