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COMMENTARY

FISCALLY PRUDENT AND PRAGMATIC BUDGET

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For the first time in the last four years, the Union Budget has deviated from the fiscal consolidation path and announced a slight revision in the deficit figure by three percentage points to 3.5 per cent for the Financial Year 2018-19. The deficit slippage has happened due to the shortfall in revenue as a result of structural reforms like GST, a shortfall in non-tax revenue of RBI dividends and increased revenue expenditure.

Non-adhering to 3.2 per cent deficit-growth ratio is considered as inevitable for macroeconomic stability and economic growth in the present context. It is prescribed by Fiscal Responsibility and Budget Management (FRBM) committee that fiscal deficit needs to be decreased to 3 percent of GDP by 2024-25. The Finance Minister has announced in the budget that he has accepted the recommendations of FRBM committee.

The Union Budget 2018 is pragmatic for many reasons. The emphasis on social security schemes, especially the mega health insurance scheme, is one of the significant announcements of this budget. The flagship health insurance programme referred as National Health Protection Scheme (NHPS) launched by the Modi government in Union Budget 2018 is a good initiative especially when poor households in India have "catastrophic" out-of-pocket-spending (oops) for health. This new programme – NHPS- is an extension of Rastriya Swasthya Bima Yojana. Though budget 2018 allocated only Rs 2000 crore for this programme to begin with, this programme will be the world's largest health programme, which will provide Rs. 5 lakhs in health insurance cover per family.

On the tax side, the Finance Minister has reduced the corporate tax from 30 per cent to 25 per cent for small companies whose annual turnover is below Rs. 2.5 billion. The data shows that companies with turnover below Rs. 2.5 billion form 99 per cent of the corporate tax payers. The budget has also announced an increase in customs duty on a range of electronic items to protect "Make in India" efforts. Finance Minister has imposed long term capital gains tax on earnings above Rs 100,000. However, he has given tax relief to senior citizens.There is no change in personal income tax slabs. The only announcement relates to PIT (personal income tax) is the "standard deduction" of Rs. 40,000 for salaried employees in lieu of transport and medical expenses.

The revival of investment in rural infrastructure, agriculture and animal husbandry is a welcome move. The public expenditure on agriculture and allied sectors has increased by 13 per cent in 2018-19. Gender budgeting in energy sector by providing clean fuel to women in poor households through LPG connections at subsidized prices is a welcome move, as it protects women and children from indoor air pollution while using inferior fuels.

The hardening of oil prices and inflationary pressures need to be watched with caution to maintain the revised fiscal consolidation path.

Industry body FICCI has welcomed the budget. They mentioned that the path towards “digital infrastructure” in public finance is an enabler for “ease of doing business”. With demonetization, the tax base has increased. The foreign direct investment (FDI) has gone up, India is the fifth attractive destination in the world for foreign investment, next to USA, UK, Germany and China. The Finance Minister announced that exports are expected to increase 15 per cent in 2018-19 and that the economy is on track to achieve 8 per cent growth.

In the Budget Speech, Finance Minister Arun Jaitley mentioned that after improvement in“ease of doing business”, he focusses now on "ease of living". It is commendable to focus on “soft sectors” like education, health, agriculture and rural employment for achieving economic growth and development. Agricultural sector received adequate attention in this budget, with the promise of doubling farm incomes in five years. The Finance Minister has allotted Rs 5. billion for “Operation Green”.

The twin balance sheet (TBS) crisis– the problems in the balance sheets of public sector banks and the corporate firms - is a major issue which hinders the economic growth in India. Recapitalization of Public Sector banks is an inevitable step towards fulfilling ‘Basel’ norms of capital adequacy ratioby 12 per cent. This capital infusion to banks coupled with the measures taken by Union Budget 2018 would retain India in a formidable growth path.