

# Populist but fiscally imprudent Budget

**T**HE BUDGET is presented at the time when there are pressures from political economy, farmers, middle class and MSMEs. The Budget tried to focus on these segments with both sops and populism. All these appear to have dented the fiscal consolidation process the government meticulously adopted until recently. For two years, it has breached the fiscal targets with larger deviation for 2019-20.

As the government explains in page-19 of MTFP document, the deviation is largely due to transitional impact of GST, which has impacted indirect tax collections, as well as the agricultural situation that led to income support scheme. But what is more striking is the sentence in the same page



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‘Revenue Deficit and Effective Revenue Deficit have been removed as parameters for targeting fiscal outcomes’. The document suggest the public debt-to-GDP ratio would decline from 48.9% to 47.3%, which is surprising as well as inconsistent.

There are risks in achieving fiscal deficit target of 3.4% for 2019-20; it depends on many assumptions including disinvestment target of ₹90,000 crore. Based on current year trends, expected to see a shortfall of ₹20,000 crore, achieving the target could be difficult. Another assumption is about mobilisation of CGST of ₹6.1 lakh crore against ₹5.04 lakh crore in the current year. This is despite expected marginal decline in nominal GDP growth from 12.3% to 11.5%

between 2018-19 and 2019-20, and also due to reduction in GST rates. Risks are on the expenditure side especially on interest payments, budgeted to increase by 17.5% in 2019-20 compared to 9.6% in 2018-19.

Two major announcements are income support for farmers and increase in income tax slab. While income support is expected to have a larger impact on fiscal deficit, income tax proposal may not.

The draft Finance Bill does not contain the income tax proposal as this is left for the new government and to the full Budget. Even income support for farmers could be fraught with implementation issues, especially in regions where land records system is weak.

The focus on economic growth is limited and predictably so dur-

ing an election year. The increase in allocation to infrastructure is minimal with reduction in sectors such as civil aviation, ports, etc. Even in employment potential schemes such as rural housing, allocations have been reduced.

Overall, the Budget, while appearing to be populist, deviates from the fiscal consolidation roadmap. This could have implications on growth as well as on reviving investments (public, private and foreign) that are subdued. But more challenging would be to improve the fiscal marksmanship especially on the revenue side, as this could help better plan long-term investments and schemes without frequently deviating from FRBM targets.

