

# Key issues that Budget must tackle

Fiscal consolidation through cuts in spending instead of tax buoyancy can have adverse long-term consequences on growth

**THE PRIME FOCUS** of Union Budget 2019 would be on the need to strengthen economic growth. A deviation from the path of fiscal consolidation may be essential to spur growth. A strict adherence to the threshold fiscal deficit ratio of the GDP may not be feasible at this point as more public investment, especially on capital infrastructure, is a pre-requisite for putting the economy back on its earlier growth path. This is one of the bold steps expected from finance minister Nirmala Sitharaman in her first Budget speech. However, if the fiscal consolidation path is achieved not through tax buoyancy (as tax revenue realised is below target) but through cuts in spending, it can have adverse long-term consequences on growth.

Tax buoyancy can increase only through appropriate tax reforms. A rejig of corporate tax is expected in the upcoming Budget to spur growth. In the last Budget, corporate tax was cut to 25%, but this was announced only for the small and medium firms. On the expenditure side, it is plausible that schemes for farmers and women are announced or solidified. However, it would be crucial to back up such mega announcements with appropriate budgetary allocations.

The government is committed to increasing the income of farmers, with the Cabinet Committee on Economic Affairs (CCEA), chaired by prime minister Narendra Modi, already having approved the increase in Minimum Support Prices (MSPs) for all 'kharif' crops for the 2019-20

season. Assured remunerative prices to the farmers will lead to increased investment and production.

Policy uncertainty can affect economic growth. The "new macroeconomic framework" of India is expected to get further clarity in this Budget. There are deliberations regarding the transfer of excess reserve from the Reserve Bank of India to the government, under the non-tax revenue category, to finance the deficits. This issue may get further clarity in the upcoming Budget.

The Budget announcements are awaited, also, to explore the nature of Sitharaman's new economic policies for the country—whether they will focus more on ensuring job creation or on guaranteeing "minimum basic income" through financial inclusion.

The government's continued focus on social infrastructure, especially water and sanitation, and gender budgeting in energy infrastructure—providing clean fuel to the women in low-income households—is welcome. However, the expenditure on other significant components of social sector budget, like health and education, needs to be increased significantly. A renewed role of the state in human capital formation, especially with regard to health and education, is deeply awaited. A budgetary announcement to strengthen the National Nutrition Mis-

sion is also expected.

The climate change issue is also expected to be addressed in the Budget. A "climate responsive budgeting" statement would be welcome, both for adaptation and mitigation strategies.

Structural reforms are also required to catalyse "ease of doing business" and revive growth. The government may announce a set of these reforms to revive growth. The Monetary Policy Committee has reduced policy rates, however, the monetary transmission of this announcement by commercial banks needs to be observed. This, in turn, would trigger consumption in the economy.

Since it can surely spur growth, infrastructure is expected to get more emphasis in today's Budget. "Leave No One Behind" is the motto of the Modi 2.0 government.

Given that the macroeconomic fundamentals of Indian economy are strong, whether FM Sitharaman unshackles the "animal spirits" of investors is something which one can wait and see. The financial exuberance may be observed post the Budget presentation.

In light of global turbulences like the US-China trade war, fluctuations in oil prices and inflation, the Indian finance minister should be mindful of how these external factors are addressed and channelised to trigger domestic economic growth.

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## LETTERS TO THE EDITOR

### Rahul's 'principled' stand

Rahul Gandhi's refusal to continue as Congress President and nominate his successor is reflective of his personality. Winning or losing an election is part of the political game. By no means is it a measure of whether what you represent is right or wrong. If the coming back of the Congress did not happen, it was not Rahul's failure. Still he took responsibility for his party's debacle. No leader or party could have done anything differently and more rewardingly in the face of the resurgence of religion. The Hindu Right succeeded in playing the Hindutva card in swaying the voters to BJP's favour. Remember how the Sadhvi who called Mahatma Gandhi's assassin a patriot won with a hug margin in Bhopal. It redounded to Rahul Gandhi's credit that he fought for principles and not for political power. It was true that at times Rahul Gandhi stood alone to fight the BJP and Narendra Modi. He did it without hatred or anger. In fact, he had to fight the entire state machinery. That the setback has not diminished his resolve to fight the divisive RSS ideology is worthy of a great leader. From his statement that he is going to intensify the fight against the RSS '10 times more', it is clear that he is not stepping back from his fight for India's continued existence as a liberal, secular democracy. Rahul Gandhi was right in saying that RSS and the prime minister were capturing the 'institutional structures'. Indian democracy will be the loser if the elections become a 'mere ritual'.

—G David Milton, Maruthancode

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