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GOVERNMENT'S FOCUS ON GROWTH IS STRONG, BUT THE FISCAL ARITHMETIC IS WEAK

EXPERT VIEW

N.R. BHANUMURTHY

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On the face of it, the Union budget appears to be not so different from the interim budget presented in February. However, where it differs majorly, and rightly so, was focusing on medium-term growth target of achieving $5 trillion by 2024-25.

The budget proposes many measures that could help in what the Economic Survey suggested of 'virtuous cycle' of investments and not just focusing on public investments. It struck to the government's agenda of 'Reform, Perform, and Transform'. But, the Economic Survey suggested that India needs to grow at least by about an average of 8% in the next five years to achieve its medium-term target.

Going by the numbers presented by the budget, it appears to be unachievable as it projects an average growth of 7.3% for the next three years, way short of 8% as suggested by the Economic Survey. But there are also concerns about the fiscal numbers presented.

The Union budget proposes to stick to the fiscal targets as set under the FRBM Act. Under this, it proposes to achieve the fiscal deficit target of 3.3% in 2019-20 while reaching 3% by 2021-22. Similarly, it also proposes to bring down debt to 48% of GDP in 2019-20 and further down to 44.4% in 20121-22 (inclusive of extra-budgetary receipts). One crucial assumption for this is about the budget's assumption of nominal GDP growth. While the Macroeconomic Framework Statement and the Medium Term Fiscal Policy cum Fiscal Policy Strategy Statement suggest an assumption of 11%, from the fiscal deficit and other numbers one can estimate that the budget is assuming 12% growth. This is specified in the budget at a glance document as well. In our view, given the slowdown phase, and with about 10% nominal growth in 2018-19, achieving 12% in 2019-20 could be a tall order, unless the inflation rate shoots up to 5%. This could affect the revenue projections and, hence, the fiscal deficit numbers.

Budget proposes to achieve fiscal deficit target of 3.3% in 2019-20 while reaching 3% by 2021-22

However, the buoyancy assumptions on direct and indirect taxes of 0.9 and 0.6, respectively, though appear to be on the lower side, looks realistic. On the revenue side, there seems to be over-reliance on disinvestments as well as dividends from the RBI. We have to wait for the Bimal Jalan committee report on this.

On expenditure side, while the budget highlights that it is the interest payments that takes major part of revenue receipts (of about 33.7%), what is not clear is the statement that says 'The interest payments are expected to come down in the medium term as global uncertainties relating to trade wars and higher oil prices are expected to ease the pressure on the currency". Further, in the end, one gets a feeling that it is the growth prospects that will help in overall fiscal management and not the other way. The budget says, "growth prospects of the Indian economy in the medium to long term are sanguine" and this "is expected to lift the fiscal prospects of the economy". Does it mean a passive fiscal policy in a slowing economy? Intrinsically, the budget appears to rely more on private investments to revive growth. What was needed right now was counter-cyclical fiscal measures and the government appear to have shied away from that.

N.R. Bhanumurthy is a professor at the National Institute of Public Finance and Policy, New Delhi.