FM had a tough task, but Budget has failed to clear the smell test

February 2, 2020, 3:30 AM IST Maitreesh Ghatak in Voices | India | TOI

The economic outlook has been ominous and even the official statistics now have come to terms with it, after a prolonged period of denial. According to the latest National Statistical Office release in January, in 2018-19 the growth rate of GDP in nominal terms was at a 42-year low and its growth in real terms was at an 11-year low. For six successive quarters now, the quarterly growth rate of GDP has dipped. Unemployment is at a record high, the growth rate of investment has nosedived, and consumer spending growth has slowed alarmingly.

With this grim backdrop, even the toughest critics of the government's economic management couldn't but feel some sympathy for the unenviable task that the finance minister and her team had before the presentation of the Budget. Ignoring the usual pieties about aspirational India and a caring society, and a whole slew of new government initiatives with fancy names but inconsequential budgets, how has the Budget done if we look at the hard facts?

The fiscal deficit has hit the maximal level of 3.8% that the Fiscal Responsibility and Budget Management Act allows. This was widely expected, but it considerably understates the gravity of the situation. Actual tax revenue in 2018-19 fell short of the estimated amount by a staggering 10%.

The biggest shortfall in actual tax revenue relative to estimates has been in corporation tax (about 20%) and taxes on commodities and services that includes GST (around 12%). Yet next year's estimated tax revenue has been set 9% higher than this year's actual revenue, an act of optimism that defies logic given the gloomy economic outlook.

One of the most striking facts from this year's Budget is that the borrowing against National Small Savings Fund has nearly doubled — literally a 90% increase! This enables the government avoiding borrowing from the market. Otherwise, the rising interest rate and crowding out would have hit the corporate sector hard.
But that is not the end of the story. There is another method used by the government to make the deficit seem smaller than it is — namely, deferred payments to public sector enterprises such as the Food Corporation of India (FCI). These do not show up in the Budget as expenses but force these entities to borrow from the market, which in effect makes the deficit a lot higher.

The unpaid bill to FCI is around Rs 2 lakh crore while the fiscal deficit itself is Rs 7.6 lakh crore. So, if these items are taken into account, the fiscal deficit would be closer to 5%.

Not surprisingly, given the situation on the revenue front, there has been a reduction in actual overall government expenditure compared to the estimated levels from the last budget. Yet, the proposed expenditure for the new fiscal has gone up by 12%, which seems rather implausible.

I, and many others, have been arguing that the allocation for welfare schemes should be raised or at least maintained as weak consumer demand is a leading cause behind the economic slowdown. Yet the government has slashed the funds for Mahatma Gandhi National Rural Employment Guarantee Scheme by Rs 9,500 crore.
It is true that it has increased the funding for rural roads, the rural housing scheme, and the national livelihood mission, but the net increase in the expenditure that will affect rural areas where two-thirds of the population lives seems insufficient, especially given the widespread signs of rural distress.

Finally, what sense does one get from the Budget about the longer-term policy direction of the government? From the point of view of the economic reform agenda, the raising of import tariffs does not augur well although the ambitious targets for disinvestment is a more positive sign.

Also, given that personal income tax revenues constitute around 2.5% of GDP and those who pay these taxes have a higher saving rate, being more affluent than the average citizen, the demand boost from the announced income tax cut will be limited even if all of it is spent, which is unlikely.

Abolishing the dividend distribution tax too does little, given the overall economic situation and the acute shortfall of revenue. Given the means that were available at the government's disposal and the gravity of the task at hand, the question was not whether the Budget will pass the test with flying colours, but whether it will pass the smell test. It does not seem it has. One immediate indication of this is the Sensex slumping by nearly a thousand points even though this is not a particularly pro-poor or populist Budget, and even includes some sops to corporates.

AUTHOR

Maitreesh Ghatak

VIEW 3 COMMENTS

Jagdip Vaishnav

Where is Sab ka Saath --Sab ka Vishwas ?Govt has made common man, salary class, Pensioners, Seniors helpless by removing various Tax deductions Standa...

Jagdip Vaishnav

By removing various Tax deductions ,Govt has tortured salary class, penioners, seniors, Farmers . Othe rside Rich Farmers are not being taxed

Mani

No bhakts commenting. Raz Patnaik and Sachidanand Kabir are silent - sitting in the USA with Congress provided opportunities and least bothered about ...