

IT HAS BEEN SIX MONTHS  
SINCE BUDGET 2017-18 WAS  
PRESENTED. WILL ITS SUCCESS,  
OR OTHERWISE, IMPACT  
**THE PROCESS OF BUDGET  
MAKING IN 2018?**

BY  
**ASHISH GUPTA**  
WITH GAURI CHAUHAN

ILLUSTRATION BY  
**CHETAN SINGH**



**F**REELY BORROWING FROM every newspaper reporter's vocabulary, 'when the finance minister Arun Jaitley rose to present Budget 2017-18 in the house', expectations were largely muted. Coming soon after the demonetisation exercise, when Rs 1,000 and Rs 500 notes were declared illegal in the government's stated fight against black money, only a few expected anything dramatic.¶ In the flurry of opinion pieces that traditionally follow every Budget, there were some that commended Jaitley for his moves related to tax structure, though others were more circumspect, saying that the much-awaited goods and services tax, or GST, could take away from many of Jaitley's announcements. Much was also made of the fact that despite demonetisation, net tax revenue grew 17% in 2016-17, exactly the same rate at which it grew in 2015-16.

But here's the thing. Year after year, the finance minister makes his Budget speech, and year after year, every publication and television channel worth its words churns out vast quantities of analysis and opinion. Some of it good, most of it forgettable. But what also happens every year is that a couple of months after April, most people forget there was such a thing as the Budget. And the entire process begins again the next year.

While there's much said about how irrelevant the Budget is in this day and age, and of how it's a relic of British colonialism, there are certain functions the Budget still serves. One, it tells the country what the government plans to do to raise money and the broad policy guidelines. Then, it spells out how that money will be spent, whether on defence or agriculture or manufacturing.

In a column after Budget 2016-17, economist Meghnad Desai wrote: "Keynes taught us that the budget accounts may balance but the economy may not. So, a public budget has to take account of not just the revenue and expenditure but also its impact on the economy. A balanced budget may unbalance an economy." And the impact on the economy cannot be gauged in the few days following the Budget announcement. Which is why, six months on, we are looking at what Budget 2017-18 has done.

LIKE EVERY YEAR, THIS YEAR TOO, the government has set an ambitious target of raising funds through disinvestment of public sector undertakings. Jaitley announced that the government expects to raise Rs 72,500 crore this year. The idea, in February, was to use this amount to hike investments in infrastructure and social schemes, as well as to bring down the fiscal deficit from 3.5% last year to 3.2%. The stated plan was to sell a stake in some blue-chip PSUs including Indian Oil Corporation and Steel Authority of India, as well as Rural Electrification Corporation, Power Finance Corporation, and National Thermal Power Corporation.

Six months on, there's been little progress. Apart from initiating a search for legal advisors and investment bankers as part of the exercise to list three railway divisions (Indian Railway Catering and Tourism Corporation, Indian Railway Finance Corporation, and Ircon International) there's been very little action on the listing front. The offer for sale





of shares of Hindustan Copper closed on August 3.

Of course, there's been some money coming in through this route. The government has raised Rs 1,204 crore through a 9.2% stake sale in National Aluminium. It has also made some progress in the disinvestment of loss-making national carrier Air India.

The good news is that despite the jerky progress on the disinvestment front, latest data from the Central Statistics Office show that macroeconomic fundamentals seem to be fine. According to the World Bank, GDP growth is expected to touch 7.2% in FY18 and the fiscal deficit is likely to fall to 3.2% of GDP. The revenue deficit as a percentage of GDP is also expected to decline to 1.9% in FY18 from 2.1% in FY17. The current account deficit too has been reined in from \$22.1 billion (Rs 1.4 lakh crore), or 1.1% of GDP in FY16, to \$15.3 billion, or 0.7% of GDP in FY17.

Add to this other positives, where the government has acted decisively. For instance, the abolition of the Foreign Investment Promotion Board saw a 23% increase in FDI in the first two months of the current fiscal to Rs 64,524 crore from Rs 52,829 crore last year. Then, there was the proposed merger of Oil and Natural Gas Corporation and Hindustan Petroleum Corporation to set up a monolithic oil company that can compete with some of the bigger international companies.

**BUT, AS WE LIKE TO SAY AROUND HERE,** every silver lining has a cloud. Currency

with the public registered a decline of 12.8% in June against a growth of 16.1% in the corresponding period last year, capacity utilisation continues to hover at around 72.3%, private investment remains tepid, and fewer jobs are getting created despite high-decibel government campaigns. (Last year only 130,000 jobs were created while around 1.2 million people entered the job market.)

The index of industrial production plummeted to 1.7% in May 2017 from 8% in the same month of 2016. The production of eight core infrastructure industries (coal, crude oil, natural gas, refinery products, etc.), which account for 38% of the index, fell to 3.6% in May 2017 from 5.2% a year ago. There's been a slowdown in manufacturing too; during the first two months of this financial year, manufacturing grew by just 1.8% compared to 7.1% in the corresponding period last year. This is despite the fact that Jaitley announced a slew of initiatives to strengthen the manufacturing sector. Soon after the Budget announcement, commerce and industries minister Nirmala Sitharaman issued a statement saying the Budget "provides renewed impetus to manufacturing and Make in India, export infrastructure and government e-marketplace".

Among the steps was the passage of the Insolvency and Bankruptcy Code, 2016, which has resulted in action against 12 top defaulters. Other steps have not resulted in much. 'Make in India' is still work in progress, and employment has been created only in some sectors. Other initiatives mentioned in the Budget, including some sops to startups, and incentive programmes such as the Modified Special Incentive Package Scheme and Electronic Development Fund, have so far yielded little.

If manufacturing is mentioned, can GST be far behind? Much of the excitement associated with the Budget exercise, including the intense lobbying by trade associations, will end with the implementation of GST.

With GST, the discretionary power of the finance minister and the ministry to make changes in the indirect tax structure—consisting of service tax, excise, and customs duty—has been completely removed. Instead, such power now vests with the GST Council, comprising state finance ministers. With the GST Council recently announcing a five-slab tax structure—0%, 5%, 12%, 18%, and 28%—Budget 2018-19 is unlikely to see any major change in tax rates.



Then President Pranab Mukherjee and Prime Minister Narendra Modi launch the goods and services tax in the Central Hall of Parliament in New Delhi on June 30.





The good news is that by July-end—not even a month after the implementation of GST—nearly 1 million new small and medium businesses had registered under the new GST Act. This is in addition to the 8.6 million existing businesses and service providers under the Goods and Services Tax Network (GSTN). While registration is mandatory for companies with an annual revenue of above Rs 20 lakh, even those below that threshold are registering to ensure that the input tax credit claim is maintained. Experts believe that if a significant percentage of the new 1 million companies start paying taxes, indirect tax collection could go up by 25%-30%.

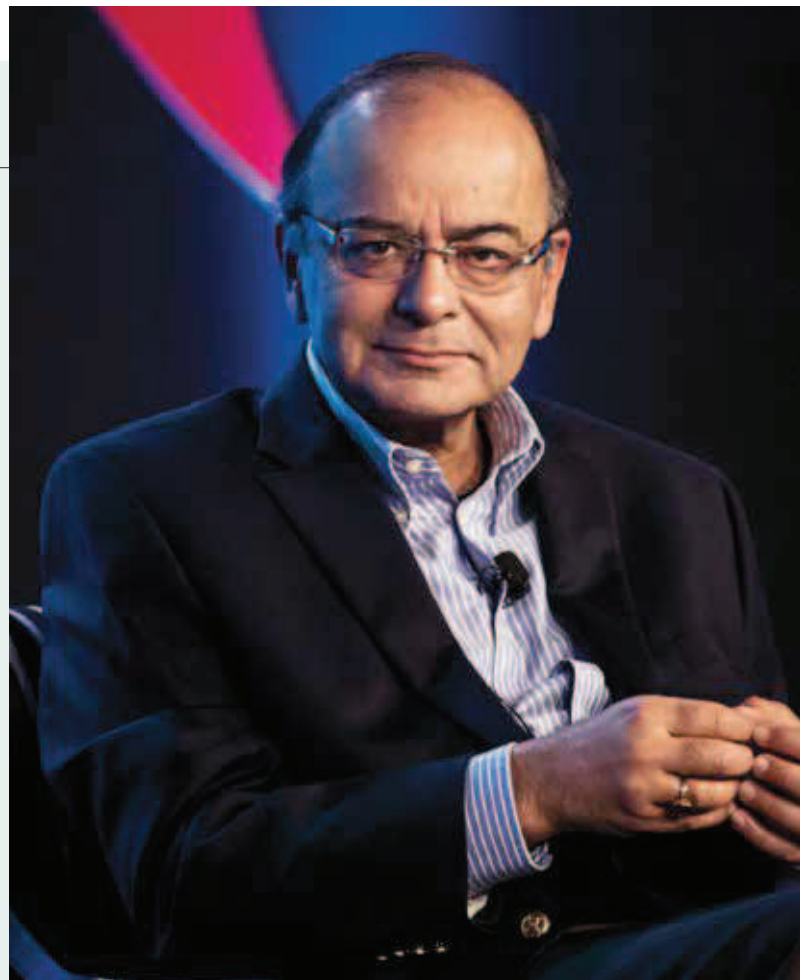
While GST means that there's little to be said about indirect taxes in the Budget, it demonstrates the government's ability and willingness to implement big reforms. "There should be some windfall gains for the government because a large number of new companies will now come under the tax bracket," says Nilanjan Banik, professor of economics at Noida-based Bennett University.

**WILL DIRECT TAX, THE OTHER BIG DRAW** in every budget, be hit in any way? "Highly unlikely," says Gautam Mehra, tax leader at the global tax and consulting firm, PwC. "The road map for corporate tax reduction from 30% to 25% had already been outlined in Jaitley's first Budget, so no surprises. As far as income tax rates are concerned, the government does not have the financial muscle to announce major reductions."

That lack of financial muscle is perhaps one of the big reasons Budget 2017-18 did not meet the high expectations of individual taxpayers in the aftermath of demonetisation. Which is not to say Jaitley did not tinker with the tax rates; the biggest cut was for those in the lowest tax slab of 10%. That has now been brought down to 5%. (Cynics, of course, could see this as a sign of things to come, as the next Budget is likely to be a populist one in preparation for the next general elections.)

Mehra, meanwhile, adds that there's unlikely to be much progress on the direct tax code, although Arvind Modi, one of the architects of the code, has been brought into the Central Board of Direct Taxes.

The other big announcement in Budget 2017-18 was the allocation of Rs 10,000 crore as capital infusion for public sector banks. This allocation has been seen as inadequate by most experts, with international credit rating agency



● **Finance minister Arun Jaitley's announcement of a slew of measures to strengthen the manufacturing sector hasn't yielded the desired results.**

Fitch Ratings estimating that state-owned banks will require Rs 8.8 lakh crore to become Basel III compliant. The government has since made it clear that it will infuse only Rs 8,586 crore, on condition that these banks meet certain quarterly numbers. On the face of it, this does not augur well for the banking sector. However, PwC's Mehra believes that instead of infusing huge amounts of funds to re-capitalise the banks, the government is actually forcing the banks to clean up their books by selling their bad loans and bringing loan defaulters to

book under the Insolvency and Bankruptcy Code 2016. "It is a very different strategy from earlier governments," he adds.

**THE OTHER BIG BUDGET ANNOUNCEMENT**, traditionally, has to do with agriculture. Like most of his predecessors, Jaitley too made promises to farmers in Budget 2017. His promise to double farm income by 2021-22 and reduce farm distress is likely to hog a lot of time in the next Budget. The reason: unending misery and suffering in the farm sector despite a good monsoon this year, not

to mention the last two trying years because of the droughts.

While the government has already set up a committee to look at various linkages in the agricultural food chain—like irrigation facilities, easy availability of quality seeds, higher spending in warehousing, cold chain, and food processing, and developing a National Agricultural Market—relief seems a long way off. In fact, a NITI Aayog study estimates that to double farmers' income from the 2015-16 level, agriculture needs to grow at 10.4% and farmers should get 17% higher prices for their produce every year till 2020. To put that in context, the Economic Survey 2017 predicted that agricultural growth would cross 4% this fiscal, from 1.2% last year.

There's also the huge hit states are taking on account of farm loan waivers. "Although the centre has ruled out any bailout for the states, whether the government keeps its promise, or finds ways to help out the especially indebted, is something to keep an eye on," says economist Amir Ullah Khan.

The issue becomes critical because as a recent State Bank of India report points out, states like Uttar Pradesh, Rajasthan, Punjab, Kerala, and Haryana are not eligible for additional market borrowings in FY18 due to non-compliance of fiscal prudence norms.

SO MUCH FOR THE MIXED RESULTS of Budget 2017-18. What does this mean for the next Budget? Sunil Kumar Sinha, principal economist and director public finance, India Ratings and Research, says it is perhaps time for a dose of fiscal profligacy to take care of the deflationary situation. The lack of private sector investment, coupled with slowing individual savings and a restricted export market, means the government will need to take up the slack and announce some kind of stimulus package to push growth and create jobs. He suggests the finance minister raise the fiscal deficit goal to 3.5% instead of keeping it at 3.2%. "It will call for a reworking of the Budget numbers, but that should not be an issue," he adds.

Others like Mehra believe the next Budget might be the last opportunity for the Modi government to make some big-ticket

reforms like taxing agricultural income, deciding on short-term capital gains tax, and other similar long-pending steps. They say 2018 need not be a populist Budget, as most others expect. Budget 2019-20, however, will definitely be populist, they say, and will include a number of handouts that have not happened in a big way so far.

So what can be expected in the next Budget? Higher spending on social security, poverty alleviation and infrastructure development programmes like the Mahatma Gandhi National Rural Employment Guarantee Act, the Prime Minister's Employment Generation Programme, Pradhan Mantri Kaushal Kendras, and the Pradhan Mantri Gram Sadak Yojna. The idea is not so much to appease the masses as to inject capital in one way or the other into the system to help in economic recovery. This will then lead to job creation even when industrial and construction activity is low. One-off direct transfer of funds to the poor is good for the economy too because they have a high marginal propensity to consume—so the money gets spent faster than being saved.

Since revenue numbers were available only up to March 31, 2017, all the revenue projections are speculative. The next Budget will actually tell us whether the higher allocations made in various schemes actually were made, and if they were made, if they bore fruit.

With exports declining, will the government provide some kind of financial incentives for the export sector? What kind of incentives will the government provide the IT sector which is going through a rough patch? Questions abound, and the only answers can be had in Budget 2018-19.

Meanwhile, the crusade against black money, corruption, and non-transparent political funding, which formed an important part of the government's last two Budget proposals, will continue. As a result, the tax base could get bigger, as is already being seen. According to the government, 19.6 million returns were filed between November 8, 2016—the date of demonetisation—and March 31, 2017. This is a 20% jump from 16.3 million returns during the corresponding period in FY16, which in turn is 32% more than 12.3 million in FY15. "The real issue is not just how much they have collected, but how that money could be used," says a banker, who refused to be identified. And that (how money will be spent) is one of the big reasons we are all still interested in the Budget exercise. ■

36.2

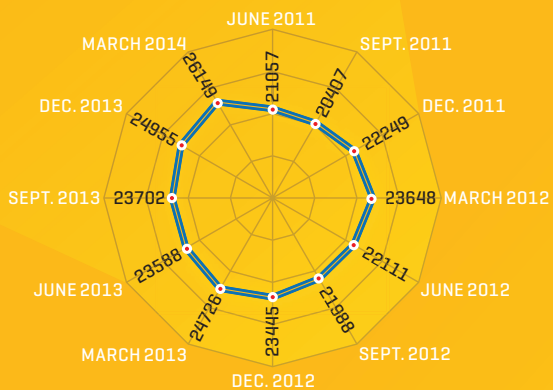
PERCENT

Rise in tax collected by the Centre in the first two months of FY18, compared to the same period in the previous fiscal

54

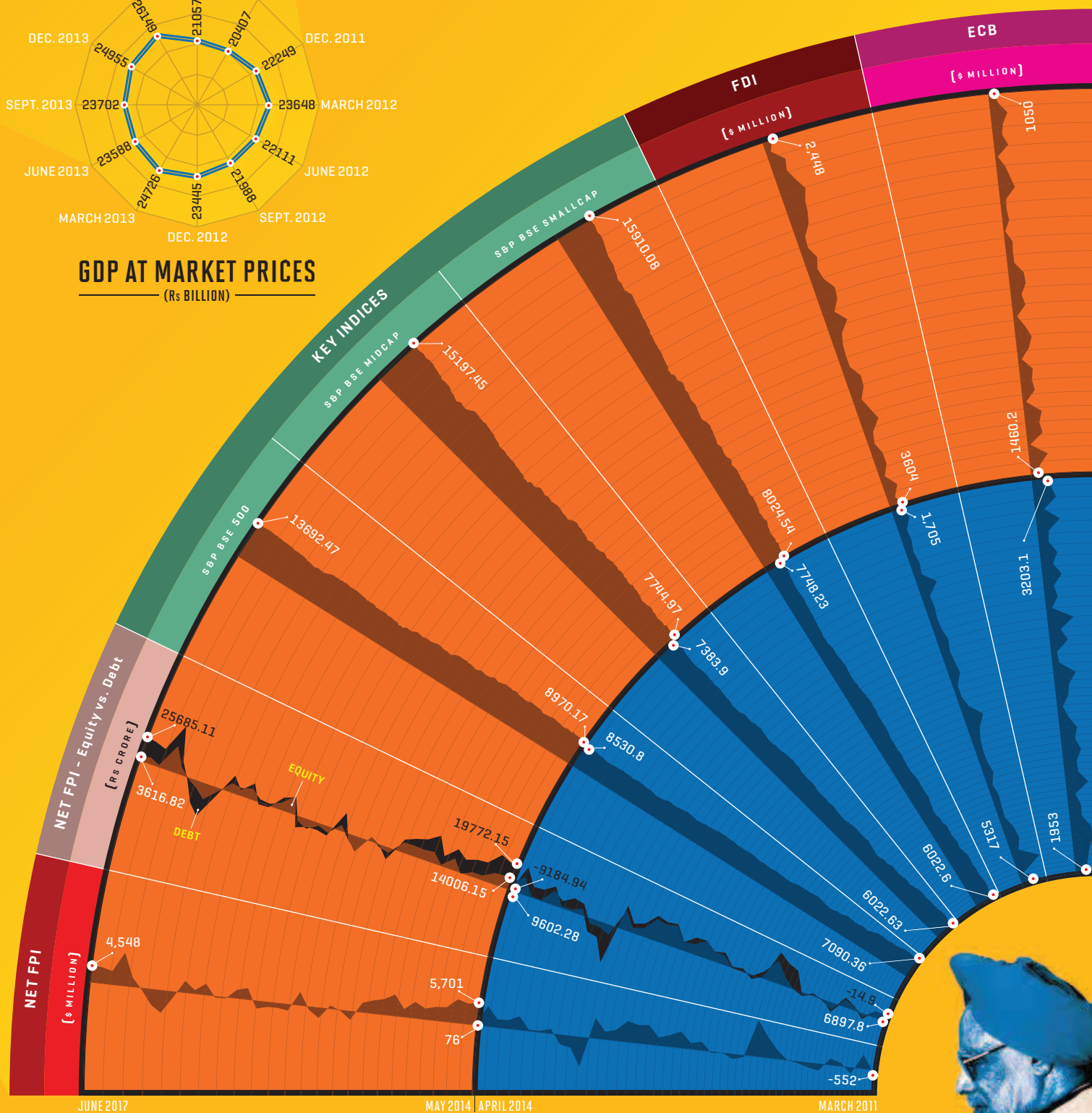
PERCENT

Rise in government expenditure in the first two months of FY18, compared to the same period in the previous fiscal



## GDP AT MARKET PRICES

(Rs BILLION)



# STATE OF THE ECONOMY

UPA VS. NDA

By  
RAJIV BHUVA

Graphic by  
CHETAN SINGH

