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Modi's Government presents an Election-oriented Budget

Vinod Rai

Summary

The Narendra Modi government's final budget of this term has been presented. It has broken past traditions of presenting only a 'vote on account' ahead of the general elections and has distinct overtones of reaching out to the voter community. There are sops to the farmers, rural workers and salaried low middle income groups. The fiscal deficit slippage, despite sops, has been indicated to be minor, whereas disinvestment target seems ambitious. It remains to be seen how the March end figures will pan out as it will be for the incoming government.

Introduction

The annual budget presentation in India is an eagerly awaited event. There is much speculation in advance about what its contents would be. Then there are the usual photo opportunities on the day of the budget and numerous panel discussions on television channels after it is presented.

This year's budget had the same build up around it. However, it was different, as budgets presented months before a particular government is to demit office are conventionally only 'vote on account' and not a full budget proposal for the whole year. This is the tradition as it is felt that the incumbent government should not tie down an incoming government with its taxation and other proposals over the year.

Election Budget

This year's budget has been presented. It is certainly not the conventional 'vote on account'. It has all the elements of a regular budget. It provides a full tax rebate scheme for earnings up to ₹500,000 (S$10,000) annually. It also provides a tax saving to the salaried class through an increase in the standard deduction. This will cover about 30 million small tax payers. Clearly, the most significant policy announcement is the dole of ₹6,000 (S$120) per year (in three instalments) to poor farmer families with less than two acres of cultivable land, with retrospective effect. This is akin to a pension scheme similar to a social security net. The scheme targets to benefit 120 million families and would cost the government ₹750 billion (S$15 billion). This scheme aims to address the depressed prices of farm output and is, thus, a compensation for adverse terms of trade. The election-related aspect of this scheme is that almost 30 per cent of these beneficiary families are located in Uttar Pradesh and Bihar. By election time, farmers would have got the first instalment of ₹2,000 (S$40) in their bank accounts. This has to be seen in the light of the Congress party announcing minimum income guarantee coverage were they to come to power, and the Bharatiya Janata Party recently suffering setbacks in the assembly polls in three states.

There is an announcement of a pension scheme for workers in the unorganised sector earning less than ₹15,000 (S$300) annually. The scheme promises an assured monthly pension of ₹3,000 (S$60) from the age of 60 years in return for a nominal monthly contribution of ₹55-₹100 (S$1-S$2) till then, with the government providing a matching contribution. Though the government promises it to be the "largest pension scheme in the world", the track record of earlier contributory pension schemes has not been encouraging. Thus, the coverage of 100 million beneficiaries over five years would appear optimistic. Further, the budgetary provision of only ₹50 billion (S$1 billion) for an estimated 100 million beneficiaries seems insufficient.

The benefits that would flow from these announcements would cover at least about 130 million individuals and 120 million farmer families and, hence, appears directed to enticing voters in this income segment.

The real estate sector has been given a shot in the arm with notional rent on owning a second house being exempt of tax, and a second home could be purchased while saving on capital gains. There are also measures to improve the profitability of real estate companies through tax breaks such as no tax on notional rent for two years after completion (unsold inventory) and a year's extension if they wished to access benefits associated with starting a new low cost housing project.

The total financial burden for all these schemes will be in the range of about ₹1 trillion (S$20 billion) annually. However, the fiscal slippage, as a consequence of these schemes, seems to be underestimated. In the current year, as against the budgeted fiscal deficit estimate of 3.3 per cent, the revised estimate is 3.4 per cent of the gross domestic product. There is also a Goods and Services Tax revenue shortfall of ₹1 trillion (S$20 billion) in the revised estimate of 2018-19 which is proposed to be made good by increased corporate tax revenues, customs duty collections and decline in expenditure on grants and loans. There is also an ambitious anticipation of the receipts from disinvestment which is presently only ₹350 billion (S$7 billion) will reach the target of ₹800 billion (S$16 billion). In case any of these revenue estimates are not met by the end of March 2019, the fiscal deficit numbers of the current year would be a cause of concern for any incoming government.

Conclusion

Thus, in terms of a pre-election budget, the Finance Minister has broken convention by giving the budget the overtone of a full budget and targetted the stressed farm sector, rural workers and lower middle class sections of the population. There is certainly a vote catching design in the announcement but that seems to have been the trend of all governments in the last year of their terms.

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Mr Vinod Rai is a Distinguished Visiting Research Fellow at the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore (NUS). He is a former Comptroller and Auditor General of India. He can be contacted at isasvr@nus.edu.sg. The author bears full responsibility for the facts cited and opinions expressed in this paper.