ISAS Brief

No. 460 – 6 February 2017

Institute of South Asian Studies
National University of Singapore
29 Heng Mui Keng Terrace
#08-06 (Block B)
Singapore 119620
Tel: (65) 6516 4239 Fax: (65) 6776 7505
www.isas.nus.edu.sg
http://southasiandiaspora.org

The Indian Budget—2017-18

The finance minister presented a sober budget to the Indian Parliament on 1 February, which focuses on job creation and infrastructure spending.

S.Narayan[1]

The Finance Minister (FM) has had to tackle a multiplicity of objectives in the budget this year. At the top was to strongly support the demonetization exercise and place it in the context of growing to a greater digital payment based economy, while at the same time issuing warnings and disincentives to those continuing to indulge in cash based, untaxed, transactions. There was the need to justify the merger of the railway budget by demonstrating that development programmes of the railways were adequately funded. The merger of the plan and non-plan heads of accounts needed to be reflected as a real improvement and not as merely an accounting exercise. Finally, the Finance Minister had to deliver on promises of development, fiscal discipline and capital creation. He has been able to address all these in his budget speech, and to promise a growth of 7.25% and an inflation of 4.6%, amounting to a nominal GDP growth rate of 11.85%. This would put India's growth rate among the fastest in the world.

In terms of numbers, tax revenues in 2016-17 have been higher than budgeted. Largely due to increases in excise duties on petroleum products, indirect tax revenues have been quite

---

[1] Dr S Narayan is Visiting Senior Research Fellow at the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore. He can be contacted at snarayan43@gmail.com. The author bears responsibility for the facts cited and opinions expressed in this paper.

buoyant. The budget provides for a modest 13% increase in revenues to the center, which appears to be reasonable. There has not been much tinkering with the structure of indirect taxes, given that GST implementation is around the corner.

The agenda that the FM has set himself is to 'transform, energise and clean India.'

The focus is primarily on job creation and agriculture. Allocation for agricultural credit has been increased by 1 trillion rupees, and a number of initiatives have been announced. Allocation for infrastructure, especially roads, has been increased substantially to RS 241,387 crores, of which Rs 55,000 crores is for railways, in addition to their own internal generation. Allocation for the National Rural Employment Guarantee scheme has been increased to Rs 48,000 crores, the highest ever. To provide a fillip to the real estate sector, the definition of 'affordable housing' eligibility for income tax exemption has been tweaked from total area to carpet area—this would mean that in most cities, many more constructions will be eligible. Hopefully, this would help revive the real estate market, which has been a source of a large number of unskilled and semi-skilled jobs in the past. Concessions to start –ups and SMEs are likely to provide tax relief in these sectors, and boost opportunities and employment. Tax rates at the lower slabs have been reduced, while levying a surcharge on higher incomes.

There are some concerns. First, the fiscal deficit is projected to be 3.2%, not 3% as originally envisaged. The revenue deficit, at 1.9% of GDP, is still very high. Borrowings are up from Rs 5,34,274 crores in the current year to Rs 5,46,532 crores in the next year.

The total debt to GDP ratio at around 70% is close to being unsustainable. A number of eminent economists have represented to the FRBM committee that more than the fiscal deficit, it is the revenue deficit, which represents expenditure over income that is a major cause for concern, as well as levels of debt. This year, almost the entire borrowings will be used for interest payments, which is not a very happy situation.

Next, the figures of outlays have to be looked at from the point of view of the merger of plan and non-plan outlays. It appears that the incremental portion of allocation for capital creation is smaller than the numbers in the speech, as a considerable portion of the erstwhile plan expenditure was revenue expenditure and not capital.

The allocations for education, health and social sectors have not been increased significantly, and these suffer from inadequate attention.

There is no mention of relieving stress assets of the banks, and the amount provided for recapitalization of the banks, at Rs 10,000 crores, is woefully inadequate. Private sector investment is not happening, and there is no mention of any measures to incentivize this.

The opposition Congress party, among others, has criticized the budget as a lost opportunity. They have pointed out that growth is poor and that little has been done to revitalize growth.

This is perhaps not quite correct. A growth rate of 7.25% is still very healthy, and with inflation under reasonable control, the nominal growth projections are quite healthy. The agricultural sector is likely to perform well, and commodity prices, especially sugar, have been rising. The government strategy appears to be to prime the economy through capital spending in infrastructure, while providing job guarantees for the poor in rural areas, which has been a time tested measure even in past years. There is an expectation that small firms and new ventures that were affected by demonetization will be able to take advantage of the tax cuts that have been announced. Most importantly, there is the expectation that demonetization effects would be only short term, for firms as well as individuals would recover during the course of the year. This does not appear to be unrealistic.

This is a modest, correct, budget, without flourishes and fanfare, and the best that the Finance Minister could possibly have done, given the national and international macro-economic challenges. It is also true that a number of areas, primarily job creation for the skilled sector, education and health have been inadequately addressed. There are not many new initiatives, only polishing up some of the old ones.

There is a final thought. Now that a significant portion of revenue is devolved to the States, the ability of central budget alone to make a difference to growth and development has decreased significantly. This years' budget makes this evident. Once the GST is in place, the central government can at best adjust income taxes.

The only programmes they can leverage would be large infrastructure programmes, and these would not necessarily benefit all the States equally.

The relevance of the Indian budget exercise is decreasing.

. . . . .