Analysing the Union Budget for 2018-19

What was special about this year's Budget?

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- This year's Budget is the last full Budget of the Narendra Modi government.
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- While electoral compulsions were expected to nudge the budget towards populism, fiscal prudence (limited borrowing) was also expected weigh high.
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The following changes were initiated in for the 1st time in the 2017 budget and have been retained in the current budget as well:

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- **Advancement -** Till 2016, budget was usually introduced in late February.
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- This was creating a delay in kick-starting programs on a full scale as they'll have to operate on a temporary purse till all appropriation bills are approved.
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- As full clearance takes up at least till end April, this engulfs almost 2 months into the financial year and forces a spending scramble in the end.
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- Hence, since 2017 the budget was advanced to ensure that spending on schemes and projects kicked in early in the year to avoid these issues.
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- **Other Changes -** Railway budget was merged with the main budget as there has been a steady decline in its significance in value terms.
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- Also, the plan and non-plan distinction was abolished as it held no meaning when the planning commission itself was abolished.
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- The country is now diversifying from a centrally planned structure to a consensus driven policy making through NITI Aayog.

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How has the economy fared during the current Modi era?

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- Currently, almost 10 years after the global financial crisis, the global economy seems to be in good shape.
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- But the Indian economy is expected to post a growth of only 6.5% in 2017-18, which is the lowest growth rate since the government came to power in 2014.
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- This slowdown was despite low oil prices which usually boosts growth.
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- But the optimism is that India’s growth is expected to be in the mid-7% range for the 2018-19 fiscal as global growth is picking up.
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How has the government intended to raise and deploy resources?

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- **Disinvestment -** The fiscal year ending on March 2018 has already seen the mobilisation of an impressive Rs 1 lakh crore through disinvestment.
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- A target to raise Rs 80,000 crore in 2018-19 through the sale of shares in government companies either partially or fully has been envisioned.
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- **Taxes -** There was exceptional buoyancy in direct tax revenues (18.7% growth in FY18) but there were shortfalls in GST and dividend receipts.
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- **Fiscal Constrains -** It was certainly hoped that the government would meet its target on fiscal deficit, which is the excess of revenue over expenditure.
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- But the shortfalls in the proceeds, have forced the Finance Minister to ease off on fiscal consolidation as mandated by the FRBM Act.
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- **Spending -** The focus will be on infrastructure — mainly 9,000 km of

national highways, and connecting interior and backward areas by rail.
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- Significantly, PSUs will be bankrolling a significant proportion of the Rs. 5.97-lakh crore outlay for FY19, and the budget allotment will be 1.5 lakh crores.
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- There is also spending on urban infrastructure like smart cities, water supply, and expansion of airport capacities.
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What are the risks involved in a Fiscal slippage?

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- While the fiscal deficit target for 2017-18 was set at 3.2%, the government closed the fiscal at 3.5%, despite increased tax collections.
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- Also, the target for the upcoming 2018-19 fiscal has been revised upwards from the initially targeted 3% to 3.3%.
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- These aspects indicate higher borrowings on the government's part, which translate into higher bond rates and yields for bond investors.
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- Consequently, this increases the interest rates for the general public and corporates, thereby causing a downward pressure on private investments.
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- The other problem with deviating from targets is that it could pose a credibility risk for the government, which can prove costly form the investment lens.
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What were the significant announcements for the farm sector?

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- **Marketing –** Establishing farmer markets to free farmers from the tyranny of Agricultural Produce Market Committees (APMCs) has been mooted.
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- But merely Rs. 2,000-crore has been allocated for this, which is inadequate.
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- **MSP enhancement -** 'National Commission of Farmers' headed by scientist M.S.Swaminathan had provided an MSP formula in its 2007 report.

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- BJP had promised to implement this during the 2014 election campaign, and the budget speech has merely reiterated this promise without the strategy.
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- While the proposal has been made to enhance MSP for all crops to 1.5 times the production cost, no explicit fund allocation has been made.
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- The scheme would require either direct government procurement or compensation for a distress sale at the market price below the MSP.
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- **Precedent -** Madhya Pradesh implemented a scheme called “Bhavantar Bhugtan Yojana” for the previous Karif crop.
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- Here, farmers were assured an MSP for their produce and if market prices fell below this, they were compensated the difference after the sale.
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- But the scheme faced severe flank due to the multiple nefarious designs that came to the fore,which largely benifited traders who suppressed market prices.
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- Mr. Jaitley has said that NITI Aayog, in consultation with the central and state governments, will devise a mechanism to address these issues.
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What does the budget hold for businesses?

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- Despite pressures due to corporate tax cuts in EU and the US, the hoped comprehensive tax cuts across the spectrum for businesses didn’t happen
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- Rather, tax was cut from the present 30% to 25% for companies that net less than 250 crores annual turnover (mostly MSMEs).
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- Lending under MUDRA scheme for promotion of MSME enterprises has been target at Rs.3 lakh crores for the 2018-19 fiscal.
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What steps has the Budget taken to create more jobs?

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- **Reduced PF contribution -** The mandatory provident fund contribution norm of 12% has been relax for women in their first three years of work to 8%.
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- **Fixed-Term Employment -** There has been a push to expand this system to footwear, leather and other compatible sectors.
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- This will ensure clearly contracted provisions and statuatory benifits like allowances, working hours etc... for employees akin to permanent works.
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- But this will also facilitate easy hire and fire flexibility for corporates, which has found favour with business but opposition from trade unions.
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- **Capital Spending -** As the government has intended a higher infrastructure spending, thus could bring more jobs, with more entrepreneurs pouring in.
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What are the proposals for financial markets?

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- **Long term Capital Gains Tax –** While the government is nudging people to invest in the financial market, the introduction of this tax seems contradictory.
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- This is a tax on capital gains made by investors, who sell stocks after holding it for over a year (which is in addition to the Securities Transaction tax).
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- While this was previously untaxed, the government perhaps feels that stock investments and mutual funds investors can afford to pay the 10% tax.
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- The calculation is that equity investors are better off than the rest and hence can be capitalised to enhancing budgetry revenues.
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- While this might dampen market sentiment, it is expected to be only

transient.
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- **Bond Market -** There is a proposal for the SEBI to mandate companies to raise a quarter of their funds from the bond market.
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- This can significantly impact company borrowings and will speed up the development of the bond market and ease the dependence on banks.
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- For banks, this would give room for greater diversification of their lending portfolio as they will be considerably freed from lending to big corporate.
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What are the schemes for the poor?

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- There are schemes to provide free power connections to 4 crore homes and extend free gas connections to further 3 crore homes under Ujjwala scheme.
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- Notably, these are only free for establishment of connections and the subsequent services aren't free.
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- Further, under the Swachh Bharat Mission, 2 crore toilets are to be build over the current fiscal.
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- The goal to enable every Indian own a house by 2022 is also in focus through both the rural and urban components of the PM Awas Yojana.
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- **Ayushman Bharat –** The scheme is a health sector initiative to provide for a 5 lakh/annum insurance cover for over 10 crore poor families.
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- This translates to around 50 crore beneficiaries for secondary and tertiary medical care and is touted as the world's largest public healthcare initiative.
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What does the Budget have for the elderly?

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- For senior citizens, tax exemption on interest earned on deposits with banks and post offices has been raised from Rs 10,000 to Rs 50,000.
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- There will be no tax deducted at source on their fixed and recurring deposit.
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- Also, Income-tax limit for deduction on health insurance premiums has been enhanced from Rs 30,000 to Rs 50,000.
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- The limit for deduction on medical expenditure for certain critical illnesses has been raised from Rs 60,000 to Rs 80,000 for senior citizens.
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What are other miscellaneous provisions?

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- **Insurance Sector Consolidation –** A proposal to merge three public sector insurers "United India Insurance, Oriental Insurance, and National Insurance" has been mooted.
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- This would lead to an enhanced scale for operation, which will better equip them to face the challenges of a growing market.
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- It is also in alignment with the government's plan to consolidate in sectors such as oil and gas, and banking.
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- There is not much **For Salaried Classes -**expcept for the re-introduction of the standard deduction of Rs. 40,000.
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- This is instead of the current exemption on medical reimbursements and transport allowance and will benefit the middle income groups.
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How can the budget be perceived overall?

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- Considering the number of schemes and programmes aimed at the poor and vulnerable sections, the budget could be said as populist.
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- This broad targeting of those at the bottom of the pyramid could mean significant gains for the government politically.
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- But considering the larger than expected deficits and various other pressures in the economy, there is a risk that growth might become a causality.
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Source: Indian Express

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