Challenges Before the Budget

What is the issue?

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As the budget time is nearing, it becomes essential for the government to assess some challenging factors that exists in the economy.

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What are the challenges?

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- **Oil Prices** - Oil prices have risen to $68 per barrel, much higher than the anticipated levels.
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- It naturally calls for the government to reducing the taxes on petro-products.
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- However, the resultant impact on fiscal deficit and inflation has to be taken into account.
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- The dangers may not threaten macro-economic stability, as has happened in the past, but they may impact growth.
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- This will be the obverse of the growth bonus that the country got in 2014-16.
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- The period saw oil prices fell considerably and GDP growth peaked at 7.9% in 2015-16.
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- **Inflation** - Higher inflation at present is threatened also by higher food prices.
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- It makes it impossible for the Reserve Bank to cut interest rates in the foreseeable future.
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- **Deficit** - A higher-than-planned fiscal deficit would add to the already rising curve of general government deficits.
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- It could also possibly raise the bond rates higher than their already elevated

levels, to meet out the deficit.
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- **Growth** - The "advance" GDP figure for the current financial year, projecting growth at 6.5%, is short of earlier expectations of 6.7%.
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- Next year's growth rate is likely to fall short of the 7.4% predicted by the IMF, but should cross the 7% threshold.
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- This is expected to come largely as a benefit of a low base and by a recovery in exports.
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- **Consumption demand** is also considerably lower than the needed level to boost growth.
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- **Revenue** - The above factors indicate an overall low revenue potential in the coming period.
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What could possibly be done?

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- **Expenditure control** must logically be a necessary measure to tackle the low revenue.
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- This is especially given the uncertainty of when the GST revenues would rise to the budgeted level.
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- The government should also look for **new revenue sources** that have not been tapped so far.
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- The most obvious of these is long-term capital gains on shares, to match the **tax on capital gains** accruing from other classes of assets.
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- The estimates of tax forgone on this item run into hundreds of billions.
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- This unfair tax holiday for just one class of investors, those who put their money in shares, should not be let to continue.
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- However, such a tax would not be free of risk as overseas investors might choose to look elsewhere.
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- Nevertheless, a **deferred and phased introduction** would not affect the

market or the investors.
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- This could minimise the incremental tax burden as well as prove to be a potential source of revenue that the government is in dire need of.
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Source: Business Standard

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