Union Budget 2017-18: Fiscally Pragmatic

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The Budget is a major component of the fiscal policy. The objective of any macroeconomic policy is steady growth, which can be achieved through implementation of fiscal policy and monetary policy. The aim of fiscal policy is enhancing employment and ensuring sustainable growth while the monetary policy, through controlling inflation aims to create a conducive environment for the economy to flourish. Given the objectives of promoting growth and employment, fiscal policy uses various instruments to ensure good education and skill formation, healthy workforce through efficient public health institutions, robust infrastructure to facilitate commerce, and security of assets through dedicated security forces, administration and judiciary. To finance this essential expenditure for meeting its basic responsibilities, the government has to raise resources through direct and indirect taxes, collect dividend and profits from public sector enterprises, and as a final resort, undertake long and short term borrowing, from domestic and external sources. The raising and spending of financial resources by the Government have implications for work, consumption, savings, leisure and investment in the domain of fiscal policy.

The recent Union Budget has been presented in a very difficult domestic and international environment. In India, the impact of demonetisation initiated on November 8 last year has yet to be analysed. In fact, the amount of cash collected under demonetisation has yet to be confirmed by the Reserve Bank of India, and its implications on Indian industry and commerce is also not clear. Further, India is on the cusp of introducing the most important taxation reforms in the post-independent India in the form of Goods and Services Tax (GST). Externally, economic growth in the world is slow and stagnating, oil prices are rising, and protectionist policies are gaining strength. The change in ideology of globalisation in the US, and uncertainty because of Brexit in the UK only adds to difficulties in planning for the steady growth besides other political developments in Europe.

The agenda of the recent budget is to 'Transform, Energize and Clean India'. The Budget proposals were organised in ten distinct themes – farmers, rural population, youth, poor and under-privileged, infrastructure, financial sector, digital economy, public service, prudent fiscal management, and tax administration.

Fiscal Consolidation

Despite the constraints, the Budget

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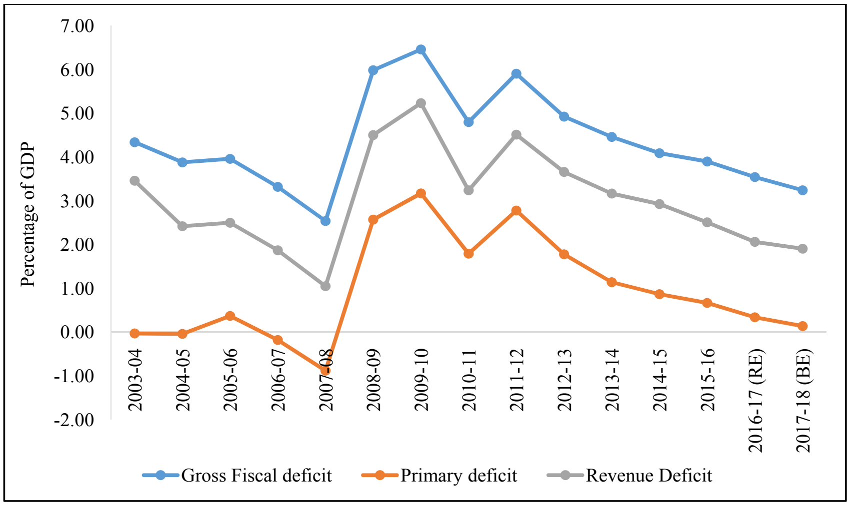
Chart 1: Key Deficits



(Source: Trends in Receipts, Union Budget 2017-18, GOI)

Table 1: Summary of Union Budget (Figures as percentage of GDP)

Receipts	2016-17 (RE)	2017-18 (BE)	Expenditure	2016-17 (RE)	2017-18 (BE)
Revenue Receipts	9.4	9.0	Revenue Expenditure	11.5	10.9
Revenue Expenditure minus Revenue Receipts = Revenue Deficit				2.1	1.9
Capital Receipts	3.9	3.8	Capital Expenditure	1.9	1.8
Total Expenditure minus Revenue Receipts = Gross Fiscal Deficit*				3.5	3.2

**Adjusted for non-debt capital receipts, like disinvestment*
(Source: Union Budget 2017-18, GOI)

Table 2:Revenue and Capital Account Components (as percentage of GDP)

Year	Revenue Receipts	Capital Receipts	Revenue Expenditure	Capital Expenditure
1950-51	3.90	1.16	3.34	1.76
1960-61	4.89	6.44	4.60	5.74
1970-71	6.91	4.29	6.57	5.24
1980-81	8.27	5.29	9.63	5.59
1990-91	9.37	6.65	12.54	5.42
2000-01	8.85	6.16	12.76	2.19
2010-11	10.13	5.17	13.37	2.01
2011-12	8.60	6.51	13.12	1.82
2012-13	8.84	5.85	12.50	1.68
2013-14	9.00	5.00	12.17	1.66
2014-15	8.82	3.88	11.75	1.57
2015-16	8.75	3.97	11.26	1.85
2016-17 (RE)	9.44	3.92	11.51	1.86
2017-18 (BE)	9.00	3.75	10.90	1.84

(Source: i) Handbook of Statistics on Indian Economy, RBI
ii) Union Budget 2017-18, GOI)

is pursuing fiscal consolidation and all the deficits are shrinking (Chart 1).

The government has tried to successfully curtail revenue deficit and gross fiscal deficit. However, capital expenditure, as percentage of GDP, is low while revenue expenditure exceeds revenue receipts substantially (Table 1).

The trend analysis since the starting of planning in India reveals that capital expenditure serves as a buffer to absorb shocks in other variables and has been shrinking since 1960s (Table 2).

On the revenue account, interest payments, subsidies and pensions pre-empt more than half of revenue receipts (Table 3).

The trend analysis of revenue since 1970-71 shows that non-tax revenue including dividends has rather been stagnant while tax revenue has been recording a reluctant increase (Table 4).

Cross Country Comparison:

India, despite its problems, is poised to do well in the global economy as it has sufficient fiscal space (Table 5).

Implications of the Union Budget:

The Union budget is growth-oriented and employment generating as analysed in Table 6.

In the global context of growth, it is important to generate confidence in the country that the government is seriously pursuing its objectives of 'Transform, Energize and Clean India'. To instill confidence in the market government has announced a series of measures (Table 7).

Select Important Issues:

The Union Budget is not only a statement of accounts but a major policy document in the domain of fiscal policy. A number of issues were raised in the recent budget.

Non-Tax Complaint India:

The Finance Minister mentioned that India is largely a non tax complaint country (Tables 8 and 9). The total amount of tax collection by the Government, including Centre and states (in the absence of uniform data on local body tax collection for different states), is less than 18 per cent of GDP in recent years compared to more than 30 per cent in most of the advanced countries. However, given the economic situation of India, with 30 per cent population below poverty line and nearly 60 per cent population residing in rural areas and dependent on agricultural income (exempted from tax), the constraint on raising financial resources are apparent. In addition, there are exemptions on commodities that are expected to pay excise duties. Further, as tax is a function of income, in poor and emerging countries, like Sri Lanka, Mexico, Indonesia, and Philippines, tax collection is expected to be significantly lower than advanced countries.

Table 3: Revenue Budget- Select Items (as percentage of GDP)

Revenue Receipts			Revenue Expenditure		
Components	**2016-17 (RE)**	**2017-18 (BE)**	**Components**	**2016-17 (RE)**	**2017-18 (BE)**
Corporation Tax	3.3	3.2	Interest Payments	3.2	3.1
Income Tax	2.3	2.6	Subsidies	1.7	1.6
Customs Duty	1.4	1.5	Pensions	0.9	0.8
Union Excise Duty	2.6	2.4			
Service Tax	1.6	1.6			
Dividends and Profits	1.0	0.8			
Total	**9.4***	**9.0***	**Total**	**11.5**	**10.9**

*Net of states' share of taxes.

(Source: Trends in Receipts, Union Budget 2017-18, GOI)

Table 4: Select Fiscal Indicators (as percentage of GDP)

Year	Net Tax Revenue	Non Tax Revenue	Revenue Receipts
1970-71	5.2	1.8	6.9
1980-81	6.3	2.0	8.3
1990-91	7.3	2.0	9.4
2000-01	6.3	2.6	8.9
2014-15	7.2	1.6	8.8
2015-16	6.9	1.8	8.8
2016-17 (RE)	7.2	2.2	9.4
2017-18 (BE)	7.3	1.7	9.0

(Source: Trends in Receipts, Union Budget 2017-18, GOI)

Table 5: Gross Debt (as Percentage of GDP)

Country	2013	2014	2015	2016	2017	2018	2019	2020	2021
Brazil	60.4	63.3	73.7	78.3	82.4	85.2	87.9	90.8	93.6
China	36.9	39.8	42.9	46.3	49.9	52.6	54.6	56.1	57.2
France	92.4	95.3	96.1	97.2	97.8	97.9	97.4	95.9	93.8
Germany	77.1	74.5	71.0	68.2	65.9	63.6	61.1	58.9	56.7
India	68.0	68.3	69.1	68.5	67.2	65.6	63.5	61.4	59.2
Indonesia	24.8	24.7	27.3	27.5	28.2	29.2	29.9	30.4	30.9
Japan	244.5	249.1	248.0	250.4	253.0	254.9	254.7	254.5	253.9
Russia	13.1	15.9	16.4	17.1	17.9	18.6	19.1	18.9	18.5
South Africa	44.0	46.9	49.8	51.7	53.3	54.6	55.4	55.9	56.2
United Kingdom	86.0	87.9	89.0	89.0	88.8	88.6	86.6	84.3	82.1
United States	104.6	104.6	105.2	108.2	108.4	107.9	107.8	107.9	108.3

(Source: World Economic Outlook Report - October 2016, IMF)

In view of the fact that government has demonstrated its intent to clean India, given the availability of data on purchases of luxury cars and foreign travels, tax administration needs to be more alert and efficient. In countries like Japan, incentives for tax compliance are provided. In contrast, in the USA, detrimental punishment for tax avoidance is severe.

In many advanced countries where tax: GDP ratio is high, public health, education, transport and civil services are of very high quality. In addition, security of life of men and women, safe environment for female workforce, and judicial system for timely settlement of disputes helps in incentivising higher tax compliance.

In view of the demographic dividend, with 66 per cent of population in India being less than 34 years of age, corruption-free India will be worthy of our next generation, facilitate start-up and stand-up India, and provide ease of doing business. Despite various voluntary disclosure and amnesty schemes, in addition to numerous attempts by the government to unearth unaccounted money, India continues to be performing dismally on corruption index. Therefore, it would be necessary to be persistent in efforts to unearth unaccounted money. In the endeavor, holistic approach would be required involving Chartered Accountants, Legal experts, sociologists, religious leaders and social leaders from media and politics.

Financial Sector:

The government has announced recapitalisation of banks in continuation of the trend in previous years. It would be important to consider whether such relief to the banks should be automatic and regular or should it be conditional on some stipulated improved performance indicators. The commercial banks should be commercially viable and could be asked to consider disposing off some of their assets, including select branches, to recover their losses or lower their costs. Additionally, all public sector banks, irrespective of loss or profit making, provide a similar hike in salaries to their employees. So, drafting resources from innocent tax payers should be preceded by tightening measures by the commercial banks themselves. And, continuous infusion of capital in commercial banks can lead to problems of moral hazard.

Table 6: Implications of the Budget

Particulars	Growth	Employment	Consumption	Investment
Agricultural credit Rs. 10 lakh crore.	✓			✓
Long Term Irrigation Fund Rs. 40,000 crore.	✓			✓
MGNREGA Rs. 48,000 crore.	✓	✓	✓	
Gram Sadak Yojana Rs. 27,000 crore.	✓	✓		✓
Awaas Yojana Rs.23, 000 crores	✓	✓		✓
Railways Rs. 1.3 lakh crore.	✓	✓		✓
Road sector - Highway Rs. 64,900 crore.	✓	✓		✓
Transportation sector Rs. 2.4 lakhcrore.	✓	✓		✓
Mudra Yojana target Rs. 2.4 lakh crore.	✓	✓		✓

(Source: Union Budget Speech 2017-18, GOI)

Table 7: Confidence Building Measures in the Budget

Particulars	Growth	Unaccounted Money	Confidence
Shares of Railway PSEs on stock exchanges.	✓		✓
Recapitalisation of Banks Rs. 10,000 crore	✓		✓
Debt to GDP of 60%.	✓		✓
3% Fiscal deficit for the next three years.	✓		✓
Income tax concession with annual turnover upto Rs. 50 crore.	✓		✓
10 lakh new PoS terminals by March 2017.	✓	✓	✓
Rs. 3 lakh cash limit for transactions	✓	✓	✓
Restrictions on Political Funding	✓	✓	✓

(Source: Union Budget Speech 2017-18, GOI)

Table 8: Tax Compliance Chart of India - General

Categories	Number
Person engaged in Organised Sector	4.2 crore
Individuals filing return for Salary Income	1.7 crore
Informal sector Individual Enterprises	5.6 crore
Number of Returns filed	1.8 crore
Companies registered	13.9 Lakh
Companies filed Return	5.9 Lakh
Companies declaring zero income or losses	2.8 Lakh
Companies declaring profit < Rs. 1 crore	2.8 Lakh
Companies showing profit between Rs. 1 < 10 crore	28,667
Companies showing profit of more than Rs. 10 crore	7,781

(Source: Union Budget Speech 2017-18, GOI)

Table 9: Tax Compliance Chart of India - Individuals

Categories	Number
Individual Tax Return	3.7 crore
Below Exemption Limit	99 Lakh
Income between Rs.2.5 – 5 lakh	1.9 crore
Income between Rs. 5 – 10 lakh	52 Lakh
Above Rs. 10 lakh	24 Lakh
Income above Rs. 5 lakh *of which* Salaried class	76 Lakh 56 lakh
Above Rs. 50 lakh	1.7 lakh

(Source: Union Budget Speech 2017-18, GOI)

Advancement in Presentation of Union Budget:

The presentation of Union Budget was advanced so that it is approved by the Parliament by end-March, and the ministries start getting resources for developmental work from April 1. In India, as monsoons start in June, the ministries will have some time for planning their expenditure and implementation of schemes before onset of monsoons. It can be expected that advancing the date will help initiate revenue mobilisation and capital expenditure right from beginning of the financial year. In addition, given the logic of advancing the budget announcement by a month, should it not be announced earlier than the first of February which is very close to the Republic Day and movement to Delhi for purpose of consultations, gets restricted? Further, should the budget be announced on a working day in the morning or can there be a stipulated day, illustratively 2 pm on first Friday or 11 am on first Saturday of February?

Fiscal Policy – Should it be Annual?

In advanced countries, the budgetary exercise is generally a non-event while in India, the country for nearly a month is fixated on the budget. The industry, stock market as well as individuals, await the annual festival of budget with great anxiety. This could be disruptive for economic policy making and ensuring steady growth because investment generally requires a multi-year gestation lag. It is for consideration that a statement of financial account be presented annually while the fiscal policy be decoupled and announced for a medium to long term basis, say, for 5 years.

Rail Budget:

A separate Rail Budget was started in 1924, following the recommendations by William Acworth, British railway Economist. However, since 1949, a number of Committees had suggested the merger of Railway Budget in the Union Budget but for political reasons was not accomplished. Therefore, now with railway budget subsumed in General Budget, consumers can expect professionalism in working of railways, better quality of services, modern equipment and safety measures, and market determined dynamic and competitive fares. Similarly, Railways, away from constant Parliamentary scrutiny, can focus on a leaner and technologically superior organisational structure, as is successfully being followed by Konkan Railways.

Rationalisation of Budgetary Terms:

An important reform is the abolition of Plan and Non-Plan distinction in the Union Budget. The reform has been initiated in view of the policy decision to do away with the term "Plan" while making a distinction between socio-economic welfare programs. In India, a generally popular notion has been that Plan expenditure is good and Non-Plan expenditure is a wastage. This notion had led to a situation where Non-Plan expenditure even for maintenance of assets has been neglected. Consequently, there is a constant motivation for showing higher Plan expenditure both at the Center and States. It is expected that with the removal of this distinction a direct link between spending and outcome could be established which will be useful in assessing the efficiency of public expenditure. Thus, the focus of budgeting will now shift to revenue and capital expenditure, as had been originally envisaged in the Constitution. A clear distinction between revenue and capital expenditure is also necessary for analytical, transparent and efficient decision making. This distinction helps in assessing operating costs of government and investment made by it.

As per Article 112 of the Constitution, Annual Financial Statement should distinguish expenditure on revenue account from other expenditure. Under the Government's General Financial Rules, 2005, estimates of expenditure shall have a distinct provision for expenditure on revenue account from other expenditure, including expenditure on capital account, loans by the Government, repayment of loans and short term borrowings.

International experience does not suggest that distinction of expenditure is an absolute necessity. In fact, many advanced countries that were earlier in the emerging/ developing stages maintained a distinction between revenue and capital account to allow for better resource allocation. Some of these countries continue to maintain the distinction while others have discontinued with the practice of having separate classification.

Conclusion:

To conclude, this was a pragmatic budget that could have been announced in the context of global uncertainty and recovery from demonetisation. However, the support garnered by the Government in the demonetisation exercise could have been effectively tapped for ensuring corruption free India by announcing some more bold measures rather than benign initiatives like prescribing a cash limit of Rs 3 lakh on transactions and limiting unaccounted political funding. In general, the measures announced in the Budget would enhance tax base and are growth and employment oriented. But, the Budget could also have factored in cogent medium and long-term vision. It could also have provided a road map for tapping demographic dividend and digitalizing India; and undertaking long term financial sector reforms. ❑

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Mahila Shakti Kendra to be set-up at village level

Mahila Shakti Kendra will be set-up at village level with an allocation of Rs. 500 crores in 14 lakh ICDS Anganwadi Centres. This will provide one stop convergent support services for empowering rural women with opportunities for skill development, employment, digital literacy, health and nutrition. Under nationwide scheme for financial assistance to pregnant women, Rs. 6,000 each will be transferred directly to the bank accounts of pregnant women who undergo institutional delivery and vaccinate their children.

For the welfare of Women and Children under various schemes across all the Ministries the allocation has been stepped-up from Rs.1,56,528 crores in BE 2016-17 to Rs. 1,84,632 crores in 2017-18.