

Union Budget 2018-19 : An Analysis

B A Prakash

Chairman, Fifth State Finance Commission

February 2, 2018

Objectives

- To present the current economic situation of Indian Economy
- Examine the findings of Economic Survey 2017-18
- Presents highlights of Budget 2018-19
- An analysis of fiscal policy of the Budget.
- An analysis of other budget proposals

Economic Survey 2017-18 :

Highlights

Growth

- 2018-19 Growth seen at 7% to 7.5%
- 2017-18 industry growth seen at 4.4%
- 2017-18 farm sector growth seen at 2.1%
- Economic management will be challenging in the coming year
- Biggest source of upside to growth to be from exports
- Cyclical conditions may lead to lower tax and non-tax revenues in 2017-18
- Private investment poised to rebound

Economic Survey 2017-18 :

Highlights

Fiscal Deficit

- Target for fiscal consolidation specially in a pre-election year can carry a high risk of credibility
- Current account deficit for 2017-18 expected to average 1.5-2 % of GDP
- Pause in general govt fiscal consolidation cannot be ruled out in 2017-18
- Suggests modest (fiscal) consolidation - a steady deficit reductions

Economic Survey 2017-18 :

Highlights

Inflation, Policy Rates

- Persistently high oil prices remain a key risk, to affect inflation
- If inflation doesn't deviate from current levels policy rates can be expected to remain stable
- Average CPI inflation seen at 3.7% in 2017-18

Economic Survey 2017-18 :

Highlights

- Climate change could affect farmers income by up to 20-25% in the medium term
- Policy vigilance required next fiscal if high oil prices persist or stock prices correct sharply
- Policy agenda for next year -- support agriculture, privatise Air India, finish bank recapitalization
- GST data shows 50% rise in number of indirect taxpayers
- Tax collection by states, local governments significantly lower than those in other federal countries

Economic Survey 2017-18 :

Highlights

- Insolvency Code being actively used to resolve NPA woes
- India needs to address pendency, delays and backlogs in the appellate and judicial arenas
- Urban migration leading to feminisation of farm sector
- FDI in services sector rises 15% in 2017-18 on reforms
- Fiscal federalism, accountability to help avoid low equilibrium trap

Economic Survey 2017-18 :

Highlights

- India's external sector to remain strong on likely improvement in global trade
- Technology should be used for better enforcement of labour laws
- Swachh Bharat initiative improved sanitation coverage in rural areas
- Priority to social infrastructure like education, health to promote inclusive growth
- Centre, states should enhance cooperation to deal with severe air pollution

Table 1
Annual Gross Value Added (GVA) and Gross Domestic Product (GDP) growth

GVA at basic prices from	2014-15	2015-16	2016-17	2017-18 (1st AE)
Agriculture, forestry & fishing	-0.2	0.7	4.9	2.1
Industry	7.5	8.8	5.6	4.4
Mining & quarrying	11.7	10.5	1.8	2.9
Manufacturing	8.3	10.8	7.9	4.6
Electricity, gas, water supply & other utility services	7.1	5.0	7.2	7.5
Construction	4.7	5.0	1.7	3.6
Services	9.7	9.7	7.7	8.3
Trade, Hotel, Transport, Storage, Communication & services related to broadcasting	9.0	10.5	7.8	8.7
Financial, real estate & professional services	11.1	10.8	5.7	7.3
Public administration, defence and other services	8.1	6.9	11.3	9.4
GVA at basic prices	7.2	7.9	6.6	6.1
GDP at market prices	7.5	8.0	7.1	6.5

Table 2
Quarter wise GVA and GDP growth (per cent)

Sector	2016-17				2017-18	
	Q1	Q2	Q3	Q4	Q1	Q2
GVA at basic prices	7.6	6.8	6.7	5.6	5.6	6.1
Agriculture & allied	2.5	4.1	6.9	5.2	2.3	1.7
Industry	7.4	5.9	6.2	3.1	1.6	5.8
of which, manufacturing	10.7	7.7	8.2	5.3	1.2	7.0
Services	9.0	7.8	6.9	7.2	8.7	7.1
GDP at market prices	7.9	7.5	7.0	6.1	5.7	6.3

Table 3
Production and price indicators

Production					
Food grains	Million tonnes	252.0	251.6	275.7	134.7
Index of industrial production (growth)	%	4.0	3.3	4.6	3.2
Electricity Generation (growth)	%	14.8	5.7	5.8	4.9
Prices					
WPI Inflation (average)	% change	1.2	-3.7	1.7	2.9
CPI (Combined) Inflation (average)	% change	5.9	4.9	4.5	3.3

Table 4
External Sector Indicators

Export Growth (US \$)	% change	-1.3	-15.5	5.2	12.1
Import Growth (US \$)	% change	-0.5	-15.0	0.9	21.8
Current Account Balance (CAB)/GDP	%	-1.3	-1.1	-0.7	-1.8
Foreign Exchange Reserves	US\$ Billion	341.6	360.2	370.0	409.4
Average Exchange rate	C/US\$	61.14	65.46	67.07	64.49

Table 5
Money and Fiscal Indicators

Money and Credit					
Broad Money (M3) (annual)	% change	10.9	10.1	10.1	10.5
Scheduled Commercial Bank Credit (growth)	% change	9.0	10.9	8.2	9.3
Fiscal Indicators (Centre)					
Gross Fiscal Deficit	% GDP	4.1	3.9	3.5	3.2 ^{BE}
Revenue Deficit	% GDP	2.9	2.5	2.1	1.9 ^{BE}
Primary Deficit	% GDP	0.9	0.7	0.4	0.1 ^{BE}

BE : Budget Estimates

Highlights of Budget 2018-19

Agriculture

- Budget aims to strengthen agriculture, rural development, health, education, employment, MSME and infrastructure sectors.
- A series of structural reforms will propel India among the fastest growing economies of the world. (achieve 8% growth)
- Minimum Support Price (MSP) for all unannounced kharif crops will be one and half times of their production cost

Highlights of Budget 2018-19

- Institutional Farm Credit raised to 11 lakh crore in 2018-19 from 8.5 lakh crore in 2014-15
- 22,000 rural haats to be developed and upgraded into Gramin Agricultural Markets to protect the interests of 86% small and marginal farmers.
- “Operation Greens” launched to address price fluctuations in potato, tomato and onion for benefit of farmers and consumers.
- Two New Funds of Rs 10,000 crore announced for fisheries and Animal Husbandary sectors.

Highlights of Budget 2018-19

Social Welfare Programs

- Loans to Women Self Help Groups will increase to Rs.75,000 crore in 2019 from 42,500 crore last year.
- Higher targets for Ujjwala, Saubhagya and Swachh Mission to cater to lower and middle class in providing free LPG connections, electricity and toilets.
- Outlay on health, education and social protection will be 1.38 lakh crore.
- World's largest Health Protection Scheme covering over 10 crore poor and vulnerable families launched with a family limit up to 5 lakh rupees for secondary and tertiary treatment.

Highlights of Budget 2018-19

Finances

- Fiscal Deficit pegged at 3.5%, projected at 3.3% for 2018-19.
- Rs. 5.97 lakh crore allocation for infrastructure
- Ten prominent sites to be developed as iconic tourist destinations
- NITI Aayog to initiate a national programme on Artificial Intelligence (AI)

Highlights of Budget 2018-19

- Centres of excellence to be set up on robotics, AI, Internet of things etc
- Disinvestment crossed target of Rs 72,500 crore to reach Rs 1,00,000 crore
- Comprehensive Gold Policy on the anvil to develop yellow metal as an asset class

Highlights of Budget 2018-19

Industry

- 100 percent deduction proposed to companies registered as Farmer Producer Companies an annual turnover upto Rs. 100 crore.
- Deduction of 30 percent on emoluments paid to new employees Under Section 80-JJAA to be relaxed to 150 days for footwear and leather industry, to create more employment.
- Proposal to extend reduced rate corporation tax of 25 percent currently available for companies with a turn over up to Rs. 250 crore.

Highlights of Budget 2018-19

Income tax

- Standard Deduction of Rs. 40,000 in place of present exemption for transport allowance and reimbursement.
- Relief to Senior Citizens proposed
- Exemption of interest income on deposits with banks and post offices to be increased from Rs. 10,000 to Rs. 50,000.

Highlights of Budget 2018-19

- TDS not required to be deducted under section 194A. Benefit also available for interest from all fixed deposit schemes and recurring deposit schemes.
- Hike in deduction limit for health insurance premium Rs. 30,000 to Rs. 50,000 under section 80D.
- More concessions for International Financial Services Centre (IFSC), to promote trade in stock exchanges located in IFSC.

Highlights of Budget 2018-19

- To control cash economy, payments exceeding Rs. 10,000 in cash made by trusts and institutions to be disallowed.
- Tax on Long Term Capital Gains exceeding Rs. 1 lakh at the rate of 10 percent
- Increase in deduction limit for medical expenditure for certain critical illness from Rs. 60,000 (in case of senior citizens) and from Rs. 80,000 (in case of very senior citizens) to Rs. 1 lakh for all senior citizens, under section 80DDB.

Highlights of Budget 2018-19

- Proposal to introduce tax on distributed income by equity oriented mutual funds at the rate of 10 percent.
- Proposal to increase cess on personal income tax and corporation tax to 4 percent from present 3 percent.

Fiscal Policy

- Rebuild the economy in the context of severe damage created due to economic reforms
- The demonitisation had inflicted severe damage to informal sector (agriculture, rural economic activities, traditional industries, small scale industries, self employment, petty trade, services etc.)
- The GST created anarchy in most of the sectors and small scale production.

Fiscal Policy

- The confusion and uncertainty created by GST still continue in all sectors.
- The policy is to strengthen agriculture, rural development, health, education, employment, MSME and infrastructure (Micro, Small, Medium Enterprises)
- Promotion of investment of the corporate sector – reduction of corporation income tax to 25 percent.
- High priority for biggest business industries and low priority for MSME.

Fiscal Policy

- Low priority for informal sector and MSME have serious consequences on welfare of ordinary people.
- Employment, income, consumption and welfare of lower, income groups and poor people will be adversely affected.
- Reduction of fiscal deficit is another objectives.
- But in the context of decline in GDP growth and recessionary situation, it is not desirable.

Fiscal Policy

- Achieving fastest growth is the objective
- But achieving inclusive growth is more important
- Here the growth gives low priority for informal sectors, rural areas, agriculture, self employed categories etc.
- Attract more foreign investment is the policy proposed.
- Accelerating more domestic investment and creating more favourable conditions are required.

Agriculture

- Minimum Support Price will be one and half times the production cost
- Increase institutional farm credit
- Gramin Agricultural Markets
- Policy is to ensure a markets for the agricultural products
- Flood, drought and crop damage are not addressed.

Agriculture

- Fertiliser, seed or irrigational support/subsidies are not proposed.
- Crop damage due to diseases not addressed
- Debt relief – other supports are not available
- In Kerala, acute crisis of the rubber cultivators are not addressed.
- In these schemes reaching the benefits to the actual cultivator is very difficult.

Unemployment

- Unemployment rate was 5% in 2015-16
- The highest in five years
- Pace of job creation fell to six year low in 2015 (with 1.35 lakh new jobs created)
- In 2015 the new jobs were created was 4.21 lakhs.
- Budget has not addressed this crucial issue of rise in unemployment.
- The categories which face acute unemployment are youth, educated and female labour force.

Populist Schemes

- Free Gas Connections to 3 crore new house holds
- Free electricity connection to 4 crore houses
- Two crore new toilets under Swach Bharat Mission
- High micro-irrigation coverage
- Outlay required is Rs 14.34 lakh crore
- Of this, Rs 11.98 lakh crore is expected to be met from extra-budgetary resources (bank finances)

Populist Schemes

- The National Health Protection Scheme, to provide Rs 5 lakh health cover to 10 crore households
- But there is no clear proposal about the resources, the contribution from the States etc.
- A major limitation of this big programmes are the lack of resources to implement it.

Conclusions

- The budget is failed to address the critical economic problems faced by the economy.
- A positive aspect of the budget is the reduction of the fiscal deficit.
- But the fiscal policy presented is not helpful to address the recessionary situations.
- The policies have a bias in favour of big business, companies and foreign investment
- Low priority is given for small scale business MSME, in formal sector and domestic investment.

Conclusions

- The policies are not sufficient to address the agricultural distress
- The policies failed to address the high rate of unemployment.
- Though big populist schemes are proposed, adequate resources are not provided to implement it
- Budget also failed to take an inclusive growth approach

Thank You

This presentation is available in
www.keralaeconomy.com