A Conventional Budget Holds Hopes for the Future: Macro-Economic View

Government budgeting involves a tradeoff where different public programmes compete for a share of the limited available resources. It is fundamentally different from private budgeting where the major objective is to maximise profit. Public budget encompasses a wide range of public objectives and reaches out to different sections of the society. The Union Budget 2014-15, the first of the NDA Government after the change in regime at the Centre, avoided the decisions that would have been construed as paradigm changes that turned out viable, by continuing with the existing budgeting practice. Although it was a conventional one, the budget 2014-15 instilled some optimism for the future, based on the intents outlined in it.

Relating expenditure to revenue to avoid an explosive situation of higher deficit and debt burden, remains the key element of budgetary decisions, which need to have control over public money, ensuring accountability in spending it responsibly, efficiently and effectively. The varied expectations from the budget make it a very complex exercise for the policy makers. This budget 2014-15, with its macroeconomic policies and programmes, reveals the intent of the new Government to take the decisions as they go along.

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The Indian economy was one of the fastest growing economies with growth of over 9 % during 2005-06 and 2007-08. After recovering from the slowdown induced by the global financial crisis in 2008-08, the Indian economy managed to achieve a growth rate of 8.6 % and 8.9 % in 2009-10 and 2010-11 respectively. The recent sub -5 percent growth in the last two years, 4.5 % and 4.7 % in 2012-13 and 2013-14 respectively, was one of the lowest in recent history, since 1987-88.

Union Budget 2014-15

The Economic Survey for the year 2013-14 indicates that the prolonged slowdown in the Indian economy was caused by the persistent uncertainty in the global outlook, caused by the crisis in the Euro area and general slowdown in the global economy, compounded by the domestic structural constraints and inflationary pressures. While the external factors explain a part of the story, the domestic structural constraints bogged down the decision making process, affecting the growth adversely. The Survey indicates that lack of quick decisions on project proposals, growing subsidies that reduced the space for public investment, lack of clear policies to facilitate growth of the manufacturing sector, low labour absorption in the organised sector, and structural supply's side factors that made it difficult to control rein in food inflation, are the major factors inhibiting the economic growth. These are the areas, in which people expected actions from the new Government, to help improve the growth process.

The Economic Survey indicates that the slow growth in the investment sector in recent years can be attributed to policy uncertainties emanating from difficulties in land acquisition, delayed environmental clearances, infrastructure bottlenecks, problems in coal linkages, ban on mining in selected areas, *etc*. High and volatile inflation and high fiscal deficit along with the overall global uncertainty, may have resulted in slowdown in corporate investment. Slowdown in investment could also be explained in terms of the subdued business environment and low business confidence.

Managing inflation remains one of the major macroeconomic challenges in front of the Government. High inflation has the potential to vitiate the private investment climate stalling the growth prospects, which was evident in recent years. In addition to food inflation, the headline WPI was also affected by rising fuel prices. Factors like rationalisation of tariff for electricity in many states, the policy of allowing greater pass-through in diesel prices, and depreciation of the Indian rupee against the US dollar contributed to the fuel inflation.

The new Government with a resounding electoral verdict was expected to provide policy guidelines on a range of issues including enhancing economic growth, controlling inflation, improving employment opportunities, reviving investment, allocating resources to social and infrastructure sectors, achieving fiscal consolidation, and introducing reform measures. It is a different matter to expect everything to be provided in the budget. The budget 2014-15 being the first major opportunity, the railway budget preceding it, to outline the economic policies of the new Government, the wish list was rather long. The recessionary situation with the fiscal stress and adverse macroeconomic indicators like high inflation, declining savings and investment rates, and falling consumption needed to be addressed and some concrete policy directions on these issues was expected from the bduget. As the Economic Survey 2013-14 outlined, policies were required to adopt structural reforms to ease supply-side constraints, provide design sector-specific incentives to boost demands, accelerate project clearances and streamline implementation procedures, restore growth in manufacturing, keep fiscal deficit in check without compromising on capital expenditure, and maintain the CAD in the range of 2-2.5 %t of GDP.

One notable feature of the budget 2014-15 was continuity, particularly evident in fiscal consolidation roadmap. The budget accepted the previously laid out fiscal roadmap to achieve fiscal deficit of 4.1 per cent of GDP in 2014-15, 3.6 per cent in next fiscal year and 3 per cent in 2016-17. The emphasis on the need of fiscal discipline in the system is unmistakable.

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also projects other non-tax revenue target of ₹99, 000, a 24% growth. As the budget does not attempt to compress the expenditure, the feasibility of achieving the targeted fiscal deficit will depend upon the economic recovery with an assumed nominal growth of 13.6 %.

The FRBM Act, which acted as benchmark for fiscal targets until 2007-08, has not been revised. When the fiscal deficit widened to 5.7 % of GDP in 2011-12, the FRBM targets were summarily breached. The Fiscal restructuring path chalked out by the 13th FC and accepted by the Government, which recommended reducing the fiscal deficit to 4.2 % of GDP in 2012-13 and contain at 3 % level thereafter, was certainly found to be unachievable. In this situation, the decision of the new Government to continue with the fiscal roadmap of the earlier Government to reduce the fiscal deficit to 3 % of the GDP in 2016-17 is significant. However, as the economic survey pointed out, there is a need to revise the FRBM Act with fiscal targets and safeguards for its adherence. While fiscal rules are being revised by most countries in the aftermath of the financial crisis of 2008-09, the discretionary attempts to fix the deficit targets in India should give way to a more robust FRBM Act.

The improvement in fiscal situation also depended on the expenditure control, by tightening the subsidy regime. As the Government provided for most of the existing flagship central schemes and announced a plethora of new schemes, the expenditure control depended heavily on limiting the subsidy outflow. However, the subsidy outgo at ₹2,55,707 crore was more or less at the same level as compared to the revised estimates of 2013-14. Major subsidies, accounting for 96 % of the total subsidy outgo, remained at a higher level than the RE level. Even this level of subsidy hinges on the ability of the Government to adopt targeting subsidies through direct benefit transfers using Aadhar and reducing fuel subsidy by raising prices periodically. Increasing fuel price, though calibrated over time, will be an important element of rationalising the subsidy regime.

The Government announced to set up an Expenditure Management Commission for expenditure reforms, which will go into the whole range of issues relating to subsidy management. This holds hopes for the future. Although there were other Committees and Expert Bodies, which looked into the expenditure management issues, reducing subsidy was never dealt with in a systematic manner.

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The tax proposals in the budget were more guarded, which are in line with the overall philosophy of the budget, to avoid big changes this time around. The budget, however, provides enough indications regarding ushering in tax reforms in due course. The Economic Survey emphasised on structural tax reforms in both policy and administration by shifting to a more simplified and equitable regime. Although the government reaffirmed the commitment to implementing Goods and Services Tax (GST) and Direct Taxes Code (DTC), no timeframe was announced. The feedback and willingness of the stakeholders, particularly State governments in the case of GST, will be important for the Government to announce policy initiatives. The Government attempted to assuage the fears of the foreign investors on retrospective tax by declaring restraint. Disputes emerging from issues related to retrospective amendments would be reviewed by a special committee. Amendments were proposed to transfer pricing rules to bring those in line with international best practices. The administrative reforms proposed to strengthen tax dispute resolution are an important decision. However, tinkering with a large number of indirect tax measures does not seem to be an efficient solution to the functioning of the tax system.

The budget pushed towards infrastructure development that includes cities, roads, airports, and the energy sector. The budget envisages the creation of Infrastructure Investment Trust and real

Estate investment Trust for providing long-term funds on a sustained basis. This will help projects to broaden and diversify the source of funds. The exemption of CRR and SLR requirements on banks financing infrastructure projects through issue of long-term bonds will raise the funding availability. The budget, however, emphasises largely on public-private-partnership (PPP) model to improve the infrastructure base in the country. The PPP has not evolved as an efficient solution in the infrastructure sector in the country. The creation of infrastructure remains a big challenge and the Government needs to provide clearer policy guidelines in this sector.

Given the dismal performance of the manufacturing sector in recent years, dragging the growth rate down, it was natural for the Government to focus on the revival of this sector. The search for expanding job opportunities depends heavily on the revival of the manufacturing sector. Increasing the FDI limit to 49 % in defence in the budget is expected to help the manufacturing sector to infuse new technology by foreign investors. The scope for ancillary manufacturing units to increase their production base will also increase. Extending investment tax credit to small and medium enterprises will provide the stimulus to these units. The budget provision for skill development, which was there earlier, is an important element for the proving more employment in the manufacturing sector. The budget, however, avoided the issues relating to labour reforms, which is a big-ticket reform needed for better labour participation and job creation.

Although the budget refrained from any commitments towards any major reform initiatives, it evinced positive intent for the future economic development in the country. It may be a little early to expect big reforms from a new Government in the first budget. Searching for solutions for all the ills facing the economy from the budget, which is essentially a financial instrument, may not be correct. The policy process of the new Government will come out with details of directions in various sectors to address the challenges. The budget, however, provides indications of likely policy changes that the new government will take in the future. ■