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Challenges in the Union Budget

What is the issue?

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- The union government is facing serious budget challenges due to an almost certain fiscal slippage and other market pressures.
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- Rising crude oil prices and uncertainty over GST collection are also major risks.
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What are the contours of the problem?

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- 2018-19 Budget will be presented against the backdrop of uncertainty over tax collections post implementation of the GST.
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- The government will have to garnering higher revenue collections amid challenges faced by mid and small corporates due to the new tax regime.
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- Meanwhile, the slowdown caused by demonetisation and rising crude and commodity prices have already worsened the macroeconomic scenario.
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- While markets have already factored in the slight slippage in fiscal health in FY18, but too much slippage will spook the market — both equity and debt.
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- Hence, the government's ability to strike a good balance between populism and fiscal prudence will be highly critical preserving market confidence.
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How does the Fiscal Deficit fornt look?

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- The markets will be keenly watching fiscal deficit projections and whether the long-term fiscal consolidation is adhered to.
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- Notably, the government is also expected to breach its intial fiscal deficit estimate of 3.2% and close at around 3.4% for this year.
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- This slippage will effectively push the plans to meet the 3% fiscal target by another year (to 2020), in a 3rd such “1 year” extension.
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- Given the pressure for fiscal consolidation, flexibility to go overboard on spending is limited despite the poor job creation scenario.
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- Also, any slippage on fiscal deficit would have ripple effects on government’s borrowing programme, inflation, bond yields, interest rates, etc.
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- Finance Minister will therefore face the unique dilemma of balancing growth and inflation amid rising crude oil prices and bond yield.
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What are the expectations?

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- Except minor changes for the medium scale industries, the corporate tax structure is not expected to change much.
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- Major change to indirect taxes is also unlikely as the GST council is planning to stabilise rates after the initial rationalisations.
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- Moreover, market is not expecting a highly populist Budget although some focus on infrastructure, social sector and rural economy is expected.
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- Consumer sector (especially rural), retail, building materials and infrastructure companies is expected to benefit the most from the budget.
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Source: BusinessLine

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