Concerns with the Interim Budget

What is the issue?

The Interim Budget's tax revenue estimates, growth assumptions and disinvestment figures are less than convincing in addressing the fiscal concerns of India.

What is the background?

- The interim Budget was presented against the backdrop of an upward revision of growth rate of 8.2% for 2017-18.
- The growth rate for 2019-20 in the Budget has been estimated at 11.5 % in nominal terms.
- Assuming an inflation rate of 4%, the real growth could be 7.5 %.
- This is broadly in line with the estimates of the RBI in the fifth Bi- monthly Monetary Policy Committee resolution.
- Thus, the domestic macro-economic environment remained favourable in terms of growth, price stability (low inflation) and low current account deficit (CAD).
- However, it is important to mention that there is a potential of an upwards risk on account of crude oil prices in the future.
- Also, a rate hike in the US will result in capital outflows from developing nations (including India), creating disruptions on financing current account deficit (CAD) through net capital inflows in India.
- In addition, the global economic growth scenario is also bleak.
- Against the backdrop, it is important to analyse whether the Budget document addresses the fiscal concerns that might possibly arise in the future.

What are the concerns with the Interim budget?

- **Tax revenue** - According to the revised estimates for 2018-19, the tax revenue net to the Centre has gone up from Rs. 14,80,649 crore to Rs. 14,84,406 crore.
- But the States' share has come down from Rs. 7,88,093 crore to Rs. 7,61,454

crore.

- This is primarily due to the predominance of cess and surcharges in the Central Budget which are not shareable with the States.
- **Disinvestment proceeds** - The disinvestment proceeds are kept unchanged at Rs. 80,000 crore.
- Only 20% of the targeted disinvestment receipts was realised during the period April-November 2018.
- The remaining 80% target has to be realised in a period of two months which seems difficult if not impossible.
- **Interim dividend transfer** - The practice of an interim dividend transfer has been started from financial year 2017-18.
- It has also been reported that there is an interim dividend payment from the RBI to the government to the tune of Rs. 28,000 crore besides the surplus transfer of Rs. 40,000 crore in August 2018.
- However, any interim transfer without finalisation of audited profit and loss account is against the norms of sound accounting principles.
- This concern might be resolved by the Committee to review and recommend the appropriate economic capital of the RBI.

What should be done?

- **Avoiding fiscal slippage** - The Budget for 2019-20 has estimated that tax revenue, non-tax revenue, disinvestment proceeds and borrowings will meet 61.2 %, 9.8 %, 3.2 % and 25.3 %, respectively of the total expenditure (Rs. 27,84,200 crore) envisaged in the Budget.
- However, due to shortfalls in disinvestment proceeds and overshooting of the revenue component of the Budget, there might be a fiscal slippage.
- Thus, the government should consider reintroducing the monitoring mechanism which was set out in the Fiscal Rule, 2004.
- The rule envisages taking appropriate action when the fiscal deficit exceeds 70% of budgeted target and disinvestment falls below 40 % in the mid-term review.
- This is to correct the underestimation of expenditure and overestimation of revenue collections in the Budget-making process.
- **Reducing dependence on surplus cash balance** - The Budget-making process involves financing of the fiscal deficit in terms of drawdown of surplus cash balance.
- The Budget for 2019-20 has estimated an amount of Rs. 51,297 crore as the drawdown of surplus cash balances.
- Maintaining a surplus cash balance to finance the fiscal deficit is the result of either over borrowing or withholding the payments.
- In either case, it is against prudent fiscal management.

- If prudent budgetary practice would have been followed, this amount should have been “zero”.
- **Lowering revenue deficit** - The medium-term fiscal policy statement sets out a fiscal deficit relative to GDP at 3 % in 2020-21 and 2021-22 accompanied by revenue deficit of 1.7% and 1.5% of GDP, respectively.
- Persistence of the revenue deficit results in a dis-savings of the government and thus would drag the growth prospect of the economy.
- As long as the revenue deficit persists, the borrowings to finance fiscal deficit will be used mostly for current consumption of the government.
- Also, there will be lower provision for capital expenditure in the Budget.
- Thus, this trend needs to be reversed by lowering the revenue deficit in the budget.
- To sum up, the Budget should ensure fiscal transparency, fiscal marksmanship with Budget integrity, fiscal space and fiscal prudence.

Source: Business Line