

ECONOMY

If You Also Had These Questions About The Budget, Here Are The Answers

Nilanjan Banik - Feb 02, 2017, 5:50 pm

SNAPSHOT

Simple questions you might have about Budget 2017, answered in simple terms.

Q1. How does one say whether a budget is good or bad?

The general assumptions underlying a good budget are: it contains the fiscal deficit, carries on with the necessary reforms, and give incentives to consumers and business.

Q2. What were most analysts expecting from the Budget?

India is the only large economy in the world which is growing at 6.5 per cent and more, and yet this growth rate is not supported by some fundamental micro and macro-economic indicators. Importantly, in this phase of de-globalization (read, the Trump factor), and disruption post-demonetisation, it will be a miracle if India can achieve 7 per cent growth. Market pundits and economists were, therefore, looking for an action plan from the Finance Minister that will sustain economic growth in a more equitable fashion.

Q3. What was the mood on the streets leading up to Budget?

Post-demonetisation small and medium entrepreneurs will vouch for a fall in overall demand. There has been a fall in production of cars, two-wheelers and cement. The service Purchasing Manager's Index (PMI) tracking sales, employment, inventories and price data of private service sector companies has shown a sharp decline in recent months - 46.8 as oppose to an average of 51.5 over the last five years. Service is the most important sector, contributing 67 per cent of India's national income.

Economic Indicators	2012-2016 (Five years average)	2016 (Latest available data: yearly, quarterly and monthly)
Car production (monthly)	220000 units	208045 units
Cement production (monthly)	22000 thousand tonnes	20516 thousand tonnes
Service PMI data (quarterly)	51.5	46.8
Foreign Direct Investment (monthly)	USD 2200 million	USD 2000 million
GDP from Agriculture (quarterly)	Rs 3900 billion	Rs 3095 billion
Consumer Price Index (monthly)	7.4%	3.4%
Food Inflation (monthly)	8%	1.4%
GDP from Public Administration (quarterly)	Rs 3050 billion	Rs 3861 billion
Consumer Spending (quarterly)	Rs 14800 billion	Rs 16256 billion
Government Spending (quarterly)	Rs 2790 billion	Rs 3840 billion
Expansion of Infrastructure Output (quarterly)	4.2%	4.9%
Steel Production (monthly)	7200 thousand tonnes	8200 thousand tonnes

Source: www.tradingeconomics.com. Compilation from various government departments.

The pessimistic business outlook is also reflected by a fall in foreign direct investment (FDI). During the last five years, India saw an average inflow of $2200 million worth of FDI every month. The figure for December 2016 was $2034 million.

Q4. How did the finance minister try to boost demand in the economy?

There are five components of demand: consumption expenditure, investment expenditure, government expenditure, exports and imports. The most important component of demand is consumption expenditure, accounting for 70 per cent of the national income in 2016.

To generate more consumer demand, the finance minister announced that a person with annual income up to Rs 3 lakh will not have to pay income tax and those having income up to Rs 5 lakh will be charged income tax at 5 per cent as opposed to the earlier 10 per cent. This will give an additional income of Rs 13,000 crore in the hands of the consumers.

Q5. Has the finance announced any bold steps/reforms in this budget?

Acknowledging instances of tax evasion, the finance minister stressed the need for a digital economy and big data analytics to catch evaders. Political funding also saw reform, with maximum limit of anonymous cash payment now reduced to Rs 2,000 from the earlier Rs 20,000.

Data suggests that there are only 24 lakh Indians who have income above Rs 10 lakh while, ironically, Indians bought 25 lakh cars every year since 2011. Decreasing tax rates will increase tax buoyancy but its immediate impact on raising consumption demand is questionable.

Q6. What did the Finance Minister do to address income inequality?

Although the consumer spending data has shown a tepid increase, the bug lies in agricultural income, supporting livelihood of around 60 per cent of the population. Long term trend suggests India's growth story is kept alive through higher government expenditure.

Government spending for the third-quarter of 2016 stood at Rs 3840 billion in comparison to the five years average of Rs 2790 billion. The major part of government spending relates to implementation of government programmes and maintaining various government departments. Recent estimate shows Gross Domestic Product (GDP) from public administration (Rs 3861 billion) has now surpassed the GDP from the agriculture sector (Rs 3095 billion). This increased government spending was able to keep India's growth story alive at around 7 per cent.

However, to sustain this growth the focus has to be on the agriculture sector. With an effort to revive the agriculture sector, the total allocation for rural, agricultural and allied sectors has been increased by 24 per cent and this now stands at Rs 1872.23 billion. Likewise, farm insurance coverage under the Pradhan Mantri Fasal Bima Yojana has been increased to 40 per cent from the current 30 per cent.

Q7. Wait a second, isn't private spending preferable to public spending?

It is, but not all aspects of government spending are bad. It makes sense to spend on infrastructure. The Make in India project, that is, incentivising manufacturing in India, will not be possible without having world class roads, ports and railways. And one has to give credit to the government for increasing funds for building infrastructure sector.

However, money spent on maintaining too many government departments is unworthy. For instance, the department of sericulture can be merged with agriculture, etc. At a time of e-governance, better delivery of public services can happen through a leaner, thinner and stronger (read, productive and transparent) government departments.

Q8. So was there anything in the budget about sustaining the growth rate?

Sustaining this 6.5 per cent plus growth, and generating consumer demand will also require transferring funds to the poor and the deprived so that distribution of income becomes more equal. The richest 1 per cent in India own 58 per cent of the country's wealth. Around 26.1 per cent of its 1.27 billion population lives below poverty line, and 63 million people have been driven into poverty due to high cost of healthcare and education. In this age of 3D printers and data algorithm, when the manufacturing process is increasingly becoming mechanised, there is a need to incentivise micro, small and medium enterprises (MSME) sector.

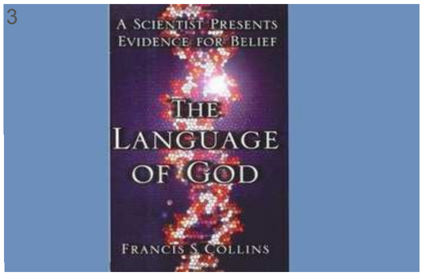
The problem with MSME sector is access to finance. A flourishing MSME sector is necessary for employment generation. India has a growing youth population, with two-third of its population below 35 years. *The finance minister has reduced income tax for firms with a turnover of less than 50 crore to 25 per cent from the earlier 30 per cent. To increase accessibility to finance, the lending target under the Pradhan Mantri Mudra Yojana has been doubled at Rs 2.44 lakh crore.*

Q9. What about the Universal Basic Income?

There were some talk about giving unconditional cash transfers to the poor. Although at present, government budget deficit and inflation are both under control, direct cash transfer is not a good idea. Cash transfer can, at the most, help to create a vote bank but will not help the masses to sustain their income. The finance minister has desisted from this incentive and has kept the budgetary deficit under control, pegging the fiscal deficit at 3.2 per cent of the GDP for 2017-18.

Nilanjan Banik

Nilanjan Banik is Professor, Bennett University.



A Scientist Turns To God: Review Of Francis Collins' 'The Language Of God'

To Legalise Cannabis Or Not, That Is The Question -- And There's No Answer Yet

We Should Not Rule Out A Second Budget, Or Mini-Budget, In Calendar 2017

Recovery Underway: Auto Sales For January Show That The Worst May Be Over

Union Budget 2017-18 Has Set The Stage For India's Digital Revolution

Close[x]

From UC Berkeley To JNU: Leftists Create Roadblocks For Free Speech


WAR