Budget as a Tool to Scale Up Economic Potentials

Feature
General Budget

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The annual presentation of the Union Budget mapping out in exhaustive details the income and expenditure of the Central Government for the fiscal year beginning on April 1 and how it proposes to spend and the ways and means to find the funds for spending will all be revealed on February 28, the last day of this month. This is a practice India inherited from colonial era though the earlier one of the Finance Minister presenting the budget sharply at five in the evening had been dispensed with. Instead, it is now presented sharply at 11 in the morning, doing away with other businesses of the House including the question hour to exclusively devote the proceedings for the budget and its presentation in the Lok Sabha. This year the Union Finance Minister Mr.Arun Jaitley will present his first full budget for the fiscal year 2015-16 on a Saturday, even as the maiden one he laid in Parliament in July last was only for eight month period. Much is expected of the full-fledged budget of the NDA government to take forward a raft of initiatives it had announced on the economic front ever since it was voted to power overwhelmingly in the May 2014 elections for a five year term under the leadership of Mr. Narendra Modi who subsequently became the Prime Minister of the country.

It would not be out of place to demystify the book-balancing exercise billed as budget in governance parlance. Under Article 112 of the Constitution, a statement of estimated receipts and expenditure, commonly called the Budget Statement ought to be placed in Parliament every financial year that runs from April 1 to March 31. Along with the budget statement that includes the the estimates of expenditure from the Consolidated Fund of India that are required to be voted by the lower House (Lok Sabha) are presented in the form of Demands for Grants of the various departments and ministries of the Government. Each demand normally contains the total provisions for a required service i.e., provisions on account of revenue expenditure, capital expenditure, grants to States and Union Territories, and also loans and advances pertaining to that service. Estimates expenditure included in the Demands for grants are for gross amounts.

Estimates of revenue receipts embedded in the annual financial statement are further elaborated and analyzed in the Revenue Budget document. Revenue receipts of the Centre comprise net tax revenue and non-tax revenue. Tax revenue includes corporation tax, taxes on income other than corporation tax and other taxes that constitute the direct taxes. In the indirect taxes are included customs (import) duty, union excise duties, services tax and other taxes. Non-tax revenue includes interest receipts, dividend of public sector undertakings, other non-tax revenue and receipts of Union Territories. Capital receipts cover recoveries of loans and advances, debt receipts encompassing market loans, short-term borrowings, external assistance (net), securities issued against Small Savings, State Provident Fund and other receipts, while non-debt receipts include recoveries of loans and advances, disinvestment receipts and auction(sale) revenues of spectrum.

The budget document also contains two separate volumes on expenditure with the first one dealing with the revenue and capital disbursements and Plan outlay for each head. The second volume gives a perspective on the objectives underlying the expenditure proposed in the Demands for Grants with a concise note on the various items of expenditure on major programmes set out in the Demands coupled with the reasons for variation between the budget estimates and revised estimates for the previous year and the budget estimates for the current year.

Besides the revenue and expenditure compendium to lend clarity to the budget proposals, there is also the Finance Bill. This is presented in fulfillment of the requirement of Article 110(1)(a) of the Constitution, setting out the imposition, abolition, remission, alteration or regulation of taxes proposed in the budget. It is tagged to a sleek booklet called a Memorandum explaining the provisions included in it. The booklet serves a quite useful purpose to read the fine prints of the budgetary numbers and also a bird's eye view of the taxation proposals contained in the Finance Bill, with the provisions and their implications decoded for clarity and understanding. In essence, all these attachments to the set of Budget document constitute the bedrock of the budget papers for experts and economists to lay bare the hidden and open meaning and message of the important fiscal document the government of the day presents every year. Separately but along with the main documents, the Finance Ministry also makes available highlights of the budget, spelling out the salient features, the milestones crossed and the new milestones to be set in the real sectors of the economy, new initiatives announced in the budget and allocation of funds to what are described as the linchpin legs of the economy such as agriculture, industry, financial sectors and defense, besides a brief summary of tax proposals.

In a bid to lend more transparency to governance and macro-economic management, the Finance Ministry had departed from past practices by showcasing in recent years the real status of implementation of announcements made in the previous year budget speech by the Finance Minister as also a document dealing with Fiscal Responsibility and Budget Management Act, 2004 related reports. Though the previous government did make a pause in the implementation of the important Act following the fiscal stimulus India had to administer in the wake of 2008 global financial crisis, the government continued to make available three important reports subsumed under this Act that deal with macro-economic framework statement, medium-term fiscal policy statement and fiscal policy strategy statement. However, it needs to be noted that the previous Government in 2012 adopted revised roadmap for fiscal consolidation following the amendment to the FRBM Act 2012. In the revised roadmap, fiscal consolidation is designed with prudent mix of reduction in total expenditure as a percentage of Gross Domestic Product (GDP) and improvement in gross tax revenue as a percentage of GDP, the latest Mid-Year Review of the Economy laid in Parliament in December last said.

The Finance Minister Mr. Arun Jaitley who promised to keep the fiscal deficit target of 4.1 per cent of GDP in 2014-15 when he presented his maiden budget in July last, will not find the task too tough to succeed. A few fortuitous factors like a steep drop in global crude prices and a benign recovery in major markets like the United States and the United Kingdom this fiscal meant that the growth impulses in the economy would gain the requisite momentum to ensure that the economic revival predicted for the last quarter of the current fiscal did take place. The RBI too came out with a surprising 25 basis point cut in interest rate in mid-January 2015 to help industry and trade overcome their working expenses woes. The government‘s import cost of crude would come down by a massive 50 to 60 billion dollars which would help cut its exorbitant fuel subsidies substantially. Already, the government has decontrolled the prices of petrol and diesel so that as the global price of crude oil plunges, the pump price of these fuels would also go down to make customers spend their saved money on other consumption expenditure. The government had also wisely jacked up excise duty on fuel to mop up more than Rs 20,000 crore this fiscal. This coupled with rationalization of food subsidies by limiting procurement of cereals and other expenditure containment measures put in recent months meant that the next budget will have ample headroom to manage and kick-start development programmes particularly the ones like “Make in India” for driving manufacturing, infrastructure spend and other employment-generation productive activities across the economy. The country can afford to lower import taxes on production inputs and intermediates that are indispensable to rev up manufacturing growth, leveraging duly the savings through the steep fall in the prices of global crude prices. The time for using budget instrument to respond to the underlying potential growth impulses in the domestic economy is seldom ripe than in the present time of low crude prices, lower inflation and the lowest current account deficit. All eyes are naturally on the General Budget to be unveiled on February 28, 2015 in Parliament as to how far it will translate the congenial circumstances into helping push the economy into higher trajectory of growth, economists contend with gusto.

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