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Analysis of Union Budget 2018-19

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I. Introduction

THIS YEAR BUDGET is to be analyzed in the back drop of the prevailing economic, social and political conditions in the country. The government has undertaken several structural major reforms over the past four years resulting in a real GDP growth to reach 6.75% in the year 2017-18. It is expected to rise 7.5% in 2018-19. Demonetization in November 2016 and launch of transformational goods and services tax on July 1, 2017, the introduction of new Indian bankruptcy code, implementation of Aadhar card, liberalization of FDI, implementing a major recapitalization package of Rs.88,000 crore to strengthen the stressed public sector banks and observing acceleration in the economy particularly in the second half. The robust economic growth at 7.2%, stable inflation (lowest in the last 6 years, fiscal consolidation, macroeconomic stability and the strong foreign exchange reserves of US$ 414 billion dollars showing a growth rate of 14.1 percent, impressive proceeds from disinvestment of ₹ 1 lakh crores. Savings of ₹ 65,000 crores in subsidies due to making Aadhar as bases for DBT. Some of these indicators show resilience of Indian economy. Indeed Indian Economy is one of the best performing economy in the world. I am glad to state that disruptions caused to structural reforms such as demonetization and GST etc. did not result in serious adverse effects on the growth and other macroeconomic parameters of the economy. Equilibrium is largely achieved.

However, the economy is faced with certain challenges like low growth rate of agriculture in 2017-18 at 2.1 % despite respectable food grain production of 275.7 million tons and 300 million tons of fruits and vegetables during 2016-17, meeting the Prime Minister's concern for improving the incomes of agriculturists, raising farm productivity, strengthening agriculture resilience, expansion of education and health facilities,

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generating employment, giving boost to investment and export and poverty reduction and women empowerment by extending facilities of electricity and drinking water in the rural areas. Another challenge is gigantic amount of NPAs and problem of capitalization requiring infusing capital in the state-run-banks.

The present budget has emerged in the back drop of the structural reforms and achievements in the last four years and keeping in view the challenges before the economy. It is guided by PM's mission to strengthen agriculture, rural development, health, education, employment, MSME and infrastructure sectors.

II. Economic Growth and Fiscal Consolidation

This year's budget shows India to be US$ 2.5 trillion economy. The Finance Minister has rightly fixed up a target of 8% growth and expects to achieve a growth rate from 7.2 percent to 7.4 percent during 2018-19. India is poised to continue to be one of the fastest growing economy in 2018-19, contributing positively the growth of world economy. He has rightly made provisions to result in the desirable growth in agriculture and industrial sector targeting "Make in India" mission.

Finance Minister has been very concerned about containing fiscal deficit to 3.2 Percent of GDP. The fiscal deficit is being brought down from 6.4 percent in 2010 to an internationally acceptable level. A consistent approach to contain fiscal deficit has resulted in improvement of sovereign rating of India last year. Sovereign rating and ease of doing business, allowing 100 % FDI in retail business, and other structural reforms will facilitate in achieving the targeted growth rate.

An Impressive allocation of ₹ 14.34 lakh crores for creation of livelihood in rural areas and social welfare schemes is highly progressive, forward looking and a step in right direction to achieve the mission of "Garibi Hatao". Proposal of various programmes to direct the benefits of structural changes and good growth to reach farmers, poor and other vulnerable sections of our society and to uplift the under-developed regions is appreciable. This year's Budget will consolidate these gains.

III. Agriculture and Rural Economy

India's economy is still agrarian where about 49 percent people are directly engaged in Agriculture. India lives in rural areas. Successive governments in the past have made attempts to focus on agriculture and rural development yet masses engaged in agriculture and also living in rural India continue to be suffering with abject poverty, face lack of facilities and deserve attention in terms of developing rural and social infrastructure with appropriate health and educational facilities. The Finance Minister has rightly focused on strengthening agriculture and rural economy. In tune with the Prime minister's desire to double the incomes of farmers by 2022 – a very ambitious target the finance minister has emphasized on generating higher incomes for farmers by extending necessary help to produce more at lesser cost and also earn more on their produce. For this it is necessary that farmers get fair price for their produce. There is also a need to strengthen the market connectivity.

In view of this the finance minister has proposed that Minimum Selling Price (MSP) for Kharif crops to be set up at 1.5 times the produce cost on all the 23 produce. He has allocated an amount of ₹ 2,000 crores for agricultural market and infra fund in addition to allocation of ₹ 500 crores for operation green to be launched to promote agriculture products.

Agricultural credit facilitates farmers in their operations and raising the productivity as most of the farmers are small and marginalized. Increasing the target of agriculture credit from 8.5 lakh crores to 11 lakh crores would greatly facilitate farmers particularly small and marginalized farmers. However, attempts need to be made that the credit is extended to farmers as targeted. In addition to the above proposals the finance minister has extended Kisan credit facilities to allied areas such fisheries and animal husbandry. It is thoughtful of setting up ₹ 10,000 crores for Fisheries and Aquaculture development Fund and ₹ 10,000 crores for Animal Husbandry Fund. The setting up these fund will help people engaged in these sectors and facilitate in the increasing their incomes.

Finance Minister's announcement to develop and upgrade existing 22,000 rural haats into Gramin Agricultural Markets (GrAMs) to take care of the interests of more than 86% small and marginal farmers and setting 42 mega food parks with an investment of ₹ 1,290 crores will greatly help in increasing the productivity of agriculture. Post Harvest tax incentive and 100% rebate for farming producing companies will also help increase production for agriculture produce and chasing a target of possible potential of 100 billion dollar export of agriculture produce will help increase incomes of the farmers in due course. The budget provision for facilitating farmers for installing solar water pumps to irrigate their fields is appreciable. The budget proposal to extend the facility of Kisan Credit Cards to fisheries and animal husbandry farmers will help them meet their working capital needs and increase in their incomes.

IV. Rural Economy

The Finance minister has made a serious attempt to alleviate poverty in rural economy through allocations to various schemes. This is human face of the budget. The Finance Minister has taken care of welfare of poor & Lower middle class families by providing for 8 crores free LPG connections under Ujjwala Scheme to poor women and 4 crore poor households are being provided with free electricity connection under Saubahagya Yojana allocating ₹ 16,000 crores under this scheme. This will greatly facilitate reduction in burning of fuel and causing deforestation and the sufferings of women. To fulfill target of housing for all by 2022, more than one crore houses will be built by 2019 in rural areas, besides constructing about 2 crores toilets in addition to already 6 crore toilets under Swachh Bharat Mission are also welcome steps. Similarly allocations of ₹ 5,750 crores to

National livelihood and ₹ 9,975 crores for social security schemes for 2018-19 are laudable. These schemes will help in adding to the dignity of Indian women.

However, there may be apprehension if such a laudable target can be achieved as at times there is lack of effective implementation. Prevailing corruption at the grass root level also adversely affects the benefit of government's schemes reach targeted people.

V. Education, Health and Social Security

Education and health of a Nation is very important to build sustainable society. While education facilitates to make use human resource for contributing to the wealth of the nation and to incomes for a good living, good health facilitates sustaining such human resource. It is one of the most important gift of the nature to the world. I am glad that the finance minister has been very concerned for education, health and employment. His allocation to health as percent of GDP, as compared to other BRIC countries is low. For instance China spends about 3.2% of GDP as compared to 1.4% of GDP in case of India.

His provision for one lakh crore for infrastructure system in education, setting up 2 new schools for planning and architecture, announcement of setting up one medical college for every three parliamentary constituencies with 24 New medical colleges, and upgrading hospitals to medical colleges will help making the medical education and medical facilities available in the neighborhood of people around the country. Similarly, providing scholarships to 50 lakh youth by year 2020 is laudable to help meritorious youth from middle and lower middle class families to pursue higher education including medical education in some of the ivy league institutions.

The budget provision of setting up 1.5 lakh centres to provide health facilities closer to home with an allocation of ₹ 1,200 crores under Aayushman Bharat programme is remarkable. Similarly large amount of allocations made for TB nutritional support is also welcome features in the budget.

Finance Minister announcement for the world's largest government funded health care programme titled National Health Protection Scheme to cover over 10 crore poor and vulnerable families covering approximately 50 crore beneficiaries from 10 crore families and providing coverage up to 5 lakh rupees per family per year for secondary and tertiary care hospitalization is a laudable step. This will also help promote business of insurance and generate employment in the country.

Setting up 1.5 lakh centres for health facilities, medical colleges and government funded health care programmes will help generate more employment and take care of the health of the nation. This will also help people from different regions to seek quality medical treatment in their neighborhood rather than going to metro cities and face problems.

The provision for including all 16 crores accounts under PM Jan Dhan Yojana under micro insurance and pension schemes is very well thought out. Under social inclusion schemes the provision for ₹ 52,719 crore for SC welfare and ₹ 39,139 crore for ST welfare will help the people belonging to schedule caste and schedule tribes. Every block with more than 50 percent ST population will have Ekalvya schools at par with Navodaya Vidyalayas. To empower new employees a provision has been made to contribute 12% of wages in EPF in all sectors for next 3 years. And for women the contribution of EPF has been reduced to 8 percent for first 3 years.

VI. Infrastructure and Industry

Finance Minister has been equally concerned for investing in infrastructure by emphasizing that infrastructure is the growth driver of economy. He has announced an increase of budgetary allocation to infrastructure for 2018-19 to ₹ 5.97 lakh crore and to connect the nation with a network of roads, airports, railways, ports and inland waterways. To further boost tourism, the Budget proposal to develop ten prominent tourist sites into Iconic Tourism destinations by following a holistic approach involving infrastructure and skill development, development of technology, attracting private investment, branding and marketing are welcome announcements which will generate employment and result into growth.

Large amount allocations have been made in Railways, Aviation, and digitalization of the economy. Railway capes has been pegged at ₹ 1.48 crore to eliminate unmanned railway crossing, to build escalators, to provide WiFi and CCTV camera, to eliminate unmanned rail crossings. An allocation of ₹ 11,000 crore for Mumbai rail network and ₹ 17,000 crores for the Bengalure metro have been provided to take care of the needs of these metro cities.

To further Broadband access in villages, the Government proposal to set up five lakh Wi-Fi hotspots to provide net connectivity to five crore rural citizens and allocations of ₹ 10,000 crore in 2018-19 for creation and augmentation of Telecom infrastructure would help in Digital India programme of the Government.

The Finance Minister has been very concerned about MSMEs which constitute 99% of the companies, by providing them ₹ 3,794 crores for giving credit support, capital and interest subsidy and for innovations. MSME change in basis of classifying from investment in plant and machinery/ equipments to annual from ₹ 50 crore to turnover 250 crore and reducing the tax rate to 25% will encourage ease of doing business, growth oriented and align them to new tax regime resolving around GST. Finance Minister has also offered ₹ 3 lakh crore more of MUDRA loans for MSMEs. An outlay of ₹ 7,148 crore for the textile sector in 2018-19 would help generate employment and boost growth.

VII. Employment

There is a very high rate of unemployment among the educated youth leading to frustration which required immediate attention. This year budget has rightly focused on generating employment by making a provision of 70 lakhs formal jobs and through an investment in infrastructure, road, railways, airports and helipads, rural infrastructure, interconnecting rural with urban areas with a view to boost employment and quality of life of people. While appreciating the steps taken in the Budget for generation of employment, the government may consider setting up of National Labour Exchange as suggested in one of the studies completed at Indian Institute of Finance and published in Finance India, Vol. 31, No. 3, September 2017 Issue to deal with the problem of unemployment in the country.

It is appreciable that despite large allocations to social welfare schemes in agriculture, education, health and infrastructure, and a moderate target of disinvestment of ₹ 80,000 crore, he has been able to keep the fiscal deficit at 3.3 % and targeting a growth rate of 7.2 to 7.4% of GDP without any additional tax burden.

VII. Tax Proposals

It is always advisable to have minimum changes in the tax policy to maintain stability. Accordingly he has kept the Tax rates both personal and corporate unchanged. To give relief to salaried people he has introduced a standard deduction of ₹ 40,000/- withdrawing travelling allowance. He has been very caring for senior citizens by giving relief to Senior Citizens interest income on deposits with banks and post offices proposed to be increased from ₹ 10,000 to ₹ 50,000 u/s 194 A and hike in deduction limit for health insurance premium and/ or medical expenditure from ₹ 30,000 to ₹ 50,000 under section 80D is another benefit to the middle class.

He has rightly introduced long term capital gains tax at a moderate rate of 10 %, on the basis of equity, as there is no justification for incomes of Rs. 3.6 lakh crores from this asset class to be exempted from tax. The tax on LTCG should have been 20% as had existed prior to October 2004. The budget also proposed that all dividends distributed by equity mutual funds have to pay a 10%. This would cut down on the net amount of money that mutual fund houses could distribute to their investors. The adverse reaction of markets of LTCG is uncalled for. He has proposed 1% education cess (tax on tax) for revenue considerations to run massive social security schemes.

However, it could be worthwhile to loose a revenue income of ₹ 15000 crore by raising the minimum exemption limit to ₹ 3 lakh to make it a dream budget. This could have been made up by raising tax on LTCG to 20% with indexation.

In order to facilitate growth and employment he has reduced the corporate tax rates to 25% for MSMEs with turnover up to ₹ 250 crores. This proposal as well relief in personal taxation may result in a revenue loss of ₹ 5995 crores.

However, to promote "Make in India" and for revenue considerations, he has proposed to raise customs duty from 2.5% to10 % on various items such as perfumes and toiletry preparations (10%), automobiles and automobile parts (5%), footwear (10), imitation jewellery (5%), electronics/ hardware (5%), furniture (10%), watches and clocks (10%), toys and games (10%), textiles (10%), edible oils of vegetable origin (15 to 17.5%) etc. While he has reduced customs duty on certain items such as capital goods and electronics (5%), medical devices (2.5%), refractory items (2.5%), as a result some of the items in which customs duty has been raised would be costlier while some of the other items would be cheaper.

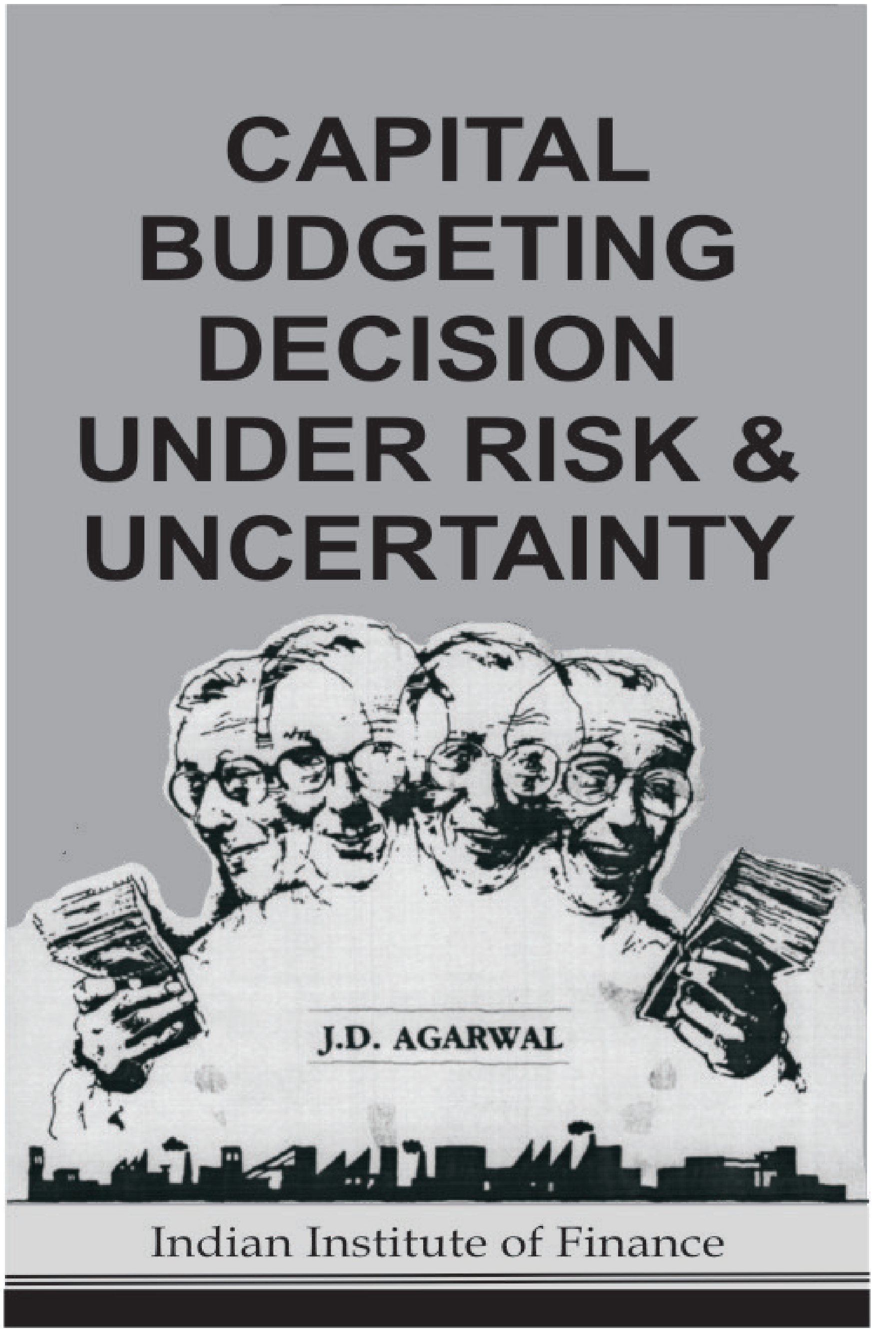
VIII. Conclusion

The Finance Minister has done a tremendously good job in presenting this Budget. On the whole the budget is a welcome shift from market driven economic system to the social welfare orientation, where the government takes care of the needs, requirements and aspirations of more than 80% population of the country.

The Union Budget 2018-19 is pro-people, progressive, balanced and different from the general trend and expected to take care of the aspirations of people. It will prove to be growth oriented, with focus on agriculture, rural development, education, employment and investment. Attempts have rightly been made by the Finance Minister to promote affordable housing, give boost to real estate sectors, stimulating growth, promoting digital economy and promoting ease of doing business by removing obstacles. The government's heavy spending would reverse the sluggish growth in agriculture and industry.

There is a need for structural reforms and a total revamp of agriculture to be technology oriented to increase the incomes of farmers. However, that could not be a part of budget proposals. Similarly, education at all levels and legal and judicial reforms require structural reforms. The present system is not keeping pace with the requirements of the economy and people. NITI Aayog needs to work out a solution with a out of box thinking. The add on approach and fine tuning the existing system is not likely to yield the desired results.

Union Budget 2018-19 is a "*Garibi Hatao, Kisan Bachao Budget*"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