View: Much more on consumption than on investment

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There are no changes in indirect tax.

Friday's budget was a cross between an interim budget, which makes minimal changes, and a full budget, with numerous changes on the revenue and expenditure side. The primary focus is on expenditure, more particularly on agriculture. The high point has been the provision of income support of Rs 6,000 a year to farmer families having cultivable land up to two hectares. This would entail an annual expenditure of Rs 75,000 crore.

Undoubtedly, this cash support directly paid into their bank accounts will provide some relief to these farmer households. Presumably, like the earlier Telangana scheme, this will not include tenant farmers. This scheme imposes less fiscal burden than many other schemes that had been talked about. Some of Universal Basic Income (UBI) schemes would have entailed 4-5 times this amount. So, it is modest and prudent.

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However, all these schemes do not address the basic reasons for farmers' distress: low productivity, sudden fall in farm prices and low size of average holding. Each one of these problems needs to be addressed separately and a long-term policy programme must be put in place. Income supplement is a palliative, not a cure.

Last year, there was euphoria over a perceived agriculture-oriented budget. Nevertheless, we ended up with distress. The pension scheme introduced for unorganised workers is certainly welcome.

Changes in tax structure are just limited to personal income tax. The corporate tax rate remains the same. There are no changes in indirect tax. GST rates can be modified only by the GST Council. The FM has been generous as far as personal I-T payers are concerned.

Individual taxpayers having taxable income up to Rs 5 lakh will not pay any tax. Three crore middle-class taxpayers are expected to benefit.

The standard deduction is being raised to Rs 50,000, and this will entail a tax loss of Rs 4,700 crore. The tax change exercise is, thus, limited. Perhaps we are moving towards a stable tax rate regime.

It is easy to come up with large expenditure programmes. The question is whether they can be fitted into a fiscally prudent budget. Conforming to the fiscal deficit target is one way to test fiscal prudence.

The budget has fixed the fiscal deficit at 3.4% of GDP both in 2018-19 and 2019-20. For 2018-19, it is 0.1% above the budget estimate of that year. For 2019-20, the fiscal deficit is 0.3% above the glide path number. While one shouldn't quibble over deviations by a few decimal points, the road map for fiscal consolidation keeps changing every year. This raises doubts on commitment for fiscal consolidation.

We need to look at the revenue projections to see whether the fiscal deficit projected will stick. Gross tax revenue is expected to rise by

13.5%. Direct tax revenue is to increase by 15%, while indirect taxes will increase by 11.8%. This is in the context of nominal GDP growing at 11.5%. Thus, the tax buoyancy is well above 1.

According to the budget, in 2018-19, tax performance has been extremely good. As per revised estimates for 2018-19, gross tax revenue is estimated to have grown at 17.15%. The shortfall in GST is estimated at only Rs 1 lakh crore. These projections are somewhat suspect, given the recent trends up to December.

The budget focuses clearly on expanding consumption demand. Augmenting farmer income and increasing the disposable income of the middle-class are, perhaps, meant to do this. There is no mention in the budget about augmenting investment.

One of the stark facts emerging from the analysis of national income data is the steep fall in the gross fixed capital formation rate. Sustained high growth is possible only with investment steadily rising. Perhaps the full budget, when it is presented, will focus on this.