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A well-balanced budget

The government will do well to take forward the idea of a public sector asset rehabilitation agency

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The success of this year's Budget will be judged based on whether it is able to increase direct tax collection by encouraging more people to join the tax net

COMING on the back of the demonetisation move in early November, the Union Budget was expected to take the government's drive against corruption and unreported wealth further. Indeed, the finance minister spent time talking about the tax non-compliance being widespread in India. A welcome reduction in the corporate and personal income tax rates at the lower income slabs was announced for the first time in many years.

Medium- and small-scale industries are likely to be pleased with the reduction in the tax rate to 25% for companies with a turnover of less than ₹50 crore. Large sized companies would have also liked to enjoy a lower tax rate, especially since the finance minister had talked about a lower rate of corporate taxation in the previous Budget. CII had recommended a lower rate for greater competitiveness of companies located in India. This would, no doubt, find place in next year's budget.

It is commendable that fiscal prudence has been maintained in the Budget and the finance minister has been able to target the fiscal deficit at 3.2% of GDP in FY18 and reduce it further to 3% in the following year. At the same time, the minister has been able to allocate money wherever needed, focusing especially on the rural and infrastructure sectors. Despite the elimination of Plan spending, the Budget has been able to increase capital expenditure by almost 25%.

Allocations to agriculture and the rural economy have been increased significantly. NABARD has been allocated funds for the creation of a dedicated micro-irrigation fund and a dairy processing and infrastructure fund. A combination of infrastructure creation and reforms in the agriculture sector are expected to achieve the target of doubling farmers' income by 2022. The rural population is expected to benefit from accelerated road building, electrification and sanitation.

Several innovative measures have been announced for the infrastructure sector. Large allocations have been made to roads and Railways while railway stations and airports will be built and operated with the help of the private sector. Allocation has also been made for expanding the reach of high-speed broadband connectivity to take forward the digital economy.

Low-cost and affordable housing is an urgent need in the backdrop of rural-urban migration gathering pace. Many measures have been announced to improve availability of housing, including giving infrastructure status to affordable housing and making changes in capital gains taxation for property. The decline in interest rates post-demonetisation will also help in reviving demand for housing and for the real estate sector in general.

Ultimately, the success of this year's Budget will be judged based on whether it is able to increase direct tax collection by encouraging more people to join the tax net. As mentioned by the finance minister in his Budget speech, only 1.7 crore salaried individuals file returns out of 4.2 crore people employed in the organised sector. However, it is encouraging to note that tax revenues for the government has been increasing steadily. Gross tax revenue as a percentage of GDP has increased from around 10% in FY15 to 11.2% in the revised estimate of FY17.

The government has typically used PSU disinvestment as a means to contain the fiscal deficit. This year, too, there is a substantial amount—₹72,500 crore—expected to be raised from listing and divesting public sector units. It is to be hoped that this is pursued seriously from the beginning of the year. Otherwise, there could be a large shortfall which would result in a slippage in the fiscal deficit. The strategy of using an exchange traded fund (ETF) for raising money has proved to be successful and should be used again. Monetisation of land and other assets of PSUs has been proposed and should be pursued.

The biggest hurdle the economy has been facing in the last few years has been that of restructuring of public sector banks and cleaning up their balance sheets. While the finance minister has made an allocation of ₹10,000 crore for recapitalisation of banks, one had expected a little more detail on how banks will restructure the existing bad assets. The Economic Survey had suggested the creation of a Public Sector Asset Rehabilitation Agency for addressing the issue of bank NPAs. It would be useful for the finance ministry to take this idea forward.

This Budget takes forward the government vision for a clean and transparent economy. It has focused on issues such as encouraging digitisation, spreading the tax net wider and cleaning up political funding to achieve its objective. Attention has also been given to the challenge of job creation on the one hand and preparing a skilled workforce on the other. A much-needed revamp of the higher education sector has also been mooted.

The author is director-general, CII. Views are personal