Budget 2017-18: Utterly Ordinary*

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Did the Finance Minister just sleepwalk into his Budget Speech this morning? It's hard to imagine that he inhabits the same economic universe as the rest of his country men and women, or even his Chief Economic Adviser who has an office not far from his own. How else can we explain a Budget that confounds all expectations by being so utterly ordinary, so restrained in pretty much all directions, including in the areas that the government has declared are its own priority areas? What accounts for the complete absence of direct action to counter the adverse effects of demonetisation, which has already ravaged so much of the rural economy and the informal economy across the country, and affected the formal sector as well?

For various reasons, there were many expectations riding on this Budget. Coming soon after the drastic demonetisation, there were obviously expectations that the Finance Minister would do something to increase demand in the system and undo some of the pain of employment and livelihood losses especially of informal workers. The declining rates of investment have already been a cause for concern for some years; in the current year it is likely to have declined much more because of the economic shock and the uncertainty it has generated among potential investors, so others expected some measures to boost investment. Given the global headwinds, the need to reinforce the domestic market is greater than ever, so many assumed that there would be measures to expand domestic demand by putting more public resources into areas of spending with high multiplier effects, like social spending. Then there were the straws in the wind strewn by the government itself, on the Universal Basic Income, which got a lot of coverage in the Economic Survey, leading many to expect at least a nod in that direction. Finally, the fact that this Budget was presented just before Assembly elections in six states led many to expect at least some populist sops.

In the event, none of these expectations has been met. There was almost no recognition of the entire demonetisation exercise, other than some comments about how this would enable much greater tax compliance in future because of the information about bank deposits now available with the tax authorities. These are paltry pickings for such a massive and destabilising move, especially as the expected windfall gains from liquidated notes have obviously not materialised. No dividends to be transferred from the RBI to the government; no benefits in terms of significantly enhanced possibilities for public spending.

Correspondingly, there has no attempt to increase substantially the allocations of expenditure that directly affects the people, whether in the form of food and nutrition or education spending. Increases in these allocations have been minor, at best keeping pace with nominal GDP growth – hardly adequate given the attack on people's basic needs because of demonetisation. But these are areas where the increased spending could have helped people to cope by providing basic needs and services, and generated more employment through strong multiplier effects because these are all very employment-intensive activities.

There is almost nothing beyond a minor increase in spending and some lip service to farmers who have been badly hit by demonetisation. While there has been some increase in rural development outlay, much of this is because of MNREGA, which is a demand-driven scheme, under which the government is legally bound to provide sufficient resources to meet the demand for work. (This also means that the enthusiastic table thumping by ruling party parliamentarians when the Finance Minister announced an increase in such allocation was completely unwarranted, since this is not in his gift. The government has to increase outlays to meet the demand – and its practice of not meeting its legal obligation and postponing payments has already become a major embarrassment.)

The Finance Minister has opted for a path of fiscal "prudence" despite the policy-induced slowdown, perhaps believing his own claims that the adverse effects of demonetisation would be transient at best, and would not spill over into the next fiscal year. So he has avoided an expansionary fiscal stance, in the process generating concerns about the recovery of investment. But of course, we do not really know how much we can trust the numbers on which he is basing his fiscal deficit projections, either for the current year or the coming year. The current year's budget estimates are based on only nine months' data, and there are obvious reasons why that may not be a reliable guide to the last three months of the year. Similarly, the Mr Jaitley has been extremely optimistic about tax revenues in the coming year, resulting presumably from greater compliance, since the expected increases in tax revenues (17 per cent over this year Budget estimates) are much higher than projections of nominal GDP growth. Since even the official projections of nominal GDP growth are widely recognised to be over-estimates by most astute observers, the problem with these fiscal deficit and revenue deficit numbers becomes even more complex.

One issue that has been generating a lot of concern in the past few months is the conditions of banks and their financial health. Non-performing loans had reached distressing levels for many banks and lending rates were also down because of the unwillingness of desired borrowers to take on loans in a gloomy investment environment. All this was before demonetisation dealt another blow of banks' viability: most of them have not managed to do any lending at all in the past two months, even as they were saddled with more and more deposits of demonetised notes. Some of these deposits are likely to dwindle with remonetisation, but still the pressures on banks are undeniable. So some big measures for bank recapitalisation were expected – but the allocated amount of Rs 10,000 crore is not only much lower than that spent in the previous year, but is also simply too small to have any impact. The problem is intensified by the fact that so much of the Finance Minister's speech was devoted to off-Budget items that do not require the government to put its money where its mouth is, but would be in the form of credit that the banks will have to provide – for housing, for agriculture, for small scale enterprises, and so on.

Some observers have praised this Budget for being "non-political" and "balanced" – a sign that its very normality is a relief after the abnormality brought about by demonetisation. Unfortunately, such normality is unlikely to be enough either to undo the damage wrought by demonetisation or to provide conditions for stable and sustainable job creation in the economy.

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