06 July 2019: UPSC Exam Comprehensive News Analysis

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Category: ECONOMY

1. Step by step Nirmala's maiden Budget is all about incremental measures

Context:

Finance Minister Nirmala Sitharaman presented the maiden budget of the second Narendra Modi government in the Lok Sabha.

KEY FEATURES OF BUDGET 2019-20

- Vision for $5 trillion economy driven by investment
- Transforming rural lives
- New Jal Shakti Mantralaya to ensure Har Ghar Jal
- Enhancing ease of direct and indirect taxation
- Strengthening connectivity Infrastructure
- Gandhipedia to sensitize society
- India's soft power
- Harnessing India's space abilities

Details:

- The Finance Minister sought to tackle several pain points in the economy through incremental steps rather than opting for the spectacular announcement route.
- One of the biggest announcements was of a Rs.70,000 crore capital infusion in public sector banks to be used as growth capital.
- Measures to ease the liquidity and regulatory problems affecting the Non-Banking Financial Company (NBFC) sector, a key pain point in India's economy at the moment were also announced.
- The budget incorporated a number of positive tax reforms such as:
    - Lowering the corporate tax rate for companies with an annual turnover of less than Rs.400 crore.
    - Companies with a turnover of up to Rs. 400 crore a year would now have to pay tax at 25%. This turnover limit was earlier Rs. 250 crore a year. This is in continuation of the assurance that the government would reduce corporate tax rates.
    - This move is hailed as a welcome move towards bridging the gap of corporate tax with the ASEAN countries.
    - Increasing the surcharge to be paid by high net-worth individuals earning more than Rs. 2 crore a year.
    - Relief for startups from the undue pain of the angel tax.
    - Electronic face-less assessments, to improve transparency in income tax assessment process and also to ease the return filing process for tax filers.
    - e-assessments are to be carried out in cases requiring verification of certain specified transactions or discrepancies.
    - Cases selected for scrutiny will be allocated to assessment units in a random manner and notices will be issued electronically by a Central Cell, without disclosing the name, designation or location of the Assessing Officer.
    - This Central Cell will be the single point of contact between the taxpayer and the Income Tax Department.
    - In a bid to ease the return filing process, taxpayers will be able to access pre-filled tax returns which will contain details of salary income, capital gains from securities, bank interest, and dividends etc. and tax deductions.
- Other announcements with respect to taxation:
    - Increase in the effective tax rate paid by high net-worth individuals (HNIs) by hiking the surcharge paid by those earning more than Rs.2 crore and Rs.5 crore a year.
- The government would be increasing its external borrowing programme, as India's external debt to the GDP is below 5% and among the lowest globally.
- Announcements with respect to NBFCs

- The government would provide a one-time partial credit guarantee to public sector banks for their first loss of up to 10% when they purchased the pooled assets of financially sound NBFCs.
- Housing finance companies under the purview of National Housing Bank will henceforth be regulated by the RBI.
  - The NHB, besides being the refinancer and lender, is also regulator of the housing finance sector. This gives a somewhat conflicting and difficult mandate to NHB. Therefore, the regulation authority over the housing finance sector has been shifted from NHB to RBI.
- Another proposed amendment to the RBI Act will allow it to frame schemes for amalgamating, splitting and reconstructing an NBFC if it feels it is required after looking into the NBFC's books of accounts.
- Doing away with the Debenture Redemption Reserve for public issues.
- If the RBI is satisfied that in the public interest or to prevent the affairs of an NBFC being conducted in a manner detrimental to the interest of depositors or creditors, it can supersede the board for up to five years.

2. Aadhaar can be interchanged with PAN for filing tax returns

Context:

In a bid to make tax filing easier, the Budget proposed making Aadhaar interchangeable with PAN for tax filing.

Details:

- People without PAN looking to file taxes can now do so using just their Aadhaar.
- Those who have already linked their PAN with Aadhaar can choose which ID they want to furnish in their returns.
- Earlier both PAN and Aadhaar were needed to have both to file ITR.
- The finance ministry has also taken another step to track high-value transactions by making it mandatory to provide the quoting and authentication of PAN/Aadhaar for certain prescribed transactions. The budget also introduced a provision that the person receiving relevant documents shall ensure correct quoting and authentication of PAN and Aadhaar for the prescribed transactions. To ensure compliance of these provisions it is also proposed to amend penalty provisions.
- Further, the Finance Minister proposed allotting Aadhaar to non-resident Indians, arriving in India, on an expedited basis.
- So far, non-resident Indians with an Indian passport had to wait for 180 days after their arrival in India before they can apply for Aadhaar.
- The Budget proposed to remove this waiting time.

3. Government eases angel tax norms

Context:

To encourage start-ups, Finance Minister announced a series of measures for the sector, including easing of the much-debated angle tax.

Issue:

- Angel tax is levied when a privately-held company raises funds at a rate higher than its fair valuation.
- Angel tax is applicable to unlisted companies that have raised capital through sale of shares at a value above their fair market value.
- This excess capital is treated as income and taxed accordingly. The angel tax was introduced to

tackle the issue of money laundering through high premiums on shares.
- This tax predominantly affects start-ups and the angel investments, as they attract tax.
- Angel Tax, which was introduced in the Budget 2012, had been widely-criticised by startups in the country.
- It went into a bad shape after some startups started receiving notices from the income tax department for non-payment of dues.

Details:

- Pointing out that at present, start-ups are not required to justify fair market value of their shares issued to certain investors, including Category-I Alternative Investment Funds (AIF), the Minister has proposed to extend this benefit to Category-II Alternative Investment Funds also.
- Now, the start-ups who file requisite declarations and provide information in their returns will not be subject to any kind of scrutiny in respect of valuations of share premiums.
- Additionally, the issue of establishing identity of the investor and source of his funds will be resolved by putting in place a mechanism of e-verification. With this, funds raised by start-ups will not require any kind of scrutiny from the Income Tax Department.
- In addition, special administrative arrangements shall be made by Central Board of Direct Taxes for pending assessments of start-ups and redressal of their grievances.
- It is important to note that this benefit is likely to apply to start ups which are registered and recognised by DIPP.
- It was also proposed to start a television programme within the DD bouquet of channels exclusively for start-ups.

Merits:

- The proposed programme on start-ups, will serve as a platform for promoting start-ups, discussing issues affecting their growth, matchmaking with venture capitalists and for funding and tax planning.
- So far, 19,665 start-ups are recognised by the Department for Promotion of Industry and Internal Trade (DPIIT).
- They are eligible for availing tax and other incentives.

4. Govt. slaps 10% customs duty on newsprint

Context:

The government, in the budget has imposed 10% import duty on newsprint and 5% import duty on printed books.

Details:

- There was no import duty on newsprint so far.
- To encourage domestic publishing and printing industry, 5% custom duty is being imposed on imported books.
- Under this, printed books including covers for printed books and printed manuals, will attract duty.
- In addition, imported newsprint, uncoated paper used for printing of newspapers and lightweight coated paper used for magazines will now attract 10% custom duty.
- This decision is expected to have a significant impact on the industry as most of India's newsprint requirements are met through imports.
- The move could act as another roadblock for print media that is already under pressure from the growing digital business.

5. Fiscal deficit target revised downwards to 3.3%

Context:

The government is estimating a fiscal deficit of 3.3% of GDP in financial year 2019-20.

Fiscal Deficit:

- The difference between total revenue and total expenditure of the government is termed as fiscal deficit. It is an indication of the total borrowings needed by the government. While calculating the total revenue, borrowings are not included.
- Generally fiscal deficit takes place either due to revenue deficit or a major hike in capital expenditure.
- A deficit is usually financed through borrowing from either the central bank of the country or raising money from capital markets by issuing different instruments like treasury bills and bonds.

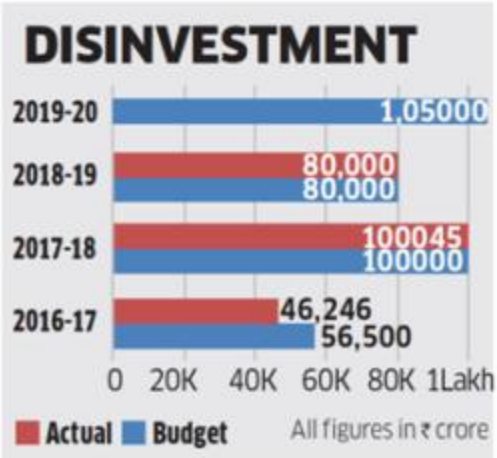
Details:

- The estimate is lower than the 3.4% estimated earlier in the interim Budget presented in February.
- The move signals government's commitment to fiscal consolidation.
- The main reason for this is an increase on the revenue side, while expenditure is being controlled, Finance Secretary said.
- To achieve this goal, it is relying on one-off disinvestment income, as well as higher taxes on the rich, and increased excise duties on petrol, diesel, precious metals and tobacco products.
- The government has budgeted a higher disinvestment target for 2019-20 of Rs.1.05 lakh crore, compared to the Rs. 80,000 crore budgeted in the previous year.
- However, ratings agencies and tax analysts say there is a risk of missing the 3.3% target if tax revenue falls short of the target.
- Notably, the government has cut the allocations for several major schemes. Most significant of these is the Rs. 4,334 crore cut for the Swachh Bharat scheme.
- It has also has significantly slashed allocations to its marquee plan to clean the Ganga.

6. Rs. 1.05 lakh crore is disinvestment target

Context:

The government has set itself a target of Rs. 1,05,000 crore (all time high target) for disinvestment proceeds for 2019-20.



Details:

- It is said that the government is considering reducing its direct majority shareholding in some companies to below the 51% mark.
- The government will undertake strategic sale of PSUs.
- It will also continue to do consolidation of PSUs in the non-financial space as well.
- The reasoning behind this move, is to open up the market to small retail investors.
- It has also decided that the 51% of government control will be calculated after including the stake owned by government-controlled institutions.
- For instance, if this proposal is passed without modification, the government can reduce its shareholding in a PSU to, say, 40% from 51%, with the remaining 11% being owned by the LIC or any other government-controlled institution.
- While strategic sale will entail outright privatisation in some CPSEs, the government's direct holding can be brought down below 51 per cent but the effective control will remain with the government.
- Experts hailed the new disinvestment strategy as a bold initiative and said that if it intends to reduce the fiscal deficit to 3.3% of gross domestic product (GDP) it needs to raise non-tax revenues.

7. Slew of steps to boost digital payments

Context:

Multiple measures have been announced in the budget -2019 to further promote digital payments.

Details:

- To discourage the practice of making business payments in cash, it is proposed to levy TDS of 2% on cash withdrawal exceeding 1 crore in a year from a bank account.
- The business establishments with annual turnover more than 50 crore shall offer low cost digital modes of payment such as BHIM UPI, UPI-QR Code, Aadhaar Pay, certain Debit cards, NEFT, RTGS etc. to their customers and no charges or Merchant Discount Rate shall be imposed on customers as well as merchants.
- It is believed that RBI and Banks will absorb these costs from the savings that will accrue to them on account of handling less cash as people move to these digital modes of payment.
- Necessary amendments are being made in the Income Tax Act and the Payments and Settlement Systems Act, 2007 to give effect to these provisions.

Significance:

- Digital payments would ensure formalisation of transactions curbing corruption and the use of black money.
- The payments industry has welcomed the proposals saying these would help create a robust payments infrastructure in the country.
- However, the industry leaders underlined the need for sufficient Internet penetration and data reach to achieve the aspirations.
- These provisions in the budget facilitate the transformation of the economy from cash-driven one to a less-cash economy.

8. Growth capital for public sector banks

Context:

The government has now provided additional capital to State-run banks to boost credit growth, apart from meeting regulatory requirements.

Details:

- Public sector banks are now proposed to be further provided Rs. 70,000 crore capital.
- It is likely to help them meet their minimum capital requirements and boost credit growth in the economy.
- Announcement for capital infusion comes after cleaning up the balance sheets of the State-run banks.
- According to bankers, about 50% or Rs. 35,000 crore will be the growth capital after meeting regulatory requirements.
- The boost for MSME, affordable housing & infrastructure sector is expected to generate the growth in the bank credit.
- To further improve ease of living, PSBs will leverage technology, offering online personal loans and doorstep banking, and enabling customers of one Public Sector Bank to access services across all Public Sector Banks.
- In addition, Government has assured to initiate steps to empower accountholders to remedy the current situation in which they do not have control over deposit of cash by others in their accounts.
- Reforms would also be undertaken to strengthen governance in Public Sector Banks.

9. A shot in the arm for struggling MSMEs

Context:

Struggling Micro, Small and Medium Enterprises (MSMEs) have got a boost of 2% interest subvention scheme in the recently announced Union Budget.

Details:

- For ease of access to credit for MSMEs, Government has introduced providing of loans upto 1 crore for MSMEs within 59 minutes through a dedicated online portal.
- Under the Interest Subvention Scheme for MSMEs, 350 crore has been allocated for FY 2019-20 for 2% interest subvention for all GST registered MSMEs, on fresh or incremental loans.
- Government will create a payment platform for MSMEs to enable filing of bills and payment thereof on the platform itself.
    - Government payments to suppliers and contractors are a major source of cash flow, especially to SMEs and MSMEs.
    - Investment in MSMEs will receive a big boost if these delays in payment are eliminated.
- The Budget emphasises on enabling growth for traditional industries and artisans, while offering them business and technology incubation facilities.
- The government will also extend pension benefit to about three crore retail traders and small shopkeepers whose annual turnover is less than Rs. 1.5 crore under a new scheme named Pradhan Mantri Karam Yogi Maandhan Scheme**.** Enrolment will be kept simple requiring only Aadhaar and a bank account.

Scheme of Fund for Upgradation and Regeneration of Traditional Industries (SFURTI):

- Under SFURTI, 100 new clusters will be set up during 2019-20, enabling 50,000 artisans to join the economic value chain.
- SFURTI aims to set up Common Facility Centres (CFCs) to facilitate cluster-based development to make traditional industries more productive, profitable and capable for generating sustained employment opportunities.
- Focused sectors are Bamboo, Honey and Khadi clusters.

10. Zero Budget for farmers; no drought relief

Context:

During the budget speech 2019, the Finance Minister suggested that farmers take up zero-budget farming.

What is Zero Budget Farming?

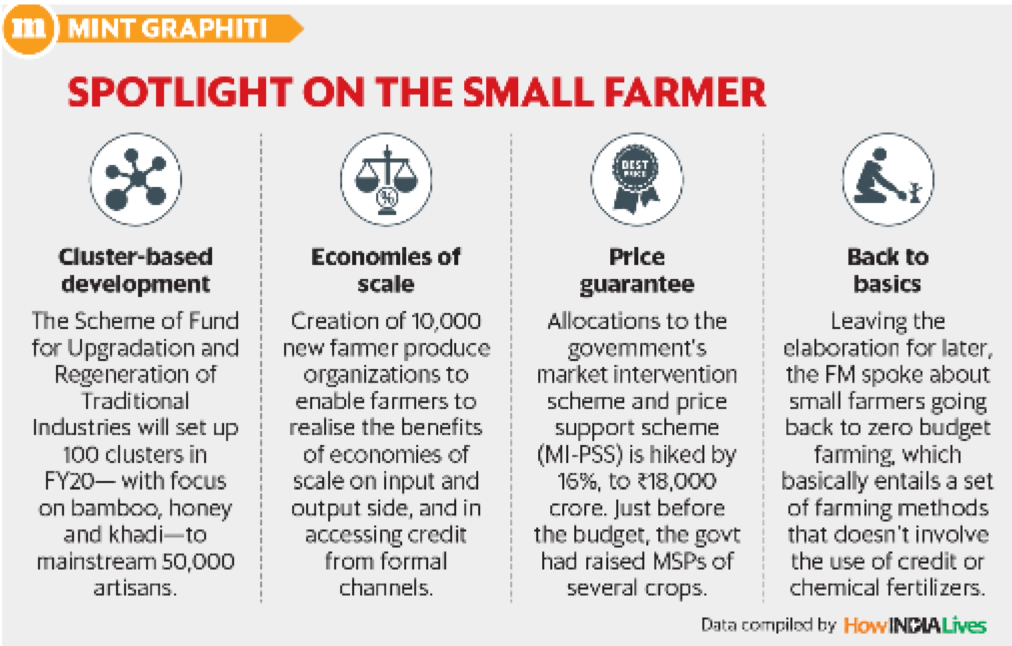
- Zero-budget farming is a form of natural farming which is neither chemical-loaded nor organic with its reliance on manure.
- It is a form of gardening as a self-sustainable practice with minimum external intervention.
- The word Zero Budget refers to the zero net cost of production of all crops (inter crops, border crops, multi crops).
- This concept was first propagated 25 years ago by Subhash Palekar as a movement for farmers who were in debt due to the Green Revolution and is now being used by a large number of farmers across the country.

How would Zero Budget Natural Farming help?

- ZBNF, yields of various cash and food crops have been found to be significantly higher when compared with chemical farming
- Model ZBNF farms were able to withstand drought and flooding, which are big concerns with regard to climate change.
- There is reduced use of water and electricity, improved health of farmers, flourishing of local ecosystems and biodiversity and no toxic chemical residues in the environment.
- Overall ZBNF has helped in ensuring the welfare of farmers, reduce the cost of farm inputs, cut out toxins in food and improve the soil.

Details:

- In terms of new schemes, the budget announced Pradhan Mantri Matsya Sampada Yojana, to plug gaps in the fisheries value chain, and another to promote traditional industries around bamboo, honey and textiles.
- The finance minister pledged to “invest widely in agricultural infrastructure" and said the government will go back to the basics on one count: zero budget natural farming (ZBNF).
- The budget for subsidies on chemical fertilizers increased by ₹9,900 crore.
- It further pledged to create 10,000 new farmer producer organizations to ensure improved bargaining power for farmers while purchasing inputs and during selling their harvest.
- It was emphasised that the Centre and states will ensure that farmers benefit from the electronic national agricultural market, or e-NAM.
- However, there is no focus in the budget on improving farm gate prices or agriculture exports.



11. KYC norms for FPIs to be investor-friendly

Context:

All possible steps are being taken by the government to encourage more foreign investment in the Indian capital markets by making it easier for such investors to come to India and invest in a hassle-free manner.

Details:

- It is proposed to rationalise and streamline the existing Know Your Customer (KYC) norms for Foreign Portfolio Investments (FPIs) to make it more investor friendly without compromising the integrity of cross-border capital flows.
- The government has also proposed merging the investment route for Non-resident Indians (NRIs) with that for the FPIs
- Finance Minister stressed on the fact that foreign investors are a key source of capital to the Indian economy and hence it is important to ensure a harmonised and hassle free investment experience for FPIs.
- KYC Norms for Foreign Investors are also based on factors such as The Foreign Account Tax Compliance Act, Guidelines on Anti-Money Laundering (AML) Standards, Combating the Financing of Terrorism (CFT) and Prevention of Money Laundering Act.
- Foreign investors are often looked upon as prime drivers of any bull run in the Indian equity market and have been pumping in huge money in the stock market.
- This assumes significance also due to the fact that the government plans to raise the limit of foreign holding in select public sector entities while eyeing Rs.1.05 lakh crore through disinvestment.

12. New package in the offing to ensure power for all

Context:

It was announced in the budget that a power sector package is likely to be introduced soon, along with a new tariff policy to ensure uninterrupted power for all.

Details:

- It was announced that the Centre is working on several initiatives such as "one nation, one grid" and a new tariff policy to further reform the power sector.
- The policy will have provisions for imposing financial penalty on discoms resorting to gratuitous load-shedding instead of buying power to meet demand.
- Discoms will not be allowed to pass on to consumers the financial burden of more than 15% of power loss in their systems, which will force them to improve efficiency.
- One Nation, One Grid would ensure power availability to states at affordable rates.
- The government is going to work with the State governments to remove the barriers in the implementation of the ambitious UDAY scheme for the turnaround of power distribution companies.
    - The government had launched the UDAY scheme in 2015 for the financial and operational turnaround of power discoms.
    - UDAY scheme has faced criticism of late owing to mounting debt and overdues of discoms.
- The Finance Minister also spoke about focussing on improving the performance of the gas-fuelled power projects that have been performing at lower efficiency levels due to the limited availability of natural gas in the country.
- The Finance Minister proposed to set up a high-level empowered committee to look into retirement of old and inefficient power plants and address low capacity utilisation of gas-based power plants.

D. GS4 Related

Nothing here for today!!!

E. Editorials

Category: ECONOMY

1. Bucks for the banks

Editorial Analysis:

- Experts opine that the maiden budget of Nirmala Sitharaman has many interesting features, but it does not have a defining central theme.
- There were expectations of a big growth push through either tax cuts or large expenditure programmes even if it meant a rise in the fiscal deficit.
- However, the Finance Minister has chosen to be fiscally conservative, opting to play the long-term game, though it could lead to pain in the short term.
- Having said this, she has permitted herself a ₹70,000 crore capital infusion in banks that will, it is hoped, spur lending to growth sectors in the economy.

Some Notable Takeaways from the Budget:

(a) Addressing Issues plaguing NBFC's:

- Also, quite notably, the budget has sought to address the problems that have plagued the non-banking finance companies space over the last few months and the consequent credit freeze and loss of confidence in the market.
- Importantly, Ms. Sitharaman has comprehensively addressed the important issues of liquidity, solvency and poor governance in the NBFC sector.
- She has made available a liquidity window of ₹1 lakh crore to public sector banks through the Reserve Bank of India to buy pooled assets of NBFCs and offered a one-time credit guarantee for first loss of up to 10%.

- Further, to enable better supervision of the sector, housing finance companies, which have been the main villains of the piece, will come under the RBI's regulatory ambit.
- Also, a long-standing demand of NBFCs for equitable treatment with banks in the matter of taxing interest receivable on bad loans has been conceded.
- They will **not need to maintain a Debenture Redemption Reserve on public placements** that was leading to locking-up of funds, which is their raw material for business.
- These are important reform measures for NBFCs.
- More interesting is the move towards reviving development financial institutions.
- The big problem faced by NBFC financing infrastructure is the lack of long-term funding sources to match their lending tenure. This pushed them into borrowing short-term funds to lend to long-term projects, leading to asset-liability mismatches.
- Experts opine that the proposal to set up a committee to study the issue, including the experience with development finance institutions, is welcome.

(b) Other Key Initiatives:

- There are several reform measures that have been announced, but the most interesting is the reiteration of the government's commitment to strategic disinvestment and the declaration that it is willing to allow its stake to fall below 51% in non-financial PSUs.
- Start-ups can heave a sigh of relief as the angel tax is practically off the table.
- The government seems to be moving towards a single identity card for citizens in the form of Aadhaar, which will now be interchangeable with the PAN card.
- Taxpayers who do not have a PAN card can file returns quoting their Aadhaar number, which effectively can be a substitute for PAN in all transactions.
- Another reform measure is the introduction of faceless e-assessment of tax returns taken up for scrutiny.
- This will eliminate the scope for rent-seeking by officers as there will be no interface between assessee and official.
- In fact, the assessee will not even know the identity of the officer scrutinising the return.
- This is an absolutely welcome measure but needs to be closely watched for implementation.
- Next, the corporate sector has got a minor sop with the turnover limit for the 25% tax bracket being raised to ₹400 crore per annum from ₹250 crore.
- The expectation was that this would be extended to all companies irrespective of size.
- However, it appears that the government wants to wait for the finalisation of the **Direct Taxes Code**, which is being examined by a committee.
- Real estate companies may have reason to cheer as the generous tax concession for affordable housing may create demand, especially in the smaller metros.

Background to the Direct Taxes Code (DTC):

- The Direct Taxes Code (DTC) is an attempt by the Government of India (GOI) to simplify the direct tax laws in India. DTC will revise, consolidate and simplify the structure of direct tax laws in India into a single legislation. The DTC, when implemented will replace the Income-tax Act, 1961 (ITA), and other direct tax legislations like the Wealth Tax Act, 1957.

Initiatives arising out of the 'nudge theory':

- The 'nudge theory' of economist Richard Thaler, mentioned extensively in the Economic Survey 2018-19 presented in Parliament recently, has been put to use by the Finance Minister to push forward two of this government's pet themes. These include:

1. increasing digitalisation of money and

2. promoting electric mobility.

- On the first, there will now be a 2% tax deducted at source when withdrawals from bank accounts exceed ₹1 crore in a year.
- This is a commendable measure, but it could lead to genuine problems for businesses such as construction and real estate that are forced to deal in cash for wage payments.
- Of course, the TDS can be set off against their overall tax liability.
- The second, and more interesting ‘nudge’, is towards electric vehicles where those taking loans to buy one will get a tax deduction of up to ₹1.5 lakh on the interest paid by them.
- But the fact is that there are not too many electric vehicles in the market now.
- And even for those that are there, the waiting period to deliver one is long.
- Besides, there is no ecosystem, such as charging points, even in the major cities.
- The government’s hope seems to be that this incentive will create a market for e-vehicles that will then lead to the development of the ecosystem.

Concluding Remarks:

- The budget documents show that the government has stuck to the glide path for fiscal deficit, which will be at 3.3% this fiscal.
- This is, however, based on exaggerated growth projections in tax revenues.
- The estimated total revenue receipts this fiscal is ₹19.62 lakh crore, which implies a 25.56% growth compared to the actual receipts of ₹15.63 lakh crore (as presented in the Economic Survey) in 2018-19.
- Experts opine that this is an extremely ambitious projection, especially given the ongoing slowdown in the economy.
- It is important to note that the Finance Minister could get a comfortable buffer if the Bimal Jalan committee that is going into the sharing of RBI’s reserves with the government comes up with favourable recommendations.
- The government also appears to be sliding into a protectionist mode, going by the increase in customs duty on everything from **cashew kernels to PVC, newsprint and even auto parts**.
- While some of it may be well-intentioned to promote domestic manufacturing, this sends out a retrograde signal on the reforms front.

2. Choosing the long view

Editorial Analysis:

- Experts opine that the first Budget of the new government in the 17th Lok Sabha powerfully recommits to the vision guiding the last term emphasising continuity, individual empowerment and infrastructure for nation building, fiscal consolidation, discipline, and process improvements.
- Importantly, the rural sector comes in for special attention, but even there the focus is on value addition and transformation rather than income transfers as the means to double farmer incomes.

A Critical Assessment:

- Experts opine that there is **hardly any discussion of the current growth slowdown**, and how the Budget can contribute to alleviating it.
- Critics opine that this is a pity, because this is expected of the major macroeconomic policy statement of the government.
- Further, markets are looking for a big spending boost from the government to revive growth.
- However, there are many aspects of the Budget that will contribute to reviving growth but unfortunately they are not brought out explicitly.

- The Budget is presented as part of the longer-term creation of a new India.

Looking into the idea of providing a macroeconomic stimulus:

- It is important to note that the standard idea of macroeconomic stimulus is to announce a large increase in government spending without raising taxes.
- This raises deficits.
- Further, there has been an active debate in the run-up to the Budget that given the slowdown, some rise in deficits is acceptable in order to provide a boost to the economy.
- However, the government is committed to a long-term macroeconomic framework and a path of deficit reduction.
- A deviation will hurt the government's credibility.
- Moreover forward-looking agents know short-term indulgence comes at the expense of long-term pain.
- It is important to note that India has had a long battle to escape from macroeconomic fragility and high inflation due to over spending and over stimulus by past governments.

Macroeconomic stimulus:

- The Budget gives many examples of the present government's faster speed of delivery in infrastructure, such as road building or construction of low-income housing.
- Since the same government is back, it will be able to front-load expenditure on ready projects.
- The spending comes before taxes are raised and, therefore, is stimulatory.
- Apart from creating incomes it boosts demand for the cement and steel industries.
- Moreover, although the fiscal deficit ratio has come down from 3.4 in the interim Budget to 3.3, a larger share of resources are to be raised by privatisation.
- Since this does not reduce private demand as taxation does, there is a larger net expenditure stimulus which supports demand and growth.

(a) Perspective on Schemes:

- Completed schemes are being built upon, as some funds from Swachh Bharat are being re-allocated to piped water and to obtaining energy from solid waste management.
- It is important to note that the substitution of LED bulbs under the Unnat Jyoti by Affordable LEDs for All (UJALA) Yojana for earlier energy guzzlers led to an estimated cost saving of ₹18,341 crore per year.
- Now solar stoves and battery chargers will be promoted.

(b) Promotion of stimulus in other sectors:

- Faster privatisation as well as monetisation of other assets such as brown field projects and government land banks will encourage private activity.
- The ₹70,000 crore to be pumped into public sector banks coming after the asset clean-up has started yielding results, together with a series of measures for non banking financial companies (NBFC) will help credit growth.
- Next, a climate of pessimism and fear was responsible for falling credit growth, which fed into a slowdown in private investment and consumption.

(c) Steps the Government needs to implement:

- The Government's role is to bolster confidence.
- As a confident state steps in, begins to spend, and turns around the financial sector, private spending

will also revive.

(d) Looking at other facets of the economy:

- It is important to note that private investment projects had started in end-2017 as some sectors were running into capacity constraints, and then dried up because of the NBFC credit slowdown and election-related political uncertainty.
- It should revive again, especially since interest rates are coming down.
- G-Secs rates have fallen after the Budget.
- Spreads for corporate bonds and NBFC funds should also come down.
- Also, many NBFCs continue to have viable business models. The fear of credit risk will fade as costs come down and activity revives.
- Also, the moribund real estate market that is responsible for much destruction of asset value will get a fillip from tax exemptions and lower interest rates.
- It is also important to note that help is promised for industry in many other ways.
- Land availability, labour law simplification, reduction in legal costs, delays and tax harassment.
- The focus on public-private partnerships and support for entrepreneurship will create many opportunities for industry.
- Private firms generally do much better in last mile delivery of public services.
- Cuts in corporate taxes, other sops and tweaks in tariffs are well-thought-out to attract foreign firms to produce at scale in India.
- Importantly, this is the right time for such initiatives in the context of foreign direct investment re-locating from China.

(e) Looking at Process Improvements:

- One of the strengths of the last government was in process improvements.
- These continue in this Budget.
- A new initiative of faceless e-assessment with no human interface, and cases assigned in random manner will reduce tax payer harassment.
- Integrated information will be used to auto fill tax forms making compliance easier even as tax evasion becomes more difficult.
- There is more simplification in Goods and Services Tax and other taxes while information will be used more intensively to increase the tax base.
- The improvement in processes reflects in better delivery of Budget promises, and the quality of fiscal consolidation.

(f) Looking at expenditure and deficits:

- Next, the revenue deficit has fallen as well as the fiscal deficit even as expenditure promises were largely kept, although much more was spent for agriculture.
- Capital expenditure was supported by market borrowing of public sector enterprises (PSEs) — as they become commercially viable, they must borrow based on future income streams.
- The growth slowdown would have been worse in 2018 without this borrowing.
- PSEs do not suffer from credit risk. The food subsidy from the Food Corporation of India — which in 2018 was supported by borrowing from small savings — is now brought back to the Budget as it should be.

(g) Support for larger reform processes:

- Apart from reforms in budget processes there is support for larger reform processes.
- The emphasis on technology cannot deliver alone without improvement in governance.
- However, there is evidence of complementary action on both.

- For example, a major handicap for small businesses is an absence of timely payments from government.
- A payment platform has been announced for cutting time and improving processes. Ministries dealing with water have been merged.

Constraints India Faces:

- A major constraint India has been facing is the absence of long-term funding for infrastructure.
- There is evidence of innovative thinking on this with sops announced for alternate investment funds; thinking about setting up a development bank as well for making more foreign savings available.
- Retail investors are also to be encouraged to buy government securities.
- Stock exchanges are building platforms, which are to be supported by inter-operability between the Securities and Exchange Board of India and the Reserve Bank of India depositories.
- To the extent there are large diversified domestic investors in government securities the proposal to also raise funds abroad becomes less risky.
- As these reforms improve the supply-side, cost and time delays reduce for business as well as for the average citizen.

Concluding Remarks:

- As argued above, some stimulus is possible without raising deficits.
- In the long run, however, the macroeconomic framework constraining the Budget needs to be revisited to allow policy to counter growth slowdowns and booms.
- The present framework gives very little space for this. **The Fiscal Responsibility and Budget Management** adjustment path should be in terms of a cyclically adjusted fiscal deficit, with incentives to protect the quality of expenditure.
- A target for revenue deficit is also required since it is easiest to cut public investment, which also hurts growth. The 15th Finance Commission should consider this reset.
- Lastly, reducing the level of debt and interest payments is a desirable objective, since it would release much more government funds for productive expenditure.
- However, growth raises tax revenues and a rise in GDP increases the denominator reducing deficit ratios.
- Therefore maintaining growth is one of the best ways to reduce debt and deficit ratios.

3. Searching for reform signals

Editorial Analysis:

- Experts opine that there were high expectations from the Budget to provide a clear road map for much-needed reforms, given that the government received an unprecedented electoral mandate.
- It is important to note that **the GDP growth in the last quarter of 2018-19 was the slowest in the last five years**, and considering that the capacity utilisation in manufacturing has already peaked, **reviving the investment climate is critical to accelerate economic growth.**
- As a matter of fact, the unemployment rate, which is 6.1%, is the highest in four decades. With the Economic Survey making a pitch for creating a virtuous cycle of saving and investment, there was hope that there would be far-reaching announcements in the Budget.

Finding a balance:

- To be fair, Finance Minister Nirmala Sitharaman has a difficult job of balancing the books, particularly when the revenues are not buoyant and demands for expenditure are high.
- From that perspective, **it is noteworthy that she has tried to show her commitment to the process of fiscal consolidation by keeping the fiscal deficit budgeted at 3.3%.**

- The difference between the 3.4% budgeted in the interim Budget and this is mainly due to higher GDP estimates (₹93,168 crore) used in the denominator.
- The revenue is lower by ₹55,463 crore compared to the interim Budget estimate but this is offset by non-tax revenue estimated to be higher by ₹40,532 crore.
- Thus, there are not many significant departures from the estimates of revenue and expenditure presented in the interim Budget.
- The gross income tax revenue is estimated to be lower than the interim Budget by ₹90,000 crore, mainly on account of lower GST (₹97,857 crore) and individual income tax (₹51,000 crore).
- Despite taking lower estimates, **the revenue estimates look far too optimistic in comparison with the pre-actuals given by the Controller General of Accounts.**
- To realise the Budget estimates, the increase over the actual tax collected in 2018-19 in gross tax revenue will have to be 21.2%, net tax revenue must rise by 25.3%, and the non-tax revenue will have to increase by 27.2%.

Source of additional revenue projected in the Budget:

- A major source of additional revenue projected in the Budget is by having an active disinvestment policy.
- Disinvestment is expected to generate ₹1,05,000 crore, which is almost ₹15,000 crore higher than what was taken in the interim Budget.
- **The Budget speech also speaks about an active disinvestment policy beginning with Air India.**
- Hopefully, the environment will help to implement this.
- Another source of revenue which is expected to increase is the dividend. This amounts to ₹1,63,528 crore, which is ₹21,457 crore more than what was estimated in the interim Budget. Much of this will be from the Reserve Bank of India (RBI).

A Noteworthy reform measure in the Budget:

- The most important reform measure in the Budget is the proposal to streamline multiple labour laws into a set of four labour codes.
- Although the details are not yet available, it is hoped that the government will embark on the much-needed reforms in this area.
- This is a contentious issue that has been long debated.
- The Economic Survey too has referred to the need to make the factor markets less distorting and the disincentives these laws create in ensuring optimal sizes.
- Hopefully, the government will address this in the interest of increasing employment and exports of labour-intensive goods.

Looking at the reform front:

- On the reform front, while much was expected, experts opine that the Budget has been clearly disappointing.
- There are very few measures that can steer the economy to acceleration, leave alone changing gear to achieve the aspirational goal of achieving 8% growth to reach a $5 trillion economy by 2024.
- Critics opine that on the contrary, some of the measures take us back to the pre-reform era.
- Over the last three years, there has been a steady increase in import tariff in the name of ‘Make in India’, and with the U.S. coming hard on India by terminating India’s designation as a beneficiary developing nation under the key Generalised System of Preferences programme, **it was hoped that there would be an attempt at lowering and reducing the expansion of the protectionist wall.**
- The objective of ‘Make in India’ should be to make the economy competitive and not to dish out higher cost, inferior products to domestic consumers.
- Critics opine that by selective increases in customs duty and by varying the rates based on whether the item is an intermediate good, capital good and final consumer good, **the Budget has caused the**

effective rate of protection on many items to be much higher than the nominal rates. This can create unintended distortions. This is clearly retrograde.

- One of the major initiatives needed at the present juncture is to reform the banking system. The Budget allocates ₹70,000 crore for the recapitalisation of public sector banks, but is silent on the urgently needed structural reforms including governance reforms.
- Nor are there any concrete measures to deal with the Non-Banking Financial Companies crisis apart from empowering the RBI to undertake the regulatory function.
- Not that everything has to be done in the Budget, but events have shown that **there is a need to improve both the legal framework and governance system.**
- It is important to note that Consolidation of public sector banks cannot serve the purpose of changing the structure of incentives and accountability.

Revive the investment climate:

- The revival of the economy requires the revival of the investment climate.
- A recent OECD study has shown that corporate taxes in India are very high amounting to almost 48% when the dividend distribution tax and surcharges are taken account of. The Budget in 2015-16 promised to bring the basic rate down to 25%.
- This was implemented for companies with a ₹250 crore turnover in the 2018 Budget; the present Budget increases it to ₹400 crore.
- Although these companies cover 90% of the number of companies, their tax payment is less than 10-15%.
- It is important to note that **if large investments have to be attracted, then the reduction should have been general and the scaffolding approach can only disincentivise the companies to grow bigger and better.**
- This only discourages the companies from becoming larger.
- While the Economic Survey is eloquent about the need to transform the **'dwarfs into giants'**, **the various measures taken in the Budget to incentivise the MSMEs amount to reiterating that 'small is beautiful'.**

Concluding Remarks:

- Lastly, the Finance Minister speaks about the rejuvenated Centre-State dynamic and commitment to cooperative federalism shown by the government during the last five years.
- At the same time, most of the measures taken to raise additional revenues are by way of cesses and surcharges.
- The increase in income tax for people with more than ₹2 crore and ₹5 crore is by way of additional surcharge.
- Similar is the case with additional tax on petrol and diesel.
- **Critics opine that this is clearly to exclude the additional revenue raised from the divisible pool and deny the share of the tax to the States.**
- Hopefully, the Finance Commission which is deliberating on the devolution will take note of the issue. On any case, such measures do not promote cooperative federalism.

F. Tidbits

1. Gandhipedia to sensitise society

- In the budget speech 2019-2020, it was mentioned that an encyclopaedia on Mahatma Gandhi in the offing.
- With the government marking the 150th birth anniversary of Gandhi with several programmes throughout the year, an encyclopedia-like "Gandhipedia" would be among the efforts to spread his

values.

- Being developed by National Council for Science Museums to sensitise youth and society at large about positive Gandhian values.

G. Prelims Facts

Nothing here for today!!!

H. Practice Questions for UPSC Prelims Exam

Q1. Consider the following statements with respect to Global Hunger Index (GHI):

1. GHI is published by World Health Organisation
2. The key indicators for ranking are undernourishment, child stunting, child wasting and child mortality

Which of the given statement/s is/are correct?

a. 1 only
b. 2 only
c. Both 1 and 2
d. Neither 1 nor 2

Answer: b

Explanation:

GHI was initially published by the International Food Policy Research Institute (IFPRI) and Welthungerhilfe. In 2007, the Irish NGO Concern Worldwide also became a co-publisher. In 2018, the GHI was a joint project of Welthungerhilfe and Concern Worldwide, with IFPRI stepping aside from its involvement in the report. The GHI ranks countries based on four key indicators — undernourishment, child mortality, child wasting and child stunting.

Q2. World Investment Report is Published by:

a. World Bank
b. World Trade Organisation
c. UN Conference on Trade and Development (UNCTAD)
d. World Economic Forum

Answer: c

Explanation:

The World Investment Report covers the latest trends in foreign direct investment around the World and analyses in depth one selected topic related to foreign direct investment and development. It is published by UN Conference on Trade and Development (UNCTAD).

Q3. Consider the following statements:

1. Investor Education and Protection Fund Authority is a constitutional body

2. It is set up under the Ministry of Corporate Affairs

Which of the given statement/s is/are correct?

a. 1 only
b. 2 only
c. Both 1 and 2
d. Neither 1 nor 2

Answer: b

Explanation:

Investor Education and Protection Fund Authority is set up under the Ministry of Corporate Affairs, Government of India as a statutory body under Companies Act 2013. It aims to administer the Investor Education and Protection Fund with the objective of promoting Investor's Education, Awareness and Protection. It takes various initiatives to fulfil its objectives through Investor Awareness Programmes

Q4. Consider the following statements:

1. e-SAMVAD portal is an initiative of the Ministry of Women and Child Development
2. It provides a platform for NGOs and Civil Societies to interact with the Ministry

Which of the given statement/s is/are correct?

a. 1 only
b. 2 only
c. Both 1 and 2
d. Neither 1 nor 2

Answer: c

Explanation:

e-SAMVAD is an initiative of the Ministry of Women and Child Development. It is a Web portal for NGOs. It acts as an interactive portal allowing NGOs to contact the Union Ministry of Women and Child Development and share their feedback, suggestions, grievances and their best practices.

I. UPSC Mains Practice Questions

1. Digitising internal processes of government is the next step in India's digital revolution. Discuss. (10 Marks, 150 Words)
2. In an era of climate change, the State needs to augment the IMD's capabilities. Examine. (10 Marks, 150 Words)