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A half chance squandered

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FM identifies the malaises, but proffers one-sided solutions

Times are so tough, anything not negative appears to be a positive.

In not being overly populist in a pre-election year, the Budget is a positive. But, in not using the tough times to push in tough measures, it might have missed an opportunity.

The FM's speech highlighted the problems very accurately and articulately. "The link between policy and welfare can be expressed in a few words: opportunities, education, skills, jobs and incomes," to quote one.

But the solution to all these seems to be one word – government. So you have a whole array of government programmes and "sub-plans" to address these issues.

The other part of the solution, entrepreneurs, was forgotten. This was the opportunity missed – to rekindle the spark of entrepreneurship that had fuelled the economy to 8%+ growth FY04 through FY08.

Even the external sector problem was well-articulated.

But as in the first case, here too, the proffered solution was one-sided – FDI, FII or ECB. Yet, there is nothing in the Budget that focuses on any of these. Indeed, the weakness in the INR post the Budget suggests the forex market also remains concerned.

On the numbers, the commitment to fiscal discipline is commendable. Thus, FY13 fiscal deficit is now placed at 5.2% (almost in line with the budget estimate of 5.1%), and for FY14BE, the figure is even lower at 4.8%.

Some of the revenue assumptions seem optimistic, like PSU divestments of over ₹55,000 crore and telecom spectrum revenue of over ₹20,000 crore (FY13 PSU disinvestment was ₹24,000 crore v/s budgeted ₹30,000 crore and spectrum revenue barely ₹1,000 crore v/s budgeted ₹40,000 crore).

However, it is also possible that there is some cushion on the expenditure side. For instance, Plan Expenditure is budgeted to grow 29% over FY13RE i.e. incremental spend of over ₹1.25 lakh crore. As in FY13, In case of any major revenue shortfall, this expenditure may be cut by 10-15%, and the fiscal deficit target may still be achieved.

Some sections of the market seem disappointed. But to be fair to the finance minister, the Budget is just one of the many steps required to revive the economy. He and his government have made many bold announcements preceding the Budget. Let us hope more follow.

Economy before St

While the markets seemed a bit disappointed with the Budget, it is perhaps because of the expectations that had been built up on the back of the significant reforms push initiated by the finance minister since September last year.

However, one must say that the reaction of the stock market cannot determine the course of Budget making.

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Rajiv Gandhi Equity Savings Scheme has been liberalised to incentivise higher retail participation in the equity market. Moreover, the introduction of inflation linked bonds could be a significant alternative to gold as a savings instrument. No doubt, the best long term solution to our addiction to gold is to bring inflation down to a much lower 4-5% range.

Perhaps the only question with the current budget is whether the 19% expected growth in gross tax receipts is a reasonable assumption or not given the budgeted growth of total expenditure to ₹16.65 lakh crore. A lot depends on our GDP growth trajectory.

Overall, the FM has been responsible and very pragmatic in addressing the issues facing our economy and is building the foundation for an economy that will grow strongly in the coming years. The finance minister needs to be particularly commended on steps taken to augment financial savings.