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Central Budget - 2018 in the Wake of Favourable and Adverse Winds.

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Introduction:

As usual within a few days Union Finance Minister will present perhaps his last Budget to the Parliament in the wake of favourable and adverse winds blown in the economy during 2017-18. With note-ban proved to be failure, the Centre amassed severe criticism from all quarters. The wounded economy is recovering slowly now. As a part of corrective measure Centre has been reducing the GST rates on some items. On the other hand, some countries are still in the grip of recession, impacting our economy too, while states are loaded with heavy debt-burden. Fortunately though some adverse events took place in the economy-during 2017-18, there are also a few favourable events took place in the economy which helped our economy to move on progressive direction enabling nourishing the Centre's reputation. It is a good transformation that goody's Investors Services, an International ranking agency raised country's sovereign rating from BAA-3 to BAA-2. Still there are contradictory estimates and misgivings which are felt by different economists. On the other side, the impending FRDI bill became a ready-made dangling knife on the neck of the depositors. There is an imperative responsibility to set right all these things on the shoulders of the Centre. The New Budget need to be formulated accordingly. In the words of Jaitly, "as a result of the growth-oriented measures of the Centre, being taken now will be seen during middle and long-run and they will favour the economy for further growth.

Key Words : GST, Budget, Tax, Adverse wind.

Favourable Winds :

Foreign Direct Investments in 2017-18 registered an upsurge by 30 percent during April-October period. Forex reserves touched a little over $411 billions. Tax-base has increased as a result; its share in GDP has increased. Direct tax collections in the current fiscal up to January 15, have risen 18.7%. year-on-year to Rs. 6.89 lakh crores exceeding the Budget Estimate of 15.7 percent growth. Appreciable growths in collections under corporate tax are 4.8 percent, 5.1 percent and 10.1 percent respectively in the three quarters. Real Estate business which was affected by note-ban is reviving. According to NITI Ayog Vice-chairman, if the growth rate in the second-half of the 2017-18 reaches 7%, the years growth rate would be 6.5%. Public Investments doubled over last years. Rupee strengthened, registers a growth of 6%. As a result of revival of exports. Current Account Deficit, now started narrowing. Inflation though started rising is within the tolerable limits. Growth across eight core sectors hit a 13month high in November 2017 at 6.8% faster than 7% in October and higher than the 3.2% recorded in November 2016. India's factory activity in

December 2017 accelerated to the fastest pace since December 2012. Manufacturing Purchasing Index (PMI) rose to 54.7 in December 2017 from November's 52.6 making it the 5th consecutive month of PMI staying above 50. An index recording above 50 means an overall increase in economic activity, while the below 50 indicates reverse picture of the economy. New orders helped the index improve which is also a sign of recovering of the sector. Food grains output increased with a recorded pr: auction of 272 million tones.

Increase in exports inspite of the surge in imports helped reduction of trade balance to the tune of 12% of GDP. Strengthening of rupee also contributed reduction of trade-gap. Investments in Mutual funds have gone up after demonetization resulting in growth of stock market operations. Public issues too have gone up with a flow of Rs. 65.293 crores in several companies which is higher by 250% over last year. This has contributed to register growth rate move upwards with internal investments without depending on external funds.

Adverse Winds:

The year 2017-18 brought some adverse winds along with favourable events. According to first advance estimates of National Income 2017-18 released on 5 January, by CSO, estimates during the first 6 to 8 months that the economy is growing the slowest and never it is so during the last 4 years. Gross Fixed Capital Formation (GFCF) as a percentage of Gross Domestic Product (GDP) an important indicator of an economy's: ability to grow is the lowest since 2011. The GFCF as a percentage of GDP has vividly decreased to 29% down from 34.3 in 2011. In the short-run, there are challenges on the revenue front. The GST collections have been falling steadily over the months since the new tax regime was introduced in July 2017. With a fall in revenue and expenditure pressure on other hand mainly due to absence of revival of private investments, the Centre is in a tight spot. Due to non-realisation of expected results from note-ban and GST, the Centre was belittled by the people with the criticism levied by the opposion. By the end of November 2017, the tax revenue fell below the Centre's expectation by around Rs.32,000 cores the result achieving 3.2% fiscal deficit target is unlikely at the end of the October as it has already reached 96% of the budget estimates for 2017-18. Unless the deficit was taken care of with additional revenue before March 2018, it is unlikely to achieve the expected budget deficit target.

Today, the Indian Banking Sector is walking on bed of thorns with NPAs recording around Rs.12 lakh crores making it difficult for the bankers to sanction and release of loans to the needy sectors mainly MSMEs and Agriculture. On the other hand, with an apprehension that their deposits well disappear in case the bank becomes bankrupt which was proposed in FRDI Bill, the depositors started withdrawing their deposit amounts, resulting in non-availability of money with the banks. As a result, customers are compelled to withdraw only limited amounts for their requirements and they are even subject to certain restrictions for withdrawals. By March 2018, these NPAs are expected to reach from present 10% to 11%.

Despite a normal monsoon, the growth in agricultural and allied sectors declined to 1.7% in the second quarter of

September - November 2017 from 2.3% in the preceding quarter, and the same was 4.1% in previous year indicating the extent of slowness in, a sector that determine the standard of living of more than half of India's population. The Centre's target of doubling the farmers' income by 2022 though laudable its achievement seems to be unlikely with its contribution to GDP is gradually declining every year. The agrarian distress continues to haunt the nation thus making the lives of rural people miserable. Year 2017 made farmers to protest across Central India. It also manifested itself in the erosion of the BJP's support base in rural Gujarat. Though production of food grains increased a record level of 272 million tonnes it has not benefited the farmers. Due to adverse environment in the market yards, farmers in Rajasthan, Maharashtra, Tamil Nadu, MP, Gujarat became victims due to collusion of middlemen with Government staff and traders. Farmers suicides are continuing even in 2017-18 also. Farmers' debt-burden is not uniform across all states in the country. The average debt-burden is as high as 93% in AP while it is only 2.4% in Meghalaya. Though BJP won it Gujarat where urban voters are high, the situation will be different in Rajasthan and MP where state elections will be held shortly, and where rural voters are in large number. The forthcoming budget should make provision for creation of Price Stabilization Fund, increasing the number of warehouses, cold storages, enlarging the coverage of crop insurance, water facilities etc.. Due to non possession of smart-phones with farmers, the Enam scheme failed to achieve the desired results, it is estimated that due to agrarian-distress, every year as many as 50 lakhs farmers are discarded their profession and are started searching other avenues of employment To arrest this trend, the Centre should consider the possibility of payment of scholarships to young fanners similar to those paid to students for preventing them from leaving farming which is followed in some other countries.

The rising crude price may put pressure on the new budget. The Finance Minister will have to balance between fiscal deficit challenges and industry demands for sops. The crude prices which were around $ 27-30 a barrel a few years back now started rising towards $70 a barrel. The low crude prices earlier which were, responsible for making the task of Finance Minister's job of preparing Budget to the Parliament during the last 3 years becoming difficult now with the rising crude prices. If these crude prices unfortunately reach $145 a barrel as it happened earlier, can our economy, get over from such a situation. To overcome this probable plight, the, Budgets should concentrate on alternate fuels.

The story of jobs is much more pathetic. The country's labour Participation Rate (LPR) has fallen from 47% in January 2016 to less than 44° o m December 217. The global average of LPR is 63%, China has a LPR of 71%. Due to automation, and other reasons, the country is facing the problem of unemployment. It is not able to create jobs in consonance, with the increasing number of aspirants. All the schemes introduced by the Modi for employment generation failed to achieve desired results. To solve this problem, the 'growth rate' should be 8 percent. In India achieved "Jobless growth" all these years with the highest growth rates next to China. To solve this problem, Government should encourage SMEs, Agriculture which require less capital and create more employment instead of encouraging heavy industries which, require huge capital, space but creates less employment. The rising unemployment's is the root cause for widespread inequality and the gap between haves and have nots is increasing phenomenally ever since 1991 the year of advent of economic reforms. According to one estimate, 58% of the country's wealth is concentrated with only top one per cent of the population. As a result of unemployment, the household consumption expenditure stagnated around 6.5% in the first two quarters. The same was 7.9% in earlier 'year.

Conclusion :

In 2017-18 is admixture of both bright and dark events, The Budget should address investment-to-GDP ratio, accumulation of NPAS with banks, and issues in the farm-sector especially on agrarian distress. It should also focus on steps in building social infrastructure with main focus on health-care and education, Budget 2017-18 had lowered; corporate tax rates to 25% for more than 90 per cent of enterprises and the new budget should extend this measure to all enterprises. The Finance Minister should consider the possibility of bringing down Minimum. Alternate Tax as well as Dividend Distribution Tax to a level of 10% each in the light of rampant unemployment, the new Budget should

consider incentives for job creation such as fixed-term employment, flexible employment in some enterprises as in the case of USA, contribution TO pension funds, and tax incentives for labour intensive units. Since export market is an important component in GDP growth, Government should develop appropriate infrastructure conducive to exports along with provision of export credit. In the wake of state elections to 6 or 7 states in 2018, and parliament elections in 2019, the budget being the last one assumes key role in satisfying the voters and growth recovery is a critical factor before the Centre. After three and half years of Modi Government, there are not strong drivers of economic recovery still. It is not proper to throw blame on note-ban and GST alone. There are global as well as domestic factors hindering demand in the economy. The note-ban further afflicted the already ounded economy suffering from NPAs rising unemployment, declining private investment, agrarian-distress, rising crude prices restrictions on cash transactions etc. This impact was more visible in the subsequent quarters particularly crippling informal economy. Investments in rural non-farm sector will go a long way in providing more jobs so that heavy dependence on agriculture for livelihood would reduce. For MSMEs the Credit Guarantee Fund Trust for MSMEs Corpus must be raised to atleast Rs 10,000 crores from the current Rs. 2100 - 2500 crores to meet the increasing credit demand of the sector. For REIT to take shape, it is essential that the new budget looks at taxation issues. The need of the hour is to cut down the long-term capital gains holding period for REIT from three years to one year. This would bring the investment opportunity on a par with equity investments.

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