CBGA's Press Release on Union Budget 2014-15

Following the same fiscal policy trajectory as the previous government

New Delhi; 10th July 2014: The first budget of the new government offers few changes in terms of policy priorities from the interim budget for 2014-15 presented earlier this year, but it does reinforce some of the pro-market inclinations that had defined the last three budgets of the UPA - II government. The total size of the Union Budget in 2014-15 was projected in the interim budget to be Rs. 17.63 lakh crore, while this budget proposes a slightly higher figure of Rs. 17.94 lakh crore. However, the total expenditure from the Union Budget in 2014-15 would be 13.9 % of GDP, which is visibly lower than the 15.7 % of GDP in 2013-14 (Revised Estimates). Thus, the NDA government is clearly following the same trajectory of conservative fiscal policy as the erstwhile UPA - II government did in the wake of their inability to step up the tax-GDP ratio.

On the resources side, the additional receipts for the Union Government to finance the incremental spending in the current fiscal year (as compared to the spending proposed in the interim budget), which is to the tune of Rs. 31000 crore, are going to come mainly from higher Non-Tax Revenue; this budget projects a total receipt of Rs. 2.12 lakh crore from Non-Tax Revenue while the figure for this head projected in the interim budget was Rs. 1.8 lakh crore. On the taxation side, putting in place a 'stable and predictable tax regime' to spur growth and ensure an investor-friendly environment has been indicated as one of the top priorities for this government. However, the primary focus in the domain of taxation should have been on efforts to step up the country's tax-GDP ratio, which is much lower than that in most developed countries and a host of other developing countries. At around 17 % of GDP, India's tax-GDP ratio constrains the fiscal policy space available to the government for providing resources for public provisioning of essential services and social protection for the poor and underprivileged sections.

As per the latest budget documents, the aggregate amount of revenue foregone due to all kinds of exemptions in the central taxes is projected to be Rs. 5.73 lakh crore (equivalent to 5 % of GDP) for the year 2013-14. But the budget proposals do not have any strong measure towards reducing the amount of tax revenue forgone due to the plethora of exemptions in the central tax system. The budget speech of the Finance Minister did make substantive references to the proposed transition to *Goods and Services Tax* and the *Direct Taxes Code*; however, these proposed reforms would bring in stability in the tax laws as demanded for by the private investors but they might not help the government at all in stepping up the country's tax-GDP ratio.

As regards the expenditure side of the budget, the allocations for most of the development sectors in this budget have either been retained at the same level as those proposed in the interim budget for 2014-15 or increased by a small extent; for instance, the allocation for MGNREGA is pegged at Rs. 34000 crore and that for Food Subsidy at Rs. 1.15 lakh crore. However, with the apprehension of drought conditions in certain parts of the country this year because of deficient monsoon, the allocations for MGNREGA should have been stepped up. On the food security front, the deficiencies in financing the National Food Security Act (for which CBGA's estimation indicates the requirement of resources worth Rs. 1.37 lakh crore for 2014-15) would persist this year as well.

The budget for 2014-15 has also proposed more or less the same amounts of resources for the flagship social sector schemes like SSA, NRHM, ICDS etc. as the interim budget did. The Union Budget allocation for education (i.e. the budget for MHRD) would continue to be just 0.6 % of GDP and that for health (i.e. the budget for MoHFW) would remain at a very low level of 0.3 % of GDP this year. The emphasis on financing the setting up new institutions under healthcare, such as the four new AIIMS, rural health research centres and new medical colleges, is certainly a welcome step. However, the issue of shortage of Doctors and Nurses for better delivery of public healthcare services as well as that of shortage of various kinds of staff in school education, both of which have been acknowledged in the latest Economic Survey, do not find any emphasis in this budget.

A number of new schemes and pilot projects for safety of women and gender sensitization were listed out in the budget speech, but most of these have meager allocations. It is doubtful whether even the existing amount of resources available under the Nirbhaya Fund would get utilized completely in 2014-15, as there have been few initiatives taken by the Union Ministries to seek these resources for carrying out substantive interventions for tackling violence against women.

As regards agriculture and allied sectors, the emphasis on crop insurance, soil health, agricultural marketing, animal husbandry and fisheries etc. is certainly welcome. However, the issue of income security for farmers seems to have missed the attention of the government despite the promise in this regard in the election manifesto of BJP.

The creation of a Price Stabilization Fund (for cereals and vegetables) with an allocation of Rs. 500 crore is perhaps the only concrete measure in the budget to deal with the problem of rising prices of essential commodities, while a lot more was being expected from this government to tackle the issue of inflation that is troubling a large section of the population. Likewise, the government has missed the opportunity to provide additional resources for strengthening the administrative machinery (like, the CBDT, CBEC, Financial Intelligence Unit, Enforcement Directorate etc.) that deals with issues of black money and has been struggling with shortage of staff (to the tune of 30,000 as of 2012 as per CBDT’s figures).

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