INTERIM '19 BUDGET

OPINION

We've done our bit, now you vote for us

Capex thrust over, it's tax sops for 3 cr now; with no subsidy reform, farm package small

SUNIL JAIN
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DESPITE THE SITUATION on the ground, the friendly statistics office may have raised its estimates of GDP growth significantly just the day before the Budget, but the government wasn't going to take any chances with upset voters. So, though the government strenuously denied reports of the leaked NSSO survey saying unemployment rates were at a four-decade high—and as high as 17-18% among young men—its last Budget before the elections was peppered with instances of how various schemes would lead to increased employment. And, for good measure, it gave away as much as 0.5% of GDP by way of sops for farmers and middle-class taxpayers.

From ₹2.5 lakh earlier, the effective annual income below which no taxes have to be paid by 3 crore people has been doubled—the impact of this on voter sentiment, and on consumption, is likely to be large. The ₹6,000 annual Universal Basic Income (UBI) for 12 crore small and marginal farmers, though, looks too small to alleviate farmer stress. Such a low sum is odd, given how, while the NDA took great pride in having raised MSPs for all crops to cover 1.5 times the A_2+FL cost, the scheme has been a complete failure with prices for most crops at 20-30% below the MSPs. The ₹75,000 crore package has to be juxtaposed with the ₹2.5 lakh crore that farmers lose each year (*goo.gl/gnQtqJ*) due to low prices—despite BJP chief ministers in most states till some time ago, prime minister Narendra Modi has not been able to free agriculture markets.

It is not as if the government doesn't have the money to spend on farmers, the problem is that the spending is mostly geared towards bigger farmers. This includes ₹1 lakh crore of loan waivers in 2018—including by the state governments—and the ₹15,000 crore of annual interest-subsidies on loans. Indeed, while the government spends ₹170,000 crore a year on food subsidies, were these to be given by way of cash, the government would save ₹50,000 crore (*goo.gl/Eh8YyV*). And this is without taking into account a faulty design that ensures 60-70% of subsidies like those on PDS and NREGA go to the non-poor as then chief economic advisor Arvind Subramanian pointed out two years ago.

While Modi had a blueprint in the Shanta Kumar report in early 2015, for some reason he didn't move away from the leaky-subsidy regime by replacing physical transfers of food/fertiliser by cash. In the event, it was foolish to expect him to give farmers a big UBI in his last budget. If farmers don't feel the ₹500 they will get every month is enough to make them vote for Modi, he is paying the price for being too timid on the agriculture front.

As a result, unlike in the past, where high capex-spend was the government's hallmark, this time around finance minister Piyush Goyal has just budgeted a 6.2% hike as compared to FY19's 20.3%. While it is tempting to say lower capex or farmer-transfers are due to the NDA's fiscal prudence, even the lower tax growth assumed—13.5% in FY20 versus 17.2% in FY19—now that the DeMo and GST bump is over, is a bit risky given the ₹18,000 crore of tax giveaways; and after a ₹1 lakh crore shortfall in FY19, the 19.3% hike assumed in GST revenues in FY20 looks ambitious.

For all the misses, Modi's USP is many foundational reforms like GST, IBC, UPI, Jan Dhan, LPG and electricity for all, subsidised insurance & houses, massive road & rail expansion...

The fiscal maths is also dependent upon a significant step up in dividend from RBI; in FY19, ₹20,000 crore extra has been budgeted. The government continues with its policy of passing on expenditure to PSUs—extra-budgetary spending was 45% over the already high target of ₹3.9 lakh crore in FY19. This is another weak area since, with PSUs continuing to fare poorly, and the government looking at getting ₹53,000 crore in dividends from them in FY20—they will also have to contribute significantly to the ₹90,000 crore disinvestment target—it is not clear they can raise this money.

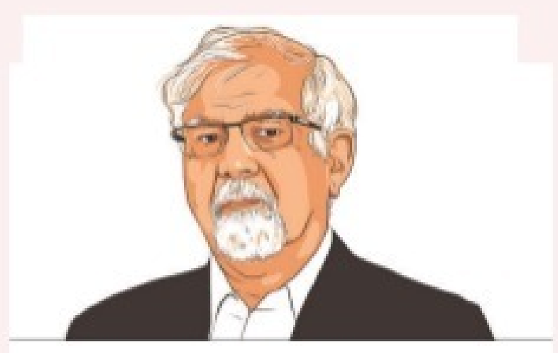
Ultimately, of course, the voter is not going to be swayed by just Piyush Goyal's maiden giveaways, it is the 5-year track record that matters. And there, the numbers Goyal read out are very impressive—lowering inflation from 10.1% in the UPA period to 4.6% in the NDA's, forcing rich industrialist-defaulters to repay banks ₹3 lakh crore over last year, connecting 15.8 lakh rural habitations by *pucca* roads, 1.5 crore subsidised houses under the PMAY scheme, providing electricity to 2.5 crore families and LPG to 6 crore rural homes, covering 19 crore families by subsidised life and accident insurance ...

Despite the many misses of the Modi government to catalyse private investment that continues to languish, these are foundational changes that, like GST, will pay off in the years to come; big misses include the lack of a friendly policy to spur investment in telecom and minerals, including oil and gas, for instance, as well as the U-turn on e-commerce after billions of FDI dollars were invested.

If the Modi government is voted back to power, however, it will have to work on getting investors back, it will have to free markets like those for agriculture, it will have to stop pampering PSUs—areas where PSUs dominate are those with the highest imports—and get many more policies right. Sops are useful, but they don't win elections. Farmers lose ₹2.5 lakh crore a year but they have got just ₹75,000 crore from the budget; a monthly UBI of ₹1,500 per family that was being talked of for some weeks, had it happened, equals just a few days of wages were enough jobs to get created; Modi was elected on the promise of reforms, trying to get re-elected on the back of sops is not quite the same thing.

FY20 BUDGET COULD OVERHAUL INDIA'S ANTIQUATED, CORRUPT TAX AND REDISTRIBUTION POLICIES

Tax and expenditure reform—a dream beginning



SURJIT S BHALLA
CONTRIBUTING EDITOR, FINANCIAL EXPRESS

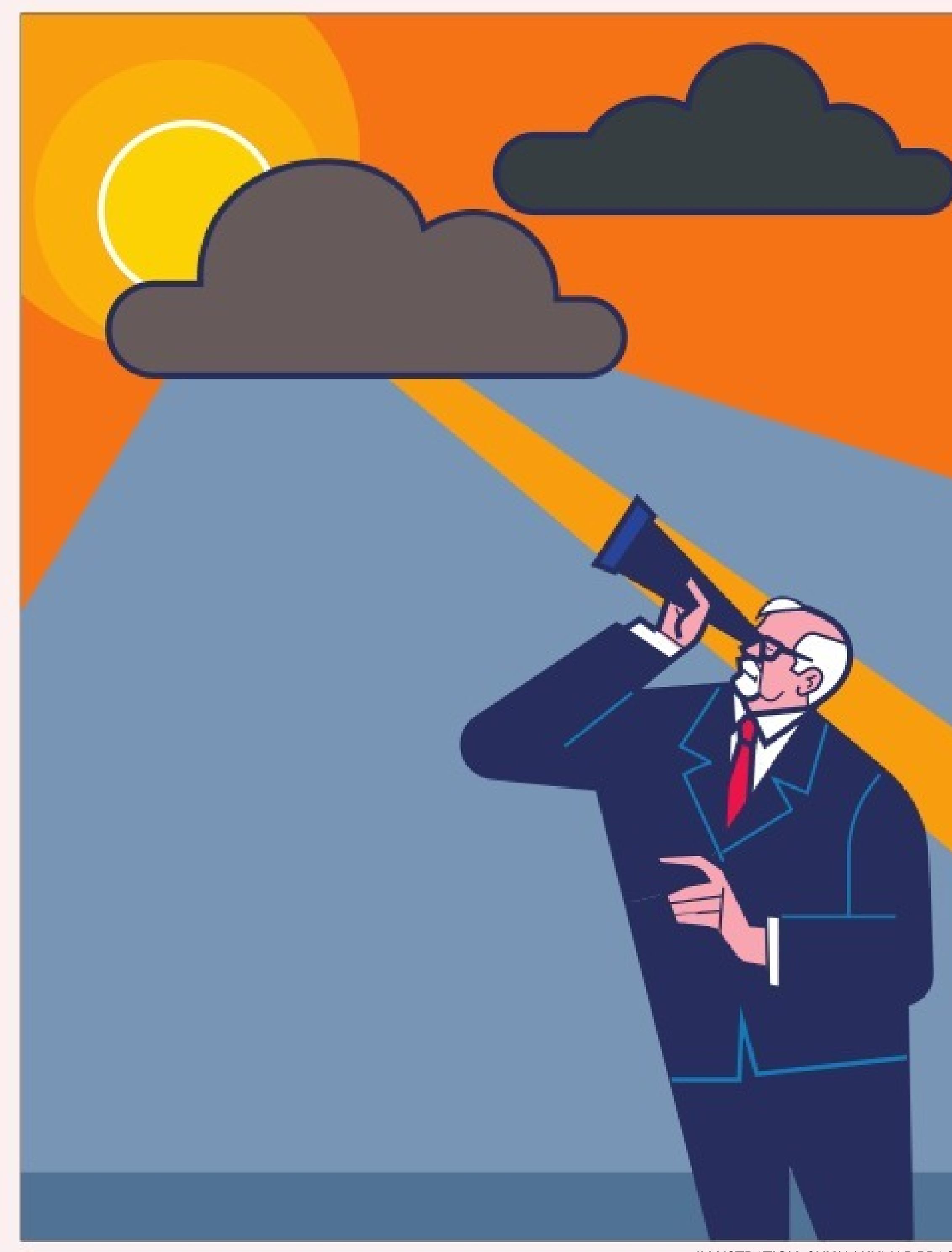


ILLUSTRATION: SHYAM KUMAR PRASAD

FOR AN INTERIM Budget, this was a breakthrough Budget. I have been closely involved with Budgets for the last 20+ years—as an outside observer and as an active participant in the debates on economic policy. When Chidambaram cut the top tax rate to 30% in 1997, I hailed it as a dream Budget. Today's Interim Budget is even more of a dream Budget. Let me explain.

My concerns throughout have been the following: do not be a fundamentalist on the fiscal deficit, as most of my fellow economists, and all market participants, have been. For me, the two most important economic considerations for a policymaker are growth and inflation. From a tax and subsidy perspective, my belief has always been to separate price setting from equity.

Translated, that means that the market (sorry, my left-wing friends) should set prices; and by market, I mean both domestic and international. The government should achieve its equity objectives through direct benefit transfers. The intent and direction of the Interim Budget is attempting, and beginning, to meet these objectives.

For the last 40 years, India has followed a misguided policy for alleviating poverty or increasing food production. In India, we have a saying about the two different paths to touching your nose—either a straightforward way with which you actually achieve the objective; or in a round-about way (arm around your neck) where it is impossible to even come close to achieving the target.

We have followed the old-fashioned corrupt way—food procurement and food distribution via the Food Corporation of India to ration shops from which 75% of the population can access rice and wheat at ₹1 and ₹2 per kg respectively. Along the way, about 50% of the food that is meant to be distributed to the poor and lower middle-class disappears into thin air—i.e. into corrupt sinks. The amount of this corruption: ₹1 lakh crore.

By introducing a direct benefit transfer (DBT) to the poor farmer, the government appears to have taken the first steps towards dismantling the 40 year old corrupt policy of food procurement and distribution. And a highly inequitable one as well. By raising the minimum support prices (MSP), as this and previous governments have done, only the rich, upper class farmers are really helped. The Modi government bought into the false policy of raising the MSPs to farmers as a way of solving the farmer income problem. They (the policymakers) have been taught the first important lesson of econ 101—supply and demand determine the price, not the diktat of a bureaucrat or a left-intellectual, however well-intentioned she might be.

By introducing a DBT for the farmer, the govt appears to have taken the first step towards dismantling the corrupt policy of food procurement and distribution

Econ 001 will also teach you that the market setting of the price does not solve the desirable objective of a "fair" distribution of income.

That is where a negative income tax, first mooted by Milton Friedman in the late 1950s, comes in. DBT is one version of negative income tax. So, for all those politicians who think they have just discovered the principles behind basic income, please read your econ 001 history books. Indeed, the general concept of basic income was first articulated (and practiced and failed) in England in the late 18th century. Incidentally, the failure was due to DBT being tied to the price of bread! Approximately the same reason why the MSP system is (thankfully) failing.

The DBT, as presently announced, is a transfer of ₹6,000 a year to poor farmers (those cultivating less than 2 acres). The target is 120 million small farmers, and total expenditure therefore is ₹75,000 crore a year. For an attempt to arrive at a basic income transfer policy for all poor residents of India, and poor defined as those consuming less than PPP$ 3.1 per person per day (approximately ₹1,800 at present prices), see my joint research article with Karan Bhasin (*bit.ly/2DOKwKk*). In the paper, we recommend a transfer of ₹520 per month for the rural poor, and ₹630 per month to the urban poor.

The second component of the new dream Budget is the policy on tax rebates for those earning less than ₹5 lakh a year. The policy is strictly one of tax rebate, not an increase in exemption limit. If an individual earns ₹5 lakh, she will have to file a return, state that she is earning ₹5 lakh, and owe ₹12,500 in taxes. This is because there is a 5% tax rate for those earning between ₹2.5 and ₹5 lakh. This is then adjusted with the rebate of ₹12,500 and so she owes zero tax. Why couldn't the government have just raised the tax exemption limit to ₹5 lakh? Because then she wouldn't be in the tax net, stupid! That is the brilliance of this policy—you get into the tax net, as you should, so that, when your incomes grow, you will contribute to the tax kitty.

Revenue considerations are important, as is equity. Rough, but reasonable, calculations suggest that the government will lose about ₹25,000 crore of revenue in 2019-20. There will be approximately 25 million taxpayers in the ₹2.5-₹5 lakh bracket, and with an average income close to ₹5 lakh, the government would have been owed about ₹25,000 crore.

Total transfer by the government on account of DBT for the poor farmer and the lower middle class worker is approximately ₹1 lakh crore. Note that the spending on farmers is three times that of spending on the salaried worker. Note also that this ₹1 lakh crore is near identical to the present corruption loss of ₹1 lakh crore due to the operation of the PDS system.

A dream budget!

This is a great budget for the *aam aadmi*—farmers, middle-class and the vulnerable sections

TV MOHANDAS PAI, CHAIRMAN, AARIN CAPITAL PARTNERS

THIS LAST BUDGET of the current government is a dream budget. The NDA came to power five years back with the promise of a clean government, good governance, job creation, and the provision of the basic necessities of life to all Indian citizens. Each of these promises has been substantially met.

Today, for the first time, all Indians can have a realistic hope of having a roof over their head, electricity and gas stoves in their homes, food on the table, water in the tap, access to toilets and roads, a bank account, a mobile connection, education for their children, and, overall, a life of dignity. Many of the programmes undertaken by the government over the past five years will lead to these hopes being fulfilled fully within the next two years.

Having focussed on reigning in double-digit inflation numbers to a low of 2.19% in December 2018, the government has not lost track of GDP growth. This has been achieved without overspending, which could have led to an untenable deficit. From being the 11th largest economy in the world in 2013-14, we are today the 6th largest in the world.

Despite many negative narratives run by vested interests, the government has performed phenomenally. GST has brought in efficiency and collections are picking up every month. Demonetisation has broken the back of the black economy and, coupled with the digitisation of the collections systems, indirect tax filers have grown by an unprecedented 80% and collections have gone up by almost 90%. India has also undergone a remarkable transformation in infrastructure development with substantial improvements in coverage and quality of roads, railways, ports, and airports.

The fiscal situation is very much under control as the deficit stands at 3.4% for 2018-19. It is to be noted, however, that, excluding the planned disbursal for the PM Kisan Yojana (₹20,000 crore for 2018-19 and ₹75,000 crore for 2019-20), the fiscal deficit would meet the targetted 3.3% for this year and 3.1% for the following year. The quality of spending by the NDA has certainly gone up over the years, and the fears of the government having to dip into RBI's books, which were spread due to vested interests, has been proven to be unfounded. The debt management has been good with borrowings for the year being within a healthy range.

This is a fantastic roadmap that unifies and works towards the aspirations of every individual and segment of India's demography

This budget has been well structured to meet the aspirations of most sections of society. 12 crore small and marginal farmer families have been provided a direct annual income support of ₹6,000 and 42 crore unorganised sector workers will benefit from a large new pension scheme providing a monthly pension of ₹3,000. The Ayushman Bharat scheme launched last year will further provide medical treatment to 50 crore people. The defence sector has been given a good leg up. The middle-class has been provided a tax rebate on income up to ₹5 lakh and the salaried class have got an increased standard deduction of ₹50,000. These measures have been very much in line with what were the expectations of the Indian people.

But while everybody has something to cheer for, start-up entrepreneurs are yet to get relief from the dreaded "angel tax" (section 56(2)(viib)), a tax on capital receipts from Indian investors if it is above the fair market value of the shares. The DIPP has called several start-ups and investors for a roundtable on February 4 in Delhi and the CBDT actioned the recent DIPP circular and made its partial relief retrospective. The finance minister should have addressed this issue. This was a golden chance for the government to redress the largest thorn in the side of 'Start-Up India'. Hopefully, relief is only deferred and will not be denied.

Crores of new middle-class people have come into the SIP program for the first time ever and are yet to see any great appreciation in their holdings. It was a premature move to introduce the capital gains tax and hence was widely expected to be removed, but the lack of its abolishment has created some disappointment.

The finance minister brought to the fore the advancements in the economy over the NDA term, and how it has laid the path for India to grow into a $5 trillion economy in the next 5 years. The vision statement presents a well-rounded, inclusive, and progressive approach towards a "modern, technology-driven, high growth, equitable, and transparent India".

This is, quite objectively, a fantastic roadmap that unifies and works towards the aspirations of every individual and segment of India's demography. Every political party should form a consensus with and work towards this common goal of the holistic growth of all segments of our nation.

Despite this being an interim budget for the government, it has all the foresight of a full-fledged budget. Some people have criticised it as an election budget, which it undoubtedly is, as the party is gearing up for elections in May. Overall, this has been a great budget for the *aam aadmi*—the farmers, the middle class and the vulnerable sections. The finance minister has done an impeccable job in articulating our progress towards laying a strong foundation and must be congratulated for setting the stage for the next phase of growth for India.

With contributions from **Yash Baid**, Head of Research, 3one4 Capital

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CENTRE DID WELL TO TAKE THE INCOME-SUPPORT ROUTE, BUT IT IS TOO LITTLE AND COMES TOO LATE

Budget relief a drop in the ocean for farm distress

ILLUSTRATION: SHYAM KUMAR PRASAD

ASHOK GULATI
INFOSYS CHAIR PROFESSOR FOR AGRICULTURE, ICRIER

FARMERS' HOPES FOR a meaningful package from Modi government have evaporated with the announcement in the Union Budget 2019—₹6000 per annum direct income support to small and marginal farmers seems like a drop in the ocean, if not rubbing salt on their wounds. Even states like Telangana and Odisha have done much better with their Rythu Bandhu and KALIA schemes, respectively. After the drubbing in state elections, one was hoping that NDA government will take major steps towards helping farmers. The Modi government had a golden chance to compensate farmers for their losses due to low prices, and even invite states to join the Centre's scheme for a major relief package for farmers. But, that chance is lost. On the contrary, middle-class got better income tax sops through raising of exemption limits, which only shows a clear bias in policy that implicitly discriminates against farmers.

The macro-economists and bankers may be happy that the damage to fisc has been contained and no loan waivers have been announced except enhanced interest subvention on loans. It must be seen that this ₹72,000 crores as direct income support to farmers is no where near the annual loss of about ₹2,65,000 crores that farmers have been suffering due to low prices they have received due to restrictive marketing and trade policies all these years. Until major marketing reforms are ushered in, there is no hope of doubling farmers' real incomes by 2022-23.

The enhanced interest subvention only leads to diversion of funds from agriculture to non-agri uses. There is ample evidence that in some states the agri-credit is even more than the value of agri-output! So, this scheme of interest subvention needs to be reviewed and fixed. The real need is to expand the reach of farmers to institutional credit. The Kisan Credit Card (KCC) was an innovative policy of the Vajpayee government, but the latest survey of NABARD on Financial Inclusion (2015-16) showed that only about 10% of farmers are using these cards. One needs to understand the constraints to it and find solutions to expand and deepen its coverage.

> The schemes for cow protection and fisheries are steps in the right direction, but they don't solve the farmers' current problems

The schemes for cow protection and upgrading their breeds, and having a separate outfit for fisheries, are steps in the right direction, but they can't make any difference to the farmers with regards to their current problems. It will take years before any of these schemes can deliver. Increasing milk production, without its pricing being competitive and remunerative for farmers, may not do much benefit.

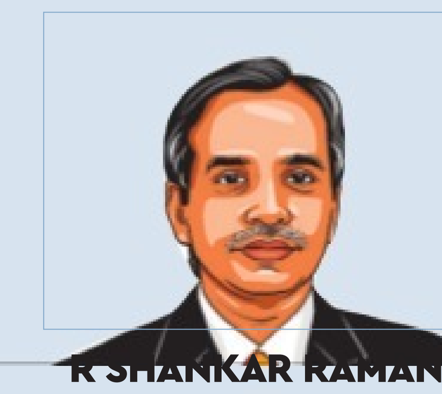
So, now where will the farmers turn? Farmers may look towards the Congress or a 'Third Front' coalition, for what they can promise and deliver on the farm front. The Congress president's mantra of loan waiver may appeal to many, but even that will help only 30% of peasantry. He has also announced that, if voted to power, his government will announce a minimum income for the poor. But, how much of India's population is poor? There has been no robust figure forthcoming from the government-side in the last five years. Going by the Tendulkar poverty line, the previous government had come up with an estimate of about 22% poverty in the country in 2011. It was contested by many, and later, the Rangarajan Committee had put it at 30%. The World Bank's poverty clock puts it at 5.5% lately. But even if one thinks of roughly one-fifth of India needs income support of say ₹5000 per month (₹60,000 per annum), the bill will amount to about ₹3.5 lakh crore. It is doable if the food subsidies and MGNREGA are drastically pruned and targeted to this bottom 20% of the population. Food subsidies and MGNREGA are costing more than ₹2.2 lakh crore, and a sizeable part of this either leaks away or is not utilised productively. Similarly, fertiliser subsidies can also be made through direct income support to farmers with landholdings of even up to 4 ha, and their markets freed. Gradually, the states can be encouraged to give power subsidy through direct income transfer and charge the market price for power, recovering at least the cost of suppy. These can then be fundamental reforms, switching from price policy approach to income policy approach, for helping the small and marginal farmers and poor consumers. If Congress or the Third front can do this, it will be good economics and good politics. The Modi government has frittered that chance any way, and it may inflict a heavy political price.

The simmering problems of cow menace in several states, especially Uttar Pradesh, and rising cane arrears, which may cross ₹12,000 crore in that state alone, may cause lot of political pain to the NDA government in the Lok Sabha elections.

The current problems of peasantry is not on the supply-side, but on the demand side, relating to low prices. The NDA's much touted formula of 50% margin over A2+FL osts has miserably failed. The trial of Bhavantar Bhugtan Yojana (BBY) in Madhya Pradesh did not succeed either, and the BJP lost the assembly elections in the state. It is good to see that, finally, the NDA has moved towards an income policy approach by announcing ₹6,000 per annum to small and marginal farmers, but it is too little and too late. In proverbial terms, this is like *'uunth ke muh main jeera'* (a drop in the ocean). The NDA had decided to take a risk for its second term. It makes the game easier for Rahul Gandhi who has already promised some minimum income for the poor. Depending upon how big it is, and when it is delivered, and how, we will see whether it acts as a pre-emptive (or surgical strike) on the Modi government.

A bridge to the future

The govt must fire the twin engines of growth—investment and consumption



R SHANKAR RAMAN
WHOLE-TIME DIRECTOR & CFO, L&T

MAY 2014 SAW the Modi government come to power with a strong mandate. In the first year, the government identified 'Thrust to Infrastructure Development' as an important lever to generate growth and jobs. It has made progress in the last five years—announcing programmes relating to roads, railways, airports, smart cities, affordable homes and rural electrification. Though the execution of these on the ground has been chequered, the government continues to grow the allocations to these programmes—staying committed year after year. Credit also is due to the Centre for initiating reforms in taxation and insolvency resolution, and systematic amendments in FDI limits, pushing India as a prime investment destination. The economy, however, has witnessed subdued investment and private capex levels due to low capacity utilisation and funding challenges in the banking sector. The government has benefitted from soft commodity prices, which has helped it contain inflation and manage CAD—leading to India's emergence as a bright investment candidate.

Budget FY20 came in at an interesting juncture. There is a widely-held concern that consumption and investments are slowing down, and policy intervention is badly needed. Rural incomes are weak, thanks to falling food prices, while the year has begun with a 19-month low IIP print. Against such a backdrop, in an election year, the finance minister has sought to balance fiscal discipline and welfare necessities. The need to bridge the rural-urban divide, drive middle-class consumption while staying on track for fiscal consolidation dominated the budget exercise. Though there were no major outlay announcements, the budget broke convention by announcing sops for rural households and middle-income population. The PM Kisan Samman Nidhi that will ensure a direct cash transfer to 12 crore farmers' bank accounts and the income tax rebates to the middle-class will give a boost to consumption. The budget has increased allocations to infrastructure and defence sectors. The 14% increase in budgeted expenditure is sought to be financed by buoyant tax proceeds and higher borrowings. On the fiscal front for FY19, a slippage of 10 bps, given the conditions in the rural agrarian economy, is on expected lines and won't create a strain on the markets.

> Firing up the economy needs investment enabling policies, greater transparency, faster clearances, tech adoption, reskilling of youth and job creation

In FY19, the finance ministry has seen additional expenditure overheads—loan waivers, direct income transfers to farmers, bank recap, health scheme and higher MSPs. Short-term economy-stimulating options will endanger medium-term fiscal targets, thereby reducing the fiscal or monetary space available. The choices made today on short-term intervention will boost consumption, but the question is: Can consumption-led growth alone justify the country's potential?

Although a lot is being attempted on the reforms front, theoretically, a structural shift will be needed to deliver better incomes and employment conditions to the bulk of India's population. This will be possible only with investment enabling policies, increased transparency, lowering of bureaucratic hurdles, faster clearances, technology adoption, reskilling of youth and job creation.

Aspiring to be a $5trillion economy by 2022 is laudable. The government, however, needs to fire the twin engines of economic growth—investments and consumption—by sharply focussing on micro-steps of implementation of its plans. This would help the government realise the aspiration it has for the country.

The NDA-2's policy of stimulating forever

The Modi government began with fiscal pause to spur a recovery, and now ends doing the same with higher interest rates

RENU KOHLI, DELHI-BASED ECONOMIST

HOW DOES ONE reconcile a picture of robust economic growth—an average 7.7% over FY15-FY18—with regular fiscal slippages in the name of supporting growth? If that sounds incompatible, it is. But this inconsistent strand can be seen through the tenure of the current government: On the one hand, strong growth claims have been burnished with a retinue of related achievements. Yet, on the other side, the government has consecutively deviated from the fiscal roadmap in all but one of its five-year tenure to date in order to revive the economy!

The interim budget for 2019-20 continues in the same vein. The government overshot its budgeted fiscal deficit target (3.3% of GDP) once more, keeping it at 3.4% for this year and the next. The medium-term deficit target of 3% of GDP, initially to be achieved in 2016-17, remains elusive and is now pushed further to 2020-21. This time, the fiscal slippage is to accommodate a direct income support package for farmers (₹750 billion annually, 0.36% of GDP) to alleviate their distress, and tax-breaks for middle-classes aggregating 0.1% of GDP.

A 14.4% increase in current spending (11.7% of GDP) compares with 6.2% growth in capex (1.6% of GDP), with the share of the former in total expenditure reaching 88%. Major subsidies (food, fuel and fertilisers) add up to 1.4% of GDP, unchanged from revised FY19 figures but significantly above 1.1% of GDP in FY18. How much of subsides are unpaid, rolled-over needs careful parsing; past trends show that the amounts are substantial.

Apart from ₹7.1 trillion of fresh market borrowings in FY20, the government expects to finance the enlarged fiscal deficit with fair amounts of optimism on taxes. Overall tax buoyancy works out to 1.29, which looks difficult to achieve. Indirect tax and non-tax revenue assumptions are much more optimistic: GST revenue buoyancy is assumed at 1.58, which compares with anticipated shortfall of ₹1 trillion this year; dividends and profits are projected to increase 14% over a 31% increase in FY19 (current year's target yet to be achieved); and ₹900 billion worth of asset sales (₹800 billion target for this year not reached so far). Past year's performance comparisons apart, the slowdown in global growth and trade in 2019 with financially volatile conditions cast further doubts that these targets are credibly achievable.

> The unfortunate part is that 'more-of-the-same' fiscal thrust for five years is visibly manifest in crowding out of private business spending

Much of this remains up in the air, but enduring commitments have been made. The expansionary thrust will no doubt lift disposable incomes, counter the slowdown in private spending to some extent and buy goodwill ahead of elections. What it does to interest rates and private investments is another matter. The bond market response testified—the 10-year benchmark yield jumped 14 basis points to close at 7.62% as the news sank in. It is notable that bond yields remain firm despite continued open market buying by the Reserve Bank of India. Of equal concern is the build-up of off-budget liabilities and extra-budgetary financing—analysts estimate these add up to about 2% of GDP—which additionally squeeze out the private sector from accessing capital resources.

From a monetary policy perspective, the interim budget is expansionary, tilted towards consumption and inflationary. Two instalments of the direct cash transfers to an expected 120 million farmers (with effect from December 2018) could be paid by March 2019; at this end of the income pyramid, the marginal propensity to consume tends to be large. To be sure, with headline inflation ruling in the 2-3% region, the Reserve Bank of India is likely to change its stance to 'neutral' but may hold the policy rate seeing the rise in inflation risks, persisting strength in core inflation and closing output gap.

The unfortunate part is that 'more-of-the-same' fiscal thrust for five consecutive years is visibly manifest in crowding out of private business spending even as the whole point of stepping off the fiscal consolidation path has been to bring it back. A striking indication of this is the confluence of historically low inflation and high interest rates. The extent of government spending support in this period needs to be seen in conjunction with exceptional windfall of oil-tax revenues, accumulated off-budget liabilities and extra-budgetary resources raised by the public entities whose principal and interest payments devolve upon the government's budget. Revised estimates show central government debt at 48.9% of GDP in 2018-19 against budgeted 48.8%, but this does not include financial liabilities incurred by PSUs—in FY17, total liabilities aggregated ₹3.05 trillion or 2% of GDP as per the CAG's report and have surely risen significantly since. Rising interest rates with falling inflation could regenerate debt sustainability concerns on the part of rating agencies.