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February 2, 2017 3:17 am JST

Chaitanya Kalbag ▶

## Jaitley keeps a steady hand on India's economic tiller

No 'big-bang' reforms but budget tries to be all things to all people

Speaking after the budget was tabled in parliament, Modi said it took solid steps to fulfil the dreams of the poor. He coined a new acronym, FUTURE (farmers, underprivileged, transparency, urban rejuvenation, rural development and employment generation) to explain his goals.

Although opposition Congress party leader Rahul Gandhi accused Modi of doing nothing to create jobs, the easing of corporate tax to 25% from 30% for small and medium businesses will boost the manufacturing and service sectors. Jaitley said government data for 2015-16 show that 285,000 companies with profits of less than 10 million rupees annually pay an effective tax rate of 30.26% while 298 companies with profits above 500 million rupees pay average tax of only 25.90%.

Subramanian presented a sparkling Economic Survey for 2016-17, which laid out a roadmap for Modi for the next few years. It started by jokingly accusing online retailer Amazon of "pirating" last year's survey and marketing it, but went on to say: "We strive to do better this year, risking that the survey might be consigned to the ranks of popular fiction."

The survey folded in extensive research and took an objective look at both demonetization and the "festering twin balance sheet problem" of over-leveraged companies and banks saddled with bad loans. "The most costly outlay is time," it said, quoting the ancient Greek Antiphon the Sophist. The survey also devoted an entire chapter to the idea of a universal basic income, under which the government would provide a basic income to all citizens.

Subramanian cautioned that it might be only "quasi-universal," but said it would replace subsidies that did not really reach the poor. Government research shows that 40% of India's poorest districts receive only 29% of subsidies, making direct cash transfers to the poorest a better proposition.

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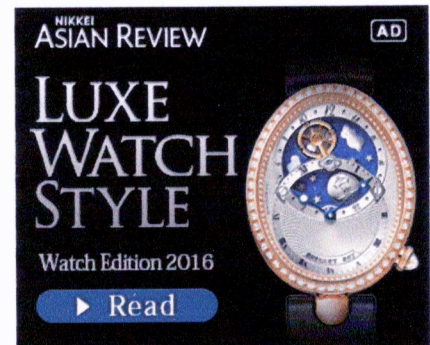
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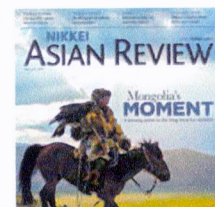
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But senior officials are wary of the universal basic income proposal, saying there have been only a couple of pilot schemes and wider implementation would take time.

Subramanian quoted the British economist John Maynard Keynes as saying that a good economic plan must "try and do everything," and that was what Jaitley's budget attempted. It was clear that the budget was only a way station on the road to sustainable development. Among its other highlights were:

The abolition of the Foreign Investments Promotion Board, which used to vet most foreign direct investment proposals, with future proposals going online;

Sanitation coverage in villages has gone up from 42% to 60% during Modi's tenure. Piped water supply will be speeded up for villages that achieve open-defecation-free status;

Expenditure on rural and agricultural plans is to rise 24%;

Spending on rail, road and shipping infrastructure will go up by 2.4 trillion rupees;

By March 2018, high-speed broadband on optic fiber networks will be available in 150,000 villages;

The government will set up a committee to recommend steps to integrate commodity spot and derivatives markets on a digital platform;

A ban on all cash transactions above 300,000 rupees.

Jaitley also set out new rules for political funding, which has been cited as the biggest source of corruption in India. The rules include limits on cash donations from individuals of 2,000 rupees, but stop short of suggesting state funding of political parties. Jaitley maintained an income-tax exemption for parties that declare the sources of their donations.

The budget also trimmed income tax rates for low-income citizens, and imposed a 10% surcharge on taxpayers earning between 500,000 rupees and one million rupees.

*Chaitanya Kalbag is a former Reuters Asia Editor and editor-in-chief of The Hindustan Times*

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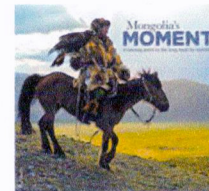
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2018-19. The deficit for the current year to March 31 is targeted at 3.5%.

Jaitley proclaimed on television that "cash as a way of life has changed," and sought in his budget to incentivize digital transactions. He was at pains to shrug off criticism of demonetization, saying that like all reforms it was "obviously" disruptive. "Demonetization seeks to create a new normal wherein GDP would be bigger, cleaner and real," he said, adding that any drop in economic activity would have only a "transient effect."

Analysts across the board have cut India's GDP growth forecast. Arvind Subramanian, Jaitley's chief economic adviser, said on Jan. 31 that GDP would likely grow between 6.75% and 7.5% in 2017-18, but the International Monetary Fund has predicted 6.6% growth. For the current year, GDP is forecast to grow at 7.1%, without a full accounting of the costs of demonetization. The economy grew by 7.9% in 2015-16.

Jaitley also announced on Wednesday that a new law was being planned to confiscate the assets of tax evaders who have fled the country. Banks groaning under the weight of unsustainable bad loans were given more tax headroom, but Jaitley made no reference to a "bad bank" proposal put forward by Subramanian, which would take over the bulk of banks' non-performing assets and free up state-owned banks to resume lending to qualified businesses.

Overall, the government appears to have pulled off a slightly wobbly balance between profligacy and pragmatism. The budget for 2017-18 sets out expenditure totaling 21.46 trillion rupees (\$315.7 billion), about 6.5% higher than expected expenditure in 2016-17. With nominal GDP forecast to grow by 11.75% this year, this should be more than manageable. Jaitley has increased spending on infrastructure, social programs and health, but not dramatically, and he is hoping that revenue will rise because of increased tax compliance and the introduction of a goods and services tax by Sept. 1.

Markets reacted positively. Stock indices hit three-month highs, with both the NSE Nifty and the benchmark BSE Sensex up about 1.8% on the day, in response to cuts in taxes for small and medium enterprises, easier rules for foreign direct investment, and a few tweaks such as incentives for builders of low-cost housing.

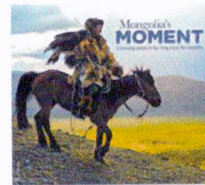
Given the external risks confronting India -- the election of Donald Trump as U.S. president, Brexit, U.S. monetary policy tightening and resurgent oil prices, Jaitley had little room to set out a "big bang" budget. Yet there was enough good news for farmers, the poor and the elderly to garner popular support. That will stand Modi's Bharatiya Janata Party in good stead, especially in the state of Uttar Pradesh, home to one-sixth of India's population, which votes in seven phases over four weeks. Modi desperately needs to win the state to cement his national footprint in the run-up to the

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## Symbolism

Modi revels in symbolism, and there was plenty of it in Jaitley's two-hour speech, made longer by the inclusion of the railways' budget, previously dealt with separately. Jaitley noted that he was speaking on the Hindu spring festival, adding: "Spring is a season of optimism." He said the government's agenda for the next fiscal year was "TEC" (transform, energize and clean India of corruption).

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