

## INDEX

### **Section 1: Theory of Budget**

- Budget and Budgeting process
- Concepts and terminologies related to Budget
- Interim Budget

### **Section 2: Pre-Budget Narrative**

- Universal Basic Income
- Farm Loan Waiver
- Employment
- Banking Sector issues
- Tax Reform
- Data architecture for policy making
- Miscellaneous issues

### **Section 3: Budget 2019-20**

- Major highlights (20-points to remember)
- Graphical bird eye view
- Sector specific (5-pt approach)

### **Section 4: Critical Analysis and Past year achievements**

# VAJIRAM & RAVI

## Section 1: Theory of Budget

- Budget and Budgeting process
- Concepts and terminologies related to Budget
- Interim Budget

### Q. What is Budget? What are the steps involved in the preparation of budget? Who prepares Budget?

Budget is Annual Financial Statement. It encapsulates earnings from revenue and estimated expenditure of government during a fiscal year (1st April to succeeding 31st March). It provides a financial roadmap for the country in ensuing years. Department of Economic affairs Ministry of Finance prepares Union Budget. **[Prelims]**

Organisational structure of Finance Ministry – There are five departments

1. Department of Economic Affairs
2. Department of Expenditure
3. Department of Revenue
4. Department of Financial Services
5. Department of Investment and Public Asset Management

Budgeting process involves three major steps namely 1. Preparation 2. Presentation 3. Implementation.

#### A) Preparation:

In case of dispute, PM, FM and union cabinet collectively decides the course of action. FM also consults various pressure groups like FICCI, CII, Cooperative associations, Farmer organizations. NITI Aayog also provides suggestions.

Issue of Budget circular -> Accumulation and authorization of data -> Data scrutiny -> Feasibility analysis -> Consultations -> Revenue allocation -> Preparation of estimated revenues -> Halwa ceremony

#### B) Presentation: **[Prelims]**

Presentation-> General discussion->Scrutiny->Voting on demand for grants->Passing of appropriation bill-> Passing of Finance bill

C) Implementation: Once the parliament approves various outlays, money is provided to different ministries which is further used to implement schemes.

### Q. What are different documents presented in the budget? **[Prelims]**

There are 16 documents in total which are presented. The important ones include

1. Annual Financial Statement [A.112]
2. Demands for Grants [A. 113, 114]
3. Receipts Budget
4. Expenditure Budget
5. Finance Bill [A. 110]
6. Fiscal Responsibility and Budget Management **[Prelims]**

The main purpose of FRBMA is to institutionalize financial discipline, reduce India's fiscal deficit, improve macroeconomic management and the overall management of the public funds by moving towards a balanced budget and strengthen fiscal prudence.

- (i) Macro-economic Framework Statement

(ii) Medium Term Fiscal Policy Statement

(iii) Fiscal Policy Strategy Statement

**Note:** An Appropriation Act in India is an act of Parliament which allows the withdrawal of funds from Consolidated Fund of India or Consolidated Funds of States (in case of state budgets). Similarly, the Finance Act of Central Government gives effect to the taxation proposals in the beginning of every financial year. For taxation proposals at state levels, State Finance Acts are enacted every year.

**Q. Different terminologies you should know for better understanding of Budget document.**

The Annual financial document presents information under four broad heads.

1. Budget estimate for the next financial year.
2. Revised estimates for the current fiscal year
3. Budget estimates of current year which must have been presented in the previous budget.
4. Actual estimates for previous financial year.

For example, for year 2019-20, budget table would contain four large columns namely 2019-20 (Budget estimate or BE), 2018-19 (revised estimate or RE), and 2017-18 (Actual estimates or AE).

**[Prelims]**

**BUDGET AT A GLANCE**

(₹crore) 2017-2018 2018-2019 2018-2019 2019-2020  
Actuals      Budget Estimates      Revised Estimates      Budget Estimates

In each column, various figures are listed like revenue receipts, capital receipts and various deficits. Each is explained in short below: **[Prelims, Interview]**

Revenue account	Current accounts (Income and outgoing of current year)
Capital account	Long term accounts (Income and outgoing beyond one year)
Revenue Income	includes tax and non-tax receipts which do not add up to liabilities
Tax receipts	Include Direct and Indirect tax
Non-Tax receipts	PSU profits/Interest or loans received/Fees, fines and penalty/User charges
Revenue expenditure	subsidy/defence/salaries and pensions/law and order/interest payments
Capital receipts	Market borrowing/Proceeds from disinvestment/Recoveries of past loans/Proceeds from asset sale
Capital Expenditure	Expenditure on infrastructure/loans to state/repayment of past loans

Term	Description
Budget Deficit	Total Expenditure – Total Receipts
Monetized Deficit	Government borrowing from RBI and RBI printing fresh notes
Fiscal Deficit	Total expenditure – (revenue receipts + Non-debt creating capital receipts)
Primary Deficit	Fiscal Deficit - the interest payments
Revenue Deficit	Revenue expenses- Revenue receipts
Effective Revenue	Revenue Deficit - Grants for creation of capital assets

Deficit	
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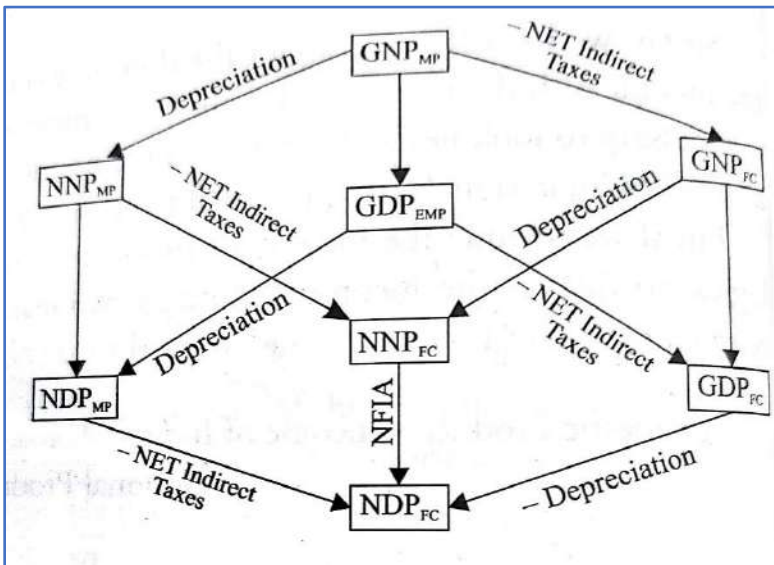
	Revenue Expenditure	Capital Expenditure
1.	Expenditure for items which are used for the day-to-day running expenses of the business. They are normally used up in less than one accounting period and therefore, only temporarily increases the profit-making capacity of the business.	Expenditure on assets which last for a long time and permanently increase the profit-making capacity of the business.
2.	Appears in the Trading and Profit and Loss Accounts as a reduction to profits.	Appears in the Balance Sheet as an increase in the value of assets.
3.	Examples:  Goods bought for resale, all running expenses such as rent, interest, etc., decoration to premises, depreciation.	Examples: purchase of land, premises, vehicles, office equipment, extension to premises, renovation to premises, legal fees involved in purchase of fixed assets.

Other estimates used in GDP calculations: 1<sup>st</sup> advance estimates/2<sup>nd</sup> advanced estimates/Provisional estimates/budget estimates/Actual estimates/Quick estimates

**Q. What is GDP and which among the four GNP, GDP, NNP and NDP is best measure of growth of a country?**

GDP is sum total of all the goods and services produced in an economy in a given financial year. GDP does not reflect the true value of national assets as it does not count the net factor income from abroad. Therefore, we have concepts of GNP, NNP etc.

However, NNP/GNP are gradually becoming less relevant because most countries are running on high external debts that are serviced through internal resources which tend to increase outflows and reduce GNP of a country. Further, variable and volatile nature of remittances makes it difficult to judge the correct state of economy. Therefore, GDP is considered more stable measure. [P]



- where,
- GNP- Gross National Product**
  - GDP- Gross Domestic Product**
  - NNP- Net National Product**
  - NDP- Net Domestic Product**
  - FC- Factor Cost**
  - MP- Market Price**

**The trouble with GDP – It is increasingly a poor measure of prosperity.**

Measuring GDP requires adding up the value of what is produced, net of inputs, across a wide variety of business lines, weighting each according to its importance in the economy. Both the output and the materials (if any) used up in making it have to be adjusted for inflation to arrive at a figure that allows for

comparison with what has gone before.

This is tricky enough to do for an economy of farms, production lines and mass markets—the setting in which GDP was first introduced. For today’s rich economies, dominated by made-to-order services and increasingly geared to the quality of experience rather than the production of ever more stuff, the trickiness is raised to a higher level.

The problem is not just that it is hard to make these calculations. It is that what the calculations produce is a measure put to too many purposes, and, though useful, not truly fit for any of them. And there are worries that things may be getting worse. These days it seems that a growing fraction of innovation is not measured at all. In a world where houses are Airbnb hotels and private cars are Uber taxis, where a free software upgrade renews old computers, and Facebook and YouTube bring hours of daily entertainment to hundreds of millions at no price at all, many suspect GDP is becoming an ever more misleading measure.

Much that is valuable is neither tangible nor tradable. But much that is tradable is also not tangible. A problem with GDP even when it is being asked to do nothing more than measure production is that it is a relic of a period dominated by manufacturing.

A bias toward manufacturing is not the only distortion. By convention GDP measures only output that is bought and sold. There are reasons for this, only some of them sound. First, market transactions are taxable and therefore of interest to the exchequer, an important consumer of GDP statistics. Second, they can be influenced by policies to manage aggregate demand. Third, where there are market prices, it is fairly straightforward to put a value on output. This convention means that so-called “home production”, such as housework or caring for an elderly relative, is excluded from GDP, even though such unpaid services have considerable value.

**Q. What is the concept of GVA and how is it different from GDP? [P]**

Earlier, government was calculating all the data for GDP at factor cost. This was called GDP of India. It was evaluated using output method (remember three ways Output, expenditure and income method). Thus it was compilation of wages, interests, salaries, profits etc. This GDP at factor cost at constant price was used as GDP figure of the country.

However, internationally, GDP is considered as GDP at market price Whereas GDP at factor cost is considered as Gross value added (GVA) at factor cost. The GVA at factor cost is compiled by subtracting the factor of net production taxes for each sector from sector specific GVA values. In simple terms, industry-wise estimates are accounted separately keeping in mind the different production taxes and production subsidies for each sector. This is compiled and presented as GVA at basic prices. The GDP at market price i.e. new GDP is evaluated by adding net product taxes (different from net production tax) to the value of GVA at basic prices. This could be understood from the table below:

Term	Description
Gross value Added at Basic prices	Compensation of Employees + Operating Surplus + Mixed Income + Consumption of Fixed Capital (CFC) + Production taxes – Production subsidies
GVA at factor cost ( earlier referred to as GDP at factor cost)	GVA at basic prices – (production taxes – production subsidies)
Gross Domestic Product (GDP)	GVA at basic prices + Product taxes – Product subsidies

**Q. What are the sources of income for the government for budgeting process?**

Prominently government raise money for expenditure from three sources namely Taxation (acts as glue to the economy), Borrowing (from citizenry, foreign investors or institutions), Printing (measure of last resort because it tends to have inflationary impact).

**Q. What is Off-budgeting resource?**

Expenditure which cannot be funded through budget. For example, for FY 16-17, fertilizer bill payment was made through special banking arrangement. These figures were not shown in the budget and so they were not fully reflected in the fiscal deficit. [P]

**Q. What is Gross budgetary support and extra budgetary resources?**

Gross budgetary support is allocation made to scheme from budget resources for the entire period of plan and Extra budgetary resources are resource outside budget example GoI Fully Serviced Bonds for Swachh Bharat Mission.

**Q. What are the reforms which can make our budgeting process more robust and transparent? [M, I]**

Substantive role of Rajya Sabha, Off- Budget financing should be properly disclosed to the parliament, Educating people about the Budget, Increase the research/support staff of parliament so that Demand for grant could be scrutinized better, Performance Budgeting, Bottom-up Budgeting, Gender Budgeting, Green Budgeting etc are major areas of concern.

**How Budget has changed over the years**

- Traditionally, India's annual Budget was presented to Parliament at 5 pm. It changed to 11 am on since 1999.
- For long, the union Budget used to be a thick document — with the contents in both English and Hindi. That has given way to separate versions and a slimmer document.
- Budget documents used to be white for decades. Now, the expenditure budget, the receipts budget, the financial statement, memorandum and associated documents are all marked in different colours — red, orange, blue.
- FRBM Act added three budget documents – (see below)
- Merging the Railway Budget with the Government of India's Budget (The convention, which came into force in 1924 survived for over 90 years)
- Advancing the date of presentation of the Budget – to 1<sup>st</sup> February

**Real reform** will come when, like in many other countries, the Budget is just a statement of receipts and expenditure, rather than the massive, secretive affair that it is in India now. Logically, that step shouldn't be far off with the introduction of the Goods and Service Tax, and the subsuming of many taxes. A stable rate, and now stable income tax rate - with three slabs of 10%, 20% and 30% which was not been changed since 1997 - should make it possible. This reform would also mean putting an end to the practice of using the Finance Bill to surreptitiously make changes to other laws as provisions tucked away in the fine print.

**Q. What is Interim budget? When is it presented? [P]**

The government of the day presents an interim budget if it does not have the time to present a full Budget or because national elections may be near. The interim budget is a vote-on-account budget where parliament passes proposed part-year expenditure (not full year expenses). It is very similar to full budget except that parliament generally does not pass future expenses for full next year. The estimates approval of the next fiscal year are only for the months until the new government takes over and presents the new Budget.

Constitution doesn't bar a government to present a regular Budget in its fifth year. The government is considered as custodian of funds only for few months and thus it usually refrains from making big-ticket announcement. However, in 2009, the then finance minister Pranab Mukherjee introduced stimulus package to strengthen economy against global meltdown. Similarly in 2014, the then government

proposed changes in the indirect taxes and changed the commodity structure. This year, government went one step ahead and for the first time brought changes in direct taxes as well.

**Q. How does the interim budget differ from a regular budget?**

In an interim Budget, the vote-on-account seeks parliament's nod for incurring expenditure for part of a fiscal year. However, the estimates are presented for the entire year, as is the case with the regular Budget. However, the incoming government has full freedom to change the estimates completely when the final Budget is presented.

**State PSC/ Prelims fact**

Article 109	Special procedure in respect of Money Bills
<b>Article 110</b>	<b>Definition of Money Bills</b>
<b>Article 112</b>	<b>Annual Financial Statement (note- Constitution doesn't use the term 'Budget')</b>
Article 113	Procedure in Parliament with respect to Estimates
Article 114	Appropriation Bills
Article 115	Supplementary, Additional or Excess Grants
Article 116	Vote on account, Vote of credit and Exceptional Grant
<b>Article 117</b>	<b>Special provisions as to Financial Bills</b>
Article 150	Form of accounts of the Union and of the States
Article 151	Audit reports
Article 265	Taxes not to be imposed save by authority of law
Article 266	Consolidated Funds and Public Accounts of India and of the States
Article 267	Contingency Fund
Article 275	Grants from the Union to certain States
Article 280	Finance Commission
Article 281	Recommendations of the Finance Commission
Article 292	Borrowing by the Government of India

**[Titbits]**

'Budget System' was introduced in India on 7<sup>th</sup> April, 1860. James Wilson the first Indian Finance Member delivered the budget speech expounding the Indian financial policy as an integral whole for the first time.

Post-independence, the first budget was presented on November 26, 1947 by India's first Finance Minister Sri R.K. Shanmugham Chetty.

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## Section 2: Pre-Budget Narrative

**Q. What is the significance of a Budget document? Why should we understand the background or narrative in which country's budget is presented?**

Budget document outlines the country's financial policy in short and medium term. It serves the dual purpose of highlighting the government's priority areas as well as expounding its vision for country growth and development in future. If elections are the heart of a democracy, a transparent, inclusive and equitable budgeting process acts as its spine. Both brings legitimacy and ensure the erect and lively functioning of democratic machinery.

Every budget is rooted in certain political and economic realities of the national and international eco system. For example, budget in year 2009 gave away the path of fiscal prudence by providing huge fiscal stimulus in order to save country from the ill-effects of global slow down. Similarly, budget process in 1991 changed the overall policy direction of country and adopted policies of liberalization, privatization in the backdrop of BOP crisis. Budget 2019-20 is no exception. Therefore, it is beneficial to understand various issues which have dominated the political-economic landscape.

On the economic front, year 2018-19 witnessed the rise and fall in the oil prices. The inflation remained under control and hovered around 4-4.5%(CPI). Farm prices remained a concern as farmers could not realize the right price for their produce. This was partly due to poor international prices and higher farm productivity (which is also known as double paradox for the farmers). Government proposed a hike in the MSP over 50% of actual cost of production for kharif crops. Government launched schemes like Ayushman Bharat for healthy India. However, employment(both quantity and quality) and jobless growth remained a matter of concern. However, the narrative on TV debates was dominated by some bigger issues which are discussed below:

**Universal Basic Income:** Economic Survey 2017 highlighted the need to wipe tears from every eye. In that context, Arvind Subramaniam, the then Chief Economic Adviser discussed the concept of universal basic income which is a kind of social security transfer in the form of unconditional cash transfer which citizens can utilize to fulfil their basic needs. Survey 2017 had suggested that time was not ripe for implementation but it is right for the discussion on the issue. As the farmer's woes continue and employment crisis is looming on our heads, the issue has gained chorus again.

Q. What are the pros and cons to bring the UBI in Indian context? {Mains}

Q. UBI a bane or a boon? {Essay exam} {Caveat: consider both developed and developing world and separate attention to India, give case studies, facts and touch upon the underlying philosophy}

Q. Is the idea viable in a country like India or is it just another form of reservation policy? {Interview}

Recently, a political party in Sikkim announced to put UBI in its poll promises. All other political parties started promising to provide minimum basic income support to everyone as one of the poll promises. This triggered a fresh debate over the issue. Internationally, Namibia provides a basic income grant to its citizenry. Canada also has a scheme "Mincom". However, countries like Finland and Switzerland voted against such ideas of basic income support. The fear of automation, with the incoming of Industrial Revolution 4.0 and trend of jobless growth is fuelling this debate further.

Sl. No.	Arguments against UBI	Counter arguments
1.	State knows the best. (Treating citizen as Subjects)	People knows the best(Treating citizens as Agents) Over-reliance on state machinery results in ideological distortion and corruption.
2.	Education is biggest social security.	UBI will delink employment or education from social



## VAJIRAM & RAVI

		security so people will be able to live as per their free will.
3.	Many social sector schemes already going on.	Resolve the problem of leaky, faulty bucket. Existing set of schemes are not very effective.
4.	Workers may not prefer to work anymore	These guarantees will be minimalistic in nature Similar arguments were applied for high wage class that they may enter into luxury People work for the sake of work and not just for necessity
5.	Why should there be pay without work?	We already have the idea of inheritance. Our society allows accepting non-work related income.
6.	Should income be unconditional with no expectations of reciprocity?	UBI is a way of acknowledging the non-wage work related contributions to the society like homemakers. It is not transfer payment rather it is like right to a minimum income.
7.	May increase Inflation	Employment generation: Opens up flexibility in labor markets
8.	Reduced labour supply: may dampen the work-motivation	Social Justice: Promotes liberty by virtue of being anti-paternalistic
9.	Increases subsidy burden from existing 5% to 11%	Poverty reduction [even now 22%]: Promote equality
10.	Diversion of resources, misuse of cash subsidy	Psychological benefits: Dignity, invulnerability, self-control
11.	Implementation (too much stress on banking system), Reaching all the beneficiary not easy	Productive economy
12.	Income-detached from unemployment	We already accept the idea of inheritance so Income is already detached with work in our society. Administrative efficiency: Reduce the waste in government transfers
13.	Regressive nature of Idea, promote culture of freebies.	Entrepreneurship – Maslow’s self-actualization
14.	Non-reciprocal nature of transfer	Inclusiveness
15.	Unknown unknowns and known unknowns	Respect and not dictate choice to the recipients
16.	Inflation may spiral subsidy burden	New opportunity for BC model
17.	It may become an add-on to existing scheme	Unlock credit constraints for the farmers
18.	Multiplicity cost of existing schemes is too high	Implement the limited version of scheme using JAM platform
19.	It will become like a reservation policy where people will keep pushing	Technology revolution will lead to lesser employment so

	government for higher allocation and evergreening. As a result Politics will drive economics	basic income will have to soon become a reality
20.	Competitive populism may come in operation.	Case study of SEWA , UNDP and UNICEF has shown positive results in MP
21.	Provision of UBI in urban areas may trigger mass migration in urban areas	No visible impact on labour supply due to existing schemes. Rationalise schemes using JAM platform.

As per arguments, a Universal nature of Income Support may not be viable as there are question marks over state capacity. We should not confuse means with the ends. Instead a data and research based scheme for a particular segment could be launched. For example, it would be a good scheme for marginal farmers and landless labourers provided state has mechanism to directly transfer benefit to them.

Read PM-KISAN later in the document. It's a kind of UBI model that is not actually universal but targets the neediest and does hint towards possible future expansion towards full-blown UBI.

**Farm Loan waiver**

India is a pre-dominantly a rural economy as 65% of our population still lives in the villages and nearly 42% population is directly dependent on the agriculture. Therefore farm related issues are a natural poll rhetoric in the election year. Farm loan waiver is a time-tested formula of Indian politicians to draw voters and bring the government to the task. The issue becomes more relevant when farm prices and returns are decreasing due to declining prices of agricultural commodities in the international market and fall in food inflation in India since 2017-18. However, former RBI Governor Raghuram Rajan described it as “Moral Hazard”.

**Moral hazard** is a situation in which one party gets involved in a risky event knowing that it is protected against the risk and the other party will incur the cost. Thus, such action is undertaken not under good faith. It arises when both the parties have incomplete information about each other. The decision is based not on what is considered right, but what provides the highest level of benefit, hence the reference to morality. This can apply to activities within the financial industry, such as with the contract between a borrower or lender, as well as the insurance industry. For example, when a property owner obtains insurance on a property, the contract is based on the idea that the property owner will avoid situations that may damage the property. The moral hazard exists that the property owner, because of the availability of the insurance, may be less inclined to protect the property

**Context:** Recently, all the poll bound states like Karnataka, Assam, Chhattisgarh, Madhya Pradesh and Rajasthan have seen some of other variant of farm loan waiver. Main opposition party has announced it as their poll promise so we can expect a riposte from the government though the Budget.

Q. Farm loan waiver boon or bane? [Essay]

**Q. Is farm loan waiver a moral hazard or political necessity or economic exigency? Critically analyse. [M, I]**

Sl. No.	Arguments against Farm loan waiver	Counter Arguments
1.	It spoils the credit culture in the economy	We waive crores of rupee for industrialist and sick companies then why can we not waive few pennies for unlucky farmers.
2.	The benefit does not reach the intended beneficiary	Government should do proper homework in identifying beneficiaries

		and use JAM, banking correspondent model, Aganwadi worker, school teacher and Panchayats in ensuring that right person gets the right amount.
3.	You give them a fish, you feed them for a day. You teach them how to fish, you feed them for life.	It is about farmer suicide. Nearly 11000 farmers committed suicide in 2016 and government has not been publishing the data since then
4.	It is a ultra-short term measure without any vision	An immediate intervention is required in the moment of crisis. We can often see pictures of farmers throwing away their produce on roads because they do not realize their true price.
5.	Agricultural labourer are excluded from the process	We should include them as well. Throwing the baby out of bath water is not justifiable
6.	It covers only a tiny fraction of population with serious inclusion and exclusion errors. For example some people got less than Rs. 50 as waiver.	The increase in MGNREGA after demonetization shows the need of support to farm sector.
7.	It only provides a partial relief and it is only a stop-gap arrangement.	Long term changes and development may happen in parallel.
8.	It results in competitive populism. Who provides more waiver becomes a battle of prestige.	Voters are educated. We should not underestimate them.
9.	As per RBI report, it may lead to increase in inflation. Last year nearly 88,000 crore were waived which may increase inflation by 0.2% for foreseeable future.	Farmer is in the need of support as food inflation has taken a dip so farm prices are not commensurate with input.
10.	It discourages banks from giving loans in future.	We need to provide some support to farmers either in the form of direct benefit transfer or UBI or minimum input support.
11.	It takes away good money from investment in productive long-term agricultural infrastructure.	We can put agriculture infrastructure in the infrastructure category. Moreover, innovative solutions like contract farming, open farm market without prerequisite of licenses could be deployed.
12.	It deviates from the path of fiscal prudence and stress central and state budgets.	Fiscal-prudence is only a tool to growth and development. It should not become an end.

There is no denying that farm loan waiver is only a short-term solution to a long term intricate systemic issue. Therefore, we need to take a three-pronged approach of short, medium and long-term interventions. As an anti-dote to farm loan waiver, we can adopt the model of Ryuthu Bandhu Scheme of Telangana or Kalia (Krushak assistance for livelihood and Income augmentation) scheme of Odisha state. Kalia provides Rs. 25000 for every farmer owning up to 2 hectares and Rs 12500 for all landless agricultures' households. Government has already increased the MSP prices 50% above the production cost for nearly 22 crops of Kharif in year 2018.

The need of hour is to work on both the backward and forward linkages of agriculture which are missing. These include quality seeds, irrigation, electricity, agricultural infrastructure like cold chain, food processing, and increasing non-farm income. We should change the agricultural map of India. For instance, horticulture, pisciculture, floriculture and livestock rearing may be given priority over monochromatic attention paid to rice and wheat production and MSP based on geographical diversity. Most importantly, the reactive policy of farm loan waiver should pave way for proactive tendency of direct benefit, income support, agricultural insurance and agripreneurship.

### Employment

We are world's youngest nation with 65% population below 35 years and nearly 50% population below 25 years. Every year nearly 1.2 crore young people are entering the job market. However, we do not have a properly placed data architecture to evaluate the number of real jobs added in the economy. We are the fastest growing economy with nearly 7.2% growth rate yet NSSO report (leaked unapproved snippets) claim that we are facing the highest unemployment rate of nearly 6.1% in last 45 years post demonetisation. This indicates a trend of jobless growth. On the other hand, EPFO data shows the nearly 2 crore new additions were made in the provident fund. All of this has led to confusion and mess around the question of employment in India. And naturally, this has become another big election year rhetoric in India's policy making.

The NITI Aayog task force on improving employment data had said in its report in 2017 that there are four primary sources of employment data—household surveys, enterprise surveys, administrative data and data from government schemes.

Still, the Indian labour market data is difficult to analyse. There are several reasons why this is so. First, a large part of the labour force is in the informal sector, where information is very difficult to collect on a monthly basis. Second, sample survey data is often confusing because of the withdrawal of women from the labour force over the past 15 years. Third, employment numbers for the young need to be handled with care since more children are staying back in college rather than seeking work. Fourth, the formalization of the Indian economy means that there are profound structural shifts taking place in the composition of the labour force.

Way forward? Technology can play a part. Household surveys could be conducted every year rather than every five years using new technologies that bypass time-consuming data collection methods. The new goods and services tax network (GSTN) offers an excellent opportunity to use Big Data analytics to extract employment data for all enterprises covered by the new tax. All this will take time. Till then, the trend in wages is the best proxy for understanding job creation.

### **Q. What are the changing trends in the employment pattern of the country? What are the initiatives taken by government of India in last one year?**

1. Informalisation of the workforce: The new jobs being generated are devoid of any social security measures.
2. Contractualisation of the workforce: The nature of job is ad-hoc, temporary rather than permanent.
3. Reversal in the feminization of workforce with decline in the labour force participation of women especially in Urban areas. It has declined to nearly 22.7%.
4. Trend of educated unemployed or voluntary unemployed. All thanks to Civil Services □
5. Unskilled to semi-skilled workforce: As the world is moving towards higher technology, automation and industrialization, same is reflected in our work force.
6. Movement from government to private sector in the workforce: In line with the guiding philosophy of "maximum governance, minimum government", a major chunk of jobs come from private sector.
7. Start-up culture: India is nation with second largest numbers of start-ups.

8. Agriculture to Services sector: The share of employment in agriculture has come below 50% and share in services has reached nearly 35%.

Today nearly 85% of our workforce is informal in nature with no social security measures or no job security either. In this background, let us list the major challenges in generation of employment in the economy.

1. Unemployability of our workforce due to poor skilling is a big challenge.
2. The missing middle Syndrome where in the middle size industries are unable to grow which provide local employment and has acted as one of the major job providers in many countries.
3. As families move in the neo-middle class, it is observed that women opt out of jobs.
4. The multiplicity of labour laws act as a deterrent to employer.
5. Most importantly, distorted economic architecture i.e. weak link of manufacturing has created hurdles in job creation. Most of the employment added in last decade is in capital intensive manufacturing industry which has not been able to absorb the large workforce.
6. Most industrialist fear the socialist mindset and political compulsion of respective government thus fear the expansion plans.

Government has taken plethora of measures in last few years to boost employment generation. Most important first step in the right direction has been separate ministry for skill development. If we fail to skill our young population, then the much-talked demographic dividend will become a demographic disaster. In this regard, PM Rojgar Protsahan Yojana was also launched. Online portals like Shram Suidha and Universal Account Number for benefit for construction workers are welcome initiatives.

Apart from that, Maternity benefit act for women, various insurance and pension schemes like Jeevan Jyoti Bima Yojana, Atal Pension Yojana are launched. A grand scheme Ayushman Bharat was launched for a healthy workforce. Start-up India, Stand-up India and Mudra Yojana are also helping the MSME sector. Interest subvention scheme for labour intensive sector of Textile may help in greater employment generation.

India has a workforce of nearly 52 crore people. Many of them are going to be first time voters. Thus, it would be interesting to see what budget 2019-20 contains for upholding the promise of employment generation.

### **Banking Sector issues**

#### **Q. What are the significant highlights of banking sector in year 2018?**

Last few years have been tumultuous for the banking sector. The rising NPAs, governance issues and recently the tussle between RBI and government was no secret that ended with resignation of RBI Governor Shri Urjit Patel brings to the forefront the issues in Banking Sector. The private banks also saw the charges of corruption against who's who of the Indian banking system like Chanda Kochchar of ICICI Bank. RBI ousted Rana Kapoor from the Yes Bank and Shikha Sharma from the Axis Bank respectively on the charges of disproportionate size of their assets.

The 14000-crore scam of Nirav Modi in connivance with the Punjab National Bank dented people's trust in the banking industry of India. Government also announced the merger of Bank of Baroda, Vijaya Bank and Dena Bank to create a global-sized lender, which will be "stronger and sustainable". With a combined business of ₹14.8 lakh crore, it will be the country's third-largest bank after state-run SBI and private lender ICICI Bank (which are also **Domestic Systemically Important Banks**). Government also approved the stake-sale of IDBI Bank to LIC in the past year.

The non-performing assets remained a ticking time bomb for our entire economy. The size of gross NPA moderately a little but the risk remains. The scales of NPA hover around 8.7 Lakh crore. It is claimed that nearly 2.8 Lakh crore has been recovered. Near 2 Lakh crores has been resolved by

Insolvency and Bankruptcy code and nearly 70K crore has been recovered through National Companies Law Tribunal.

**Q. What are the sore points between the RBI and Central government? [Mains]**

1. Section 7 of RBI act empowers government to issue directions to the RBI in the public interest. It is claimed that government misused this power to dictate RBI about monetary policy.
2. Usage of reserve funds: RBI has around Rs. 9.63 trillion reserves, a share of which government wants to put in economic development. This has led to tussle. Though later FM denied the issue of reserves
3. Issue of PCA: Government claims that Prompt corrective action framework has hampered the availability of credit in the market. However, RBI is not in favour of relaxing norms for 11 loss-making state-run banks are under the RBI's watch through the PCA framework till they regain health.
4. Payment regulatory board: Panel set up to finalize the Payment and Settlement System (PSS) Act had recommended that the payments regulator should be an independent regulator with the aim to foster competition, consumer protection, systemic stability but RBI opposes this move on the ground of recommendation of Ratan Watal Committee on digital payments
5. RBI is considered one of the most unreformed institution of the world where its chairman is not even constitutionally empowered like CAG or CEC.
6. Selection of board members

**Q. Why Government should take RBI along as equal partner?**

Viral Acharya (Deputy Governor) put it aptly, those who invest in Central Bank's independence will enjoy lower cost of borrowing, love of international investors and longer life span of economy. However, Bibek Debroy rightly points out that central bank autonomy has limits and a country's Monetary Policy cannot be delinked with its fiscal Policy. Therefore, a healthy relation between central government and RBI is necessary for healthy and wealthy economy.

Also it is important to note that the economy of the country is managed by two important instruments of Fiscal policy formulated by Government and Monetary policy formulated by the RBI.

**Q. Present a timeline of various measures taken by central bank or government in resolution of bad loan crisis? [Survey document 2017, Good to know things]**

**2015 Survey suggested 4D:**

De-regulation (addressing the statutory liquidity ratio (SLR) and priority sector lending (PSL))

Differentiation (within the public-sector banks Finally, on to recapitalization, shrinking balance sheets, and ownership)

Diversification (of source of funding within and outside banking)

Disinterring (by improving exit mechanisms)

**2016 Survey suggested 4R:**

Recognition: value their assets as far as possible close to true value (RBI conducted asset quality review and modified NPA criterion)

Recapitalization: Capital position must be safeguarded via infusions of equity

Resolution: Underlying stressed assets in the corporate sector must be sold or rehabilitated

Resolution: Close the case with a win-win deal

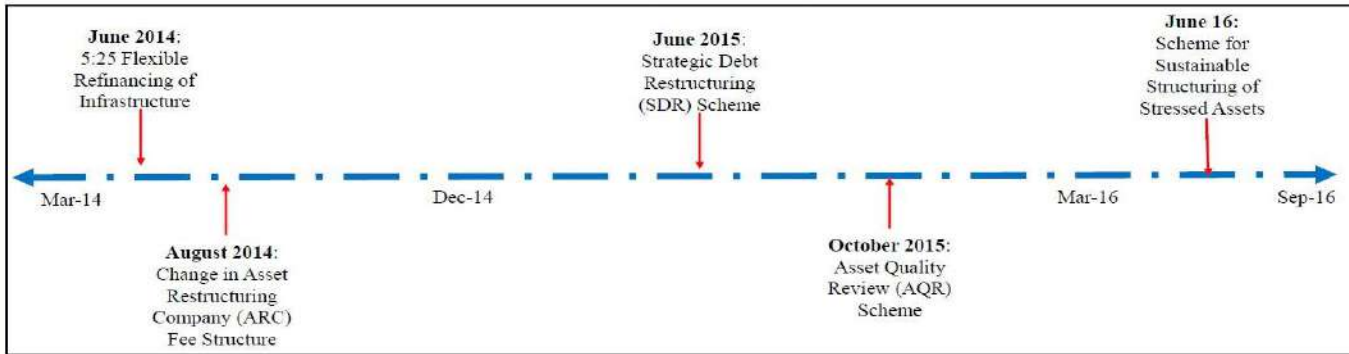
**Mission Indradhanush:** ABCDEFG i.e. Appointments (Bifurcation of CMD post), Bank board bureau, Capitalization, De-stressing PSB, Empowerment, Framework of accountability, Government reforms [with respect to recapitalization – read about the Basel III requirements]

- New mechanism of special mention account for early detection

**Measures taken by the government and RBI to resolve the problem of non-performing assets**

[How has been our performance in each scheme?]

**Figure. Chronology of RBI policy actions**



A solution of bad bank or Public sector asset rehabilitation agency was also proposed. But it never came to life. Finally, government launched the Insolvency and Bankruptcy code in order to solve the problem of “Exit difficulty” (Much talked about in the context of Chakravayuh Challenge in the Economic Survey) for sick companies and redefined the Debt review tribunal and National Company law tribunal. This seems to have paid off and some results have come.

**What ails the NBFC sector?**

India’s non-banking financial companies (NBFC) sector - also known as the shadow banking system that provides services similar to traditional commercial banks but outside normal banking regulations.

NBFCs in India include not just finance companies, but also a wider group of companies that are engaged in investment, insurance, chit fund, nidhi, merchant banking, stock broking, alternative investments etc. as their principal business. NBFCs being financial intermediaries are supposed to play a supplementary role to banks. But they have been slowly moving into the space of commercial banking. When banks slowed down their lending business in the wake of huge bad loans, NBFCs continued to grow at a higher pace. In 2018, there were 11,402 NBFCs registered with the RBI, of which 156 were deposit accepting NBFCs (NBFCs-D), and 249 systemically important non-deposit accepting NBFCs (NBFCs-ND-SI). The aggregate balance sheet size of the NBFC sector as of March 2018 was Rs 22.1 lakh crore.

This sector is passing through a turbulent period following a series of defaults by Infrastructure Leasing and Financial Services (IL&FS) and the subsequent liquidity crunch. Several corporates, mutual funds and insurance companies had invested in short-term instruments such as commercial papers (CPs) and non-convertible debentures (NCDs) of the IL&FS group that has been defaulting on payments since August. This has stoked fears that many of them could have funds stuck in IL&FS debt instruments which, in turn could lead to a liquidity crunch in their own backyard. Banks did slow down lending to NBFCs, virtually closing a major resource avenue for NBFCs and housing finance companies (HFCs). The fundamental issue, however, is an asset-liability mismatch in the operations of NBFCs like IL&FS. The liquidity squeeze faced by NBFCs has led to a conflict between the government and the Reserve Bank of India. While the government has announced bailout of IL&FS, reflecting its intent to prevent escalation of the crisis, the RBI is expected to neutralise the liquidity squeeze but an easy money period is unlikely to come back in a hurry.

**Tax Reform**

Taxation acts like a glue to the economy. It is a tool for redistribution of the economic wealth from riches to poor thus it fulfils the constitutional mandate under Article 39 of the Directive principle of state policies. Indian tax administration has evolved since 1861 in a gradual manner. Over the period, the share of Direct Tax has increased in the economy and crossed nearly 50%. Custom duty have come down in the light of free trade agreements and multilateral arrangements. Service tax has risen sharply with wider coverage. Last year, Corporation tax was reduced to 25% covering nearly 97% of our companies. Dividend distribution tax was imposed at the end of distributor. Whereas a debate was triggered on imposition of wealth tax, property tax and inheritance tax in our economy. However, a leapfrog jump was made last year with changes made in taxation structure of the economy. This has dominated the landscape of pre-budget expectations on the mind of people.

**Q. Recap of some tax-reforms in last one year.**

1. Good and services Tax (GST): India launched Goods and Services Tax across the nation through the 101st Constitutional amendment. It subsumed central level (Excise, additional excise, additional customs etc.) and state-level (Octroi, entry tax etc.) under GST regime. It was started with 5 different rates i.e. 0%, 5%, 12%, 18%, 28%. . Currently 97.5% items fall under 18% rate. However, experience reveals that over time we need to move to just 2-3 rates like 5%, 15% and sin good slab In future, most of the households and essential commodities must be subsumed under 5% band and only few selected demerit goods like alcohol or luxury cars or tobacco falling under “Sin good” category. However, one may note that due to lack of awareness, novelty of the system, technological hiccups our GST collection target may fall short of the target this year.
2. Direct tax code: A gradual movement is made towards achievement of direct tax code in the economy. Currently, our Direct tax to GDP ratio is nearly 6%. This is expected to increase to 7.5% in the coming years. Overall Tax-GDP ratio (Centre + State combined) is around 17.6% which is targeted to reach 22% (OECD average) in next 3-4 years. Towards this end, it is essential to increase the tax coverage of our population and bring the direct tax code in the economy. This year’s Direct tax collection is expected to be more than set targets.
3. Digital taxation: For the first time, entire tax submission was done through e-assessment process. A new project called Central Processing Centre (CPC 2.0) was approved by Income Tax department in early January. This project will make the system of taxation faceless and without human interaction between assesses and assessor. Real time generation of PAN and **project Insight** for data mining and generating detailed profile of each taxpayer are also in pipeline.
4. Demonetization: It played significant role in widening of our tax-net. Post-demonetization, nearly 1 crore people have started paying their taxes. This augurs well for our economy.

**Q. What do people expect from this budget in terms of Tax reforms?**

General expectation of people would be low interest rates on education, increase in the deduction u/s 80C (NPS), and increase in the exemption limits u/s 80C beyond 1.5 lakhs. But government has a tough job to widen the tax base as well as deepen the tax structure. Had it been a full budget, we could have expected this budget to take us closer to the vision of Direct tax code and rationalize the tax slabs under GST regime by giving recommendation to the GST council. As interim budgets refrain from making big changes on taxation front, let us see what is in the store for the taxpayers of the economy.

[Understand the section on Tax reforms in order to assess the budget announcements properly]

**Data architecture of India**

[Very important for **prelims**, read about NSSO/CSO/Economic Census/Census/Social and economic cast census/Labour survey/EPFO database/Data.gov.in/Agencies which can intercept your data]



Data	Agency
GDP data calculation	CSO under MOSPI
Measurement of employment / unemployment	NSSO
Payroll data	EPFO
Socio economic cast census	Ministry of rural development
Periodic Labor Force Survey (PLFS)	NSSO Ministry of Statistics and Program Implementation
Quarterly employment survey	Ministry of Labor
Crime data	NCRB
Women and child welfare data	MOWCD
Census of India	Office of Registrar General

In the light of above fragmented data architecture, it is essential to make a separate Ministry for data collection, survey, auditing and assessments.

**Miscellaneous issues before Budget**

This is going to be the last budget of this government hence it may be a time for stock-taking as well as reflection over achievements of this government. Therefore, it is expected that initiative be taken for:

1. Measure to double farmer income
2. Giving minimum income or some form of structured income to the young population
3. Announce further expansion of schemes like Ayushman Bharat.
4. Announcement of minimum wages in the unorganized sector
5. Revamp the data collection architecture in India

We will see how these narratives have impacted the policies in the budget 2019-20.

### Major highlights

1. India is poised to become a \$5 trillion economy in next 5 years, \$10-trillion economy in the next eight years (Presently 2.3 Trillion Economy)
2. Pradhan Mantri Kisan Samman Nidhi (PM-KISAN) to extend direct income support at the rate of Rs. 6,000 per year to farmer families, having cultivable land upto 2 hectares is announced. It will benefit 120 million small and marginal Indian farmers.
3. 'Pradhan Mantri Shram-Yogi Maandhan to provide pensionary benefits to at least 10 crore labourers and workers in the unorganised sector.
4. Individual taxpayers having taxable annual income up to Rs.5 lakhs will not be required to pay any income tax
5. Separate department for fisheries
6. Setting up of "Rashtriya Kamdhenu Aayog" to upscale sustainable genetic upgradation of cow resources and to enhance production and productivity of cows
7. Fiscal deficit seen at 3.4 percent in FY 19 and Current account deficit at 2.5% of the GDP
8. Highest ever budgetary allocation of Rs 3 lakh crore for Defence,
9. Record allocation of funds at Rs 58,166 crore for North Eastern Areas,
10. Single window clearance for Indian film makers at par with foreigners
11. Welfare Development Board to frame special strategies for the benefit of the hard-to-reach De-notified, Nomadic and Semi-Nomadic communities will be set up under the Ministry of Social Justice and Empowerment
12. National Artificial Intelligence Portal will be developed
13. Department of Industrial Policy and Promotion will now be renamed as the Department for Promotion of Industries and Internal Trade
14. Vande Bharat Express (Train-18) launch, Operating ratio of railways will be brought down to 95% in 2019-20

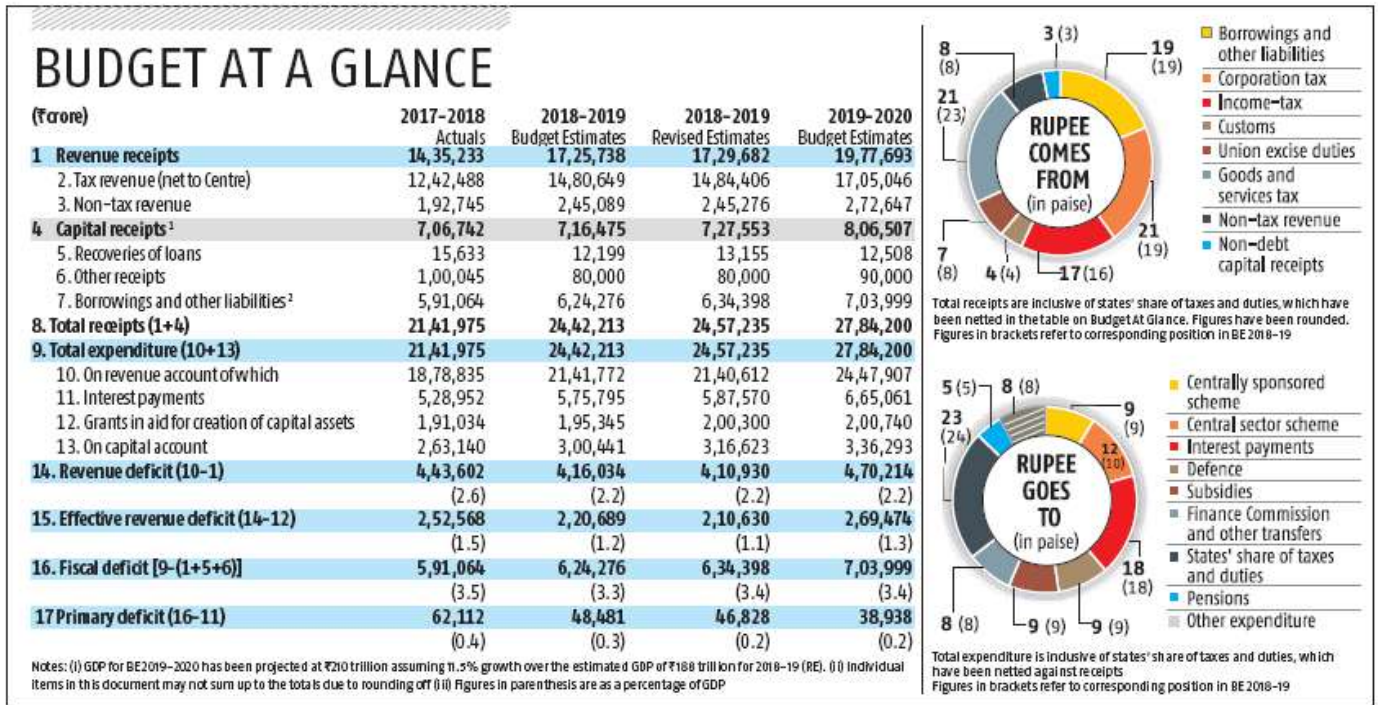
### 10 Dimensions for New India vision 2030 [good for concluding essays]:

India would be a modern, technology driven, high growth, equitable and transparent society

1. To build physical as well as social infrastructure and to provide ease of living
2. To create a Digital India, digitize government processes with leaders from youth
3. Making India pollution free by leading transport revolution with Electric Vehicles and focus on Renewables
4. Expanding rural industrialisation using modern digital technologies to generate massive employment
5. Clean Rivers, safe drinking water to all Indians and efficient use of water through micro-irrigation
6. Coastline and Ocean waters powering India's development and growth
7. Aim at our space programme – Gaganyaan, India becoming the launch-pad of satellites for the World
8. Making India self-sufficient in food, exporting to the world to meet their food needs and organic farming
9. A healthy India via Ayushmaan Bharat with women having equal rights and safety
10. Transforming India into a Minimum Government Maximum Governance nation with proactive bureaucrats

*Short cut: Infrastructure + Digital India + Renewable + Rural Industry + Ganga Mata + Ocean Water + Gaganyaan + Food + Ayushmaan Bharat + Governance*

**Graphical bird eye view** [Observe the trend and try to memorise the round figure for some important Ministries] [Source: Business Standard]



### Fiscal Indicators – Rolling Targets as a Percentage of GDP

		Revised	Budget	(Projections)	
		Estimates	Estimates	2020-21	2021-22
		2018-19	2019-20	2020-21	2021-22
1.	Fiscal Deficit	3.4	3.4	3.0	3.0
2.	Revenue Deficit	2.2	2.2	1.7	1.5
3.	Primary Deficit	0.2	0.2	0.0	0.0
4.	Gross Tax Revenue	11.9	12.1	12.1	12.2
5.	Non-tax Revenue	1.3	1.3	1.3	1.3
6.	Central Government debt	48.9	47.3	45.4	43.4



Sector	2018-19 (in ₹Cr) Revised Estimates	YoY Change	2019-20 (in ₹Cr) Budget Estimates	YoY Change
Pension	1,66,618	14%	1,74,300	5%
Defence	2,85,423	3%	3,05,296	7%
Subsidy	2,99,210	33%	3,34,234	12%
Agriculture and Allied Activities	86,602	65%	1,49,981	73%
Commerce and Industry	28,394	18%	27,660	-3%
Education	83,626	4%	93,848	12%
Energy	46,150	9%	44,101	-4%
Health	55,949	6%	63,538	14%
IT and Telecom	16,282	-4%	21,549	32%
Others	74,905	13%	75,822	1%
Rural Development	1,35,109	0%	1,38,962	3%
Scientific Departments	25,099	13%	26,237	5%
Social Welfare	46,492	24%	49,337	6%
Transport	1,45,399	32%	1,56,187	7%
Urban Development	42,965	7%	48,032	12%

**Few figures/trends to remember [Prelims, Mains knowledge addition]**

1. Trend in subsidy (2019-20 BE): Food (1.8 L crore) >Fertilizer (75 L crore) >Fuel (38K crore) > Interest subsidy > Other Subsidy
2. Trend in Taxation (2019-20 BE): GST > Corporation tax > Income Tax > Union Excise duty > Custom duty
3. Size of budget: 27.8 Lakh Crore (13.30% rise in total expenditure for 2019-20 BE)
4. Note the figure on central government debt (43.5%), fiscal deficit (3.4%), Current account deficit (2.5%) and revenue deficit (2.2%)
5. Share in total tax: (Year on year comparison) GST (-), Income Tax and Corporation Tax (+)
6. FDI received in last 5 years: \$239 Billion
7. Average Inflation in last year: 4.6%
8. Growth of 18% in Direct Tax Collections and increase in tax base by as many as 1.06 crore in 17-18
9. India's Debt to GDP ratio was 46.5% in year 2017-18, Target: 40% (2024-25) as per FRBM

**Sector-Specific Points [Please reflect on each point and critical analyse each of them]****Farmers**

- 12 crore small and marginal farmers to be provided with assured yearly income of Rs. 6000 per annum under PM-KISAN, Outlay of Rs. 75,000 crores for FY 2019-20 with additional Rs. 20,000 crores in RE 2018-19
- Interest subvention of 2% during disaster will now be provided for the entire period of reschedulement of loan

In the last Budget, our Government announced the facility of extension of **Kisan Credit Card scheme (KCC)** to Animal Husbandry and Fisheries farmers. This scheme has been in development by the government to meet short term credit requirements for cultivation of crops. Now, the government has announced a host of benefits under Kisan Credit Scheme. A farmer will be able to achieve interest subvention benefit of 2% for their loans after any sort of disasters. Additionally, a 5% interest subvention will be given to those farmers who repay their loan on time to lenders. All farmers – individuals/Joint cultivator owners Tenant farmers, oral lessees and share croppers etc. SHGs or Joint liability groups including tenant farmers can avail KCC scheme. To ensure provision of easy and concessional credit and to bring all farmers under KCC fold, the Government has decided to initiate a comprehensive drive with a simplified application form.

Recall 2018-19: Operation Green, Re-structured National Bamboo Mission, MSP announcement

**Livestock and Animal rearing**

- Outlay for Rashtriya Gokul mission increased to Rs 750 crore
- Rashtriya Kamdhenu Aayog to be setup for sustainable genetic up-gradation of the Cow resources
- New separate Department of Fisheries for welfare of 1.5 crore fishermen
- 2% interest subvention to Farmers for Animal husbandry and Fisheries activities; additional 3% in case of timely repayment.

Recall 2018-19: Fisheries and Aqua culture Infrastructure Development Fund (FAIDF) and Animal Husbandry Infrastructure Development Fund (AHIDF),

**Labour**

- Pradhan Mantri Shram Yogi Maandhan scheme to ensure fixed monthly pension to 10 crore unorganized sector workers, Rs 3000 per month after 60 years of age
- Rs. 60, 000 crore allocation for MGNREGA in BE 2019-20, Gratuity limit increased for workers

Recall 2018-19: EPF contribution by government (12%), 10 million + trained under Pradhan Mantri Kaushal Vikash Yojana

**Health Sector**

Budget documents released by the government show outlays of Rs. 90,689.86 crore for the Department of Health and Family Welfare, Rs. 3,374.65 crore for the Department of Health Research and Rs. 2,254.76 crore for the Ministry of AYUSH. That is a total of Rs. 96,139.27 crore.

'Ayushman Bharat' - received an allocation of Rs. 6,400 crore, which is an increase of Rs. 4,000 crore. Around 10 lakh people have so far availed of free treatment under Ayushman Bharat.

Government would set up the 22nd All Indian Institute of Medical Sciences (AIIMS) in Haryana. 14 of the 21 AIIMS that are either operational or are being set up

The funding for the National Health Mission (NHM), the expanded form of the flagship programme of NRHM initiated in 2004 to strengthen the public health services, has been dropping consistently over the years. In contrast, in this interim budget, the public funded Ayushman Bharat health insurance scheme (PMJAY) has received a major hike from Rs 2,000 crores to Rs 6,400 crores, even though it only covers selective in-patient care. Outpatient care, which accounts for the bulk of healthcare expenditure that people spend, is completely ignored by the PMJAY. Ayushman Bharat envisages expansion of primary healthcare by upgrading the sub-centres to health and wellness centres (HWC). However, a significant proportion of sub-centres currently are reported to have poor infrastructure, are heavily understaffed and do not have the equipment or the drugs required for their functioning. For a sub-centre to be successfully upgraded to a HWC, it is important to allocate more funds

**Education Sector**

The budget earmarked Rs 93,847.64 crore for the education sector for 2019-20, an increase of over 10 per cent from last budget allocation. While Rs 37,461.01 crore has been allocated for higher education, an amount of Rs 56,386.63 crore has been earmarked for school education. Interestingly, despite the government's repeated claim on its stress on improving higher education, the allocation for Higher Education Financing Agency (HEFA) has been reduced from Rs 2,750 crore last year to Rs 2,100 crore this year. The actual spend by HEFA last year was just Rs 250 crore.

Technology will be the biggest driver in improving the quality of education and proposed to increase the digital intensity in education and move gradually from "black board" to "digital board". Technology will also be used to upgrade the skills of teachers through the recently launched digital portal 'Diksha'.

The government allocated Rs 608.87 crore for research and innovation, a massive increase from previous allocation of Rs 350.23 crore.

Government proposed the launch of a scheme named 'Revitalising Infrastructure and Systems in Education (RISE) by 2022' with a total investment of Rs 1 lakh crore in the next four years to step up investments in research and related infrastructure in premier educational institutions, including health institutions.

**AI in the Budget**

2019 Budget held a lot for AI enthusiasts in India, as it placed a specific emphasis on creating AI solutions to solve societal problems. While the Task Force identified 10 major areas wherein AI can be used to make India a superpower, one of the fields that has already seen a lot of involvement is in

education. The network of Indian Institutes of Technology (IITs) across the country has been on a spree of adopting courses that have subject material to do with the rise of AI and ML. Reportedly, this is to ensure that there is a dependable talent pool for the companies that rely on them for specialised manpower, leading them to create multiple certificate, Bachelor's and Master's courses in the subject.

Government has envisaged a National Programme on Artificial Intelligence, which would be catalyzed by the establishment of the National Centre on Artificial Intelligence as a hub along with Centres of Excellence.

### **Tax proposals**

- Income up to Rs. 5 L exempted from Income Tax: More than Rs. 23K crore tax relief to 3 cr. middle class
- Standard Deduction to be raised to Rs. 50,000 from Rs. 40,000
- TDS threshold to be raised from Rs. 10,000 to Rs. 40,000 on interest earned on bank/post office deposits
- Existing rates of income tax to continue

Recall 2018-19: Indirect Tax (6% of GDP), Direct Tax (6.1 % of GDP), Custom duty changes, LTCG

### **Housing and Real estate sector**

- TDS threshold for deduction of tax on rent to be increased from Rs. 1,80,000 to Rs. 2,40,000
- Benefit of rollover of capital gains increased from investment in one residential house to two residential houses for capital gains up to Rs. 2 crore.
- Tax benefits for affordable housing extended till 31st March, 2020 under Section 80-IBA of Income Tax Act
- Tax exemption period on notional rent, on unsold inventories, extended from one year to two years
- Tax exempted on notional rent on a second self-occupied house

Recall 2018-19: Affordable Housing Fund (AHF) in National Housing Bank, 1 Crore houses in rural areas

### **Fiscal Programme**

- Fiscal deficit pegged at 3.4% of GDP for 2019-20
- Target of 3% of fiscal deficit to be achieved by 2020-21.
- Fiscal deficit brought down to 3.4% in 2018-19 RE from almost 6% seven years ago
- Total expenditure increased (13%), Capex increased, CSS allocation increased, National education mission increased, SC allocation increased (35%), ST allocation increased (28%)

Recall 2018-19: Education (Diksha, Digital boards, Integrated B.Ed. for teachers, RISE, PMRF)

### **Difficult for government to maintain 3.4% fiscal deficit in FY'20: Moody's**

In its interim budget, the government said it had failed to maintain fiscal deficit at 3.3% of GDP and had slipped to 3.4% in the fiscal year ending March 2019. Moody's said the slippage was expected but raised doubts on how the government will maintain its budgeted target for fiscal 2020.

No new policies to increase revenues were announced, while a number of expenditure measures were announced that will increase outlays and put pressure on the government's ability to meet its fiscal deficit target. India's high debt burden remains its biggest credit challenge and is not expected to diminish rapidly. India's low income levels lead to significant development spending needs and constrain the scope of tax base broadening.

**Poor and Backward Classes**

- “First right on the resources of country is that of the poor”: FM
- 25% additional seats in educational institutions to meet the 10% reservation for the poor

**North East**

- Allocation to be increased by 21% to Rs. 58,166 crore in 2019-20 BE over 2018-19 BE
- Arunachal Pradesh came on the air map recently
- Meghalaya, Tripura and Mizoram came on India’s rail map for the first time
- Container cargo movement through improved navigation capacity of the Brahmaputra

**Tribal section**

- A new committee under NITI Aayog to identify all the remaining De-notified nomadic and semi-Nomadic tribes.
- New Welfare development Board under Ministry of social justice and empowerment for development and welfare of De-notified nomadic and semi nomadic tribes

Recall 2018-19: Ekalavya

Model Residential Schools, Local art and skill preservation

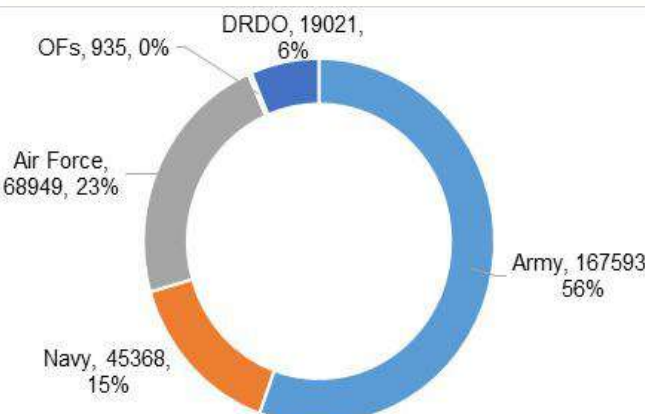
**Defence**

- Defence budget to cross Rs. 3,00,000 crore for the first time ever.

**Make in India – Defence**

Since the launch of the ‘Make in India’ initiative in 2014, the MoD has undertaken a host of initiatives to promote indigenous defence manufacturing. These initiatives pertain to the defence procurement process, industrial licensing, foreign direct investment, exports and innovation. Further capitalising on these initiatives, the MoD, during the past year, has also announced the setting up of two defence industrial corridors - one each in Uttar Pradesh and Tamil Nadu - and promulgated a draft defence production policy that aims at increasing defence production to Rs 1,70,000 crore by 2025. While these initiatives have largely been welcomed by the industry, one crucial initiative that has not taken off pertains to ‘Make’ projects, the procedures of which have been simplified several times in the recent past. Even the paltry sum of Rs 142 crore earmarked for these projects in the 2018-19 budget has largely remained underutilised. Moreover, the allocation under this head in the new budget has been reduced to Rs 95 crore, indicating much less emphasis on these projects which are key to integrating local companies, especially the small and medium ones from the private sector, into defence production.

Out of the total allocation, Rs. 1,08,248 crore has been set aside for capital outlay for the year 2019-2020 to purchase new weapons, aircraft, warships and other military hardware. Under capital outlay, the Army was granted Rs. 29,447 crore, the Navy was given Rs. 23,156 crore and the Indian Air Force got an allocation of Rs. 39,302 crore. The defence ministry said the capital outlay for armed forces is 32.19 per cent of the government’s total capital expenditure.



Recall 2018-19: Two defence industrial production corridors, Industry friendly Defence Production Policy

**Railways**

- Capital support of Rs. 64,587 crore proposed in 2019-20 (BE) from the budget
- Overall capital expenditure programme to be of Rs. 1,58,658 crores
- Operating Ratio expected to improve from 98.4% (17-18 AE) to 96.2% (18-19 RE) and to 95% (19-20 BE)

Recall 2018-19: Suburban network creation, Eastern and Western dedicated Freight Corridors, Bullet Train

**Entertainment Industry**

- Indian filmmakers to get access to Single window clearance as well for ease of shooting films
- Regulatory provisions to rely more on self-declaration
- To introduce anti-camcording provisions in the Cinematograph Act to control piracy

**MSME and Traders**

- 2% interest subvention on an incremental loan of Rs 1 crore for GST registered SMEs
- Atleast 3% of the 25% sourcing for the Government undertakings will be from women owned SMEs
- Renewed Focus on Internal trade; DIPP renamed to Department for Promotion of Industries and Internal trade

Recall 2018-19: National logistics portal, Enhanced Access and Service Excellence (EASE) scheme,

**Digital Villages/Rural Areas**

- The Government to make 1 lakh villages into Digital Villages over next five years

Recall 2018-19: Village Producer Organization, 1 crore households out of poverty by 2019, 100% electrification by 2018, PMGSY, Geo-tagging in MNREGA work

**Technology**

- New National Artificial Intelligence portal to support National Program on Artificial Intelligence

Recall: Fast Tag, non-recognition of crypto currency, Mission on Cyber Physical Systems, 5G technologies

**Other**

Special Industry initiative in J&K: 50 cr. NDRF: 1000 cr. Ministry of Home affairs: Rs. 1 Lakh cr. Hindi Language promotion: 78 cr. Grant-in aid to State/UT: Rs 5000 cr.

IIT/IIM funds reduced, grants to central university hiked by 2%, Rs. 4600 cr. Earmarked for EWS quota

**[Prelims: read about HEFA]**

Note: This is Interim budget therefore, the new announcements, mega schemes and proposed reforms were very limited and selective. Full budget will come once the new government takes over.



## VAJIRAM & RAVI

### Section 4: Critical Analysis

#### Q. Critically analyse the Budget proposals made in the interim budget?

Budget in general: Opposition termed the Budget as political manifesto to woo its voter constituency mainly farmers, middle class and unorganised worker. Some described this as a budget without data points and without survey. It is ridiculed as 'account on votes rather than vote on accounts' and an 'all gain no pain budget'. However, looking at the performance of Sensex and general sentiments of public, one can say budget had many positive messages and succeeded in filling many needs in one deed.

It ushered the paradigm of much-debated Universal basic income and delinked employment with Social security. Read together with 10% EWS quota, it underlines the government theme of "Sabka Sath Sabka Vikas". This way it will empower billions of Indians. Another positive of the budget was its adherence to the path of fiscal discipline. Even though government announced large schemes but fiscal-prudence was maintained. The 0.1% fiscal slippage was attributed to lower than projected returns from GST (1 L crore shortfall) and government support to farmers on the account of low crop prices.

There was criticism over breaking the convention of Interim budgets. Generally, Interim budget refrains from making big announcements and tax proposals. However, for the first time in the history, change in the direct tax were proposed in the interim budget. It was termed as election budget rather than Interim budget. However, in 2014 government had proposed changes in indirect tax. Government justified this move by underlining the fact that there is no right time for the growth and development. The time is now. Moreover, changes in the direct tax are not in the tax slabs. Rather, this is just rebate in the existing slabs. This way, tax net will not shrink.

#### PM-KISAN: [Mains, Interview]

Favour	Against
Covers nearly 85% of farmer families. 12 crore out of 14.7 crore farm families have farm size below 2 Hectare.	Experience from Kalia and Ryuthu Bandhu scheme shows that identification of beneficiary is a big challenge.
Farmer is in the need of support as International farm prices declining and food inflation is low.	The support is meagre. Farmer won't be able to buy Urea or seeds for his land with Rs. 500 per month.
Won't cost much on budget table. It is beginning of reforms in the welfare architecture.	Won't mean much on farmers' plate. It is like feeding a camel with few cumin seeds.
This is just beginning and once the subsidy architecture is replaced with direct cash, this sum will increase.	It won't allow farmer to live with dignity/honour. It may lead to further fragmentation of land.
Best should never become enemy of good	It will promote absentee landlordism.
It will regularize the land pattas. It will incentivize people to regularize land deeds.	It excludes farmer with more than 5 acres in rain-fed areas and landless cultivators or people without land pattas.
Implementation will define the success or failure of the scheme so it is too early to comment on the future.	Getting data from states is not going to be easy and quick.

#### PM Shram Yogi Maandhan: [Mains, Interview]

Favour	Against
Rs. 3000 pension every month after age of 60	The amount allocated to the scheme is very less

years upon nominal monthly contribution	i.e. Rs. 500 crores
It delinks employment with social security.	It may increase the chorus for return of earlier NPS among organized sector.
Hope to cover 10 crore labourer and workers.	The scheme is launched without data and without appropriate research

**Housing:**

Budget focused on the neo middle class. Budget allowed capital gains upto 2 crores to be invested over 2 properties instead of one. It extended tax exemption benefits for developers. This will help developers who are struggling with the unsold inventories. (NCR has nearly 6.7 Lakh unsold flats). However, the sector is awaiting changes in GST on under-construction flats. It is also suffering from liquidity crisis. The IL&FS crisis has spilled over to commercial real-estate and housing as real-estate comprise nearly 40% of total NBFC portfolio. Therefore, government is expected to provide more fillip to the sector in the full budget.

**Few points on the achievements:** Some notable achievement (2014-19) which were mentioned in the budget speech are as following: [Use this in the part of essay where you should eulogize India or penultimate paragraph of Mains answer. Please list all the constitutional articles, SDGs, Government schemes and relevant data points for each sector mentioned below.] **[Source: PIB]**

**[Learning strategy: Rather than reading this section verbatim, take pen and paper and write your own points. Then compare with what is mentioned in the budget.]**

**State of the Economy**

India is now the 6th largest economy in the world from being the 11th largest in 2013-14. Today it is the fastest growing economy in the world. Fiscal deficit down to 3.4% in 2018-19 RE from the high of almost 6% seven years ago. CAD likely to be only 2.5% of GDP this year against a high of 5.6% six years ago. India attracted massive amount of FDI, worth \$239 billion, during the last 5 years.

**Farmers**

- Farmers are assured MSP of minimum 50% to all 22 crops.
- Interest subvention doubled in last 5 years.
- Soil Health card, Neem coated Urea has proved to be a game changer in farm sector.

- Aspirational Districts Programme for development in 115 most backward districts
- 143 crore LED bulbs provided in mission mode with the cooperation of private sector
- Jan Aushadhi Kendras providing medicines at affordable prices to poor and middle class
- 14 out of 21 AIIMS operating presently have been announced since 2014
- Government tripled rural roads" construction under the PMGSY
- 1.53 crore houses built under PM Awas Yojana during the 2014-18

**Labour**

- EPFO membership increased by 2 crores
- minimum income for every category of workers increased by 42% in last 5 years

**Poor and Backward Classes**

- 10% reservation for the poor in educational institutions and government jobs
- Free electricity connection to every household under Saubhagya Yojana
- World's largest healthcare programme, Ayushman Bharat, for nearly 50 crore people

**Women development to women led development**

- 6 crore free LPG gas connections provided under Ujjwala Yojna; All 8 crore by next year
- 70% of MUDRA Loan availed by Women
- Maternity leave extended to 26 weeks

- Financial support for pregnant women under Pradhan Mantri Matru Vandana

**Youth**

- Over one crore youth trained under Pradhan Mantri Kaushal Vikash Yojana
- Self-employment boost through MUDRA, STAND-UP and START-UP India

**Income Tax**

- Tax collections nearly doubled in 5 years- from Rs. 6.38 L cr. in 13-14 to almost Rs. 12 L cr.18-19
- 80% growth in tax base- from 3.79 crore to 6.85 crore in five years
- Tax administration streamlined- Last year, 99.54% of the income-tax returns accepted as were filed
- 24 hours processing and refunds of Tax, Compliance simplified
- Tax rate for about 99% companies reduced to 25%
- Threshold for presumptive taxation of business raised from Rs. 1 cr. to Rs. 2 cr.

**GST**

- GST made India a common market, increased tax base, higher collections and ease of trade
- Inter-state movements now faster, more efficient, and hassle free
- Responsive and sensitive reduction of tax rates - Most items of daily use now in the 0% or 5% tax slab
- Exemptions from GST for small businesses doubled from Rs. 20 lakh to Rs. 40 lakhs
- Small businesses having turnover up to Rs. 1.5 crore pay only 1% flat rate and file one annual return only
- Small service providers with turnover up to Rs. 50 lakhs can opt for composition scheme and pay GST at 6% instead of 18%
- Soon, businesses comprising over 90% of GST payers to be allowed to file quarterly return

**Infrastructure****Civil Aviation – UDAN Scheme**

- Number of Operational Airports crossed 100
- Domestic Passenger traffic doubled in last 5 years

**Roads**

- India is the fastest highway developer in the world, 27 kms of highways built each day, Bogibeel rail-cum-road bridge in Assam and Arunachal Pradesh

**Waterways**

- Flagship programme of Sagarmala along the coastal areas

**MSME and Traders**

- Up-to Rs 1 crore loans can be availed in less than an hour
- 25%-28% is the average savings due to GeM (Government e-Market place)

- For first time, container freight movement started on Kolkata to Varanasi inland waterways

**Railways**

- "Safest year" for railways in its history
- All Unmanned Level Crossings on broad gauge network eliminated.
- Semi high-speed "Vande Bharat Express" introduced - first indigenously developed and manufactured

**Climate Change**

- International Solar Alliance

- Installed solar generation capacity grown over ten times in last five years

### **Digital India Revolution**

- More than 3 lakh Common Service Centres (CSCs) exist to deliver services to the citizens
- Monthly consumption of mobile data increased by over 50 times in the last five years
- Under Make in India, mobile and parts manufacturing companies increased from 2 to more than 268

### **Jan Dhan-Aadhaar-Mobile (JAM) and Direct Benefit Transfer**

- In the last five years, nearly 34 crore Jan Dhan bank accounts opened
- Aadhaar now near universally implemented, DBT implemented successfully.

### **Customs and trading across borders**

- Customs duties on 36 capital goods abolished
- RFID technology to improve logistics

### **Steps against corruption**

- Government walked the talk on corruption and ushered in a new era of transparency: FM
- RERA and Benami Transaction (Prohibition) Act have brought transparency in real estate

- The Fugitive Economic Offenders Act, 2018 to help confiscate economic offenders
- Transparent auction of natural resources such as coal & spectrum

### **Drive against Black money**

- Undisclosed income of about Rs. 1,30,000 crore brought under tax through initiatives like Black money Law, Fugitive Criminal offenders Act, Demonetisation etc.
- Benami assets worth Rs 6,900 crore have been attached

### **Banking Reforms and Insolvency and Bankruptcy Code (IBC)**

- Government adopted 4Rs approach of recognition, resolution, re-capitalization & reforms
- Government has implemented measures to ensure "Clean Banking"
- Government has already recovered Rs. 3 lakh crores in favour of banks and creditors
- Government has invested Rs. 2.6 lakh crore for recapitalization of public sector banks

### **Cleanliness**

- India has achieved 98% rural sanitation coverage, SBM as world largest behavioural change program
- 5.45 Lakh out of 6.29 Lakh villages have been declared "Open Defecation Free"