Drawbacks in Advancing the Budget Date

What is the issue?

- Following a decision taken during the 2016-17 financial year, the budget is presented on the first day of February.
- Advancing the Budget presentation date by a month has some drawbacks which have become evident in the last two years.

Why was the change?

- The decision changed the long-held tradition of presenting the budget on the last day of February.
- Ideally, legislative approvals for all spending should have been undertaken during the month of March, so as to be ready for the new financial year in April.
- But the government machinery responded too slowly to the Budget decisions announced in end-February.
- So there had been complaints from various centres of expenditure in the governments that they tended to be short of disbursements in the first quarter of any financial year.
- It was thus hoped that an earlier Budget date would be able to provide greater certainty earlier in the year and be prepared with the expenditure earlier.

What are the drawbacks?

- With an earlier presentation date, there simply isn't enough data in place for a proper and effective budgeting process.
- E.g. the headline numbers of any Budget - the fiscal deficit for the ongoing year, and the fiscal deficit target for the next financial year.
- Here, the current year's fiscal deficit depends on the data available on spending and revenue over the months so far and expectations for the remaining months.
- But when presented on February 1, less is known about both the expenditure and the revenue.
- This has led to revenue projections in the Revised Estimates being often the same as the Budget Estimates.
- With lack of real revised numbers, it becomes harder to budget accurately

for the new year, taking away the credibility of the fiscal deficit number.

- Another drawback is the gross domestic product (GDP) numbers in the calculation of fiscal deficit.
- The first Revised Estimates for GDP are only known by the end of January and so, the Advance Estimates of GDP, which have been subject to major revisions recently, are used.
- But not using the Revised Estimates would make notable changes to the Budget's predictions regarding the fiscal glide path.
- Given these, it would be advisable to return to the original date on which Budgets were presented (February 28 or 29) and also to improve the speed of disbursements of funds.

Source: Business Standard

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