# High on growth, low on fiscal consolidation

## The stress on capital expenditure is welcome. But job creation will crucially hinge on growth spurt

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Emerging out of the economic impact of Covid-19, the expectations from the Budget were several. One was to achieve a reasonable growth in 2022-23 and the second was to push the economy on the road to higher growth in the subsequent years.

The Budget has many action points that will go to satisfy these goals. The main theme of the Budget is to enhance capital expenditures, particularly in the infrastructure area. That should help the growth process both in the current year and the years thereafter. All this has to be done within a prudent fiscal framework. There is an attempt to reduce the fiscal deficit. But the roadmap for fiscal consolidation is not clear.

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### Growth in 2022-23

Critical to Budget making is an estimate of expected growth rate. The Economic Survey pointed to a growth rate of 8-8.5 per cent in 2022-23. Even though the Survey has indicated some of the assumptions, it is still not clear how this estimate was arrived at. In the second half of 2021-22 when there were no base effects, the real GDP growth rate was only 5.6 per cent. From this to jump to 8-8.5 per cent seems unrealistic. Perhaps, the growth rate may move in the region of 7-7.5 per cent.

For Budget calculations, the key parameter however is nominal growth rate. The Budget has assumed a nominal growth rate of 11.1 per cent, which implies a very low inflation. A more realistic assumption for the Budget would have been a nominal GDP growth rate of 13 per cent.

### Revenue projections

The gross tax revenue is expected to increase in 2022-23 by 9.6 per cent over the Revised Estimates of 2021-22 and by 24.4 per cent over the Budget Estimates. This is against a background of a nominal growth rate of 11.1 per cent. The calculation of buoyancy becomes somewhat tricky with the projection of a low nominal growth rate. The buoyancy is as low as 0.87.

On direct taxes the structure by and large remains the same. The extension of the date of commencement of manufacturing or production by one year under the concessional tax regime is an appropriate one. The indirect tax structure also remains largely unchanged. The resort to increase Customs duties to 'protect' domestic industries is a step in the wrong direction. It gives a bad odour to 'Make in India' slogan. Thus, in substance, the tax structure remains the same. Both dividends and disinvestment receipts are budgeted below revised estimates.

**Growth imperatives** A rise in growth will ensure creation of jobs REUTERS

### Expenditures

The stress in the Budget is on expenditure. Capital expenditures in 2022-23 are expected to increase by 35.39 per cent over the Budget Estimates of 2021-22 and by 24.5 per cent over the Revised Estimates. But the increase in total expenditures is quite modest.

They are 13.25 per cent more over Budget Estimates of the previous year and 4.6 per cent over Revised Estimates. The government could well have budgeted a higher level of total expenditure, if the revenue estimates had been pitched at a higher level. With respect to expenditures, the big question is always how well the projects are executed.

### Other issues

The Budget has also addressed some of the other issues like Digital Currency. The steps taken to introduce a digital currency by the RBI and a levy of 30 per cent on capital gains tax on virtual assets are in the right direction. Details need to be worked out.

The Budget says very little about jobs and employment. I have always taken the view that the best way to promote jobs is by having a higher growth rate. Growth is the real answer. If the Budget and the actions taken by the government and others do result in higher growth of 7-7.5 per cent, most of the bad outcomes of the pandemic in terms of loss of jobs can be taken care. The expenditure programme shows a significant decline in subsidies. In relation to Revised Estimates of 2021-22, the Budget for 2022-23 provides for a decline in fertilizer subsidies by ₹35,000 crore and ₹86,000 crore in food subsidies. Is this desirable and feasible? There is no mention of how this is to be achieved. It may remain only on as an accounting entry.

### Fiscal consolidation

Fiscal deficit for 2021-22 at 6.9 per cent of GDP is a shade higher than the Budget Estimate. For 2022-23, the Budget Estimate is 6.4 per cent of GDP. One understands the compulsion in a difficult situation like the present one. But fiscal prudence has its own advantages. The medium-term goal should not be forgotten. Interest payments are estimated at 42.7 per cent of the revenue receipts of the Centre in 2022-23. This is a big pre-emption.

The debt-GDP ratio in the coming year will touch 60.2 per cent, a far cry from the desired level of 40 per cent. Policy-makers need to revisit the programme of fiscal consolidation.

Thus, the strong point of the Budget is the stress on capital expenditures. However, a bigger push towards fiscal consolidation is needed.

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