Good on the Capex Front, But the Big Question is How Well the Projects are Executed

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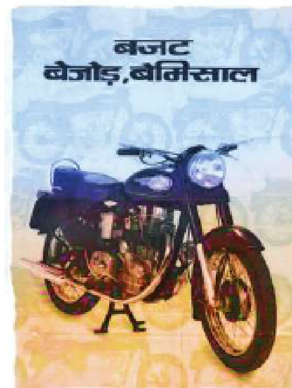
Groundwork laid for faster growth. However, the quantum of growth may have been overestimated, while fiscal consolidation could have been stronger

The expectations from the budget were many. As the economy is emerging out of the impact of two years of Covid, one hoped that it would help to achieve a reasonable rate of growth in 2022-23 and lay the base for much faster growth in the years thereafter. In a broad sense, the budget may help to achieve these objectives. The emphasis has been on increasing capital expenditures, and that is welcome. But how far will it go to stimulate private investment will depend on a number of other factors. The investment climate needs to be nurtured, and that depends on non-economic factors as well. The action on fiscal consolidation by way of reducing the fiscal deficit is in the right direction. It could, however, have been a bit stronger.

On budget-making, one critical parameter is the assumption of the expected growth rate. The Economic Survey indicated a growth rate of 8-8.5% in 2022-23. Given the performance of the economy in 2021-22, and particularly in the second half when there was no base advantage, expectations of 8%-plus growth appear optimistic. It will probably be 7-7.5%.

It is also true that with respect to the budget projection of revenue, the correct magnitude to look at is the nominal growth rate. The budget papers indicate that GoI has assumed a nominal growth rate of 11.1%. This is somewhat puzzling. If the real growth rate is taken to be 8-8.5%, inflation is assumed to be very low. As inflation should hover at 5-6%, the nominal growth rate assumed is conservative. A consequence of the assumption of a low nominal rate of growth is that market borrowing performance will be high in 2022-23, which may need the liquidity support of RBI. That has implications for inflation.

Gross tax revenue is expected to increase in 2022-23 by 9.6% over the revised estimates (RE) of 2021-22, and by 24.4% over budget estimates (BE). This is against a background of a nominal growth rate of 11.1%. The calculation of buoyancy becomes somewhat tricky with the projection of a low nominal growth rate. The buoyancy is as low as 0.87.



The journey is not the destination

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 in customs duties to 'protect' domestic industries is a step in the wrong direction. It gives a bad vibe to the 'Make in India' slogan. Thus, in substance, the tax structure remains the same. Both dividends and disinvestment receipts are budgeted below revised estimates.

The stress in the budget is on expenditure. Capital expenditures in 2022-23 are expected to increase by 35.39% over BE of 2021-22 and by 24.5% over RE. But the increase in total expenditures is quite modest. They are 13.25% more over BE of the previous year and 4.6% over RE. GoI could well have budgeted a higher level of total expenditure, if the RE had been pitched at a higher level. With respect to expenditures, the big question is always how well the projects are executed.

The steps taken to introduce a digital currency by RBI and a levy of 30% on capital gains on virtual assets are in the right direction. Details need to be worked out.

Finally, a word on fiscal consolidation. The fiscal deficit in 2022-23 remains high. The market borrowing programme (government sectors and treasury bills) shows an increase from ₹8.7 lakh crore to ₹11.6 lakh crore. Interest payments are estimated at 42.7% of the revenue receipts of the Centre. The impact on interest rate of a higher level of borrowings also needs to be taken into account.

The debt-to-GDP ratio has touched the level of 60.2%, a far cry from the desired level of 40%. Thus, the programme of fiscal consolidation needs to be revisited. The increase in capital expenditures is a good signal. On the other hand, the signal for fiscal consolidation, although in the right direction, is weak.

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