This Budget features a massive push to capex-led revival of growth, but largely at the cost of welfare spending

You win some, you lose some

SUDIPTO MUNDLE
CHAIRMAN, CENTRE FOR DEVELOPMENT STUDIES

THE FINANCE MINISTER has done a skillful job in balancing capital expenditure-led growth promotion with fiscal consolidation. The Budget was prepared under exceptionally challenging conditions. Globally, great uncertainties prevail with supply disruptions triggered by the Ukraine war and the ongoing monetary tightening in the US and other advanced countries. Many countries are likely to experience recession later this year. India is described as occupying a sweet spot in this grim environment. But the impact of these global headwinds exacerbate challenges. Peeling away the base effect that has yielded high growth, underlying growth remains fragile. The Economic Survey indicates it could go down to 6% in 2023-24. Inflation is still elevated. The current account deficit (CAD) is also well above our comfort level. Finally, this being the last full Budget before the 2024 elections, the political cycle generates its own fiscal pressures. The Budget has navigated carefully through these challenges.

The RBI is responsible for ensuring price stability and inflation is already moderating. Regarding the CAD, the government seems to be relying primarily on exchange rate adjustments to contain the external deficit. Hence, the priority was to secure growth while staying the course on fiscal consolidation. The FY23 fiscal deficit target of 6.4% of GDP has been achieved and the commitment to reduce it to 4.5% by FY26 has been reiterated. However, instead of frontloading the consolidation, a modest target of reducing the deficit by 0.5 percentage points to 5.9% has been set. With buoyant tax revenue growth and compression of revenue expenditure, a strong capex-led public expenditure thrust has been enabled to help revive growth. Interestingly, this required deficit reduction is more than fully accounted for by the reduced food subsidy on account of revised 'PDS only' free food scheme and the reduced fertiliser subsidy.

The Budget has assumed a conservative nominal GDP growth rate of 10.5%. Against that, total tax revenue has been assumed to grow at 12%, with the central government's tax revenue, net of states' share, assumed to grow at 11.7%, implying a buoyancy of a little over 1, in line with trend buoyancy. Direct taxes are assumed to grow at 10.5% and customs duties at 11.1%. Excise duties are assumed to grow at 5.9%. In contrast, GST is assumed to grow at over 12%, reflecting buoyant GST collections averaging ₹14,000-15,000 crore per month.

SHYAM KUMAR PRASAD

Qualitatively, there are significant changes in personal income taxation. Tax slabs have been reduced from seven to five, with the top slab tax rate lowered from 42% to 39%. At the lower end, the rebate has been raised from ₹5 lakh to ₹7 lakh. The exemption limit has been raised to ₹3 lakh with an enhancement of standard deduction. This could be seen as a pre-election sop to the middle class. However, income tax payers are a tiny fraction of voters. These changes are likely for incentivising taxpayers to switch to the new tax regime. For indirect taxes, increases in protective tariffs have been largely eschewed. There are some reductions in duty rates and exemptions, as for lithium batteries, as well as in excise duties. The net tax revenue foregone is a modest ₹35,000 crore.

The dominant feature of the Budget is the massive thrust to capex. The 37% increase to over ₹10 trillion is quite dramatic. As the states over-consolidated their budgets last year at the cost of capex, the incentive provision for states' capex has been extended for another year and enhanced to ₹1.3 trillion, taking the total capex provision to ₹11.3 trillion. Much of the increase will be on the railways, 100 key transport projects, including regional air connectivity, urban area development, and housing. It is quite likely to crowd in greater private investment. This will help stimulate demand, revive growth, and raise employment.

The massive increase in capex has been budgeted within a total expenditure growth of only 7.5%, implying a significant switch from revenue. Revenue expenditure is budgeted to grow by a mere 1.3%. There is not much room for adjustment of committed expenses like interest payments, which will rise by nearly 15%. Hence, the strong compression of revenue expenditure has been largely achieved by reduction of the food and fertiliser subsidy bills by over 31% and 22% respectively. Total rural expenditure, including MGNREGA, will be down by nearly 31%, while the expenditure on agriculture and allied services will be cut by over 24%.

The Budget features a massive push to capex-led revival of growth, but largely at the cost of welfare spending. How this will play out remains to be seen.