

BUDGET SETS SIGHTS ON FUTURE, ACKNOWLEDGES NEED FOR SPEED

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Public Finance, Taxation & Black Money incl. Government Budgeting

Amid lingering global headwinds and economic uncertainty, finance minister Nirmala Sitharaman continued to prioritize growth over fiscal consolidation for the second straight year, sharply expanding capital and infrastructure spending in the Union Budget for the year starting 1 April.

While policy continuity was a thread that ran through the budget, its unique contribution perhaps will be its core vision for the Indian economy to leapfrog into the future, riding on the digital economy, 5G networks, low-carbon rapid mass transit systems, drones and startups, powered by the bounties of clean energy and funded by sovereign green bonds.

The continuation of the supply-side strategy to revive the economy meant the budget did not offer any direct incentives to boost consumption, aiming instead to pump-prime the economy and start the 'virtuous cycle' of investment to "crowd-in private investment", leading to job creation.

The budget also stayed away from offering sops or populist measures despite coming just ahead of key elections.

"This budget continues to provide the impetus for growth. It lays a blueprint for (the next 25 years), which is futuristic and inclusive. ...And (provide) big public investment for modern infrastructure, readying for India at 100," said Sitharaman in her fourth budget address.

Capital spending allocation rose to the highest in 18 years as a percentage of the total expenditure at 19% from 16% in the current fiscal. It was 22.8% in FY05. Capex saw a 24.3% growth in 2022-23 over the revised estimates of the previous year and a 35.4 % growth over the budget estimate for FY22 to 7.5 trillion.

"Capital investment holds the key to speedy and sustained economic revival and consolidation through its multiplier effect... the virtuous cycle of investment requires public investment to crowd-in private investment. Public investment must continue to take the lead and pump-prime the private investment and demand in 2022-23," Sitharaman said.

Stock markets gave a thumbs up, with the BSE Sensex rising 1.46% on Tuesday. Spending on infrastructure, housing, defence and agriculture are expected to have a multiplier effect on the economy. Easier tax compliance measures and capping the long-term capital gains tax on all equity investments at 15%, expected to benefit unlisted companies in India, also buoyed the markets.

The fiscal deficit for 2021-22 was largely contained to the levels estimated, reporting only a minor slippage at 6.9% of the GDP from 6.8% estimated last year. While Sitharaman maintained that the government was committed to the fiscal glide path of 4.5% of GDP by 2025-26, it did not seem to be in a hurry. The budget pegged the FY23 fiscal deficit at 6.4% of GDP.

"While setting the fiscal deficit level in 2022-23, I am conscious of the need to nurture growth, through public investment, to become stronger and sustainable," Sitharaman said.

The focus on domestic manufacturing led to defence stocks rallying up to 5% on Tuesday. Sitharaman, in her budget speech, said 68% of capital for the defence sector would be earmarked for the local industry, up from 58% at present.

The budget also gave a thrust to infrastructure development by providing further additions to the scope of the PM Gati Shakti National Master Plan, which encompasses seamless multimodal connectivity and logistics efficiency. It will also now include the infrastructure developed by the state governments. The touchstone of the Master Plan will be world-class modern infrastructure and logistics synergy among different modes of movement—both of people and goods—and the location of projects. This will help raise productivity and accelerate economic growth and development, Sitharaman said.

Also, the budget proposed that a new PM Gati Shakti Master Plan for Expressways will be formulated in 2022-23 to facilitate faster movement of people and goods. Besides, the National Highways network will be expanded by 25,000km, while 20,000 crore will be mobilized through innovative ways of financing to complement the public resources.

The infra projects will also include the implementation of Multimodal Logistics Parks at four locations through PPP mode, which will be awarded in 2022-23.

The finance minister said that the railways would also develop new products and efficient logistics services for small farmers and small and medium businesses, besides taking the lead in the integration of postal and railways networks to provide seamless solutions for the movement of parcels.

Ending speculation on the treatment of cryptocurrencies in India in the absence of regulation, the budget recognized virtual tokens as an asset class and proposed to tax the transfer of "any virtual digital asset" at 30%, besides a 1% tax deduction at source to capture transaction details.

Sitharaman said that details of the asset class treatment to crypto will form part of the legislation that is still in the works.

The finance minister also announced that the Reserve Bank of India would issue a Central Bank's Digital Currency (CBDC) in 2022-23, which might make India the first major economy to do so.

A large borrowing programme of 14.95 trillion has worried bond traders regarding yields and interest rates. The budget also proposed sovereign Green Bonds 2022-23 to mobilize resources for green infrastructure.

"The proceeds will be deployed in public sector projects which help in reducing the carbon intensity of the economy," Sitharaman said in the speech.

To promote green energy, the budget allocated an additional 19,500 crore towards production-linked incentives for manufacturing solar PV modules in a bid to facilitate the ambitious goal of 280GW of installed solar capacity by 2030.

Besides, data centres and energy storage systems, including dense charging infrastructure and grid-scale battery systems, will be included in the harmonized list of infrastructure.

This will lead to better credit availability for digital infrastructure and clean energy storage.

Recognizing startups as the drivers of economic growth, Sitharaman proposed to extend the tax

concession scheme for startups by another year, which provides tax incentives for three consecutive years out of 10 years from incorporation if set up before 31 March 2023.

Identifying sustainable development and job creation potential of artificial intelligence, geospatial systems and drones, semiconductor and its ecosystem, space economy, genomics and pharmaceuticals, green energy, and clean mobility systems, Sitharaman proposed "supportive policies, light-touch regulations, facilitative actions to build domestic capacities, and promotion of research and development" in these areas.

"For research and development in these sunrise opportunities, in addition to efforts of collaboration among academia, industry and public institutions, government contribution will be provided," Sitharaman said.

The finance minister also announced 5G auctions in FY23 and the inclusion of the design-led initiatives for 5G and other technologies in the production-linked incentive (PLI) scheme.

The budget proposed clean tech and governance solutions, special mobility zones with zero fossil-fuel policy, and electric vehicles to encourage a shift to public transport in urban areas.

The government will also come out with a battery-swapping policy in view of the space constraint in urban areas for setting up charging stations at scale.

Describing the Union budget as progressive and people-friendly, Prime Minister Narendra Modi said that the budget aims to modernize the country through steps such as drones for farmers, Vande Bharat trains, digital currency, 5G services and national digital health ecosystem.

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