Source : www.thehindu.com Date : 2022-02-02

FOCUS ON ACCELERATING GROWTH WITH STABILITY

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

With the country yet again grappling with another wave of the COVID-19 pandemic, there are concerns about faltering growth and increasing unemployment. With international commodity prices, particularly crude oil prices, continuing to rise and with advanced economies draining liquidity and increasing interest rates, there is limited scope for monetary policy and heavy lifting of the economy, for growth acceleration must come from fiscal policy. It is in this context that the focus fell on the Budget to address the task of accelerating growth and creating new employment opportunities and the task of fiscal consolidation became secondary.

The Budget for 2022-23 presented by the Union Finance Minister does not disappoint on this count. At 2.9% of GDP, the budgeted capital expenditure for 2022-23 is higher than the revised estimate for the previous year by 24.5% even as the overall growth of expenditure is just 4.6%. An increase of almost 1 lakh crore is for assisting the States to catalyse the development of infrastructure by giving them interest-free loans over and above the regular loans to be given according to Fiscal Responsibility and Budget Managementlimits. Most of this is for developing multi-modal transportation networks. In addition, about 60,000 crore has been budgeted for providing tap water for 3.8 crore households and another 48,000 crore for affordable housing. In addition to reviving the economy, many of these projects are employment-intensive and will help in reducing unemployment.

The increase in capital expenditure is to be accomplished even as the fiscal deficit is budgeted to be reduced from 6.9% in the current year to 6.4% in 2022-23. Of course, this is higher than the limit of 5.5% recommended by the 15th Finance Commission under a slow recovery scenario, but the Finance Minister in her Budget speech stated that the rate of consolidation will be faster in the coming years to reach a level below 4.5% by 2025-26. In fact, revenue deficit and primary deficit numbers are also budgeted to decline in the next year.

How realistic are these estimates? On the revenue side, the estimates look conservative. Total revenue receipts are estimated to increase by just 6% over the revised estimate and this is partly due to the high base figures as the revised estimate for 2021-22 is higher than the Budget estimate by 16.4%. On non-tax revenues, a sharp decline of 14% is budgeted mainly due to lower estimates of dividends from public sector enterprises and the Reserve Bank of India. On disinvestment proceeds, as against the budgeted 1.75 lakh crore in 2021-22, the revised estimate is placed at 78,000 crore and for the next year, it is budgeted at 65,000 crore. The critical question is whether the government will be able to contain the revenue expenditure growth next year at the budgeted level of less than 1%. In particular, the total subsidy bill for 2022-23 is budgeted lower by 1.15 lakh crore from the revised estimate of 2021-22 which includes a lower food subsidy of about 79,638 crore and fertilizer subsidy of 34,900 crore.

On tax proposals, the most notable measure is the decision to levy tax on transactions in virtual digital assets in the hands of the recipient with 1% deducted at the source. Equally important measures are extension of tax incentives for start-ups by one year and extension of the commencement date for concessional tax for new entities by one year up to March 31, 2024, due to the delay in completion of the projects caused by the pandemic. On the personal income tax front, although there was a clamour for increasing the exemption limit, deductible allowances and rate brackets, the Finance Minister decided to maintain the status quo. Perhaps, in the interest of simplification, she should have rationalised the tax system by getting rid of the options of rate structure with and without incentives introduced last year and keeping only the one without the incentives with a lower rate and reducing the number of rate brackets to four including the exemption limit. There is a proposal to levy surcharge on long-terms capital gains uniformly at 15% for all types of capital assets. The Budget has also introduced a number of measures to reduce compliance burden, encourage voluntary compliance, reduce litigation, and improve the ease of doing business.

However, an important concern is the increasing protectionist trend and continued differentiation in import duties. Minute rate differences and taxing inputs at lower rates increase the effective rate of protection, adversely impact competitiveness and give rise to special interest groups lobbying for higher import duties. While the Production-Linked Incentive seems to be helping some of the newer industries and is helpful in increasing exports, it is necessary to erect a competitive wall rather than relying on scaffolding through incentives.

On the expenditure side, besides a significant increase proposed on capital expenditures, the PIL schemes for 14 sectors are expected to improve the competitiveness of Micro, Small and Medium Enterprises (MSMEs), help in increasing exports and create 60 lakh new jobs. Hopefully, the excessive protection and reservation given to MSMEs will not prevent them from becoming bigger and more competitive to take advantage of the scale economy. There are proposals to spend 2.37 lakh crore direct payment of MSP value to farmers' accounts as well as 1,400 crore in 2022-23 on the Ken-Betwa river-linking project, create 100 new cargo terminals in the next three years, and during the year, build 25,000 km of highways.

By and large, the Budget is in the desired direction in the given circumstances. However, it must be noted that despite the hype regarding the Union Budget, almost 60% of the actual spending is at the State level. Besides, the impact of the Budget on the economy will depend on the efficiency with which the various proposals are implemented. Let us hope we will break the jinx of poor implementation.

M. Govinda Rao, former Director, NIPFP, and Member, Fourteenth Finance Commission, is now the Chief Economic Adviser, Brickwork Ratings. Views are personal

END