

Decoding Indian Union Budget: Relinquishing Short-term Gains for Long-term Vision



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The Indian government announced its Union Budget for the fiscal year 2022-23 amidst the Omicron wave in the country. The budget was eagerly awaited to provide impetus to the economy amid the slowdown caused due to the pandemic, rising unemployment, increasing commodity prices in the global market and rising interest rates. Many experts suggested a fiscal stimulus through cash transfers to boost up economic activity. However, rather than focussing on the short-term goals, FM Nirmala Sitharaman presented the government’s vision for the next twenty-five years, referring to it as the ‘Amrit Kaal’ in the country’s leadup to completing 100 years of independence.

The budget envisages a vision for macro-economic level growth with a micro-economic level all-inclusive welfare focus. At a macro level, the government policies have been consistent with an aim to not only trigger economic activity but to sustain at a higher growth level. The major focus areas have been the development of infrastructure to improve connectivity, strengthening the MSME sectors, supporting businesses with the constant aim to improve the ‘Ease of doing Business’, starting an entrepreneurial wave, urban development, supply side reforms and the expansion of industries to capture emerging technology and global markets. On the micro level, the thrust has been to improve the ‘Ease of Living’ and empower the citizens, especially the poor and the marginalised. Along with taking measures to provide housing, electricity, cooking gas, and access to water to all, the government has focussed on ensuring financial inclusion, providing direct benefit transfers to the needy and reforms to simplify the processes that affect a common citizen-like applications for documents, etc.

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Given the need for a fiscal stimulus to revive the economy, the government has increased the total budget outlay from Rs. 34.83 lakh crore last year to Rs. 39.45 lakh crore for FY2022-23. The major hike has been in the allocation for capital expenditure that rose by 35.4 percent to Rs. 7.5 lakh crore as compared to last year and has increased to more than 2.2 times the expenditure of 2019-20. The scheme for financial assistance to states for capital expenditure has also been increased from Rs. 10,000 crores announced last year to Rs. 1 lakh crore for 2022-23. On the revenue side, the total receipts other than the borrowings are estimated to be Rs. 22.84 lakh crore. The tax revenue is buoyant and thus expenditure can be increased focusing on growth. The government plans to raise the difference amount through market borrowings including Green bonds and government-backed funds like NIIIF and SIDBI. The fiscal deficit of the government has been high for the last couple of years owing to the Covid-19 pandemic. However, the government is following the path of fiscal consolidation with an aim to reach a fiscal deficit level below 4.5 percent by 2025-26. The fiscal deficit is estimated at 6.9 percent of GDP for 2021-22 and 6.4 percent of GDP for 2022-23.

Infrastructure Development

The government led by PM Modi has stressed heavily on infrastructure and urban development for the past few years. The emphasis has been stronger since the pandemic hit the world. The government has provided fiscal stimulus in the form of increased Capex to be used for infrastructure development. The investment in roadways, railways, airports and ports has seen a tremendous increase. Other infrastructure projects include logistics parks, ropeways, mass urban transport, capacity building, agricultural development, etc. Infrastructure not only creates assets and improves connectivity but also creates jobs, improves supply chains, removes logistical challenges, decreases costs of transportation and production, etc. The capital expenditure will help in reviving the economy by crowding in the private investment that has slowed down in the last few years. On the other hand, the development process creates jobs in the short run and the infrastructure creates jobs in the long run. The creation of jobs will lead to a sustainable increase in demand in the economy. Efficient supply chain and transportation management will help in providing cheaper raw materials to firms and final products to the market. The improved access to the domestic markets and connectivity with global markets through road, air and waterways will increase the market size for the Indian industries. The increased demand will in turn incentivise increasing production which helps the industry to operate at an efficient and optimal production level.

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Urban development has been a key agenda in the budget for this year. With the constant rise in the urban population, there is a need to provide basic infrastructure facilities to support urban growth. Along with improving the megacities, tier 2 and tier 3 cities will be the focus of development. The financing of the development remains a challenge. The government will include the private sector in the development process and make use of bond markets and innovative ways of financing. National Bank of Financing Infrastructure and Development has also commenced its activities. Overall, infrastructure development has delivered results in the past. The implementation of the projects will be the major player in the success of this strategy. The infrastructure development along with its forward and backward linkages will boost the economy with a higher multiplier effect.

MSMEs

The MSME sector was badly hit during the pandemic. The government has taken various steps for strengthening the sector and to reduce the impact of Covid-19. Among all the measures, Production Linked Incentive (PLI) scheme has received the maximum attention. The scheme is currently applicable in 14 major sectors including electronics, pharmaceuticals, automobiles, textiles, etc. Along with saving the jobs during the pandemic, this scheme has a potential to create 60 lakh new jobs and increase production worth Rs. 30 lakh crores in the next five years. The credit schemes (ECLGS and CGTMSE) started amid the pandemic have helped the MSMEs in surviving the pandemic. The easy availability of credit has helped the firms to increase productivity and expand employment opportunities. The government also plans to roll out a Raising and Accelerating MSME Performance (RAMP) programme with an outlay of Rs. 6,000 crores over 5 years. This will help the MSME sector become more resilient, competitive and efficient and strengthen them to fight in the global markets. Consistent efforts have been made to bring in supply side reforms to remove supply bottlenecks and enhance production. Increased demand in the economy will require a matching supply to maintain equilibrium in the markets. The supply chains and production were badly hit during the lockdowns. An economic revival without healing the supply side will destabilize the markets leading to inflation, as observed in many countries. The increased demand will have to be covered

with imports that will further hamper the economy. Thus, timely efforts on the supply side have helped the economy keep inflation in control and the increased productivity has helped increase exports.

Entrepreneurship and Youth

Startup India has been the flagship program of the government with a vision to transform the youth to be a job-creator rather than job-seeker. With the continuous policy support from the government, the total number of startups and unicorns registered in the country has increased drastically. In this budget, startups have been encouraged by providing them support in sectors like Defence R&D, agricultural and rural enterprise, ‘Drone Shakti’ scheme, etc. The tax incentives provided to the startups in the initial years after incorporation have also been extended considering the impact of the pandemic. Easy availability of funds through venture capitalists and private equity has been a major reason behind the success of unicorns. The FM has also announced the setting up of a task force for the animation, visual effects, gaming and coming (AVFC) sector. This sector will offer huge potential to provide employment and entrepreneurial opportunities to the youth. Skill development for the youth has been a major focus area for the government in the last few years. Investing in youth and starting an entrepreneurial wave in the country will prepare the youth and the country to compete and become a leader in the global markets.

Preparing for Tomorrow

Artificial Intelligence, Geospatial Systems and Drones, Semiconductors, Space Economy, Genomics, Pharmaceuticals, Green Energy, lean Mobility Systems, etc are a few sectors that have the potential to assist sustainable development and modernize the country. The government, referring to these sectors as the sunrise opportunities, has announced supportive policies and regulations and facilitative actions to build domestic capacities and promotion of research and development in these sectors. For Eg, the use of Drones will be promoted for crop assessment, digitalization of land records, spraying of insecticides, etc. Apart from modernizing the country, these sectors will play a dominant role in the transformation of the world for tomorrow. Capacity building and preparing the firms and youth for these sectors will ensure that India is at the forefront of this transformation. Along with these, export promotion has been the key agenda for the government. To supplement the benefits from better infrastructure and connectivity, Special Economic Zones Act will be replaced with a new legislation to empower and partner in the process and enhance the competitiveness of exports. Along with this, a common citizen of the world has been connected with the world and has acquired many skills with the help of internet. To further strengthen the digital world, 5G mobile services will be rolled out in 2022-23. The government has initiated steps to connect all rural and remote areas by laying optical fibres by 2025 through the Bharatnet project.

Conclusion

Overall, this is a balanced budget with a vision for future, ambition in attitude and prudence in practice. The continuation of policies in the consecutive budgets removes policy uncertainty and wins the confidence of the investors. The private and foreign investment will flow in the economy with consistent efforts on the policy front and help boost the economy. The government policies make it clear that they are a catalyst and not a provider. The growth for the current year is estimated to be 9.2 percent. According to various forecasts, including IMF, India is expected to grow at the fastest speed among all major economies. The growth in the economy ultimately trickles down and helps the middle class and those at the bottom of the pyramid. The steps taken in the budget will not only provide an impetus to boost demand but will also help in sustaining the demand at a higher level. The measures to strengthen the industry will help India in becoming the manufacturing hub for the world. Investing in the future industries, youth and taking measures for export promotion will help India become a global leader in the future.

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