4. A Budget that signals growth with stability

Prelims Syllabus: Economy

Mains Syllabus: GS-III Economics - Issues relating growth and development, employment

Why in News?

- Union Finance Minister Nirmala Sitharaman presented the Union Budget 2023-24 in Parliament on February 01.

Highlights:

- The Economic Survey 2022-23 has laid emphasis on India's remarkable broad-based recovery to reach the level of income that existed before the outbreak of the coronavirus pandemic.
- The pandemic was followed by the Russia-Ukraine conflict and the accompanying sanctions that have been imposed by the West on Russia, the slowdown and the recession in major economies and the rise in inflation leading to sharp increases in interest rates, followed by capital outflow and the pressure on the exchange rate.
- Even though the economy has staged a recovery and surpassed the pre-pandemic income level, it is still 7% below the pre-pandemic GDP trend.
- This budget is termed as the "first Budget in Amrit Kaal" by the Union Finance Minister.
- With an eye on 'India at 100', the Budget proposals were aimed at actualising a technology-driven and knowledge-based economy with strong public finances, and a robust financial sector.

Growth and Fiscal Deficit Dilemma:

- The fiscal deficit ratio is to come down from 6.4% in FY23 to 5.9% in FY24, to achieve the fiscal deficit target of 4.5% of GDP by 2025-26. The fiscal deficit target assumes that the economy is on a relatively strong footing, with another year of healthy tax collections.
- However, a third of the global economy is expected to slip into recession in the calendar year 2023, as per the International Monetary Fund which may affect manufacturing and other related sectors and impact revenue collections.
- The fiscal deficit of ₹17.8 lakh crore is to be financed using short-term borrowings and the National Social Security Fund.
- Given the tight liquidity condition of the banking system, this will not exert pressure on the flow of funds.
- Inflation is beyond the upper tolerance limit and aggregate fiscal deficit (Centre and States) is in the range of 9% to 10% of GDP.
- Therefore, ensuring macroeconomic stability requires continued fiscal consolidation.
- Thus the government is faced with the dilemma of accelerating growth by increasing public investment while containing the fiscal deficit.
- With interest payments accounting for 40% of the net revenues of the Centre, there is hardly any room for complacency.
- Despite a significant increase in food and fertiliser subsidies of Rs. 2 lakh crore, the government has managed to keep its goal of the fiscal deficit in the current fiscal to a maximum of 6.4% of GDP mainly due to the increase in the nominal value of GDP and also the increase in tax collections.

A balancing act:

- Union Budget 2023-24 made a greater allocation to infrastructure spending, and the capital expenditure is budgeted to increase from 2.7% of GDP to 3.3% and considering that capital expenditure has a significant 'crowding in' effect, it should help to increase private capital expenditures as well.
- This comes after the 25% increase in capital expenditures in the last budget.
- This is also supplemented by the ₹79,000 crore on affordable housing on the revenue expenditure side.
- But the constraint is demand, as reflected in capacity utilisation, which is still around 75%. Hence, capex needs to percolate down to higher disposable incomes and increase demand.

- The Reserve Bank of India has estimated the multiplier effect of capital expenditure at 1.2 which should help revive the sluggish investment climate.
- With deleveraged balance sheets and an increase in commercial lending by banks, the investment climate is expected to further improve and arrest the declining trend in the overall investment-GDP ratio in the country.
- In addition, the continued provision of an interest-free loan to States to supplement their capital expenditures should contribute to an increase in capital spending by States.
- Expenditure on the social sector does not register a quantum jump, though there is an increase in absolute terms with some new initiatives towards skilling in both education and health.

Compression in subsidies:

- Target to achieve fiscal adjustment by mainly containing revenue expenditure will improve the quality of public spending.
- The budgeted increase in revenue expenditures for 2023-24 is just 1.2% higher than the revised estimate for the current year as there is a significant compression in subsidies.
- The fertiliser subsidy is expected to be reduced by ₹90,000 crore from ₹2.87 lakh crore to ₹1.87 lakh crore.
- The fertiliser subsidy is expected to be compressed by ₹50,000 mainly as fertiliser prices have come down.
- In addition, allocation to centrally sponsored schemes is expected to decrease by about ₹20,000 crore, and the overall current transfer to States is kept constant at 3.3%-3.4% of GDP.
- The Budget has provided direct tax sops for individuals and MSMEs which may not translate into higher consumption as it is an indexation of the lower tax brackets with inflation, which has been high in the recent past.