Budget 2022 | Government strikes a fine balance between growth and fiscal consolidation

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The Union Budget for 2022-23 (FY23) announced on February 1 is clearly prepared within tough fiscal constraints. The backdrop for the Budget is defined by a steeply elevated public debt hovering near 90 percent for the general government (i.e., central and states together) and a significant shortfall of the order of 55.4 percent in the expected privatisation receipts during FY22.

Moreover, additional spending on subsidies over the budgeted estimates — especially food (up 18 percent) and fertiliser (up 76.2 percent) subsidies — has gone up significantly during FY22 on account of elevated commodity prices and shortages. Allocation for MGNREGA scheme too had to be increased by 34.2 percent during FY22 from the budgeted Rs 730 billion to Rs 900 billion due to the accelerating demand for jobs in rural areas.

While preparing the Budget for FY23, the government had to strike a fine balance between the growth push and fiscal consolidation. While deciding on the spending priorities during FY23, the government has given preference to spending on the railways, road transport & highways, and telecommunication sectors, but has either moderated or curtailed its spending on defence, housing & urban affairs, food & fertiliser subsidies, and MGNREGA.

With this, the government expects to reduce its fiscal deficit to GDP from 6.9 percent in FY22 to 6.4 percent in FY23. The underlying macroeconomic framework shows that the government has assumed India's nominal GDP growth at 11.1 percent despite surging inflation. This means the government is expecting a much lower real GDP growth in FY23 than the Economic Survey's prediction at 8-8.5 percent. With a relatively lower real GDP growth expectation in FY23, it is not very clear as to how the growth targets for corporate & personal income tax receipts (13 percent-plus, y-o-y) and GST receipts (15.6 percent, y-o-y) will actually be achieved

On the positive side, the Union government's focus on public capex, creation of additional fiscal space for the state governments, roadmap for GatiShakti (for infrastructure connectivity projects), focus on digital currency, and green initiatives are the steps in the right direction from a medium-term perspective. By accepting 'Clean Energy & Climate Actions' as the major priorities and deciding to float 'Green Bonds' to fund green infrastructure projects, it will gradually improve the ESG (Environmental, Social & Governance) funding avenues for the private sector players.

The government's commitment to encourage domestic production of oilseeds, and to reduce imports of defence equipment (by earmarking 68 percent of defence capex to domestic companies) are long-term positive for rupee, as India's import dependence on these items is very high.

By imposing an additional excise duty of Rs 2 per litre on unblended fuel from October onwards, the government has encouraged higher usage of blended oil, which will help it achieve the aim of 20 percent ethanol blending with petrol by 2025, provided it is supported by necessary distribution infrastructure in a timely fashion. The Budget has proposed introduction of digital currency by the RBI using blockchain during FY23. This move will give a big boost to the digital economy and create a more efficient and cheaper currency management system. While not much has been directly done for agriculture and rural belts, the Emergency Credit Line Guarantee Scheme (ECLGS) that provided much-needed additional credit support to the MSMEs has been extended till March 2023.

While the government has pegged fiscal deficit at 6.4 percent for the year FY23, it has announced a significantly large market borrowing (Net Market Borrowings at Rs 11.19 trillion) to finance its budgetary spending plan. This has created a knee-jerk reaction in the government securities market, and now the RBI will have to manage its spillover effects amid rising inflationary pressures.

As the Moody's rating agency has rightly commented, the success of Budget for FY23 largely depends on how it manages to revive growth through infrastructure spending. Actually, people were expecting more direct cash enhancement measures for the agriculture and rural belts, as growing joblessness and weak demand in rural belts is acting as a major drag on India's economic recovery in the current phase.

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