

# A takeaway is the good infrastructure push

On the other side, the programme of fiscal consolidation does need further strengthening



C. RANGARAJAN &  
D.K. SRIVASTAVA

The clear emphasis in the Union Budget on expanding capital expenditure is a welcome directional change, particularly since 45.2% of fiscal deficit is being devoted to finance capital expenditure. This should help accelerate growth not only in the current year but also in the years to follow. However, the programme of fiscal consolidation needs further strengthening. As of now, it remains vague. A relook at the projected income growth for 2022-23 and its impact on revenue projections become necessary.

## Perspectives on growth

The Centre's 2022-23 Budget provides a nominal GDP growth estimate of 11.1% for 2022-23. The Economic Survey, on the other hand, had provided a real GDP growth range of 8%-8.5% for this year. Taking the lower end of the real GDP growth estimate of 8%, an implicit price deflator (IPD)-based inflation of 2.9% will deliver nominal growth of 11.1%. The real GDP growth of 8% may, however, be considered somewhat optimistic since 2022-23 would be the first normal post-pandemic year where any significant base effects may not be available. In fact, at the end of 2021-22, real GDP in terms of

magnitude at ₹147.5 lakh-crore is estimated to only marginally exceed the corresponding level at ₹145.1 lakh-crore in 2019-20 using the NSO data released on January 31, 2022. In fact, in the second half of 2021-22, when there were no base effects, real GDP growth was only 5.6% using the latest available quarterly data. A real GDP growth of 7%-7.5% in 2022-23 appears to be more realistic. However, this may not undo the Budget's nominal growth assumption of 11.1%. In fact, the IPD-based inflation may continue to be relatively high in 2022-23 since wholesale price index inflation rate is likely to remain high at least in the first half of 2022-23 as these are driven largely by the high prices of global crude and primary products. A more realistic assumption of IPD-based inflation of 5% and real GDP growth of 7.5% would have given a nominal GDP growth of nearly 13%.

## Revenues and expenditures

According to 2021-22 (RE), the Centre's gross and net tax revenues are estimated to grow at 24.1% and 23.8%, respectively. This indicates achieving a buoyancy of 1.4 in each case. In 2022-23 (BE) however, the buoyancy has been brought down to 0.9. Again, given the expanded digitisation and formalisation of the economy and the tax assesses, the Centre's tax buoyancy may turn out to be higher than 0.9. If the under-assessment in both tax buoyancy and nominal GDP growth assumption are marginally corrected to



GETTY IMAGES/ISTOCKPHOTO

say 1.1 and 13%, respectively, the Centre's gross tax revenues would have grown more realistically by 14.3%. This would have created fiscal space for either raising expenditure growth or accelerating the reduction in fiscal deficit. In fact, in 2022-23, total expenditure is budgeted to grow by only 4.6% in which revenue and capital expenditures are budgeted to grow by 0.9% and 24.5%, respectively. This spells a welcome structural change in government expenditure in favour of capital expenditures. To the extent that these capital expenditures pertain to non-defence expenditures particularly in expanding construction and other infrastructure sectors, these would be associated with relatively high output and employment multipliers.

While the structural shift towards infrastructure expansion is quite welcome, it would have provided greater transparency had a medium-term assessment of the National Infrastructure Pipeline (NIP) been undertaken in the Budget indicating the sectors of deficit investment as compared to

the original targets. The Budget provides for incentivising the States to expand their capital expenditures by permitting them a fiscal deficit limit of 4% of GDP; here, 0.5% points is marked for expanding power infrastructure. In addition, ₹1 lakh-crore has been allocated to States for capital expenditure in 2022-23 as 50-year interest-free loans, over and above the normal borrowings allowed to them.

On the side of revenue expenditures, there is a reduction in budgeted total subsidies to 1.2% of GDP in 2022-23 from 1.9% in 2021-22 (RE). This is also a welcome structural change provided the food, fertilizer and petroleum subsidy numbers are not revised upwards during the course of the year due to the pressure emanating from high global crude prices. The burden of interest payments as a percentage of GDP has gone up from 3.5% in 2021-22 to 3.6% in 2022-23. In fact, interest payments may also come under pressure because of the Government's increased gross and net borrowings from the market associated with high debt-GDP levels.

## Debt and fiscal balance

According to estimates given in the Economic Survey for 2021-22, the general government debt relative to GDP is close to 90% at the end of 2021-22 and 2022-23. In the Medium-Term Fiscal Policy cum Fiscal Policy Strategy Statement attached to the Union Budget, the Centre's debt at the end of these two years is estimated to be 59.9%

and 60.2%, respectively. Thus, in spite of the fiscal deficit to GDP ratio going down from 6.9% to 6.4%, the debt-GDP ratio is still slated to increase in 2022-23. This may be marginally adjusted downwards if the nominal GDP growth increases above what is assumed in the Budget. Such high debt-GDP levels pre-empt a substantive part of the Government's revenue budget. In fact, interest payments to revenue receipts ratio in 2021-22 and 2022-23 are 39.1% and 42.7%, respectively.

The reduction in fiscal deficit relative to GDP by a margin of 0.5% points between these two years is a welcome directional change. The Medium-Term Fiscal Policy Statement indicates reaching a level of 4.5% by 2025-26. This implies an average rate of reduction of 0.63% points per year in the next three years. It would have been best for the Medium-Term Fiscal Policy Statement to clearly spell out the fiscal deficit adjustment path over the course of the next three to five years. In fact, given the Government's high debt-GDP levels, the Centre's Fiscal Responsibility and Budget Management (FRBM) Act requires it to be re-examined to recast the sustainable levels of debt and fiscal deficit and the adjustment path.

C. Rangarajan is former Chairman, Prime Minister's Economic Advisory Council and former Governor, Reserve Bank of India. D.K. Srivastava is Chief Policy Advisor, EY India, and former Director, Madras School of Economics. The views expressed are personal