BUDGET | ETPrime

FM has got a fix on the fisc. But that’s only one side of the coin.

By Nilanjan Banik Feb 05, 2024, 06:33:26 AM IST

Nirmala Sitharaman, finance minister, India; portrait by Manali Ghosh

Synopsis

There are several positives in this year's Budget. Walking on the path of fiscal consolidation is one of them. Additional outlay towards building physical infrastructure is another. But there are several not-so-good parts as well.

This year's **Union Budget** was a vote of account, which is a provision in the **budget**ary process that allows the government to obtain the approval of Parliament for essential expenditures for a limited period before the full Budget is presented. With **Nitish Kumar** joining the National Democratic Alliance (NDA) led by **Narendra Modi** will return to power. It seems that finance minister **Nirmala Sitharaman** also believes that, and therefore this vote-of-account budget was more 'rational' and not that 'popular' from the standpoint of economics. Let me explain further.

The good part

The FM started her Budget speech with the narrative that **India** is in a 'sweet spot' and laid the road map for how the country can become a USD7 trillion economy (in nominal term) by 2030. Considering the broad macro numbers, India is the only large economy in the world with a real GDP growth of over **7%** for the third consecutive year, starting 2021. The unemployment rate is **below the long-term average of 8%, the work-age population (that is, those who are employed) is growing**, and India's middle-class population is growing fast. According to **ICE 360 degree survey**, the Indian middle class will grow from 14% in 2004-05 to as much as 46% in 2030 and 63% in 2047. That showcases the huge potential and the size of the Indian economy, which is expected to become the **third largest in the world**, surpassing Japan and Germany, by 2030.

The fact that the economy is growing can be further complemented by the fact that in fiscal 2023, India has a record of direct tax collection (corporate and income tax taken together). As of December 2023, net direct tax collection stood at INR13.7 lakh crore, representing an increase of 20.6%.

Alongside tax collections, a healthy dividend from the Reserve Bank of India and central public sector enterprises helped the FM reach the fiscal deficit target of 5.8%. Achieving the fiscal deficit target will make it easier for Indian securities to rake in dollars to the tune of USD23 billion while getting listed in JP Morgan's Government Index Emerging Markets Fund in June 2024. Although the government is not divesting, in hindsight the stock market is booming, with the value of public sector enterprises (PSEs) quadrupling in the last four years. Therefore, reaching a fiscal deficit target of below 4.5% by 2025-2026 seems achievable when the government goes for strategic selling of PSEs in future.

Another good announcement that the FM made was the increased allocation towards capital expenditure. Sitharaman raised capital expenditure by 11.1% to INR11.11 lakh crore. Although she did not explicitly mention job creation, this additional outlay of funds towards building physical infrastructure such as roads, ports, airports, and railways may generate employment opportunities for semi-skilled laborers. Besides, one more additional unit of physical infrastructure is going to reduce the cost of doing business for the corporation and may encourage a more uniform regional growth. It will also create demand for products such as cement and steel which are required to build infrastructure.

Another positive side of the interim Budget is an increase in funding for tourism. "The success of organising G20 meetings in 60 places presented the diversity of India to a global audience. Our economic strength has made the country an attractive destination for business and conference tourism," Sitharaman said in her Budget speech. The National Sample Survey Report titled, "**Domestic Tourism in India**," suggests that the multiplier impact of religious tourism is highest next only to business travel. Every year, INR4.74 lakh crore is spent on account of religious tourism, contributing 2.35% to GDP. Temple tourism generates 100 million employment every year with a compound annualised growth rate of 19%. An individual expenditure of INR2,010 per day per head is made on account of social visits, in comparison with INR2,400 for education and INR2,717 for religious tourism.

The not-so-good part

There was no mention of reducing the income tax for the middle class in the Budget. Unlike capital expenditure, which is expected to impact consumption via income generation, a more direct impact on consumption would have happened through a reduction in tax rates or an increase in targeted subsidies in the social sectors. The most important component in aggregate demand function is consumption expenditure, explaining 60% of the national income.

With a **per-capita income of USD2,612** India still ranks lowly — 143 out of 195 economies around the world. Although the **poverty headcount ratio is falling**, India is still the poorest country among the G20 and BRICS group of nations. A large population coupled with a lower per-capita average income may have other ramifications in the form of unequal income distribution. As per **World Inequality Report 2022**, the top 10% and 1% of the Indian population hold 57% and 22% of the total national income, respectively, whereas the share for the bottom 50% of the population has gone down to 13%. Although Indians are getting jobs, the quality of employment matters. According to **Periodic Labour Force Annual Survey Report**, one out of four graduates actively looking for jobs is unemployed.

Again, as a large share of India's population (almost 40%) still depends upon the agriculture sector, more incentive should have been given to this sector. Unfortunately, in the interim Budget, the lowest allocation of funds was made for the agriculture sector. In recent times, agriculture has suffered because of volatile climate conditions such as El Nino. Fund allocation meant for the Pradhanmantri Fasal Bima Yojana scheme, building more cold storage and food processing units, and building additional irrigation facilities were not increased. The only respite was the FM announcing the application of nano Di-ammonium phosphate to be expanded in all agro-climatic zones. This may improve crop yields.

Likewise, there was nothing for the small and medium enterprises (SMEs). It is worth noting that for the bottom 20% of the income earning population, with a higher marginal propensity to consume, much depends upon the survival of the SME sector. These groups of people also spend most of their income on purchasing goods and services provided by the SME sector. However, the FM didn't make any new announcements on credit access, or changes in GST for the SME sector. The FM also did not allocate increased additional funds to social sectors such as health, sanitation, and nutrition. She, however, talked about empowering women financially by augmenting the scope for bank SHG loans under the 'Lakhpati Didi' scheme.

In short, the interim Budget was forward looking without much to relish for the *aam aadmi* in the short run.

(*The author is professor, Mahindra University. Views expressed are personal.*)