

Clear goals, hazy roadmaps

Budget has done well to emphasise fiscal consolidation, highlight critical areas for growth. Its impact depends upon how effectively projects are implemented



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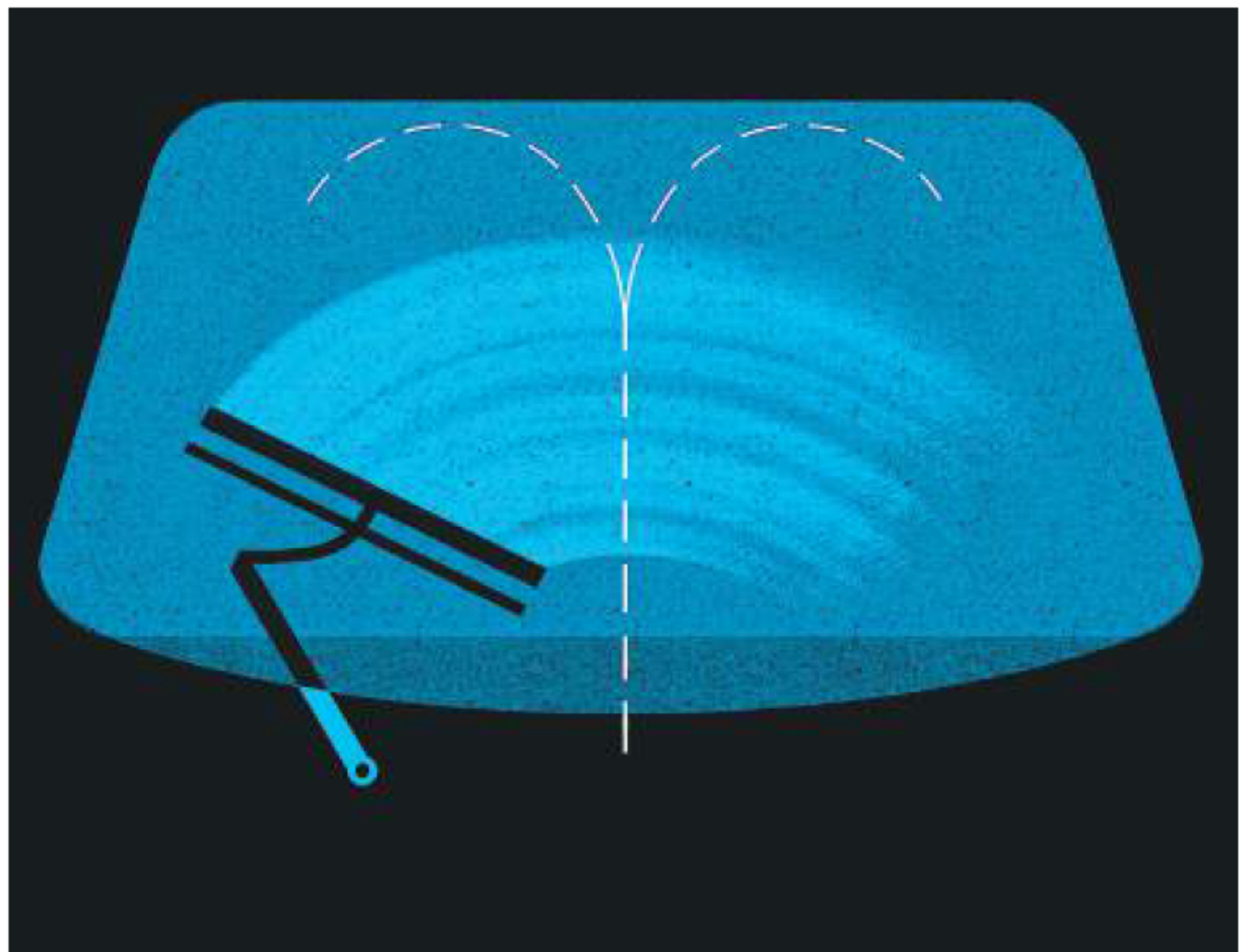
THE BUDGET HAS set out in detail its objectives and the action plans to achieve them. While the broad objectives are clear, the roadmaps to achieve the objectives, as spelt out in the Finance Minister's speech, are hazy. The impact of the Budget depends upon how effectively the projects are implemented. This is particularly so when its emphasis is on expenditures.

How much does the final Budget differ from the Interim Budget in terms of revenues and expenditures? There are only marginal differences on the expenditure side. On the revenue side, however, RBI's increased dividends made a relatively larger impact. As far as the government's gross and net tax revenues are concerned, there are only limited changes. Assuming a gross tax buoyancy of 1.03 and a nominal GDP growth of 10.5 per cent, the Budget has estimated a gross tax revenue of Rs 38.4 lakh crore. The underlying real GDP growth, stated in the Economic Survey in the range of 6.5 to 7 per cent, appears to be realistic given the previous year's high real GDP growth of 8.2 per cent.

As compared to the Interim Budget, the provision of tax devolution to the states has been increased by Rs 27,428 crore. The Gol's net tax revenues stand at Rs 25.83 lakh crore. Together with estimated non-tax revenues of Rs 5.46 lakh crore, total net revenue receipts amount to Rs 31.29 lakh crore. With a small provision for non-debt capital receipts and a fiscal deficit of Rs 16.13 lakh crore, the government's total expenditure is budgeted at Rs 48.20 lakh crore, involving an expenditure additionality of Rs 54,744 crore. All of this was allocated for increasing revenue expenditures as compared to the interim budget. The overall expenditure has been divided in the ratio of 77:23 between revenue and capital expenditures. This arithmetic means that revenue expenditure growth increased marginally from 4.6 per cent in the Interim Budget to 6.2 per cent in the final Budget over the provisional actuals of 2023-24.

Total additional non-debt receipts as compared to the Interim Budget amounted to Rs 1.27 lakh crore. This was facilitated by a sharp increase in the transfers from the RBI. Out of the additional revenue receipts, about Rs 72,000 crore was used for reducing fiscal deficit which has now been brought down to 4.9 per cent of GDP as compared to 5.1 per cent targeted in the interim budget. The process of fiscal consolidation must continue, and the goal should be to get to 3 per cent of GDP as early as possible. This is important given the decline in household savings in financial assets as a proportion of GDP. In 2022-23, household financial savings were estimated at 5.3 per cent of GDP, a historical low. If private investment has to pick up, there must be a reduction in the drawing of financial savings by the government. There must be a larger space for the private sector to draw on savings.

A number of revenue side measures have also been announced which appear to be in-



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terim in nature. The budget speech mentions setting up a comprehensive review of the Income Tax Act 1961, which is to be completed in six months. On the direct tax side, one major change relates to rationalisation and rate increases with respect to the capital gains tax. There is some debate regarding the rationale of discontinuation of indexing in the context of real estate assets. The proposed regime discriminates against older properties and the matter may be best re-examined in the upcoming review. Other measures appear to be in the right direction. In the case of personal income tax, we should move towards only one model namely the "new" model. It is not desirable to continue with two alternatives for too long. The removal of the angel tax is also a welcome step as it will facilitate a smoother flow of venture capital into startups.

As shown earlier, in the case of expenditures there is only a marginal increase in revenue expenditures as compared to the Interim Budget and there is no change in the budgeted amount of capital expenditures which remains at Rs 11.11 lakh crore. In fact, the non-defence capital outlay has been reduced by nearly Rs 21,000 crore which has been added to loans and advances. There is a provision for lending an interest free loan to the states to the tune of Rs 1.5 lakh crore. This scheme has been continuing since the Covid year of 2020-21. Available data shows that the offtake from this provision meant for capital spending has been quite limited and the full amount has not been utilised in any year by the states. It is also shown that some of the less developed states such as Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh have shown a higher percentage of utilisation.

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Most of the expenditure schemes announced in the budget appear to pertain relatively more to future years. There is a need to quantify the success of similar schemes announced in the past. In the case of employment, a new initiative under the title 'Employment Linked Incentives' has now been introduced with three components. There is some doubt as to whether these proposed schemes will lead to an increase in relatively desirable employment which is formal, stable and long-term in nature. Most of these schemes may only add to some temporary employment for a few years.

atively more to future years. There is a need to quantify the success of similar schemes announced in the past. For example, self-sufficiency in oilseeds has been talked about for a long time. However, an assessment of progress made so far has not been shared. In the case of employment, a new initiative under the title "Employment Linked Incentives" has now been introduced with three components. There is some doubt as to whether these proposed schemes will lead to an increase in relatively desirable employment which is formal, stable and long-term in nature. Most of these schemes may only add to some temporary employment for a few years. However, if in this limited period, potential workers are imparted the necessary training and experience, their absorption in the formal non-farm sectors of the economy would improve. The basic problem is the employment elasticity of growth in the non-farm sectors. Here, the link of output growth with the choice of technology is critically important. New technologies like AI and Gen AI will make the situation more difficult. If the absorption of people for a unit of output is going down, higher employment will need higher growth.

All in all, the Budget has done well to highlight the critical areas for facilitating growth. It has done well to emphasise fiscal consolidation. But there is still some distance to travel. Performance budgeting is critical to ensure actual expenditures match the planned expenditures.

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