Going beyond the GDP

FISCAL PRESSURES. Phasing out the revenue deficit is detrimental for economic growth recovery at this juncture

LEKHA S CHAKRABORTY / BALAMURALY B

BUDGET MATH. RBI's monetary policy alone cannot tackle inflation as some fiscal measures are needed tooAP

The Union Budget was presented against the backdrop of geopolitical risks and macroeconomic uncertainties of mounting global inflation. The fiscal arithmetic however is grounded on the path towards fiscal consolidation, pegging a fiscal deficit to 5.9 per cent in FY 23 and to 4.5 per cent by FY 25. Relatively high fiscal deficit is substantiated with high capex and human development-related public spending including food security measures to poor . This emphasis on "Beyond GDP" paradigm in Budget is indeed welcome.

The capital investment outlay is increased by 33 per cent to ₹10-lakh crore in Union Budget 2023, at 3.3 per cent of GDP. Given the assumption that real GDP will grow at 7 per cent in FY 2022-23, we have to wait and see whether India will be able to "grow out" of high deficits and debt. "Growing out" of debt can happen if real rate of interest (r) (cost of borrowings) remain sustainably lower than the growth (g) of the economy, encapsulates in r<g axiom.

Now comes the question, where is the money coming from? If the fiscal glide path is through tax buoyancy path rather than public expenditure compression, the fiscal consolidation can be less painful. Recognition for keeping fiscal policy "accommodative" for growth recovery is emphasised in the Budget.

However the efficacy of "fiscal rules" at the State level — by adhering to numeric threshold ratios of fiscal deficit to GDP at 3.5 per cent — needs a recalibration in the times of macroeconomic uncertainties. This is because the extra-borrowing powers for the State (0.5 per cent) is linked to power sector reforms, and there are wide inter-State differentials in the attainments of financial and operational parameters of power sector efficiency. Moreover, the volatility in the intergovernmental fiscal transfers is also affecting the State level fiscal space.

DEFICIT PRESSURES

The revenue deficit GDP ratio is 2.9 per cent in 2023-24 BE, as against 4.1 per cent in 2022-23 RE. However, the "golden rule" of Fiscal Responsibility and Budget Management (FRBM) — to phase out the revenue deficit — is detrimental for economic growth recovery at this juncture.

Making revenue deficit to zero therefore is not feasible, as further compression in revenue expenditure can affect economic recovery.

The revenue deficit to fiscal deficit ratio is 48.68 per cent in 2023-24 BE, which is less than this ratio at 59.61 per cent in 2022-23 BE. This ratio was further up at 79.72 per cent in 2021-22 Actuals.

The discretionary fiscal space available for designing public expenditure is crucial. Discretionary fiscal space can be captured through deducting the debt servicing liability of the present government. The primary deficit, which is difference between fiscal deficit and interest payments, provides the current fiscal policy stance devoid of past interest payments liabilities, which is pegged at 2.3 per cent in 2023-24 BE.

> **The Budget has not announced any social security measures to** support the poor from the inflation pain

The primary deficit to GDP has reduced from 3.3 per cent in 2021-22 (actuals) to 2.8 per cent in 2022-23 (RE). It is interesting to recall the dissent note by Arvind Subramanian in the FRBM Committee Report arguing to use primary deficit instead of fiscal deficit as the operational parameter of the government as it highlights the current discretionary fiscal stance. However, this Budget has not given any clues relate to a new FRBM Act.

To finance the fiscal deficit in 2023-24, the net market borrowings from dated securities are estimated at ₹11.8- lakh crore.

In addition to this, fiscal deficit is also financed from small savings and other sources. The gross market borrowings are estimated at ₹15.4-lakh crore this FY (Budget Speech, 2023, page 28). We have not found a consistent figure on market borrowings in the Budget documents. This is puzzling.

INFLATION PAIN

Now, what is not there in the Budget? Inflation hurts poor. Given the supply side elements of inflation, RBI alone cannot control inflation within the new monetary policy framework of inflation targeting. The "earlier than expected" hikes in interest rates alone could not arrest the inflation in a sustainable manner. However, the Budget has not announced significant social security measures to support poor from the mounting inflation.

The tax side policies per se cannot tackle economic inequalities. The rebate limit in the new tax regime has been increased to ₹7 lakh.

The tax structure in the new personal tax regime has been changed by reducing number of slabs to five and increasing the tax exemption limit to ₹3 lakh.

Though this will provide major relief to all tax payers in the new regime, we need to know that tax payers constitute only an insignificant segment of Indian population, approximately around 4 per cent.

There is no further announcements relate to climate bonds announced last year.

However there is a conspicuous absence of climate responsive budgeting Statement in the Budget The Budget is equally silent on the regulatory frameworks of crypto assets, where a 30 per cent was announced last year.

Chakraborty is Professor at NIPFP and Member, Board of Management of International Institute of Public Finance, Munich; and Balamuraly B is researcher at NIPFP