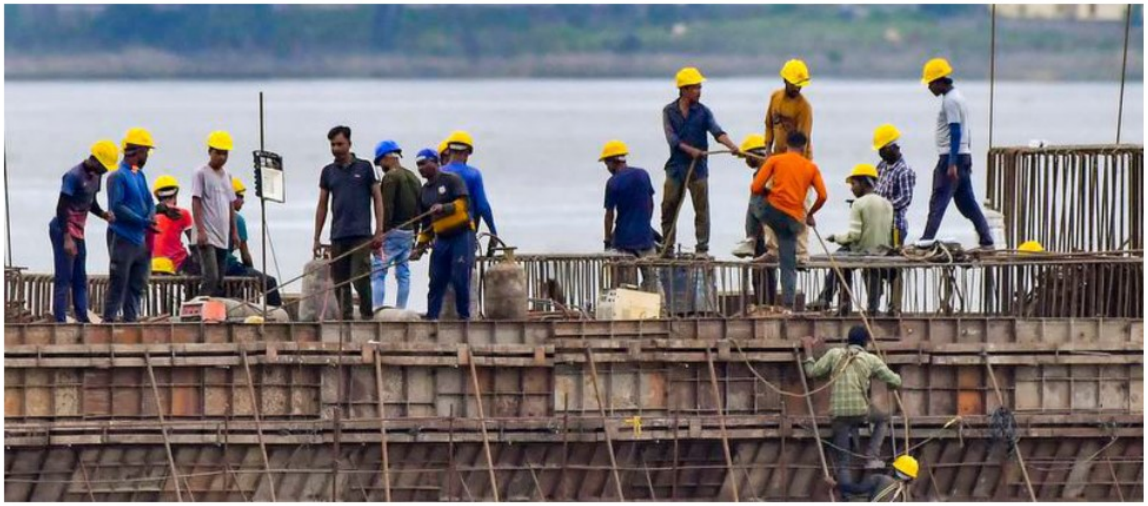
Budget buckles down on jobs

MOVING AHEAD. Focus on capex, jobs and fiscal consolidation is welcome. States have been urged to do the heavy lifting

LEKHA CHAKRABORTY



BUDGET AGENDA. Capital expenditure, skilling and employment generation have been given priority PTI

Finance Minister Nirmala Sitharaman's record seventh consecutive Budget prioritises commitments to a robust economic growth recovery process, focusing on employment, human development, and energy transition.

As RBI is focusing on inflation management by keeping interest rates high at 6.5 per cent, the Finance Minister realised the need to keep the fiscal policy accommodative for sustainable economic growth.

THE FISCAL ARITHMETIC:
The Budget's growth recovery process is visualised by a capex of ₹11.11-lakh crore, aligning with the fiscal consolidation path. The fiscal deficit-to-GDP ratio is set at 4.9 per cent for this financial year, down from 5.1 per cent in the Interim Budget, and is expected to decrease to below 4.5 per cent in the next financial year.

However, if the government insists on bringing fiscal deficit for the Centre and States down to 3 per cent of GDP in the near future, given the risks and uncertainties from "polycrisis", the strict fiscal rule can turn out be a fiscal waterboarding.

The poly crisis includes global debt crisis, energy crisis, war, geopolitical uncertainties, mounting global inflation, supply chain disruptions, and climate change crisis. If the path to fiscal consolidation is through revenue buoyancy rather than public expenditure cuts, the quality of fiscal consolidation will not suffer.

In FY25, the size of the government (total public expenditure to GDP ratio) is 14.77 per cent. There is an increase in the public expenditure from ₹44-lakh crore to ₹48-lakh crore.

The revenue deficit for FY 24-25 is pegged at 1.8 per cent, which is lower than 2.6 per cent in 2023-24. This provides an indication that increased tax buoyancy has helped in reducing the revenue deficit. The RBI dividend also helps in an enhanced fiscal space.

The continued focus on capex agenda, along with focus on employment generation, skilling and energy transition policies are pitched to revive the economy and to provide a roadmap for 'Viksit Bharat' by 2047.

'RANDOM WALK'
As the government has not deviated from the fiscal consolidation path, there is no significant volatility in the financial markets.

There is some transitory shocks in Sensex and Nifty due to the Budget increase in capital gains tax on short-term gains on certain financial assets to 20 per cent from 15 per cent.

The long-term capital gains on all financial and non-financial assets has been increased to 12.5 per cent from 10 per cent. The Sensex fell up to 1,278 points, however it is a 'random walk', in the sense it is a transitory "event- led" shock and the market will gain confidence soon.

Thanks to the Modi government's coalition compulsions, the political economy of the Union Budget 2024 is crucial. The Finance Minister has emphasised on the State-level priorities in a significant manner in the Union Budget 2024. Continued capex support of long interest free loans to all the States was announced. In addition, Andhra Pradesh and Bihar received significant financial support.

> **One way to address the needs of Bihar and Andhra Pradesh is by increasing tax transfers by the** 16th Finance Commission from 41 per cent to 50 per cent

We need to read these announcements against the backdrop of demand for 'Special Category States' by AP and Bihar. A plausible way to address the concerns of these two States could be an increase in the magnitude of tax transfers by the 16th Finance Commission from 41 per cent to appropriately 50 per cent (given the shrinking size of divisible pool emanating from the increased design of cess and surcharges).

Otherwise, there is possibility for more States claiming Special Category Status based on their decreased fiscal space and climate change related devastations.

What makes this year's Budget different is that for the first time ever public finances and expenditure needs of States were addressed.

A new package to increase the Total Factor Productivity was announced as Next-Generation reforms, with the instruction to the States to do the heavy lifting through "competitive federalism" framework.

Within the competitive federalism framework, the States are incentivised for reforms in public digital infrastructure.

States were urged to reduce the Stamp duty on property and also increase the public digital infrastructure in property taxation. The third-tier was given importance in the Budget through allocations related to jobs in cities and making cities as growth hubs.

GOVT, AS EMPLOYER
The government's role as the 'employer of last resort' for a significant portion of India's population, the tone of the Union Budget is well taken and much-needed policy priority. The design of Direct Benefit Transfers to youngsters — first time employees — through Provident Fund is welcome.

The added emphasis on the needed data creation on employment at regular intervals is crucial as we do not have authentic statistics yet on employment.

To conclude, the fiscal space is judiciously utilised to enhance the job creation along with economic growth recovery process with equity. However, rethinking of fiscal rules (conspicuously absent in the Budget) is crucial to avoid fiscal waterboarding at Centre and States in future, given the poly crisis and downward risks from global headwinds.

The writer is Professor at National Institute of Public Finance and Policy (NIPFP), and Governing Board Member of International Institute of Public Finance, Munich