Dr. Syama Prasad Mookerjee
Research Foundation

A Bold Budget to Ensure Growth in the Face of Global Uncertainties

Pratim Ranjan Bose

Former President Pranab Mukherjee, who had been India's finance minister as well, once famously described the Budget as a "political document". The Narendra Modi government converted it into a business document.

No big bang announcements, no populist measures ahead of Uttar Pradesh election– the Union Budget 2022 came as a statement of policy continuity, which is reassuring to business. The record 35% rise in capital expenditure is set to create growth multipliers.

Policy consistency

The policies are well known. The government is focused to create long term growth momentum. A complete overhaul of the physical and digital infrastructure will improve the core competence of the economy as an investment destination. Continued attention on social sectors will make this growth sustainable, equitable and transformational.

Typical to this government, they set priorities and go all-out to implement them to the last detail. The first term of the Modi government saw the successful implementation of the Swachh Bharat Mission to make India open defecation free. Ayushman Bharat created a viable framework for affordable quality healthcare.

Jan Dhan Yojana ensured financial inclusion which in turn improved the efficiency of social support programmes. Unprecedented growth in fintech through Digital India initiative; creation of UPI payment platform; widened market space like never before.

Sustained focus on rural electrification, universal access to cooking gas and a huge focus on housing for the rural and urban poor changed lives, created low-skill jobs. The benefits of these initiatives became apparent during the pandemic when life and economic activities in rural India remained relatively less affected.

In the second term (that coincided with the pandemic), the government is taking the affordable housing agenda forward with renewed vigour.

Rs 48,000 crore is provided to build 80 lakh houses under PM Awas Yojana (PMAY) for rural and urban poor in 2022-23. The economy will gain in terms of demand for cement, steel etc. and job creation.

Health is wealth

On August 15, 2019 - when the Modi government launched Jal Jeevan Mission (JJM) - less than 17% of India's 19.27 crore rural households had access to piped drinking water. JJM promised to provide individual tap water connections to every rural household by 2024.

As of January 2022, nearly half (46%) of the rural households enjoy piped drinking water supply. Finance Minister Nirmala Sitharaman provided Rs 60,000 crore to bring another 3.8 crore (19.7%) households under the scheme in 2022-23.

To cut the long story short, two-thirds (66%) of 90 crore rural Indians will have access to safe drinking water, by March 2023. The gains will come through better health, higher work-participation rate, better labour productivity, higher earnings. Not to mention there will be less public expenditure on healthcare in the long term.

The biggest reform initiative in healthcare is mentioned in just one paragraph in the Budget speech. The government will build an open platform, for the National Digital Health Ecosystem. It will consist of digital registries of health providers and health facilities, unique health identity, consent framework, and universal access to health facilities.

While the details are yet to be out. One can easily guess the impact. Currently, transparency and customer confidence are low in the private healthcare sector, which is at the forefront in offering critical tertiary healthcare. Low transparency is arresting the growth of the health insurance sector. The net sufferers are common citizens.

The digital ecosystem should bring both public and private healthcare under a common platform, address data poverty, ensure better regulation on healthcare providers, set the stage for transparent insurance coverage.

It can be a game-changer. A dramatic increase in quality and coverage of health insurance and better customer satisfaction is foretold.

Bold decision

The Budget was prepared with many uncertainties in mind. First and foremost, the existing GST compensation window to States will close in June 2022. Opposition States are demanding extension of the window.

It is guessed that the Centre may extend the window but on condition that States should allow the inclusion of petroleum products and electricity in GST. States may agree as the upside potential of revenue from liquid auto-fuel is limited in the face of the electric-vehicle revolution. Petrol sales in particular should feel

the heat within a year or two.

Either way, the Centre is faced with revenue risk and the issue is not touched upon in Budget speech for understandable reasons.

The second big uncertainty lies with volatility in energy prices due to geopolitical developments and the global supply chain bottleneck (that had already pushed sea-freight through the roof). A slight change in global dynamics and India runs the risk of inflation or need for government subsidy.

Last but not the least, Covid pushed many countries to high borrowing mood, ignoring fiscal prudence. The same Greece that had once pushed the EU to the brink of a financial collapse, now have a debt-GDP ratio of 206%. Of other PIGS countries Italy 154%, Spain 120% and Portugal 130%. The USA is 133%.

Though India is comfortable at 90% debt to GDP, the global financial system is at risk. A small breach in Europe can trigger another global financial crisis.

Standing in the face of such uncertainties, the government came out with an expansionary budget. A bit risky in conservative terms but it's a signature approach of the Modi government that dares to take the risk for bigger gains to the nation.

India has already created an example by not following the developed world prescription of cash handouts during the Pandemic and instead used the money in building infrastructure. The formula resulted in world-beating growth and the government stuck to it.

Implementation of transport, transit and digital infrastructure is the central theme of this budget. PM Gati Shakti will ensure that every rupee should generate maximum economic benefit.

The Rs 1,00,000 crore fifty-year interest-free loan window opened to States (over and above the existing borrowing windows) to undertake capital investment under PM Gati Shakti, can be a game-changer. It will encourage states to build allied infrastructure which will improve utilization and efficiency of the core projects undertaken by the national government.

Boost to business

India witnessed a massive infrastructure boost during the tenure of the Modi government. The National Highway network was doubled in seven years. UDAN-Regional Connectivity scheme triggered unprecedented growth in air connectivity. The under-construction national gas grid should take industrial activity to the hinterlands.

But the government is not stopping there. It is focused on ensuring the success of the Make-in-India campaign. The production-linked incentive (PLI) scheme and domestic procurement in defence are two major planks in this direction.

The Union Budget 2022, extended the last date for availing

concessional (15%) tax benefit, for the newly incorporated domestic manufacturing companies. Clearly, the prospective investors in the PLI scheme will benefit from this extension.

The finance minister made her intentions clear by announcing additional Rs 19,500 crore allocation under the PLI scheme for manufacturing high-efficiency solar modules. At the same time, 68% of the capital procurement budget in defence is earmarked for the domestic industry in 2022-23, up from 58 per cent in 2021-22.

The Make-in-India campaign was subjected to widespread contempt. However, if everything goes according to plan the critics will be forced to swallow their words, sooner than later. Many capital goods which are now imported will soon be made in India.

Growth paradigm

India witnessed high growth during the 2004-09 period but the UPA government of the day didn't do enough to make it sustainable.

Between 2010 and 2014, the outward FDI from India was higher than the inflow. It means even Indians were not comfortable investing in India. The trend was reversed from 2015. But it took time till 2020-21 to build the momentum.

The FDI inflow in India is now at a record high. Kumar Mangalam Birla, chairman of the $50 billion Aditya Birla Group, recently predicted that the Indian corporate sector would go for a capital investment rush in the coming decade.

Simply put, India is on a growth cycle. Unless the world economy throws some fresh challenges, the coming growth cycle may last longer than the 2004-09 period.

One definite side-effect of this growth is the rise in employment opportunities. India is already witnessing a fast increase in net job creation in the organized sector. The IT sector is witnessing a serious crunch in the availability of manpower. And, that's the concern of the future.

Disruptive technologies and Covid is changing the business dynamics at a very fast pace. To give one example, the EV sector is on the verge of unprecedented growth at the cost of the traditional auto sector. That spells doom for many allied sectors linked to petrol or diesel-run vehicles.

Add to that the fast pace of automation, increasing adoption of technologies like artificial intelligence, and the growth is expected to create more skilled jobs than the semi-or low-skilled ones. Moreover, unlike in the past, the skill demand scenario will be highly volatile.

It is to be seen how India negotiates these challenges.

(The writer is a well known veteran journalist, public policy expert and commentator. The views expressed are the authors own.)