Union Budget: Issues, Concerns, and the Roadmap Ahead

Lecture at Aligarh Muslim University (AMU)

February 25, 2023

Speaker: Dr. Manoranjan Sharma, Chief Economist, Infomerics Ratings

This Lecture brought out continuity and change in the overarching times, where disequilibrium became the new equilibrium in the new normal. The worst is clearly behind us post the COVID-19 pandemic & India is on a high growth path. However, heightened geopolitical dynamics in the wake of the Russia-Ukraine war, the high fuel prices, high logistics & interest costs, volatile capital flows & exchange rate volatility & scramble for safe haven & the attendant correction in asset prices cause concern.

Domestically, there are concerns about high inflation, unsustainably high fiscal deficit, high unemployment rate, and recession risk across countries. India has, however, emerged as a "bright spot" in the global economy and is expected to remain a growth outperformer in the medium term with an average GDP growth of 6.6 % between fiscals 2024 & 2026, versus 3.1 % globally. India would grow briskly because of macroeconomic stability despite the monetary tightening, which could reduce stock prices, weaker currencies & higher bond yields enhancing the government's borrowing costs. There is, however, a sectoral skew in India's growth with earnings growth led by BFSI (banking, financial services, and insurance), automobiles, and telecom & high growth on a low base.

The budget focused on 7 priorities of inclusive development, reaching the last mile, agriculture and investment, unleashing potential, green growth, youth power, and the financial sector. Thanks to robust revenue collections, the government contained the fiscal deficit at 6.4 % this year, and there could be a reduction to 5.9 % in FY 25 and 4.5 % by FY 26. The fiscal deficit, which reached 9.5% of GDP in FY 21 has narrowed since but exceeds the medium-term goal of 4.5% of GDP by FY 26.

This year, the government is targeting an 11.4% growth in net tax revenue to 23.3 trillion rupees. Expenditure is rising 7.4% last year ago to ₹ 45 trillion, with longer-term capital spending budgeted to rise 33% to 10 trillion rupees. India is estimated to borrow ₹15.45 lakh crore via bonds in FY24, with net borrowings at ₹11.8 trillion, with the balance financing expected to come from small savings and other sources.

The ratio of capex-to-GDP, which rose to 2.7% in FY 23, is estimated at 3.3% in the new financial year. The Lecture also discussed the disinvestment/sale of government shares in public undertakings, measures relating to MSMEs, the agricultural sector, banking, taxation, and the energy sector. In the ultimate analysis, India's economy needs a sharper focus on all four engines of growth — domestic consumption, government expenditure, private investment & exports for sustained growth over the long haul. The Lecture evoked an overwhelming response from faculty members across disciplines, other invited guests & students.