Covid Should be a Constant Factor in Budget 2022-23 Analysis

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COVID-19
 pandemic is casting its shadow on the Union Budget (UB) for the third year in a row. Those awaiting goodies should keep this constraint in mind before either cheering or criticising UB for 2022-23, which is scheduled for presentation on 1st February.

The Budget has been prepared amidst entrenched, extreme uncertainty. This is a period where we are all clueless about the next, dominant variant of Covid. No body knows when, whether, where it would originate to disrupt economies, global supply chains and daily life of countless human beings.

We only wish it does not emerge to disrupt economy and daily life. There is no reason why mass vaccination, herd immunity and covid apt behaviour can turn the pandemic into endemic in 2022.

The latter assumption would not upset budget numbers. This does not mean the Government would not initiate radical means to raise resources and revise expenditure, if the pandemic dynamics wreaks havoc.

It is here pertinent to cite credit rating agency ICRA's '***Expectations Union Budget 2022-23***
'. It has made its own projections of the revenue, expenditure and fiscal deficit under the base-case and adverse-scenarios. ICRA document says:
"Given the uncertain environment, ICRA highlights two scenarios for the fisc - a base case (impact of current Covid wave limited to Q4 FY2022 and no fresh Covid wave in FY2023) and an adverse case (moderate Covid wave in FY2023)".

It would be sagacious on Government's part to keep in view worst-case scenario in which geo-political tensions flare up into a regional war and get coupled with 4th covid wave.

With this background in mind, the Finance Minister Nirmala Sitharaman would have perhaps done tight-rope walking on knotty pre-budget wishes. The desire for goodies gets expressed as the pre-budget memoranda. They also appear as news, incorporating commoner's expectations for relief from burden of inflation, shrinking income, pruned-down savings, unemployment, etc.

Different stakeholders are thus likely to judge the budget from their narrower, short-term perspective. Mrs. Sitharaman would have, however, factored in fiscal prudence, financial stability and generational equity in view while overseeing the Budget preparation.

These issues apart, the Finance Ministry officials would have given due consideration to global and domestic risks that might derail assumptions and projections underlying the Budget. They also have to factor in economic outlook reports from different entities. Such reports should be deemed as unsolicited pre-budget memoranda.

We need to highlight key points of such latest reports to help stakeholders take broader view of the budget. The Global Risks Report (GRR) 2022, for instance, mentions ***"fracture of interstate relations"*** as top risk faced by India.

This should obviously spur the Centre to address multiple issues concerning GST. A lot remains to be done to resolve Centre-State financial relations including in the domain of centrally sponsored schemes.

It remains to be seen whether the Budget would address the unimplemented tax reforms (customs duty, professional tax etc) and other recommendations of 15th Finance Commission. The Budget should set road-map for non-binding recommendations, which the Centre hardly cares to implement.

Released by World Economic Forum on 11th January, GRR has identified four other top risks faced by the country during 2022. These are: Debt crises in large economies; widespread youth disillusionment; failure of technology governance and digital inequality. We hope the Finance Ministry has visualized the potential impact of these and global risks while preparing the budget documents.

As put by GRR,
"Restoring trust and fostering cooperation within and between countries will be crucial to addressing these challenges (different risks for different nations) and preventing the world from drifting further apart".

Another external input that merits attention here is A Rabobank study titled ***'Asia: Emerging Market Vulnerability Heatmap'*** . Among the factors that make economies vulnerable, four have a direct relevance to budget-making process. These are 1) public debt, amounting to 83.9% of gross domestic product (GDP); 2) cost of debt mirrored as yield on government securities, 3) interest servicing reckoned as percentage of revenue in a year and 4) budget deficit.

Released on 13th January, the Study focuses on India, Indonesia, Malaysia, the Philippines and Thailand. It explains: ***"Public debt and government budget deficits are only one side of the coin. Taken in isolation, this does not immediately constrain countries from additional fiscal spending or limit a government's fiscal headroom. What's important in this regard is the cost of debt and the serviceability of the debt, which is important to investors. Governments can continue to spend and increase their debt levels or budget deficits as long as investors are willing to finance the local government".***

The Study continues: "
However, servicing debt becomes increasingly difficult when debt is piled up and investors demand higher returns on their investments. Higher yields put pressure on governments' budgets since higher interest rates increase the cost of new debt, which in turn, reduces debt sustainability. Currently, yields are highest in India and Indonesia, while yields in Thailand are (still) relatively low ".

In their post-budget communication to the citizens, Mrs. Sitharaman and her budget team should explain how much weightage they have given to short-term, medium-term and long-term issues.