

## Budget prep - Challenges Many & Fiscal Options Few

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Union Budget 2023-24 has different significance for various stakeholders of the national economy. For the Finance Ministry, it would be the toughest challenge to prepare a sustainable, multi-dimensional Budget amidst the worsening global uncertainties.

The key ones, which are expected to be reckoned in preparing the Budget, are:

1) Risk of delayed Covid-19 wave in China being caused by variant that turns out to be deadly for other nations that earlier suffered one or more waves of the pandemic. It might disturb global economic recovery from Covid-19.

2) Escalation of Russia-Ukraine war and its economic spill-overs across the world. Fresh flare-up can send commodity prices soaring impacting importing countries especially India.

3) Slowly brewing global recession as reflected in lay-off of workers across the IT sector and e-commerce services. The World Bank's Global Economic Prospects Report (WEPR) released on 10th January 2023 might prove useful in preparing the Budget. WEPR says: ***"Global growth is projected to decelerate sharply this year, to its third weakest pace in nearly three decades, overshadowed only by the 2009 and 2020 global recessions. This reflects synchronous policy tightening aimed at containing very high inflation, worsening financial conditions, and continued disruptions from the Russian Federation's invasion of Ukraine. Investment growth in emerging market and developing economies (EMDEs) is expected to remain below its average rate of the past two decades. Further adverse shocks could push the global economy into yet another recession."***

4) Risk of sovereign default by countries groaning under debt. The unfolding development is the risk of USA defaulting in repaying its debt. This breached the statutory ceiling of 120% of gross domestic product (GDP). The debt ceiling is likely to be relaxed after political slugfest, if experience over many years is any indication. Even the prolonged risk of default can alter global capital flows and securities markets.

The World Economic Forum's (WEF's) Global Risk Report (GRR) 2023 has identified debt crisis as one of the five risks facing India in 2023. These are : 1) Digital inequality, 2) Geopolitical contestation of resources, 3) Cost-of-living crisis, 4) Debt crises and 5) Natural disasters and extreme weather events. GRR might influence budgetary allocations for different sectors.

GRR says:

***"The scale of sovereign debt defaults could significantly rise in weaker emerging markets over the next two years, in terms of both the percentage value of total global debt and number of states in default. Although unlikely under the current trajectory to reach globally destabilizing levels, the proportion of countries in or at high risk of debt distress has already doubled from 2015 levels."***

The political significance of the Budget, however, can eclipse global risks that might impact India hard, throwing to wind, the budget numbers. The political and economic risk factors constrain fiscal capacity, which is already strained by alarming rise in debt and fiscal deficit.

This would be the last regular budget before 2024 Lok Sabha polls (LSP). The next one would be an interim one as outgoing Government gives fresh fiscal ground to new one formed after the elections.

The forthcoming Budget has invaluable importance for BJP, the ruling party. This is because the Budget is an important political instrument in any given year. It can make or mar the prospects for return to power for the ruling party of the day at the Centre. Prime Minister Narendra Modi himself blew the conch when he started the countdown for LSP at BJP National Executive Committee (NEC) that met on 16 & 17th January 2023.

According to Indian Express,

**"We have 400 days until the next election. We should use these 400 days to serve the voters and reach out to every section of society,"** Maharashtra deputy Chief Minister Devendra Fadnavis quoted Modi as having said at the meeting.

In its political resolution passed at NEC, BJP has factored in forthcoming State Assembly elections in nine States during 2023. The socio-economic resolution gives an impression that all is exceedingly well on economic front. If that is the ground-zero truth, then the Budget should focus on debt belt-tightening and fiscal reforms.

With high political stakes, it would be daunting for Finance Minister Nirmala Sitharaman to prune down unproductive expenditure. It would be miracle if she unveils expenditure reforms with focus on subsidies including cash dole-outs. In all probability, she would focus on revenue side for fiscal consolidation.

This is an issue that was so dear to the heart of late Arun Jaitley. Presenting Modi Government's maiden budget for 2014-15, Mr Jaitley stated: **"We need to introduce fiscal prudence that will lead to fiscal consolidation and discipline. Fiscal prudence to me is of paramount importance because of considerations of inter-generational equity. We cannot leave behind a legacy of debt for our future generations. We cannot go on spending today which would be financed by taxation at a future date."**

After Mr. Jaitley's sad & untimely demise, fiscal discipline has been too lax due to combination of factors. These include adverse impact of demonetisation on economic activities, GST proving short of expectations, pandemic & resulting lockdown & economic restrictions, disruptive agitations of all hues and competitive populism that sustains freebies and spawns new ones.

We urge Mrs Sitharaman to at least kickstart the stalled process of fiscal reforms as recommended by 15th Finance Commission and other entities. As for changes in taxes and rules, she has been flooded with usual pre-budget memoranda from influential industry associations. We expect her to give highest priority to removing tax anomalies and other genuine demands. The usual cry for more tax sops can be deferred to the year when both growth & fiscal momentum get stabilized.

Advocates of transparency and accountability would expect FM to connect her budget speech with previous ones beginning 2014-15. They would expect her to report both 'hits and misses' of forgotten promises embedded in previous speeches. This would be better than the Opposition parties recalling failed or unimplemented goals set in the Budget speeches delivered under NDA Government.

We would urge FM to improve India's disappointing ranking on three parameters of global Open Budget Index (OBI) prepared by International Budget Partnership (IBP). The three metrics are public participation in budget-making process, oversight of budget implementation by legislature and supreme auditor (CAG) and fiscal transparency.

As put by Open Budget Survey, 2021,

**"Everyone gains when budgets are created through a process that is transparent, incorporates people's voices and bolsters robust, independent oversight by legislators and auditors. As new research commissioned by the International Budget Partnership (IBP) and the Global Initiative for Fiscal Transparency (GIFT) shows, fiscal openness benefits citizens, societies and governments through lower corruption and enhanced accountability."**