

Union Budget 2022-23: A Roadmap for Growth and Sustainable Development

The global economy has been sailing through an agonising, uncertain and turbulent phase in the last two years since the COVID-19 pandemic broke out. India has witnessed three waves of the COVID-19 pandemic so far which had a disruptive impact on the economy, businesses, employment. Normal lives of people remained shattered. Recently, global economy, including India, in its recovery phase from the pandemic is reeling under the tremendous pressure of rising inflation. Supply side disruptions, expansionary monetary policy and rising crude and other input prices have contributed to cost push and demand-pull inflation. Read on...



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During the three quarters of the F.Y. 2021-22, headline CPI inflation shot up to 5.6 per cent year on year; fuel inflation is still in double digits; Core inflation, which excludes food and fuel from CPI inflation, remained high. The fast V-shaped recovery witnessed in India in India was halted due to the emergence of third COVID wave of highly transmissible Omicron variant. Anticipations of the people and businesses from the budget were very high. In such a scenario, economic reinvigoration, revival of growth and macroeconomic stability are anticipated from broader fiscal and monetary policies in the post pandemic scenario.

The Union budget for the ensuing Financial Year, 2022-23 has been prepared to give a big boost to the economy. It targets fast, inclusive and sustainable growth. A closer look at the budget reveals that faster recovery, high rate of economic growth and a vision for inclusive and sustainable development with controlled inflation and prudent fiscal consolidation are the main tenets of the budget this year. According to the first advanced estimates, the Indian economy is estimated to grow by 9.2 percent in real terms in 2021-22 subsequent to a contraction of 7.3 percent in 2020-21 (Economic Survey, 2021). For the F.Y. 2022-23, the



Union Budget 2022-23

budget sets an ambitious target of 11.2 percent per annum growth of nominal GDP.

The article presents an analysis of the budget, 2022-23 from the perspective of the focus of budget on growth and sustainable development. It attempts to bring out the key aspects of the budget to examine the fiscal policy stance and the future growth prospects for the economy.

Amrit Kaal

As stated by the Honourable Prime Minister of India on the 75th Independence Day, India has entered into the *Amrit Kaal*, a period of 25 years from 2022 to 2047 when India completes 100 years of independence. For the *Amrit Kaal* of 25 years, the budget sets out an ambitious agenda focused on speeding up macroeconomic growth, inclusive and welfare-oriented development at the micro economic level, a sustainable development through climate action and promotion of digital economy. The budget prepares a futuristic and inclusive blueprint for the *Amrit Kaal* by setting priorities and targets. By the completion of one hundred years of independence, the budget sets four major priorities under the PM Gati Shakti.

Impetus for Growth through Enhanced Capex

Capital expenditure (Capex) is the key to economic growth. Capital expenditure incurred in a variety of forms gives dual benefits to a growing economy like India. It enhances demand by creating

opportunities for employment and earning and boosts up productivity and production and thus increases supply. On this premise, Capex has been increased in this budget to 7.5 lakh crores for the year 2022-23 which is Rs. 6 lakh crores for F.Y. 2021-22. This budget not only envisages faster economic growth but also creation of employment and income opportunities. Hence, budget provides for an enhanced public spending to speed up the economic growth through its effect on the aggregate demand via fiscal and investment multipliers effects. This is an unconventional approach to address the ongoing recession sparked by the pandemic.

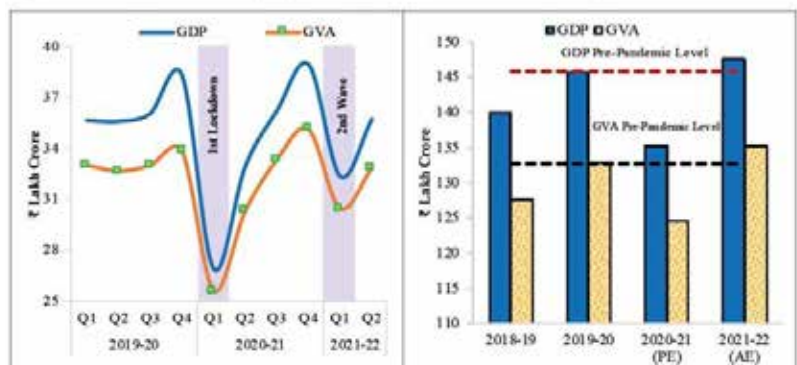
The figure below presents the trends in the Gross Domestic Product and Gross Value Added for the four consecutive years from 2018-19 to 2021-22. The V-shaped recovery, after the onslaught of the pandemic and lock down, got a setback after the 2nd and 3rd waves in the year 2021-22. The budget of 2022-23 effectively targets the slow recovery from the second wave and dampening of the recovery by the Omicron variant.



The Union budget for the ensuing Financial Year, 2022-23 has been prepared to give a big boost to the economy. It targets fast, inclusive and sustainable growth.

A massive expenditure of Rs. 20,000 crores on infrastructure development have been proposed in the budget. As a proportion of total budgeted expenditure, the effective capital expenditure has been increased by 4.85 percentage which comes at the cost of revenue expenditure net of grants in aid for capital assets creation. As a percentage of total budgeted expenditure, revenue expenditure (net of grants in aid for capital assets creation) has been projected to be 5.5 percent lesser than in the previous year, 2021-22 (as per the revised estimates for 2021-22). As a percentage of total budgeted receipts, borrowings and other liabilities (which includes

Figure -1: Gross Domestic Output (Constant Prices, Base Year: 2011-12)

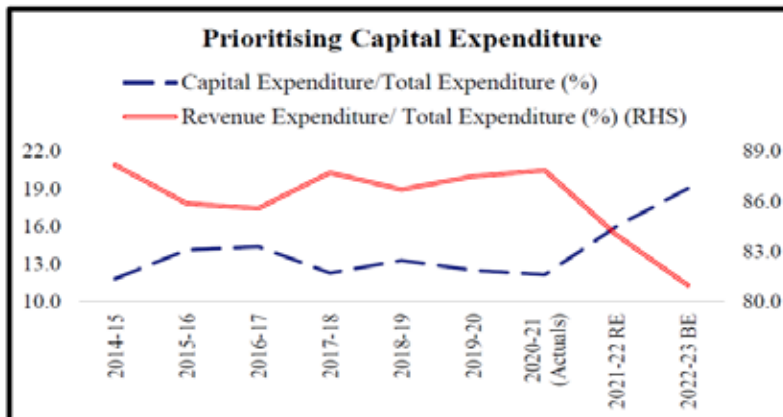


Source: Economic Survey, 2021-22

Union Budget 2022-23

drawing down of cash balances) of the Union Government have been projected to fall slightly by 0.1 percent. As a percentage of GDP, effective capital expenditure will be 4.1 percent in the year 2022-23 which is revised to be 3.6 percent of GDP for the year 2021-22. Thus, we see that the budget projects a massive hike in the capital expenditure in the year 2022-23. This comes with a projected reduction in fiscal deficit to 6.4 percent of GDP. Which means a reduction in the net addition to the public debt. Figure-2 presents the emerging trends in the revenue and capital expenditures of the Central Government. The trend is being sharply reversed after the year 2020-21.

Figure-2: Trends in Capital and Revenue Expenditure of the Centre



Source: Union Budget Documents, 2022

Financial Assistance to States for Capital Investment

The thrust on capital spending is also visible in the budget of 2022-23 from the enhanced financial assistance to states under the Scheme for Financial Assistance to States for Capital Investment for creating productive assets and generating remunerative

employment. The interest free long-term loans under this scheme have been increased from proposed Rs. 10,000 crores in the Budget Estimates of year 2021-

22 to Rs. 15,000 crores in the Revised Estimates for that year and for 2022-23, these loans will be a massively hiked to Rs. 1 lakh crore.

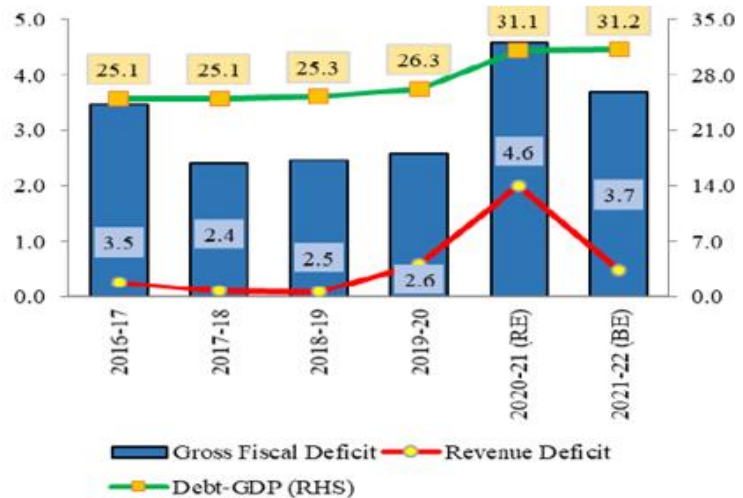
These 50 years interest free loans are over and above normal borrowings of the states. Financial assistance of this magnitude for capital investment will improve overall investment climate in the economy which

in turn will augment growth and development in the country. Apart from spending on infrastructural and productive investment, these loans will supplement the spending of states on digitisation of the economy. However, there is a caveat to such predictions. The state governments are already highly indebted and under pressure to meet FRBM targets (Figure-3). Therefore, either they will be reluctant to borrow much (even if it is interest free) or may actually borrow under this scheme to cut back their debt financed spending on capital expenditure. This leakage has a potential to cast a shadow on the success of this scheme.

Infrastructure Development under PM Gati Shakti

Transformation of the transport system under the PM Gati Shakti is central to the budget of this year. Gati Shakti, an ambitious National Master Plan for Multi-modal Connectivity, is a transformative approach for fast and sustainable economic growth and development.

Figure-3: Debt and Deficit of State Governments



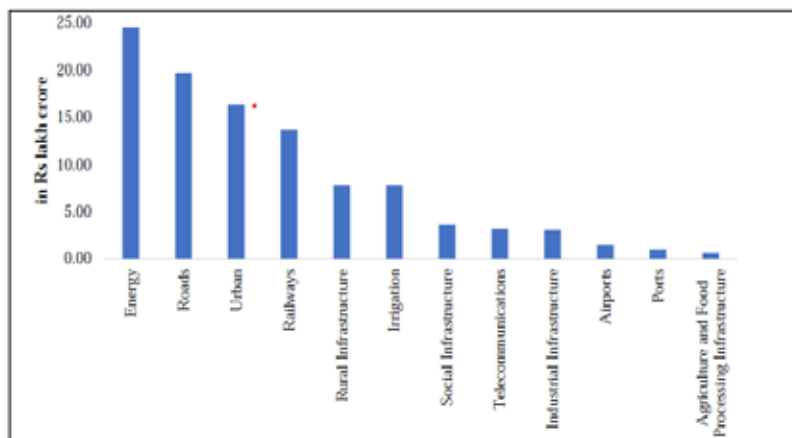
Source: Union Budget Documents, 2022

Union Budget 2022-23

This envisages to take the transportation infrastructure to the world class standards. Mass transport, railways, roads, airports, ports, waterways, and logistics infrastructure are the seven engines of the Gati Shakti. Information and communication technology, transmission of clean energy, water supply and sewerage, and social infrastructure lend support to the Gati Shakti. An improved connectivity and modern transportation will give a big boost to the business activities. This will also increase productivity, economic growth and development. The approach involves the government as well as private sector.

India needs to spend about \$1.4 trillion on infrastructure to achieve the GDP target of \$5 trillion by 2024-25. The fact reveals that during 2008-17, India spent about US\$1.1 trillion on infrastructure. The National Infrastructure Pipeline (NIP) was launched with a projected investment of US\$ 1.5 trillion on infrastructure during FY 2020-2025 to provide world-class infrastructure across the country and improve the quality of life for all citizens. Sector wise breakup of NIP is given in Figure-4.

Figure-4: Industry Wise Breakup of NIP



Source: Economic Survey, 2021-22

Under the PM Gati Shakti Master Plan for Expressways, the network of national highways will be expanded by 25,000 km in 2022-23 to facilitate faster movement of people and goods. Expenditure on road transport has been projected to be enhanced to Rs. 66,494 crores. Apart from that, a multimodal transportation system will be developed for efficient movement of goods through different modes which will reduce logistics cost and time and requirement of documentation. Expenditure on railways has been increased to Rs. 30,000 crores with an exclusive emphasis on making the parcel system more efficient. The Budget has a proposal of 400 new-generation Vande Bharat trains to be manufactured and developed, and 100 Gati Shakti Cargo Terminals for multimodal logistics facilities to be developed during the next three years. The budget also proposes construction of eight ropeways during 2022-23 under the National Ropeways

Development Programme on a public private partnership (PPP) basis. This will have a positive impact on the tourism sector.

Urban Development

The budget highlights the significance of urban development in realising the economic potential of urban areas by converting cities into centres of sustainable living with livelihood opportunities for all, including women and youth. Through a committee, the budget proposes to develop urban sector policies, capacity building, planning, implementation and to provide such support to states for urban development. A shift is proposed towards greater use of public transport in urban areas which will be complemented by clean technology and governance solutions, special mobility zones with zero fossil-fuel policy, and EV vehicles. A battery swapping policy will be evolved to improve efficiency in the EV ecosystem. It will give a boost to electric vehicle industry.



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Union Budget 2022-23

Productivity Enhancement and Investment

Improvement in the productivity of labour and capital is crucial for ramping up economic growth. In this direction, the budget proposes to launch the second phase of Ease of Doing Business 2.0 through a system of trust-based governance. This will catalyse the digitisation of manual processes, integration of central and state level systems through IT bridges, single-point access for all citizen-centric services and standardisation and removal of overlapping compliance requirements. A number of proposals have been given to provide better urban planning and housing to people towards Ease of Living initiative. Support to 5G will be provided under the Production Linked Incentive Scheme to improve network connectivity.

Digital Banking, Digital payment and Digital Rupee

Digital banking and digital payment system are growing at a fast pace in India. The

government has lent support to the digital banking ecosystem to ensure its outreach to each and every part of the nation in a customer-friendly manner. Fintech innovations are also being encouraged. Budget of 2022-23 has proposed to continue with the financial support for the digital ecosystem and announced that 75 Digital Banking Units (DBUs) will be set up by Scheduled Commercial Banks in 75 districts of the country. Another important announcement is the introduction of Central Bank Digital Currency (CBDC). The introduction of digital currency will take the digital economy to greater heights. It will reduce the cost of currency management significantly. Strengthening of digital banking and payment system and introduction of digital currency will also be beneficial for the overall business environment in the country. However, adequate cyber safeguards are required to be in place for the digital currency to prevent cyber-attacks and digital frauds.

Sustainable Development: Energy Transition and Climate Action

Another important aspect of the budget is its emphasis on the sustainable development. The budget envisions a transition to carbon neutral economy and thus talks about energy transition and climate action. Sustainable development has emerged as an unavoidable form of development. India needs to adopt best environmental practices in production, transportation and consumption



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spheres. Pollution in all forms has been rising and posing grave threats for the near future. Global warming and climate change are dominant global concerns along with other environmental issues today. We need to tackle negative environmental externalities appropriately and effectively. Government of India is strongly committed towards low carbon and sustainable development of the nation. In this direction, the budget highlights several short-term and long-term actions oriented towards, cleaner energy, low carbon emissions and sustainable development and allocates Rs. 19,500 crores for Production Linked Incentive Scheme for manufacturers of the high efficiency solar modules. An ambitious goal of attaining 280 GW installed solar energy capacity by the end of this decade has been reaffirmed.

Transition to Carbon Neutral Economy

The commitment of the government towards carbon neutral economy has been shown in the budget announcements. Thermal



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power is the largest source of electricity generation in India and coal is the most polluting fossil fuel. About fifty one percent electricity is generated in the coal-based power plants. Burning of coal in these plants emits noxious fumes which contains sulphur dioxide, nitrogen oxides, carbon dioxide, and mercury which cause harmful effects on environment, human and other species.

The budget targets carbon dioxide emissions from coal fired power plants and pollution from burning of crop residue by proposing that biomass pellets of 5-7 percent of the fuel in the thermal power plants will be co-fired. It is estimated that it will reduce about 38 MMT of annual carbon dioxide emissions. On the other hand, farmers and villagers will get income and job opportunities in making bio-mass pellets from agriculture residue and farm waste. It will also reduce the smoke problem from stubble burning by farmers.



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Energy Conservation, Agroforestry and Circular Economy

Towards attaining sustainable development, the budget highlights on Energy Conservation, Agroforestry and Circular Economy. The budget envisages energy saving through the promotion of energy management. In large commercial complexes, Energy Service Company business model will be used for efficient utilization of energy.

The budget wishes to take forward agroforestry and private forestry through policies, legislative changes and financial support to the farmers who want to take up agroforestry.

Emphasis has also been placed on the circular economy. A circular economy is based upon recycling and reuse rather than on take-make-waste. We need to abstain from unsustainable practice of taking resources from environment to make products and dump the waste. Circular economy requires a behavioural change among producers and consumers. The promotion of circular economy, as proposed in the budget, will definitely take the economy farther in the direction of sustainable and greener development in the future.

Financing of Investment

Capex in the budget of year 2022-23 has been proposed to be enhanced to more than double of the corresponding figure for 2019-20 along with a projected downtrend in



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the fiscal deficit. A pertinent question arises that how this is going to be financed given the conservative estimate of a 6 percent increase in the revenue receipts as the economic activities resume in the financial year 2022-23. So, will there be a cut in the revenue expenditure to meet enhanced capex? Yes, it is clearly visible from the projected figures of revenue expenditure and capital expenditure (See Figure-2). As percentage of total expenditure, capital expenditure has sharply gone up while revenue expenditure has decreased sharply from the year 2021-22 and that sharp trend continues in the projected figures for the year 2022-23. This is a healthy improvement in the expenditure profile of the central government. A compression in revenue expenditure is highly desirable to enhance capital expenditure and the best part of this revenue expenditure compression strategy is that it is not done at the cost of the developmental expenditure in the budget. In fact, according to

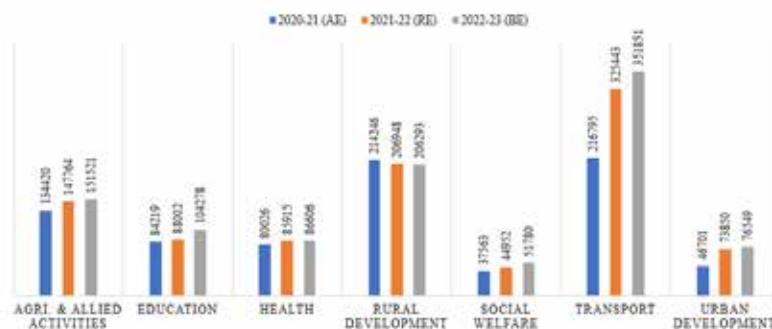
Union Budget 2022-23

a rough estimate, developmental expenditure of the Central government has gone up as a percentage of total expenditure from 39 percent in the revised estimates of 2021-22 to more than 41 percent in the year 2022-23. On the other hand, non-developmental expenditure has gone down from 61 percent to 58.5 percent over the same years. Compression in revenue expenditure is being done primarily through massive reduction in the subsidy bill of the government on food, fertiliser and petroleum (See Figure-5). A massive cut of Rs. 1,15,242 crore is visible in the proposed subsidy expenditure relative to the revised estimates of the year 2021-22. As a percentage of total expenditure this is 3.4 percent reduction.



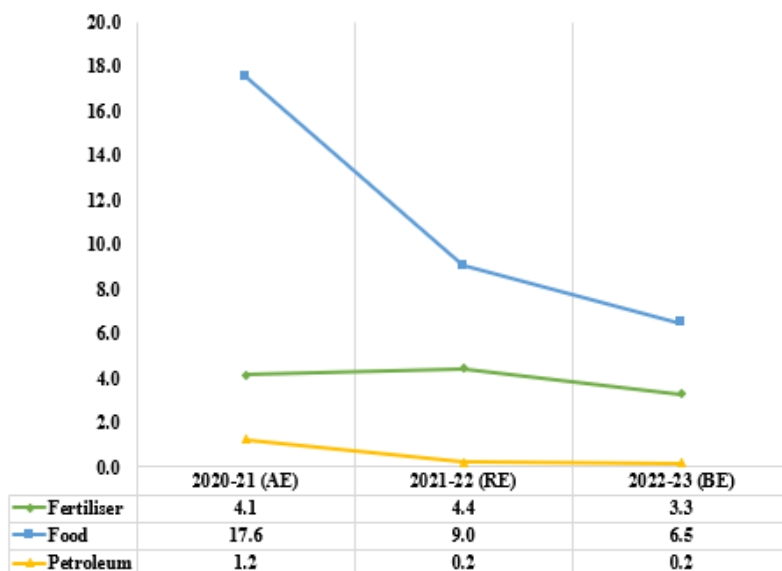
The swapping of expenditure is that social sector expenditure on health, education and social welfare has been rising and expenditure on rural development and health is being reduced (See Figure-6).

Figure-6: Trends in Major Items of Expenditure (Rs. Crore)



Source: Union Budget Documents, 2022

Figure-5: Trend in Three Major Subsidies of the Centre (% of Revenue Expenditure)



Source: Union Budget Documents, 2022

Massive borrowing to meet the financial challenges of the pandemic has resulted into huge build-up of government debt and a sharp increase in the interest payment liability of the central government. As a percentage of total budgeted



Apart from market borrowing and through other means, funds will also be raised through sovereign green bonds to finance public sector projects. As a double dividend, it will also help in reducing the carbon intensity of the economy.

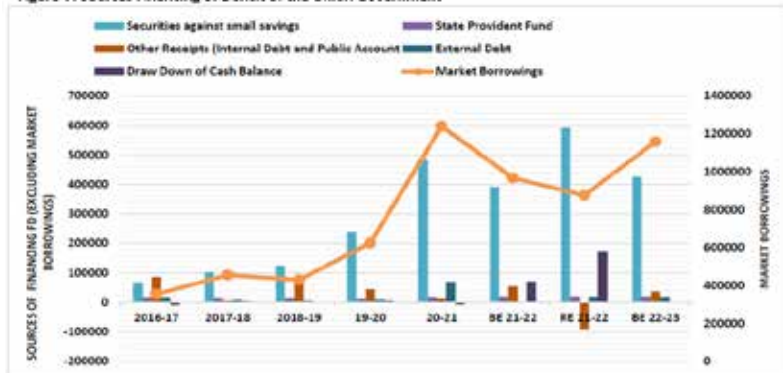
Union Budget 2022-23

expenditure, it is estimated to go up from 21.6 percent in 2021-22 (A.E.) to 23.8 percent in 2022-23 (B.E.). Figure-7 shows the trends in the various sources of borrowings for the Centre.

Continued Thrust on Inclusive Development

The budget extends the agenda of the inclusive development with a focus on the welfare

Figure-7: Sources Financing of Deficit of the Union Government



Source: Union Budget Documents, 2022.

We know that public and private sector compete for the investible funds and if the public sector borrows more from whether from financial market or from RBI than interest rate increases and thus raises the cost of borrowing for the private sector which in turn may cause the crowding out of private investment. Budgeted hike in capex might have taken this view into consideration and to ensure that private investment crowd in rather than crowding out government borrowings have been reduced by about 0.5 percent than in the year 2021-22. Further, the enhanced capex is targeted to woo private investment. Apart from market borrowing and through other means, funds will also be raised through sovereign green bonds to finance public sector projects. As a double dividend, it will also help in reducing the carbon intensity of the economy.

of women and poor and marginalised people. Budget 2022 also recognises the importance of *Nari Shakti* as the harbinger of our bright future and for women-led development during the *Amrit Kaal* and extends support to the various schemes under the ministry of Women and Child Development particularly Mission Vatsalya, Mission Shakti, Saksham Anganwadi and Poshan 2.0. The budget proposed to upgrade two lakh anganwadis during 2022-23.

The budget allocated Rs 60,000 crore to provide tap water facility to 3.8 crore households and Rs. 48,000 crore rupees to provide 80 lakh houses in rural and urban areas under the PM Awas Yojna.

Prime Minister's Development Initiative for North-East, PM-DevINE scheme, will be implemented for funding

of infrastructure and social development projects according to the needs of the North-East. Vibrant Village Programme and Aspiration Blocks Programme will cover the backward districts and border villages of the country to improve quality of life of people and align them with the development process through a number of infrastructure, connectivity and communication initiatives.

Fiscal Sustainability

The budget has adopted a cautious approach towards fiscal sustainability. The expenditure profile has been reshuffled to accommodate financial requirements for economic revival, higher growth and inclusive development. Total expenditure in the year 2022-23 has been estimated to grow by 4.6 percent over the revised figures for the year 2021-22 which is perfectly commensurate with the target reduction in the fiscal deficit with an estimated increase in the revenue receipts of about 6 percent, a deceleration in the non-tax revenue and disinvestment target of Rs. 65000 crores (which is about 1.64 percent of the projected expenditure).

The fiscal performance of the central government had greatly improved in the years prior to the pandemic but during the pandemic years the deficit indicators took a reverse trend due to massive borrowing to meet the financial challenges of catering to the basic needs of the people and rejuvenation

Union Budget 2022-23

of the economy to return to normalcy after the pandemic. We can see the figures for the fiscal deficit, revenue deficit, effective revenue deficit and primary deficit (as a percentage of GDP) went up sharply to peak at 9.2 percent, 7.3 percent, 6.2 percent and 5.8 percent respectively in the year 2021-21 but falling steeply afterwards and for 2022-23 these figures are projected to be 6.4 percent, 3.8 percent, 2.6 percent and 2.8 percent of GDP respectively (See Figure-8).

Centre for the year 2022-23 are estimated to be Rs. 1661196 crore (about 6.4 percent of GDP) which is 6.8 percent of GDP for the year 2021-22.

Though, from the expenditure and deficit targets set in the budget show the prudent fiscal behaviour and shows a renewed commitment towards fiscal consolidation and FRBM stipulations, the requirement of the economy is still to have an expansionary fiscal policy to provide a boost to the supply

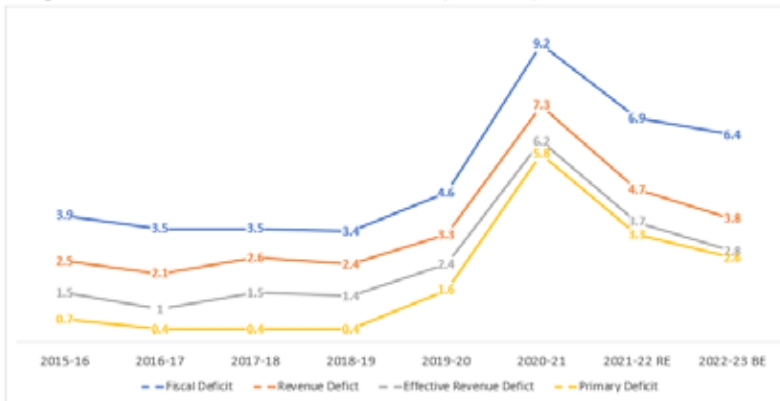


Enhanced public sector capital expenditure will bolster productivity and production and therefore, it will enhance GDP through multiplier effect and create opportunities for income and employment.

it was anticipated that the budget this year will be full of populist announcements to woo the voters. Against all such odds, the government showed its commitment for economic revival, growth and sustainable development of the nation.

The vision of the budget is to prepare the economy for a sustained long-term expansion with a boost up in demand through substantially enhanced capital expenditure on infrastructure development and a supply boost up through supply side measures. The budget sets in motion a virtuous cycle of crowding in private investment through public capital investment. Enhanced public sector capital expenditure will bolster productivity and production and therefore, it will enhance GDP through multiplier effect and create opportunities for income and employment. Thus, the budget of 2022-23 intends to create powerful levers to pull the economy upward in the future.

Figure-8: Trends in Central Government Deficits (% of GDP)



Source: Union Budget Documents, 2022

The revised targets of the FRBM Act, 2003 set by the Fifteenth Finance Commission suggest that the Centre should bring down fiscal deficit to 4 percent of GDP by the year 2025-26. The Commission observed that the recommended fiscal consolidation path for the Centre will result in a reduction of total liabilities of the Centre from 62.9% of GDP in 2020-21 to 56.6% in 2025-26. Unfortunately, due to the pandemic we are far away from this target. Total increase in the liabilities (including the drawing down of cash balances) of the

and demand both. However, a procyclical alignment of the fiscal policy will have a fiscal drag in the coming years.

Concluding Remarks

On conventional parameters like health, education, rural development etc., the budget of this year might have not come up to the short-term expectations of many, but it definitely carries a farsighted approach with a longer-term vision of the economy. In view of the elections in five states,