Can the Budget revive growth?

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On the whole, while the Budget is presented during difficult times, one was only expecting to have a medium and long term vision, which this Budget appears to achieve only partially. (Credit: AFP Photo)

On the back of GDP projections of 6-6.5% for the year 2020-21 in the Economic Survey (against 5% in 2019-20), it was expected that the Budget would come out with measures that could boost growth in the economy. While there are measures that are focused on reviving growth to some extent, it is not clear if these measures could lead to sustained recovery to achieve the government's target of $5 trillion by 2024-25.

Indeed, the Budget assumes a higher GDP growth of 12.6 and 12.8% respectively for 2021-22 and 2022-23.

which could help demand revival in the short term, it is not clear if the quality of expenditures helps in sustaining growth. The budgeted numbers suggest that the revenue deficit as a percentage of fiscal deficit could deteriorate from 68.3% in 2019-20 to 75.1% in 2020-21. This is despite the huge target that the government has set as part of the National Infrastructure Pipeline of investing Rs 103 lakh crore in infrastructure projects in the next five years.

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On the sectoral front, the Budget appears to have focused more on the ‘ease of living’ when it talked about Aspirational India, Economic development for all and Caring society. Towards this, the government increased allocation to the agricultural and allied sectors, irrigation and rural development (except for MGNREGA). The budget heavily focused on startup scheme, MSME sector as well as on the New Economy that focusses on AI, Quantum technology as well as other technology adoptions. While these measures would help in changing the way economy function, these would be felt only in the medium term.

Based on the Economic Survey suggestions, in order to create jobs, it was expected that the Budget could provide impetus to commerce and industry. Here, the Survey argued for providing more incentives to imports so as to integrate ‘Assemble in India’ with the ‘Make in India’ campaign. More incentives for imports through a reduction in the tariff rates were expected. However, the Budget has actually brought in more products under the customs duty net, by including a new document called ‘Customs Notifications’ as part of the Budget papers. This could hamper the exports sector and, hence, the jobs creation.

On the financial sector, again there were expectations that the government could support the scheduled commercial banks through more bank recapitalisation schemes. However, except for the hike in the limits under the DICGC from the present level of one lakh to 5 lakhs, the Budget only provides a signal to reduce the role of public sector banks. The huge disinvestment target that it has set for 2020-21 is supposed to be mobilised through disinvestment in public sector banks and financial institutions. This could worsen the already deteriorating financial intermediation in the country.

More incentive schemes to enhance savings through infrastructure bonds were expected, and would have helped increase the dwindling household savings and provided long term resources for the ambitious infrastructure projects.

On the whole, while the Budget is presented during difficult times, one was only expecting to have a medium and long term vision, which this Budget appears to achieve only partially.

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