# Budget 2022-23, India's Capital Expenditure (Capex)Big Push, and Growth

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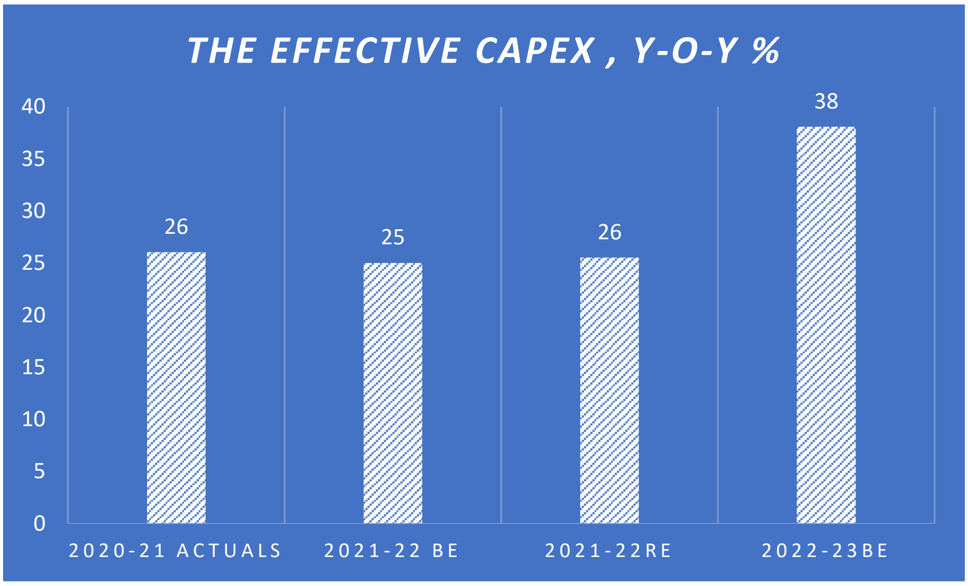
## 1. Introduction

In the Union Budget 2022-23, the measures announced by the Finance Minister, Nirmala Sitharaman, continue with the *big push* to the capital expenditure given in the FY21-22 budget. Given the current year economic growth estimated at 9.2%, to sustain a high growth rate, the budget heavily relies on the expected virtuous cycle to kickstart private investment with the *crowding- in* effect of huge public investment. Amid the third wave of Omicron, the debate still revolves around the alphabetic shape of recovery, the need for jobs, and the pandemic-driven inequality in the country. But the government is very clear on its faith in growth and its trickle-down effect as the panacea to the much-debated problems of unemployment and inequality. The govt. also believes in the capex big push to deliver growth.

The commitment of the government to achieve higher growth is evident in the increase in capital expenditure (capex) by 35.4% in the budget estimate (BE) for FY 2022-23 over that of FY 2021-22. But the growth in capex is 24.5% when compared to the revised estimates (RE) of FY 2021-22. The effective capex, which is the sum of capex from budgetary allocation and Grants-in-Aid for creation of capital assets has also increased. Thus, the Effective capex of the Central Government is estimated at Rs.10.68 trillion in 2022-23, which is about 4.1 per cent of GDP. The *y-o-y* percentage growth in the effective capex given in figure-1 below, shows the increase across all figures i.e., actuals, BE, and RE over 2020-21 to 2022-23.

Figure1: India’s capex big push




Source: Budget documents

2. Government’s belief in Capex led Growth

The budget 2021-22 set the intent of the government and this year’s budget strengthens that intent and lays a foundation for the next 25 years i.e., from India at 75 to India at 100. The notable policy moves include the Productivity linked incentive schemes in manufacturing, the new public sector enterprises policy, commencement of the activities of the National Bank for Financing Infrastructure and Development (NaBFID) and National Asset Reconstruction Company. The new initiatives announced in the budget 2022-23 include PM GatiShakti, Inclusive Development, Productivity Enhancement & Investment, Sunrise Opportunities, Energy Transition, and Climate Action, Financing of Investments. The PM GatiShakti investments will be driving growth by seven engines. The seven engines are Roads, Railways, Airports, Ports, Mass Transport, Waterways and Logistics Infrastructure. The efforts of the central government in this direction are expected to bring on board the state governments, and the private sector too. The relevant projects in the National Infrastructure Pipeline will also be aligned to the PM GatiShakti. It’s worth mentioning that the emphasis on capex led growth began in budget 2021-22 with the pillars of Physical and financial capital, and infrastructure; Innovation and R&D; Minimum government and maximum governance. In this budget, the word "privatization" was explicitly used in the context of privatization of public sector undertakings. The pandemic provided an opportunity to the government in going for this capex big push to unleash India's growth potential. The rationale underlying this shift in policy thinking may be rationalized in two different ways. Some past research have emphasized the importance of capital expenditure multiplier in India. Bose and Bhanumurthy(2013) estimate the capital expenditure impact multiplier to be 2.45 and the cumulative multiplier over a seven-year horizon to be 4.80. On the contrary, the impact and cumulative multipliers for both transfer payments and other revenue expenditure are less than unity. The impact multiplier equals to the ratio of change in output to a change in spending, for the period in which the fiscal stimulus occurs whereas the cumulative multiplier yields the effects of spending/stimulus over a longer forecast horizon. Another study by Jain and Kumar (2013) estimates the capital expenditure impact multiplier, combined for the centre and states to be 1.29, whereas the revenue expenditure multiplier is less than unity. A recent ADB study by Dime *et al* (2021) in the context of COVID19 fiscal stimulus packages announced by different countries, also finds the government spending multiplier for nine select Asian economies including India to be effective. Thus, the economics of multiplier calls for higher capital expenditure to achieve higher growth. But the capex big push in the last two budgets in India reflects the strong political will and belief in ability of capex in boosting growth more than the economics of multiplier. At the same time the budgets have attempted to balance the inclusive goals. For instance, the 2022-23 budget has extended the emergency credit line guarantee scheme for 130 lakh MSMEs to the tune of Rs.5 trillion. The hospitality and related enterprises have been exclusively dealt in this scheme since they have been hit hard during the pandemic. To make the MSME sector more resilient and efficient the budget has also proposed to launch a five-year programme on raising and accelerating MSME performance. The capex plans will be supplemented with measures on digital payment ecosystem announced in the last budget, Ease of doing Business 2.0 and ease of living, and various steps towards enhancing financial viability of infrastructure projects.

3. Where does the capex go?

The budgetary provision made towards capex for FY 2022-23 goes to five major areas excluding the 50-year interest free loans to the state governments. The allocations are indicated in Table 1 below.

| Table 1- Capex-Budgetary provision, FY 2022-23 | |
|---|---|
| | in Rs. Trillion |
| Scheme for Financial Assistance to States for Capital Investment | 1 |
| National Highway Authority of India (NHAI) | 1.34 |
| Ministry of railways | 1.4 |
| Defence services | 1.5 |
| Telecom, 4G spectrum and technology upgradation | 0.5415 |
| Ministry of road transport and highways | 1.9 |

Source: CMIE

The ministry of road transport and highways gets the highest allocation followed by the NHAI for expanding the highways by 25,000km. The railways and defence have also received huge allocation of capex. Similarly, the telecom sector is supposed to spend on 4G spectrum, technology upgradation. Finally, the 50-year interest free loans to states are meant for appropriation by states for creation of assets. The policy continuity in this capex push is well appreciated, but there are apprehensions on account of smooth progress of the projects envisaged under each of the above sectors to reap the benefits of the multiplier effects. If the projects pick up and progress there is huge potential of job creation in road transport, highways, and railways to name a few. The success depends on implementation of the projects. The latest data released by the Centre for Monitoring Indian Economy (CMIE) shows decline in employment rate as well as labour force participation rate. Further, employment among salaried employees increased in January 2022 but that among daily wage labourers and small traders declined by almost an equal magnitude. Given this situation, the capex push in roads, highways, and railways should create more jobs followed by small business, services etc. To supplement the budgetary support for capex, the budget also promises to go for innovative financing approaches. These include issuance of sovereign green bonds for mobilizing resources for green infrastructure, thematic funds for blended finance with govt. share limited to 20% and the funds managed by private fund managers. The sector proposed to be covered under thematic funds are climate action, deep tech, digital economy, pharma, and Agri-tech. The capex is going to be realized with the fiscal deficit for 2022-23 estimated at 6.4% of GDP. This estimate is well within the fiscal consolidation path announced in the last year's budget. By 2025-26 the objective of the government is to achieve a fiscal deficit of 4.5 %.

4. Missed expectations and challenges

There was some expectation from this year's budget on helping the urban poor including informal workers, gig workers, and migrant labourers etc. The informal sector of the Indian economy contributes nearly 50% to the GDP and engages 90% of the economy's labour force. As per the latest study by Institute of Social Studies Trust (ISST 2021), street vendors contribute a turnover of Rs. 0.8 billion a day to the domestic economy. As on date, there are roughly 0.04 billion hawkers in India and 1/3rd of this population consists of women street vendors. In the recent past, the uncertainty regarding a possible lockdown, unlock announcements, and the state-wise lockdowns have thrown their business out of gear. It's now that these businesses are somewhat getting back on track. Meanwhile, the govt. created a 230-million identity linked database on migrant and gig workers which led to the expectation of the govt. coming up with some cash transfer scheme for the urban poor in this budget. To one's surprise nothing of that sort was announced in this budget. The only visible national scheme is the PM Street Vendor's Atma Nirbhar Nidhi (PM SVANidhi) - a Special Micro-Credit Facility for Street Vendors. PM SVANidhi launched on June 01, 2020, provides affordable Working Capital loans to street vendors to resume their livelihoods. This scheme targets over 5 million Street Vendors under which the vendors can avail of a working capital loan of up to Rs. 10,000, repayable in monthly instalments in the tenure of one year. As on

Jan 28, 2022, the data dashboard, Govt. of India, shows about 2.8 million beneficiaries who have been disbursed close to Rs.29.4668 billion under this scheme. A cash transfer scheme for the urban poor would have boosted consumption by this class contributing to the recovery process in the short run. But the govt. of India chose to tread on the capex led growth path. On the contrary the state government of Odisha state introduced such urban schemes at the state level without waiting for the Govt. of India to launch such a scheme for the whole country. The Govt. of Odisha announced direct cash transfers to newspaper hawkers and street vendors in the state in three different phases including the most recent measure of Rs.3000 each for over 0.1million street vendors announced in December 2021. To sum up, the capex led growth-oriented budget for FY 2022-23 has the potential to achieve the 9.2 % growth as presented in the budget. However, there is discontent among a few owing to absence of measures for the urban poor as said above and due to absence of enhanced budgetary support to households and farmers. Let us hope that the capital expenditure multiplier delivers growth with gainful employment.

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