

# Short, sharp & smart: FM's big bet on growth is what India needed

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Brevity and bravery defined FM Nirmala Sitharaman's fourth Budget. In a short speech, she articulated three excellent strategies. First, Gol is taking a big bet on growth by massively pushing capital expenditure, and is ready to risk high inflation. Growth is the priority now, and most inflation will be via higher energy and commodity prices, over which Gol has little control. Will RBI scupper the growth party? Remember, it has frequently called for fiscal heavy lifting. As inflation rises – retail fuel prices will start rising again after the election hiatus – RBI's MPC may want to increase rates. But that should be done gently. Sharp rate hikes will affect growth without bringing down cost-push inflation. Second, FM was also clear that public capex is needed to spur private investment, which is still low. To further encourage private investment, the Budget offers stability in the direct tax regime. No bad taxes are actually an incentive. Third, she acknowledged that economic recovery is uneven by extending credit guarantee for MSMEs and focussing, within that, on the badly hurt contact-intensive services.

Commendably, the Budget math is realistic. Nominal GDP is expected to grow 11.1% in 2022-23 to Rs 258 lakh crore. Consequently, gross tax revenue is expected to increase 9.6% over the ongoing year's revised estimate to Rs 27.5 lakh crore. Total expenditure is budgeted to increase by a modest 4.6% to Rs 39.4 lakh crore. The interesting question is how FM has found the money for the huge hike in capex. First, via increase in tax revenue. Second, there's a big switch from welfare spending to investment. Allocation towards food subsidy and MGNREGA together have been lowered by about Rs 1.05 lakh crore. In addition, spending on vaccines and Air India will fall in 2022-23, thereby freeing up resources that will be spent on roads and railways. There are two assumptions here. First, there will be no more shocks. Second, growth will reduce the need for high-level targeted support. Those critiquing cuts in welfare spend should remember that Gol can always spend out-of-Budget if the need arises.

What to make of the 30% tax on gains from crypto assets? Post-budget, FM said taxing gains on digital assets doesn't mean legalising them. That's correct in the sense that any gain in income can be taxed. But it is reasonable to think that having brought crypto assets under the taxation regime, Gol will subsequently declare the underlying asset to be legal. Therefore, unless there's a nasty surprise, the Budget has made the first move towards accepting the reality of crypto assets. That's a smart call, as is making the new tax applicable from March 2023. This will give time to crypto asset holders to adjust their portfolios. The crypto move aside, if RBI launches its digital currency in the next financial year, India will have moved up the blockchain technology ladder.

Disappointments? Gol seems to have lost enthusiasm for privatisation, perhaps fearing it can become an electoral liability. But then again, with markets choppy, it's not the best time to sell assets anyway. There's plenty that's good in this Budget – if Gol can spend all the capex it has budgeted for.