Analysis of Budget 2023

Why in news?

The Budget 2023 did give more cash in hand to the middle class, but at the same time, stuck to the path of fiscal prudence.

To know about the summary of Union Budget 2023-24, click here

What about the state of Indian economy?

- **Wholesale inflation** - It moderated to reach a level below 5% in December 2022 and January 2023.
- **Net profit- to-sales ratio** – Corporate profitability was strong with net profit- to-sales ratio at 7.3%.
- **Gross capital formation to GDP ratio** - The ratio of gross capital formation to GDP has also shown an improvement post pandemic.
- **Incremental capital-output ratio (ICOR)** - Higher inflation and GDP deflator have brought ICOR to its decadal low of 1.6 in 2021-22 and 2.1 in 2022-23.
- Institution wise, the lowest ICOR is for the household sector and highest is for the non-financial public sector.
- **Capital expenditure** - Capital expenditure of Government (CE), including assistance to the States for capital formation, has shown a consistent increase in the post-pandemic period.
- It is slated to reach 4.54% to GDP in 2023-24.
- **Fiscal deficit** - The fiscal deficit has declined from its peak during the pandemic.
- During 2020-21, the incremental borrowings of Government were nearly 79.4% of the available household savings.
- **Private final consumption expenditure (PFCE)** - After two years of stillness, PFCE is showing a buoyancy greater than one, indicating revival of consumer spending.
- However, sluggish growth in rural areas were noted.
- **Employment** - Between 2017-18 and 2020-21, total employment increased by 18.5%, nearly three fourths of which was in self-employment (PLFS data).
- The ratio of persons placed out of persons trained is still around 20%.

The **net profit ratio** compares after-tax profits to net sales. It reveals the remaining profit after all costs have been deducted from sales.

Gross capital formation (formerly gross domestic investment) consists of outlays on additions to the fixed assets of the economy plus net changes in the level of inventories.

ICOR basically refers to the additional unit of capital required to generate additional unit of output.

What are the weak spots in the Budget?

- **MSMEs** - The Budget does not seem sufficiently equipped to handle the plight of MSMEs, which died out during the pandemic, raising manufacturing share in GDP and dealing with unemployment.
- The Budget has announced certain measures such as extending the Credit Guarantee Scheme for MSMEs, but with more than 11 crore persons employed in this sector, it is insufficient.
- **Manufacturing** - How are we going to increase the share of manufacturing in GVA to 25% is not clear from the Budget.
- **Private sector investment** - The reason why private sector is not investing despite having resources has not been analysed.
- The measures that are required to be taken to generate confidence with stable policies and transparent regulations have not yet been addressed appropriately.
- **Unemployment and Private consumption** - Unemployment and inadequate consumption of the people at lower part of the pyramid are serious issues that lacked proper focus.
- Though capital expenditure is enhanced, it is with an emphasis on Railways which is not the real employment generator although its multiplier effect on growth is very high.
- **GDP growth** - GDP growth and tax buoyancy may appear achievable with some difficulty.
- However, whether we have laid sufficient foundation for the economy to reach $5 trillion by 2024-25 is not clear.

References

1. The Hindu Businessline | Budget and unanswered questions
2. World Bank | Gross capital formation

SHANKAR IAS PARLIAMENT
Information is Empowering