Infrastructure push now, fiscal consolidation later

The fiscal year 2020-21 has been an extraordinary one, where India had to face an acute economic crisis triggered by a non-economic factor — a pandemic. The National Statistical Office has estimated that the economy would shrink by 7.7%. The Budget, taken as a whole, has provided a reasonable stimulus to growth through a change in the composition of expenditure and other measures to improve the climate for investment. But concerns remain about the fiscal deficit.

Transparency versus stimulus

1. The transferring on to the Budget, the accumulated food subsidies amounting to ₹2,54,600 crore given to the Food Corporation of India through National Small Savings Fund (NSSF) loans will bring transparency.
2. The main expenditure push comes through a budgeted growth of 26.2% in capital expenditure in 2021-22. Relative to GDP, capital expenditure is expected to increase from 1.6% in 2019-20 to 2.3% in 2020-21 RE and 2.5% in 2021-22 BE, signalling a significant change in priority.

Receipts augmentation: National Monetisation Pipeline

1. Budgeted increase in the Centre's gross tax revenues is dependent on nominal GDP growth of 14.4%, with a buoyancy of 1.6 for direct taxes and 0.8 for indirect taxes.
2. The assumed high buoyancy of direct taxes appears optimistic although there would be a positive base effect. The nominal income growth projected may also be optimistic.
3. Significant increases are planned in non-tax revenues and non-debt capital receipts. This increase is mainly predicated on higher dividends from non-departmental undertakings and spectrum sales.
4. An important initiative pertains to the launching of a National Monetisation Pipeline. This would be the first practical step towards asset monetisation. A transparent auction process needs to be set up to facilitate suitable price discovery.

Infrastructure and initiatives

1. The budgeted increase in capital outlay would provide the central government's share to the National Infrastructure Pipeline.

2. Some of the proposed Budget initiatives include setting up a Development Finance Institution (DFI) with an initial capital of ₹20,000 crores, to serve as a catalyst for facilitating infrastructure investment.
3. In order to manage the non-performing assets of public sector banks, there is a proposal to set up an Asset Reconstruction Company and an Asset Management Company.
4. These institutional initiatives may prove to be effective. Much depends upon the fine-tuning of the operations of these institutions.

A road map: A revised fiscal consolidation

1. The COVID-19 shock has fortified the sharp upsurge in fiscal deficits in 2020-21 and 2021-22. The Fifteenth Finance Commission has also proposed a revised fiscal consolidation road map for the Centre and States.
2. The Fifteenth Finance Commission has recommended the setting up of a High-Powered Intergovernmental Group to re-examine the fiscal responsibility legislations of the Centre and States.
3. The Centre has indicated taking the fiscal deficit to 4.5% of GDP by 2025-26. The Finance Commission has also indicated a similar figure.
4. The fiscal deficit must be related to household savings in financial assets and the interest payments to revenue receipts.
5. It should not be forgotten that in fiscal 2021-22, interest payments to total revenue receipts will be 45.3%, pre-empting a significant proportion of revenue receipts. We must be conscious of the burden of the rising stock of debt.

Staying watchful

The RBI's Monetary Policy Committee (MPC) has expectedly yet again left benchmark interest rates unchanged and reiterated that it will continue with its accommodative stance, at least into the next fiscal year, in order to secure a sustained economic recovery.

Highlights:

1. The central bank's rate-setting panel has reasoned that the ongoing recovery is "still to gather firm traction" making it crucial to provide continued policy support for restoring growth.

2. The sharp deceleration in retail inflation in December, when headline CPI inflation eased to 4.6% after being stuck above the RBI's upper tolerance threshold of 6% for six straight months, clearly appears to have smoothed the brow for the six members of the committee and provided them with the space to stay focused in the near term on prioritising growth.
3. The rollout of the COVID-19 vaccination programme as well as the Union Budget's proposals to give a boost to infrastructure, and innovation and research, among other things, have been recognised as factors likely to restore confidence and lend a fillip to the growth momentum, respectively.
4. Rural demand's persistent resilience is what the MPC sees undergirding the demand recovery, aided, in its view, by good prospects for agriculture.

Debt Manager of Government:

1. The central bank has also understandably sought to privilege its role as the government's debt manager through a clutch of regulatory announcements accompanying the latest monetary policy.
2. The two main measures involve extending the enhanced 'held-to-maturity' dispensation for banks buying debt issued by the Centre and States by a year up to March 31, 2023, and allowing retail investors to make direct online purchases of government securities via a 'Retail Direct' gilt securities account held with the RBI.
3. With the Centre alone targeting to borrow as much as ₹12-lakh crore at the gross level in the coming financial year, the debt manager faces the unenviable task of ensuring that the flood of debt not only finds takers at a price that does not push up borrowing costs for the rest of the real economy but also of trying and preventing it from crowding out demand for private investment credit.

Conclusion:

With interest rates being held at near-record lows and inflation still persisting above the RBI's benchmark repo rate of 4% resulting in negative real returns for savers, the RBI can ill afford to drop its guard on vigilance over prices.

The cost of Internet shutdowns

Bottom line: Governments must find a way other than digital curbs to balance civil liberties and security.

Internet Shutdowns

1. A principal concern during farm law protest has been the recurrent shutdowns, ordered by the Ministry of Home Affairs.
2. Unfortunately, these blockages are not new. India shuts down Internet services more than any other democracy in the world. The past four years have seen over 400 such shutdowns.
3. Many parts of Jammu and Kashmir saw a partial restoration of digital services after a long period of 223 days — the longest Internet shutdown across the world — since the abrogation of Article 370 in the erstwhile State.
4. Many, including UN rights groups, termed these shutdowns a form of collective punishment for people, and an overreach of governments on citizens' rights and liberties.

Laws and Fundamental Rights:

1. Currently, Indian laws have vague provisions for suspending telecommunication services, including the Internet, during times of public emergencies, or, if required, for protecting 'public interest'.
2. Meanwhile, the Supreme Court had declared in January 2020 that the right to access the Internet is one of our fundamental rights, alongside the freedom to carry on any trade, business or occupation over the medium of the Internet, under Article 19 of the Constitution.

Impact of Shutdowns

1. The impact of shutdowns becomes even more pronounced during a pandemic. During the COVID-19 outbreak, the ones with good connectivity and know-how of digital tools were able to carry on with their lives with relatively fewer disruptions.
2. Meanwhile, the ones without digital literacy or connectivity found themselves completely left out of all social and economic systems.

3. Blanket bans on digital connectivity during the COVID-19 crisis may breed deep-rooted societal difficulties.
4. The most vulnerable among us may be cut off from health and welfare alerts; there could be breaks in vital digital services, including those currently being used by hospitals to monitor the well-being of their patients at risk of infection, including the elderly, and pregnant women; students may lose access to avenues of learning as classes shift online; journalists may find it impossible to do ground-reporting from already volatile areas.

Massive losses

1. Today, almost all white-collar employment sectors, including IT, financial and consulting services, are encouraging their employees to work from home. Internet shutdowns will freeze economic activity in affected areas and cause large-scale disruptions in economic output.
2. India is estimated to have lost over ₹20,000 crores in 2020 because of Internet shutdowns. Despite the costs and inconveniences involved, the shutdowns, on very rare occasions, do become necessary evils.
3. However, it is hard to classify the ones initiated by the Central government in recent years under those categories.

Alternatives:

1. Internet bans should be a last resort and must be enforced following well-formulated protocols. Emergency response and relief systems for the vulnerable have to then work in parallel.
2. Upgrading cyber divisions of law enforcement agencies with new-age innovations may offer several alternatives. The use of some of these technologies, including mass surveillance systems and communication interceptors, also presents its own ethical dilemmas.
3. As the pace of globalisation, digitisation and connectivity accelerate, balancing civil liberties with security concerns will become an increasingly difficult task.
4. Governments, especially in democracies, will have to create modern, independent institutions that have the authority and expertise to create frameworks that meet these challenges, without falling back on measures that result in state overreach.