Budget cues: Higher capex, more PLIs, relief for MSMEs

SUBHAYAN CHAKRABORTY
New Delhi, 31 January

Sending out a clear message that the thrust of growth will be driven by higher capital expenditure (capex), private consumption, and credit growth to small businesses, the Economic Survey 2022-23 (FY23) has provided some cues on Wednesday's Budget.

The Survey recognised public capex as being a key economic growth driver in the current year. It also said India's economic growth in FY23 has been principally led by private consumption and capital formation. In the first half of FY23, private consumption reached its highest level in nine years, while private capital formation improved due to healthy financials after a decade of the private sector repairing balance sheets.

Consequently, the government is expected to continue on the path it took in the last Budget. It may have to continue the push towards high levels of capex, given how global growth has been projected to decline in 2023 and remain subdued in the years to come.

"A big dose of capex allocation, some income-tax relief to provide more money for consumption at the lower end of the income brackets, a continuation of the credit guarantee scheme for micro, small and medium enterprises (MSMEs), production-linked incentives (PLIs) for new sectors to enthuse private capex, and possible plateauing of the allocation to Mahatma Gandhi National Rural Employment Guarantee Act can be expected in the Budget," said Ranen Banerjee, partner and leader-economic advisory services, PwC India. "Public capex increased 63.4 per cent in the first eight months of FY23. On the current trend, it appears that the full year's capex Budget will be met," observed the Survey. Arguing that while public capex has crowded in private capex since the January-March quarter of 2022, the Survey stressed private capex soon needs to take up leadership role to put job creation on the fast track.

Underscoring the PLI scheme being India's best bet to make domestic manufacturers globally competitive, attract investment in areas of core competency, and create economies of scale, the Survey has drawn attention to the government's efforts to continually expand the list of focus areas under the Make in India Initiative. In line with the Centre's core focus of making India an integral part of the global value chain at a time when many labour-intensive sectors are leaving China for other economies, the Survey has again stressed the importance of PLIs — the list of which may be expanded.

Launched in 2014, the flagship programme has now evolved into Make in India 2.0, expanding to 27 focus sectors. But the Survey has pointed out efforts being made to spur growth in select sub-sectors, many of which currently do not have PLIs.

The Survey hinted that support for MSMEs may continue, stressing the effectiveness of preemptive government intervention. "Recovery of MSMEs is proceeding, as is evident in the goods and services tax they pay, while the Emergency Credit Line Guarantee Scheme is easing their debt servicing concerns," it said.

The Survey referred to Credit Information Bureau (India), or CIBIL, data by showing ECLGS borrowers had lower non-performing asset rates than enterprises that were eligible to ECLGS but did not avail of it.

Further, the GST paid by MSMEs after declining in 2020-21 has been rising since and overtaken pre-pandemic levels of 2019-20, it said.