NEWS ITEMS ON CAG/ AUDIT REPORTS

1. States lag Centre in capex push so far in FY24: CAG-Bank of Baroda data *(business-standard.com)* January 10, 2024

CAG-BANK OF BARODA DATA

States lag Centre in capex push

ASIT RANJAN MISHRA
New Delhi, 9 January

States have been lagging behind the Centre in capex push so far in the financial year 2023-24 (FY24).

During the April-November period, while the Centre has spent 58.5 per cent of its ₹10 trillion capex target for FY24, 26 states cumulatively have spent 45 per cent of the ₹7 trillion target, according to analysis of Comptroller and Auditor General of India (CAG) data by the Bank of Baroda economists.

"The states this year have tended to lag the Centre. Clearly, there is a longer distance to be covered by these states," Bank of Baroda said in its report.

This is also significant because the Centre had allotted ₹1.3 trillion for FY24 under the interest-free loans scheme for capital investment by states. Till November, capex amounting ₹97,374 crore has been approved and ₹59,030 crore released to the eligible states.

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STATUS CHECK

During Apr-Nov FY24

The proactive states

% of annual target

State	%
Telangana	78.3
Haryana	68.6
Madhya Pradesh	65.6
Bihar	60.5
Andhra Pradesh	58.2

The laggard states

% of annual target

State	%
Chhattisgarh	26.7
Punjab	25.4
Tripura	24.1
Arunachal Pradesh	22.5
Nagaland	18.2

Source: Bank of Baroda, CAG

States...

The report has clubbed the states in four categories based on their capex achievements of above 50 per cent (the proactive states), 40-50 per cent (conservative states), 30-40 per cent (not-so-sure states), and less than 30 per cent (laggards) of the overall target. While Telangana tops the table with 78.3 per cent spending of capex target by November, Nagaland is at the bottom with only 18.2 per cent capex in the first eight months of FY24.

The list of other proactive states includes Haryana (68.6 per cent), Madhya Pradesh (65.6 per cent), Bihar (60.5 per cent), Andhra Pradesh (58.2 per cent), Kerala (57.1 per cent), and Tamil Nadu (50.3 per cent).

"These will have fewer challenges in meeting their targets. Five of seven states are from the South. Further, Telangana and Madhya Pradesh were states that had state elections and could have been more aggressive on this score," the report said. The conservative states include Sikkim (49.8 per cent), Himachal Pradesh (49.7 per cent), Meghalaya (48.7 per cent), Rajasthan (46.8 per cent), Assam (46.5 per cent), Odisha (44 per cent), Jharkhand (41.2 per cent) and West Bengal (41 per cent).

The report said these states would have some challenges in meeting their targets but could get closer to the same. "This is so because even if they do want to spend in the last couple of months based on their revenue flows, they would need to have projects in hand to enable the same. There were 8 such states of which 5 were relatively small," it said. The not-so-sure states include Gujarat (39.6 per cent), Uttar Pradesh (37.8 per cent), Uttarakhand (35.3 per cent), Maharashtra (30.9 per cent), and Karnataka (30.8 per cent). The report said this was an important category because it has four states that are the largest spenders on capital. "They together account for a little over 50 per cent of total capex of states. Their joint achievement is 35.5 per cent of the annual target," it said.

Apart from Nagaland, the laggard states include Mizoram (27 per cent), Chhattisgarh (26.7 per cent), Punjab (25.4 per cent), Tripura (24.1 per cent), and Arunachal Pradesh (22.5 per cent). The report said the heavy lifting in capex is still to be done by both the Centre and state governments as data up to December shows that private sector investment may not have yet picked up in a broad-based manner. "The states are more constrained by FRBM (Fiscal Responsibility and Budget Management) norms and could cut back on capex to ensure that the fiscal deficit targets are adhered to. Therefore, the possibility of slippage would be tied to the revenue earned in the next few months," it said.

https://www.business-standard.com/finance/news/states-lag-the-centre-in-capex-push-so-far-in-fy24-shows-govt-data-124010901001_1.html

2. Revdism Has Replaced Rowdyism As The New Menace In Indian Politics. Part III — The Solution *(swarajyamag.com)* January 9, 2024

-Revdis threaten the long-term economic prospects of states just when India is being looked at favourably as the next superstar of the world economy.

-Ultimately, the solution has to come from the political sphere.

The political and economic aspects of revdism were discussed in part I and part II of this series. Now let us look at the possible solutions to the issue. There are three arrows in the quiver, viz., administrative, legal and political. Let us look at each of these one by one.

Administrative

We need a Revdi Index for states, immediately. NITI Aayog, think tanks or even financial magazines can develop the index. It can begin with a loose definition of revdis and map the expenditure to the state revenues, fiscal deficit, debt etc. They can split hairs in the welfarism vs revdi discussion, on whether providing free bicycles to girls or free electricity is a revdi or not, as long as they come up with a workable definition. The recent RBI reports on "State Finances" have already done a lot of the legwork.

Once that is constructed, we should probably look at legislative options for "revdi control"- something self-governing like the FRBM Act. In the debates, let the issues of federalism, people's will etc. be discussed satisfactorily.

But we have to remember that the thief will always be smarter than the police. Even if a "Revdi Control Act" of some sort is passed, babus and politicians could come up with clever ways to circumvent rules. Say, they could devise a public works scheme where attendance is not mandatory. But the idea is to make a beginning, to keep improving the law and to maintain the cat-mouse game at an acceptable level.

These two - the Index and the Act - will provide structure for discussions in Finance Commission meetings, PRAGATI meetings and other center-state coordination forums. Right now, all the battle is rhetorical and there is no quick baseline reference for both the officials and the general public.

Let me just broach another tricky issue - Direct Benefit Transfers. Like the question in the beginning of part-1 of this article series, one can ask, "what stops a future government to promise transfers of say, Rs.30,000, to each adult citizen every month?" So far, the central government has been extremely responsible and has used Direct Benefit Transfer as an ameliorative and short-term "pain relief" mechanism.

Aadhaar, UPI and other technological advancements have made DBTs easy and smooth. This feature itself might tempt politicians to lean towards cash-transfers instead of tackling hard public administration problems. Like revdis, cash transfers can also become morally corrupting, if carried to the extreme. While we debate revdis, it will be prudent to add cash-transfers to the debate as well.

Legal

The legal challenge to revdis started more than a decade ago chronicled in newspapers as the "Subramaniam Balaji vs. State of Tamil Nadu" case. It began as a heroic attempt to challenge the freebie culture in Tamil Nadu. The line of attack was that the pre-poll promises of doles were not just disguised bribery, but also were violative of certain provisions of Article 14 (Protection of Life and Liberty and Equality under law).

In 2013, Supreme Court had dismissed the "corrupt practices" argument as under the Representation of People Act of 1951. It had then asked the Election Commission to issue guidelines on manifestos as a part of the Model Code of Conduct. No further progress seems to have been made on that directive.

Last August, the Supreme Court had agreed to set up a three-judge bench to relook into the same case. A series of related petitions that were not confined to pre-poll promises were also thrown into the mix. The expanded ambit included issues such as, burden to exchequer, free speech, transparency of debate etc. Hope the legal position on the issue will be known sooner than later.

Also, revdis come under the ambit of multiple quasi-judicial bodies. There are multiple jurisdictions involved such as, the Election Commission, the Comptroller and Auditor General of India and the Reserve Bank of India. They have made no explicit pronouncements on revdis.

Political

In the public square, it is difficult to craft arguments clearly distinguishing genuine welfare measures and freebies. Not only the lack of nuance, the positions will be very hard to oppose in the political arena, lest one come across as "anti-poor". The economic argument of increase in productivity at a population level, expressed rhetorically as "samruddhi", is hard to estimate and harder to explain. When revdis are presented as a moral case for human welfare, the only counter could be to subsume it under a larger short-term vs. long-term debate

Revdis have long-term electoral failings as well. The recent election in Telangana offers a case study. The Bharatiya Rashtra Samiti was generous with doles. But the resultant underdevelopment of rural infrastructure and corruption made voters choose an alternative. Unfortunately, the electorate shifted to a competing party that was also offering doles! (In Telangana, the promises made by Congress government would cost the government 1.4 lakh crores. The total government revenues is 1.9 lakh crores. How they will manage to fulfil the promises without wrecking the balance sheet has to be seen.)

The failure of the "NYAY" scheme of Congress in the 2019 general elections and the defeat of incumbent governments recently in Chhattisgarh and Telangana offer teachable lessons. Ambitious politicians that would be aspiring for being more than just "single-term leaders" would have paid heed. Lack of development is the karma that catches-up. But, "long-term" is such a dicey proposition in politics. A strong narrative of empowerment, backed by programs that create enabling conditions for improving the "ease of living" and "ease of doing business", seem to be the way to go. It has been proved successful by PM Narendra Modi, when he was Chief Minister of Gujarat.

Recently, former Finance Commission chief, NK Singh, mooted the idea of "subnational bankruptcies". While the economic ramifications of the idea is not analysed yet, it will definitely make an impact on political narratives.

Also, the politicization of bureaucracy has resulted in the weakening of checks and balances. But it must be acknowledged that if revdis have not become a pandemic yet, it is because of sensible bureaucrats cleverly doing their thing against the pirate instincts of political leaders.

In summary, revdis have their roots in political psychology. They threaten the long-term economic prospects of states just when India is being looked at favourably as the next superstar of the world economy. Doles threaten to overrun the Keynesian (vs. Hayekian) paradigm of state led economic development. They could unsettle not just the economic prospects, but also the moral contract between citizens and the state.

The administrative and legal solutions can only help set up the stage for political debates. Ultimately, it will be people that will choose the way they want to be served. https://swarajyamag.com/politics/revdism-has-replaced-rowdyism-as-the-new-menace-in-indian-politics-part-iii-the-solution

STATES NEWS ITEMS

3. Bigger KLIS aided contractors *(deccanchronicle.com)* January 10, 2024

Hyderabad: The previous BRS government seems to have acted in a dubious manner while enhancing the lifting capacity of the Kaleshwaram lift irrigation scheme from 2 tmc ft of water per day to 3 tmc ft (thousand million cubic feet).

The move helped the high-profile Megha Engineering and Infrastructure Limited (MEIL) grab additional contracts worth Rs 28,000 crore.

The Comptroller and Auditor General, who probed into the project, said: "Taking up of additional one TMC works at a huge cost was unwarranted and led to a substantial increase in the cost of KLIS."

Significantly, in the first Assembly session after the Congress came to power, the ruling party leaders accused the BRS top leadership of enhancing the capacity to make a killing out of the enhanced contracts of Rs 28,000 crore given to MEIL.

The BRS government had submitted a detailed project report to the Central Water Commission (CWC) in February 2017 by which time contracts of the re-designed KLIS and Pranahita works worth Rs 50,000 crore were awarded to companies like MEIL, L&T, Navayuga, and Afcons.

The irrigation department proposed to lift 235 tmc ft in total, out of which 180 tmc ft would be from the Godavari River, 20 tmc ft from Yellampally, 25 tmc ft of groundwater, and 10 tmc ft from the yield of local tanks. It proposed to lift 180 tmc ft from Medigadda during the season at the rate of 2 tmc ft for 90 days.

The government awarded the pumphouse works to MEIL on August 27, 2016, and within 19 days the government, for reasons best known to it, revised the designs of civil works at the pump house, approach channel, and delivery mains to accommodate discharged pumping capacity of 3 tmc ft.

The justification for enhancing the capacity was found only two years later when the CWC pointed out that drawing 10 tmc ft from local water tanks cannot be considered. Instead, it wanted the government to lift 195 tmc ft of water from the Godavari itself.

The CAG said that lifting an additional 15 tmc ft from Godavari could be done either by increasing the number of pumping days from 90 to 98 or enhancing the motor capacities to lift 0.17 tmc ft. However, the BRS government in 2020 decided to install additional pumps and motors to lift 1 tmc ft.

"No justification for increasing the capacity by one more TMC is available in department records," the CAG pointed out. The government also kept the CWC in the dark about creating infrastructure to lift 3 tmc ft in 2016 itself, at the time of submitting the DPR in 2018, the CAG revealed.

The CAG also expressed doubts over the viability of the pressurised piped irrigation system taken up with a cost of Rs 3,653 core. The government initially awarded the work for Rs 2,042 crore but increased by about Rs 1,500 crore though there was no additional aycut to be brought under cultivation.

Then irrigation minister T. Harish Rao defended the PPIS which, he said, would help avoid water evaporation losses. But, the CAG said, "The cost of PPIS works out to Rs 7,465 per acre against the open canal system cost of Rs 1,196 per acre". Further, annual electricity charges to operate the PPIS will be Rs 3,778 per acre, it added. https://www.deccanchronicle.com/nation/current-affairs/100124/brs-govt-awarded-additional-work-of-rs-28000-cr-to-megha-in-a-dubious.html

4. Government starts exercise to understand the quantum and impact of off-budget borrowings *(thehindu.com)* January 09, 2024

Departments directed to include details of government guaranteed loans in the budget proposals

Telangana: The State government has started the exercise to understand the quantum of off-budget borrowings availed of by the previous BRS government.

Accordingly, the government had asked the departments/corporations to include the details of the OBBs in their budget proposals. The departments have been asked to incorporate in a specific proforma the details of the Government Guaranteed Loans raised by the special purpose vehicles that are serviced by the government and loans guaranteed by the government that are being serviced by them.

The departments have also been asked to include details of the non-guaranteed loans raised and serviced by the SPVs/corporations. The proposals should incorporate the name of the lending agency, purpose of loan, guaranteed amount and the amount counter signed along with loan sanctioned and disbursed.

The tenure of the loan, moratorium if any and loan sanction proceedings should also form part of the proposals along with details of principal and interest repayment schedule. The development ahead of budget preparation assumes significance in the light of concerns expressed over the OBBs resorted to by the previous government.

The Comptroller and Auditor General of India, in its State Finances Audit Report for financial year 2020-21 said although the percentage of the total outstanding liabilities to GSDP at 28.11 % was within the limit of 29.5 % prescribed by the XV Finance Commission, it would be way above the limit at 38.1 % if the OBBs were considered. Non-disclosure of OBB had a dual impact of diluting public financial management and legislative oversight and was in contravention of the XV Finance Commission recommendations.

Meanwhile, in a communication to the departments, the government said the budget should be designed for optimal allocation of scare resources taking into account many socio-political considerations. It was a statement of estimated expenditure and the estimated resources for financing the various schemes, during the ensuing financial year.

All the heads of departments/estimating officers were requested to furnish budget estimates for establishment/ maintenance/ principal interest expenditure and for schemes expenditure. Keeping in view the changes in the priorities of the government, the HoDs/estimating officers were directed to analyse the schemes critically and also relevance/necessity of continuing the schemes. https://www.thehindu.com/news/national/telangana/government-starts-exercise-to-understand-the-quantum-and-impact-of-off-budget-borrowings/article67723115.ece

SELECTED NEWS ITEMS/ARTICLES FOR READING

5. Ensuring proper utilisation of funds *(dailypioneer.com)* 10 Jan 2024

The new practice of releasing only a quarter of the budgeted amount to States curbs cash surplus. Remaining amount is released after the given money is utilised

Overborrowing by governments despite having surplus cash has been a perennial problem in our public financial system. It arises because of the peculiar nature of government accounts. Under the government accounting system, all the taxes and borrowings raised by the government go to the Consolidated Fund of the Government while all other amounts received by a government, say from provident or pension fund contributions of employees, or post office deposits etc. from the public go to an account cammed Public Account. While disbursements are made from the Consolidated Fund through budgets, governments do not have much control over deposits and withdrawals from the Public Account.

The net accrual to the Pubic Account is merged with the cash balance of the government and is available for financing its Gross Fiscal Deficit (GFD) if its borrowings on the consolidated fund are insufficient. Additionally, the government may also draw from its cash balance to meet the GFD requirements. The surplus cash balance is the difference between the total financing raised by the government from all these sources less the GFD requirements. While the borrowing under a Consolidated Fund can be adjusted according to needs, the surplus in the Public Account is totally beyond the Government's control, and this is what leads to over-borrowing.

The merger of a public account with the cash balance leads to the problem of over-borrowing. RBI is the banker to both the Central and State Governments and every Government must maintain a minimum cash balance with it. If the actual cash balance falls below the agreed minimum on any day, the deficiency is made good by taking normal and special ways and means advances or overdrafts from the RBI. If the specified minimum cash balance is exceeded by a state, the surplus is automatically invested in 14-day Intermediate Treasury Bills (ITBs) of the Government of India whose returns are much below the RBI repo rate and significantly lower than the rate of interest the government pays on its market borrowings and hence constitutes a negative carry for the government. Since public account balances, being merged with the cash balance, could be invested only in treasury bills, the option of investing them in other more attractive instruments is not available. Thus, the states lose by way of paying higher interest on market borrowings while earning much less from its surplus cash balances, while the Centre through its modified exchequer control-based expenditure management system attempts to optimize its cash balance.

The most perilous and unpredictable consequence of states' cash surpluses is their impact on the Union finances because all treasury bill investments are automatically available to the Central Government and constitute part of its financial liability. They also have inflationary potential with a consequent impact on macroeconomic stability. Government finances are spread over many agencies throughout the country – ministries, departments, subordinate offices and autonomous bodies (ABs) financed by grants. Each maintains its cash balances in the government accounts maintained at specified branches of SBI and other nationalized banks which act as agents of the RBI which is the banker to the government; it is thus impossible to know the total cash balance available at the disposal of the government in real time to determine borrowing requirements and hence reduce the borrowing costs.

In 2010, an IMF Working Paper suggested the concept of a Treasury Single Account (TSA) based on its experiences in different countries for consolidating and managing governments' cash resources. Another IMF paper published in 2011 stated the three key principles of TSA: "(i) unified banking arrangement to promote consolidation of government funds and enable real-time tracking of cash resources; (ii) exclusive treasury oversight, i.e., no government agency other than the Finance Ministry should maintain bank accounts independently; and (iii) comprehensive coverage for complete inclusion of cash balances from all government entities to provide a holistic view of the government's cash position."In India, the TSA system has been adopted in a phased manner, starting with ABs. In 2015, the Expenditure Management Commission recommended bringing the ABs under a TSA for comprehensive oversight and centralised control over the government's financial resources. A TSA for ABs is nothing but an assigned bank account maintained with the RBI to receive all grants from the Centre. More than 200 ABs were brought under the TSA by 2022.

The scheme was gradually extended to the States and implementing agencies receiving funds under the Central Sector (CS) schemes which are fully funded by the Centre and Centrally Sponsored Schemes (CSS) which are funded both by the Centre and the States, with the Centre funding the lion's share while implementation responsibilities lie with the States. For the CS schemes with outlays above Rs 500 crore, it is now mandatory to transfer all funds only through a TSA. Each scheme is tagged to a Central Nodal Agency (CNA) which has an account with the RBI or its agency bank, and any unutilized amount will lapse to the Centre at the end of the financial year (FY). During FY23, Rs 2.75 lakh crore was thus allocated to schemes through the CNA route.

The TSA model used for the CSS is called Single Nodal Agency (SNA) in which each State designates an SNA for each CSS which opens a single nodal account with a commercial bank. The implementing agencies use the SNA's account through zero-balance subsidiary accounts with predefined drawing limits. The Centre's share for each CSS is released to the state's account with the RBI, which then transfers the amounts to the SNA's account. This arrangement has eliminated delays, enabling the 'just in time' release of funds for payments. More than 3000 SNAs have been created by linking around eight lakh implementing agencies. For both CS and CSS, funds are promptly released by the Central Ministries to CNA/SNA and the float in the account is kept at a minimum.

The Ministries release only a quarter of the budgeted amount at a time, and the additional funds are released only after the utilisation of 75 per cent of the earlier funds to prevent the accumulation of unspent balances. An SNA Dashboard launched in 2022 provides real-time data-driven information on releases, expenditures, balances and interest earned for each account, enabling better-informed decision-making. A recent RBI Report on state finances stated that this new system of cash management by unifying the earlier fragmented system of baking arrangements has reduced the number of accounts maintaining CSS funds from a humongous 18 lakh to only 3,300, and saved some Rs.10,000 crore for the Centre in 2022-23.

States are already benefiting from the new system- since expenditure on a CSS in a State is being made from a single account, submission of utilisation certificates for the release of more funds has become easier. From the data on unspent balances, the Centre can now see the State-wise float available for a CSS before further release of funds. Several states have also started moving towards a similar system at their level so that they can monitor and prioritise the release of fresh funds to districts, blocks, and gram panchayats based on their utilisation of the previously allocated funds, and monitor the interest credited by the banks on their balances. This may finally eliminate the problem of overborrowing while having surplus cash. For the Centre, though the new system has improved delivery, efficiency and transparency, the real culprits are the huge numbers of CS and CSS, which together account for over 800 schemes. If the Centre is serious about improving financial transparency and efficiency, the number of such schemes must come down drastically. https://www.dailypioneer.com/2024/columnists/ensuring-proper-utilisation-of-funds.html

6. Why nutrition, not hunger alleviation, needs to be India's primary focus *(livemint.com)* 10 Jan 2024

Rather than blowing the budget on free foodgrains, the government should focus on providing access to a more balanced diet, including higher protein consumption

A key part of Prime Minister Narendra Modi's vision for 'amrit kaal', or golden era, is eliminating hunger in India. That is why the government decided to extend the Pradhin

Mantri Garib Kalyan Anna Yojana, or PMGKAY, scheme, which aims to provide free foodgrains to the poor for another five years beginning this month.

The government will spend ₹11.8 lakh crore to provide 5 kg of free foodgrains every month to an estimated 810 million people covered under the National Food Security Act. It is arguably the largest such intervention programme in the world.

Nothing exemplifies the existence of 'two Indias' than the fact that headlines on the free food scheme competed with headlines about India sending missions to the moon, our capital markets becoming the world's seventh-largest, and another year of record economic growth.

Even as India speeds towards its target of becoming a $5-trillion economy by 2025-26, free rations are still required for more than half the population.

But despite running the world's largest free foodgrains programme, having the world's largest public distribution system delivering subsidised grains, pulses and essentials to the poor, and running the world's largest food intervention programme aimed at children–the mid-day meal scheme–India is a long way off from achieving a nutritious diet for its masses.

While PMGKAY has been a resounding success, another ambitious programme has failed to meet its objectives. The Poshan Abhiyan scheme (Prime Minister's Overarching Scheme for Holistic Nutrition), launched in 2018 as a multi-ministry convergence programme with the goal of eradicating malnutrition in India by 2022, has missed its goal by a good margin.

According to the UN's report on 'Monitoring the health SDG goal' published in 2022, prevalence of stunting in children under 5 years was 30.9% in India (2020 figures), and of wasting in children was 19.3%. Also, 53% of women of reproductive age (15-49 years) were found to be anaemic.

According to the National Family Health Survey, while a substantial majority of the population no longer goes hungry thanks to free or subsidised rations, a balanced and nutritious diet is still a long way off.

Only 48.8% of adult men and women consume milk or curd daily, while 5.8% of men and 3.7% of women had never consumed either. Milk and curd are a significant source of protein for the Indian population, particularly vegetarians.

Less than 50% of adult men and women consume pulses or beans daily while fruits form part of the daily diet for a little over 12% of the population. Only 6-8% of the population consumes eggs, fish, chicken or meat daily.

A recently released 'Global Hunger Index' prepared by two European nonprofits ranked India 111 out of 128 countries on the index.

While the findings were dismissed outright by the government, it is to be noted that the index looked at four factors for its calculations: undernourishment, child stunting (share of children who have low height for their age); child mortality (under 5 years of age); and child wasting.

These are indicators of under or malnourishment rather than outright hunger, and need to be viewed as such. The government's own numbers, as revealed by the National Family Health Survey, point out that India has a nutrition problem more than a hunger problem.

This is why policy focus has to shift from alleviating hunger–which schemes like PMGKAY address–to addressing the problem of deficient nutrition or malnutrition.

Rather than blowing the budget on free foodgrains, which address the calorific need but not quite the nutritional needs, the government should focus more on balancing the diet better and ensuring access to a better quality of intake, including higher protein consumption, particularly among children and women.

This will have positive outcomes in other fields as well. Healthier foods lead to better learning outcomes in children, which in turn leads to opportunities for better quality of work and enhanced productivity.

It is not just about allocating more funds for nutrition programmes. Awareness among even healthcare practitioners is low since our health education system focuses more on curative rather than preventive approaches. Nutrition has to form a key part of the curriculum, as better awareness will also help drive better dietary habits. https://www.livemint.com/opinion/why-nutrition-not-hunger-alleviation-needs-to-be-india-s-primary-focus-11704794538570.html

7. Indian economy in relative comfort, but seize the reform opportunities *(moneycontrol.com)* Jan 10, 2024

Budget 2024 comes at an interesting time when the Indian economy is projected to grow at 7.3 percent in the current year, and future growth projections are reasonably optimistic. India is expected to continue as the fastest growing major economy of the world

The annual event of the year for economists is just a few weeks away, with elaborate wish-lists being prepared. These wish-lists are not limited to just economists as industry, business houses, and the aam aadmi each prepares their own versions, their own expectations from the upcoming budget.

This budget comes at an interesting time when the Indian economy is projected to grow at 7.3 percent in the current year, and future growth projections are reasonably optimistic. India is expected to continue to remain as the fastest growing major economy of the world. This growth is supported by heavy capital expenditures by the government in infrastructure.

Global growth was expected to lose momentum in 2023-24 but those expectations did not materialise. It is expected that global growth would indeed lose momentum in 2024-

25. There are way too many unknown-unknowns and therefore, one has to be cautious while forming future forecasts.

In any case, Indian policymakers face an additional challenge due to lack of good data given its CPI weights are over a decade ago and that a base year revision even of the GDP numbers are due. Such routine exercises have, in the recent past, been subject to criticisms – some with merit, some without them.

Tackling High Fiscal Deficit

Given this backdrop, there is also the issue of fiscal space and particularly how much can the government consolidate in the medium term to have future space to respond to growth challenges. Many have been looking at tax revenues – both direct and indirect – to argue that India has some fiscal room.

The unfortunate reality is that the pandemic saw the use of much of the fiscal space available in most countries and India is no different. Despite the robust tax revenues, the fiscal deficit still remains high, and it needs to be reduced over the next couple of years. There are choices regarding the pace of reduction in the deficit, for example whether to reduce it by 0.2 percentage points every year for five years or to do 0.5 percentage points every year for two years. The choice and pace of consolidation matters even as both the cases illustrated above reach a 1 percentage point reduction in the fiscal deficit.

India is in a relatively comfortable situation given that its fiscal position will look much better over the coming years as it transitions to a $5,000 per-capita GDP economy. Basically, more households with taxable income and more income would result in more tax revenues.

So, given that growth is good and fiscal balances are yet to be repaired, what to expect from the budget? The first would be a fiscal roadmap that outlines projected fiscal consolidation over the coming years. A conservative fiscal consolidation roadmap would indicate the government's commitment to upgrading India's infrastructure even as it credibly commits to reducing the deficit.

Reforming Tariff Policy

Apart from a fiscal consolidation roadmap, there are several low hanging fruits that could help. An example would be of tariffs, particularly on import of raw materials that feed into India's manufacturing sector. A trade policy that integrates well with India's industrial policy will be instrumental in further assisting the shifting of supply chains.

A comprehensive reform of tariffs is long due and would help fix the inverted duty structures that have emerged due to ad hoc tariff changes. A tariff policy consistent with India's industrial policy and its domestic taxes (GST) has the potential to reduce distortions and streamline domestic supply chains as they integrate with their global counterparts.

Another low hanging fruit would be to ease the compliance burden and further improve ease of doing business by simple procedural reforms. The standard declaration procedures from other countries can be useful for simplification of processes, reduction in size of the existing forms and pre-filling data through improved data sharing across different departments within a data protection policy architecture.

Simplify Tax Code, Tax Schedule

One more area where there is scope is on India's direct taxes – and here there are two issues. The first is a revenue neutral issue of adoption of a modern direct tax code. Such an adoption would have no revenue implications as the tax schedule remains virtually unchanged.

However, the new tax code would clearly define different aspects of earnings and simplify the existing tax code. A natural benefit of this would be reduced tax litigation going forward. This is consistent with the push towards simplification and improving ease of living over the last several years.

The second issue is one of the tax schedule – and one where there are difficult choices to be made. It is evident from comparison of India's current tax schedule (the new regime) that the number of marginal tax rates can be further reduced and the income slabs can be gradually widened.

Doing so would benefit some taxpayers at the expense of others, but at the same time greatly simplify the overall tax schedule. Of course, there is the perennial issue of overtaxing incomes at the top while under taxing incomes at the bottom, but that is a policy preference of virtually all governments to have an extremely progressive taxation structure.

There may be some policy levers that are still available with the Finance Ministry as it finalises the upcoming budget. However, given that the economy is expected to do well, not much is warranted at this stage. A credible fiscal consolidation roadmap is sufficient, anything beyond this is like a cherry on top of a cake – that is, well appreciated. https://www.moneycontrol.com/news/opinion/budget-2024-indian-economy-in-relative-comfort-but-seize-the-reform-opportunities-12027931.html

8. Gadkari slams agencies for bidding out projects without having enough land *(timesofindia.indiatimes.com)* Jan 09, 2024

NEW DELHI: Union road transport minister Nitin Gadkari on Tuesday called out engineers and officers for focusing more on bidding out projects even without having enough land, which causes delays and results in disputes. He also slammed consultants preparing detailed project reports (DPRs) for NH projects, saying not a single DPR in the last 10 years was perfect.

Addressing a conference on 'Quality of DPR and Construction of Highway Projects', Gadkari said that government officers have contributed to some companies going bust. "It doesn't look good on my part to say this. But officials in NHAI and other government organisations have ensured some companies go bankrupt by not taking decisions. The companies have stopped working," he said.

Citing an example of how systemic problems have hit the sector, Gadkari said a former chief of a highway organisation went on awarding highway projects even when they had barely 10-20% of the land required for carrying out works. “Today, all those projects are delayed and there are disputes,” he said.

Gadkari also recalled one of his interactions with officials and contractors in Karnataka where he was told about the high number of disputes. “I asked why the contractors signed for projects when there was less than 40% land available. They did so only for 10% mobilisation advance and took it because they had to buy peace for the future. I told them they distributed money to officers and politicians in advance. The contractors took projects after giving in writing that they have got full land. This resulted in cost escalation and disputes,” he said.

In his address, he said the quality of DPRs and the consultants preparing them have “pained” him all these years. He urged them to come up with time-bound and qualitative systems for preparation of good quality reports since these are key for development of any road stretch. The minister said consultants can raise the cost for preparing DPRs, if needed, as these can ultimately save money and ensure timely completion of projects.

Gadkari said that the government is ready to accept, if you raise the DPR cost by 2% for high quality reports as it will help us to save 25% of the construction cost and reduce the number of litigation and arbitrations in the sector. He said there is a need to go for project management consultancy (PMC) system and step-wise payment to DPR consultants linked to the progress and quality work. https://timesofindia.indiatimes.com/india/gadkari-slams-agencies-for-bidding-out-projects-without-having-enough-land/articleshow/106675953.cms?from=mdr

9. A looming crisis: How India can balance its water demand and supply across sectors? *(financialexpress.com)* January 10, 2024

In 2020, while India’s domestic sector required 54,000 billion litres water, the agriculture sector needed 14 times more—776,000 billion litres.

Whether the resurgence of the more-than-a-century-old Cauvery dispute between Karnataka and Tamil Nadu or reports of depleting water reservoirs, fair water allocation needs attention as it is an important lever for ensuring water, food, and livelihood security. Water cannot be thought of in a silo in India, especially since it is critical to our food and energy needs.

In 2020, while India’s domestic sector required 54,000 billion litres water, the agriculture sector needed 14 times more—776,000 billion litres. According to estimates by the Council on Energy, Environment and Water (CEEW), the agriculture sector will account for 87% of India’s water demand by 2030. This will inevitably stress our limited water resources. Disputes between competing water sectors such as agriculture and industries could also become mainstream.

Across the aisle P Chidambaram: It’s Happy New Year for some

The food, land, water and energy sectors are critically interlinked, and action on one of these sectors without careful consideration of the trade-offs in the other sectors could lead to detrimental impacts. The impacts of such one-track policies during India's Green Revolution, such as power subsidies for groundwater irrigation in Punjab and Haryana, are still visible.

These states have seen severe groundwater depletion and soil subsidence. The Indian government in 2019 reported that power subsidies to the agricultural sector are in the range of Rs 80,000-91,000 crore. Minimum Support Prices (MSP) have also traditionally incentivised water-intensive crops such as rice, wheat and sugarcane. Even now, unregulated irrigation practices and indiscriminate use continue to deplete groundwater levels at an alarming rate. CEEW estimates that the cost of inaction towards improved agriculture water management could be to the tune of Rs 48 trillion in 2030 and Rs 138 trillion in 2050.

We recommend three steps to improve India's water security to strengthen its food systems in the coming decades. First, governments, especially in the states should scale up improved on-farm irrigation and water practices. Technologies and practices such as precision agriculture, including micro-irrigation and mulching, and policy reforms like water auditing and volumetric pricing are critical. Based on our analysis, if such practices are adopted, almost 20-47% of irrigation water can be saved in 2030 and 2050 respectively. India is already promoting such efficient irrigation practices through the Rashtriya Krishi Vikas Yojana's Per Drop More Crop scheme. In fact, by 2022, 7.2 million hectares of agricultural land were brought under micro-irrigation.

Last year, the G20 Leaders' Summit committed to building more sustainable and climate-resilient agriculture and food systems by "accelerating innovations and investment". Investments, innovations and incentives for improved irrigation and water management in agriculture will be crucial to scaling up sustainable practices. Second, food, land, water and energy policies should integrate the nexus at all stages—design, implementation, monitoring and impact evaluation.

An independent body within the government could guide the planning process of schemes and policies administered by nexus-relevant ministries like the ministry of jal shakti, ministry of agriculture and farmers' welfare, ministry of new and renewable energy, ministry of petroleum and natural gas, and ministry of power. While the need for this is critical at the national level, states could also assess their requirement based on efficiency of existing mechanisms.

For instance, Odisha has already institutionalised a state department called the Planning & Convergence Department that coordinates and synergises efforts of various schemes and policies for efficiency and nexus integration.

The Composite Water Management Index, developed by NITI Aayog in 2018, also acknowledges nexus linkages that measure progress not just in the water sector but also interlinkages with related sectors like food and energy. Safeguarding critical inputs of food production like land, energy and water by considering their interactions is paramount for the agriculture sustainablility and consequently food security of India.

Third, scale up community-managed groundwater practices to make this critical resource sustainable. As climate change disproportionately increases the vulnerability of water, the need for a shift in attitude from consumption to conservation is crucial. This will ensure that India secures its already over-exploited groundwater resource that sustains 62% of India's agricultural irrigation. Updated and localised datasets to keep track of the status are also crucial.

India's central scheme called Atal Bhujal Yojana is a step in this direction, whereby planning for water security and necessary data are to be collected at the gram panchayat level by the community. One of the major responsibilities of this scheme is to train the village community to develop water security plans. Such community participation in groundwater planning has shown promising results in the past and scaling it up through government schemes is a favourable step.

India's success in ensuring food security by 2030 will largely depend on its approach to managing water. Understanding water as a part of a nexus while drafting and amending policies will be key to a water and food-secure future. https://www.financialexpress.com/opinion/a-looming-crisis-how-india-can-balance-its-water-demand-and-supply-across-sectors/3360272/

10. A series of COP-outs: A fossil fuel fiasco or a turning point for climate action? *(financialexpress.com)* January 9, 2024

People are starting to lose faith in the climate negotiations because of how the West puts its interests ahead of the planet's.

A lot has been said (and written) about the decisions taken in COP28, especially about the language on transitioning away from fossil fuels in a just and orderly fashion so as to achieve net-zero by 2050. One wonders if this rather bland statement is really a significant step forward as far as climate change is concerned. It is true that fossil fuels have been mentioned for the first time, since, in the earlier COPs, only coal had been mentioned and the expression used was 'phase-down' instead of 'phase-out'.

The fact is that even coal 'phase-down' is not really happening. Take the case of India. Today, we are going full steam ahead with coal generation, at least till 2030. Similarly, during the Ukraine crisis, countries in West made a beeline for coal-based generation and were busy reactivating their mothballed coal plants. The point being made is that this seemingly perfunctory statement about transitioning away from fossil fuels does not mean that something concrete is going to happen or that the use of fossil fuels will actually come down even in the medium term. In fact, the presence of a large number of oil producing majors during COP28 was intimidating.

Surely, they were not present there in such large numbers to ensure their own demise! It is just the otherwise. Countries debate a lot before arriving at the final communique in COP and the developed world does not concede an inch if they view something that is inimical to their interests, no matter how selfish they may be. The fact is that even after accepting the final communique, they refuse to act on it or engage in subterfuge and statistical jugglery.

One is referring to the issue of transfer of resources to the tune of $100 billion a year. Though on the table for each successive COP (including COP28) for more than 10 years, it is not happening. Though OECD data may indicate that a sum of about $80 billion was reached last year, it is only statistical jugglery. The fact is that the developed world is not interested in parting with any money despite the fact that they have used up, and still continuing to use most of the carbon space available to limit the rise in the earth's temperature to 1.5 degrees centigrade.

Quite as expected, the approach of the developed world to the loss and damage fund is also on similar lines. There is too much brouhaha that the fund was operationalised on the very first day of COP28. Operationalising a fund whose coffers are almost empty is no big deal! Till today, only about $800 million has been pledged! As against this, the communique of COP28 itself admits that about $5.8 trillion is needed. Moreover, the finer issues are yet to be decided, for example, what actually constitutes a loss and damage, who will be the beneficiaries etc.

What, however, has been decided is that there will be no legal requirement for any country to contribute to the fund and further, any contributions made cannot be viewed as reparations. Thus, the developed world has no accountability though they are responsible for the climate issues being faced by the least developed countries especially the small island states. It would be interesting to know that the world's largest historical polluter, the US, has pledged a meagre $17.5 million (out of $800 million) to the fund.

This is nothing but an insult to the millions of poor people facing the wrath of climate change, challenging their lives and livelihoods. To draw a comparison, readers may like to note that under the USA's Inflation Reduction Act (2022), a budget of $750 billion has been drawn up out of which a little more than 50% would be spent on climate related activities. The plan is to roll out liberal tax credits for activities which are seen to be climate friendly, purchase of electric vehicles being one such example. A liberal tax credit of $7,500 will be given for purchase of a new electric vehicle and it will be $4,000 for an old vehicle.

If there is anything which comes to the fore in climate change discussions, it is not reduction in carbon (or greenhouse gas emissions), it is hypocrisy at its very best. To prove that, one needs to go back to the subject of coal. The developed world has strongly advocated the phase-out of coal. It is countries like India and China who objected and the term 'phase-out' during COP27 and it was then diluted to 'phase-down'.

Even during COP28, there was an attempt to make coal-based generation more difficult by insisting that all new coal plants should have an in-built carbon capture mechanism. After objections from India, China and South Africa, this clause was dropped. The West targets coal because their dependence on coal is limited as they have access to cheap gas. It would be interesting to learn that in the US, only 20 % of their electricity is generated from coal whereas for the UK, the corresponding figures is a mere 1.6%. Since India does not have access to cheap gas, it has no alternative but to rely on coal, at least for the time being. The West has never called for a phase-out (or even phase-down) of oil and gas because they are highly dependent on them for their industrial and transport sectors. Incidentally, the USA itself is the largest producer of oil and gas today.

To sum up, people are losing faith in the meetings of the COP. These annual jamborees (which are getting increasingly bigger in size) are doing little service as far as climate change is concerned. They are, of course, giving a boost to the local tourism and hospitality industry and the next beneficiary will be Azerbaijan where COP29 would be held. Rest assured, the hoteliers in Azerbaijan would be an extremely busy lot today making preparations for the next gala affair! https://www.financialexpress.com/opinion/a-series-of-cop-outs-a-fossil-fuel-fiasco-or-a-turning-point-for-climate-action/3359990/

11. Resolving stranded thermal assets can guide India's clean energy journey *(economictimes.indiatimes.com)* Jan 10, 2024

Punjab clinched the deal at a record-low price of nearly Rs 20 million/MW, one of the s discounts for such assets in India. Notably, the Central Electricity Authority (CEA) estim new builds to cost Rs 83 million/MW. The Punjab government's recent acquisition of a stranded 540 megawatt (MW) Goindwal Sahib thermal power plant (TPP) for Rs10.8 billion sends a positive signal amid an overall push towards rapid thermal capacity expansion in the country.

Punjab clinched the deal at a record-low price of nearly Rs 20 million/MW, one of the steepest discounts for such assets in India. Notably, the Central Electricity Authority (CEA) estimates new builds to cost Rs 83 million/MW.

The move has several benefits. It secures substantial cost savings for Punjab's taxpayers, meets increasing power demand in the state, prevents new thermal capacity additions along with new transmission capacity, diverts critical capital away from high-emission assets and tackles existing stranded capacity. Further, it also aligns with India's clean energy transition goals.

The Institute for Energy Economics and Financial Analysis (IEEFA), in its report on resolving the last pile of India's power sector nonperforming assets (NPAs), argued that resolving stranded assets of 6.1 gigawatts (GW), including Goindwal Sahib, will help achieve the above mentioned benefits. The report identified six such assets, considering factors such as additional capacity addition onto the grid, possible haircut on sale of assets, current coal linkages, state of supporting infrastructure, vintage of assets, and state of planned capacity. Identifying and resolving such plants will essentially reduce the build-up of new thermal assets by an equivalent amount in the country.

Renewed Reliance on Thermal Power
India aims to add 17GW of coal-based power generation capacity in the next 16 months, its fastest pace in recent years, to avert outages due to a record rise in power demand. Concurrently, the power ministry estimates that against the 27GW of thermal power plants currently under construction, India would need to add 80 GW of coal-based capacity to meet the peak demand projections by 2030.

After adding 22GW in the fiscal year (FY) 2015-16, India cut back on plans to add coal-fired plants as the government opted for renewable energy capacity. However, rising electricity demand on the back of a rapidly expanding economic activity in the country and several headwinds that the renewable energy sector has faced over the last two years have nudged the government to relook at thermal power as a fix against any power crunch in the foreseeable future. Moreover, while the current costs of providing firm and dispatchable renewable energy are currently competitive with new thermal assets, that may not be true in all cases, pit-head thermal plants being a case in point.

Besides having the potential to derail India's energy transition journey, a higher reliance on coal diverts scarce capital towards these high carbonemitting assets, which locks in capital that could otherwise fund renewable energy assets. The last cycle of banking NPAs stemmed largely from the power sector, with 40.1GW of thermal power plants deemed "stressed". The banking sector has largely resolved its NPAs and is in its best shape in years, thanks to significant write-offs of bad loans. However, when renewable energy is projected to be more costcompetitive and firm, further financing of thermal assets can trigger a fresh NPA cycle for banks.

Turning Tides for Low Carbon Assets

While the renewable energy sector faced significant headwinds till earlier last year, the situation is improving dramatically. For instance, prices of imported solar modules that peaked in late 2022 are estimated to have declined to an all-time low of US¢12-13/watt in December 2023 from the high of US¢27-28/watt in the fourth quarter (Q4) of FY 2021-22. Similarly, battery energy prices have been estimated to have fallen by 24% over the last year due to falling raw material prices. India is also adding a significant pumped hydro storage capacity over the next couple of years, with NTPC alone planning 14GW. These developments will help renewable energy become even more cost-competitive than thermal power.

Additionally, the bond market carnage in emerging markets over the last couple of years due to a tightening monetary policy regime in developed markets seems to have ended. India's 10-year benchmark bond yield was down 15 basis points in 2023, following a 143 basis points rise in the previous two years. This is good news for green bond issuers that refinance operational renewable energy assets through these instruments, primarily in global markets.

Resolution of the power sector NPAs can be a viable alternative to adding new thermal capacity. Strategic acquisitions have successfully resolved several power sector NPAs through higher bids and lower haircuts for lenders, given the higher value of underlying assets for strategic buyers. Both public and private sector utilities, as well as state entities like in Punjab's case, can make these acquisitions. On an aggregate level, such actions will help reduce the build-up of green/brownfield thermal assets. and keep India on its energy transition pathway. https://energy.economictimes.indiatimes.com/news/power/resolving-stranded-thermal-assets-can-guide-indias-clean-energy-journey/106687232

12. Likely hike of 50% in FY25 Budget outlay for MGNREGS *(indianexpress.com)* Updated: January 10, 2024

So far in FY24, 2.45 billion person days of work have been generated and the number could touch 2.94 billion by March, the same as in FY23.

The government may earmark around Rs 90,000 crore for flagship Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) in the Budget estimate (BE) for 2024-25 (FY25), an increase of 50 per cent over the BE for FY24, in a strong signal to the poor ahead of approaching general elections.

Rampant misappropriation of funds allocated under the flagship scheme was one of the main triggers for the Centre to make a five-year-low provision of Rs 60,000 crore in the FY24BE for the rural jobs programme.

A likely higher upfront allocation for the jobs guarantee programme for FY25 means the government would largely stick to it through the year, without seeking supplementary grants, an official said.

While providing a lower allocation for the current fiscal, the Centre had promised more funds as and when required for MGNREGS, which is a demand-driven programme.

The scheme is intended to provide at least 100 days of guaranteed wage employment in a financial year to every household in rural areas of the country, whose adult members volunteer to do unskilled manual work.

As the funds provided for the current fiscal were exhausted by October, the Centre provided an extra allocation of Rs 16,143 crore in the first supplementary demand for grants in early December. It is likely to provide another Rs 12,000 crore for the flagship scheme in the revised estimate for the current fiscal in the Budget, taking the total outlay to around Rs 88,000 crore.

In the meantime, the Centre is taking various initiatives to plug leakages, which some estimates suggest could be around 30 per cent of the annual spending in the scheme. The Centre stopped disbursement of funds under the scheme to West Bengal due to corruption allegations.

From January 1, the government has made the Aadhaar-Based Payment System (ABPS) mandatory for payment of wages. Under the ABPS, the Aadhaar of a worker is linked with her MGNREGS job card and bank account.

Direct benefit transfer (DBT) has saved an estimated 10 per cent on wages on account of the deletion of duplicate, fake/non-existent, and ineligible beneficiaries till March 2022.

So far in FY24, 2.45 billion person days of work have been generated and the number could touch 2.94 billion by March, the same as in FY23.

According to official data, month-wise work demand has moderated from 3.37 rore in June to 1.77 billion in November 2023. It rose marginally to 1.99 billion in December. With the Opposition political parties trying to make the demand for a caste census a hot potato ahead of general elections in April-May, Prime Minister Narendra Modi recently said that for him the poor, youth, women and farmers as the "biggest castes", and uplifting of these four would make the country developed. https://indianexpress.com/article/india/likely-hike-of-50-in-fy25-budget-outlay-for-mgnregs-9102608/

13. India story intact in worst half decade of growth in 30 years, says World Bank *(businesstoday.in)* Jan 09, 2024

India forecast an annual growth of 7.3% in the fiscal year ending in March, the highest rate of any of the major global economies.

The World Bank sees India retaining the fastest-growing major economy tag, logging log 6.4% growth in FY25 and accelerating to 6.5% in FY26 despite a slowdown. “Investment is envisaged to decelerate marginally but remains robust, supported by higher public investment and improved corporate balance sheets, including the banking sector,” the World Bank said in its latest Global Economic Prospects report.

India forecast an annual growth of 7.3% in the fiscal year ending in March, the highest rate of any of the major global economies, in what is being seen as a boost for Prime Minister Narendra Modi ahead of the general elections scheduled to be held before May.

“These are early projections for 2023/24,” the National Statistical Office (NSO) said in a statement this Friday, adding improved data coverage, actual tax receipts and spending on state subsidies could affect subsequent revisions.

The World Bank estimates India to grow 6.3% this fiscal. The World Bank has projected global growth to slow further to 2.4% in 2024 from 2.6% projected for 2023, calling it the weakest half-a-decade performance in 30 years.

The bank warned that without a “major course correction,” the 2020s will go down as “a decade of wasted opportunity.”

On private consumption in the coming fiscal year, the World Bank said it is likely to taper off. "As post-pandemic pentup demand diminishes and persistent high food price inflation is likely to constrain spending, particularly among low-income households.”

The institution cited interest payments as a cause of concern. “In India, government revenues are expected to gain from solid corporate profits, and current expenditures are likely to decrease with the conclusion of pandemic-related measures. Interest payments are projected to be large in countries with elevated debt levels, including India, Pakistan, and Sri Lanka.”

The bank flagged risks from extreme weather events and elections. “The heightened uncertainty around these elections could dampen activity in the private sector, including foreign investment,” it said, noting that the implementation of policies to reduce uncertainty and strengthen growth potential after elections could lead to an improvement in growth prospects. https://www.businesstoday.in/latest/economy/story/india-story-intact-in-worst-half-decade-of-growth-in-30-years-says-world-bank-412541-2024-01-09

14. India's K-shaped recovery is not so easily debunked *(livemint.com)* 10 Jan 2024

A report by SBI Research aims to debunk the notion of a rich-versus-poor divergence in how we have fared but the overall weight of evidence doesn't justify rejecting the K hypothesis.

The letter 'K', whose shape is often used to denote a divergence in how the rich and poor are faring, has animated India's economic discourse of late. Now, SBI Research, a department of the government-run State Bank of India, has weighed in with a report that attempts to debunk the notion of a 'K-shaped recovery,' calling this label "ill-concocted" and flawed for overlooking data that points to reduced inequality in what Indians earn, as recorded by the Central Board of Direct Taxes (CBDT). As its chief exhibit, the report spotlights an income escalation over seven years since 2013-14 among lower-bracket taxpayers, with top earners having seen their share of the total reduce. "Income inequality captured through the Gini coefficient… of taxable income has declined from 0.472 to 0.402 during FY14–FY22," it says, referring to a statistical formula that would yield 0 under perfect equality and 1 if a single person earned it all. The SBI report speaks of a "great migration at the bottom of the pyramid." Its observations, however, do not dispel suspicions of the hard-up having faced heavy financial hardships in recent years while the well-off prospered.

First, as tax data is released with a lag, 2021-22 is the latest fiscal year taken into account by the study. While it spans a period that saw a cash-scarcity shock, with India's informal sector bearing the brunt of it, 2021-22 was when our economy made up for its covid contraction and regained its pre-pandemic size of 2019-20 (plus a bit). Most readings of the rich getting disproportionately richer, however, relate to rather more recent signs, like a sharp profit pick-up and dividend bounce-back that went with a pacy recovery in 2022-23 and this year, even as sales trends across consumer markets were seen to diverge between stuff bought by the wealthy and poorer folks. Clearly, we need up-to-date tax data for a clear picture. Second, and far more critically, our lowest tax brackets do not qualify as 'bottom of the pyramid,' given that taxpayers form what is itself the apex of a much larger base of households. The SBI report cites CBDT data to state that 74 million people filed Income Tax Returns in 2022-23 (for fiscal 2021-22 earnings), up from about 70 million the previous year. Although we have no census update, a population of over 1.4 billion would suggest the country has at least 280 million 'chief wage earners' (at five members per home). Count out double-income homes and assume that only a sliver of non-filers are tax dodgers, and at least three-fourths of all earners are found below the taxable tip of the pyramid under review. As poorer folks don't file returns, tax data cannot tell us how they have fared. A third point has to do with Gini's weakness as a gauge of inequality. Although its 0-1 scale may suggest high sensitivity to disparity, its bulk comparison rarely alarms anyone as outsized rake-ins by a few people—relatively speaking—do not move its needle all that much.

The SBI report has other findings that exhort us to reject the K-shaped hypothesis. Savings, consumption and expenditure trends, for example, and the salutary effect of public policies and welfare handouts. Here again, for every indication of an even recovery from the covid crisis, there is some sign either of the badly-off being left worse off or the well-off getting far wealthier. If home delivery services have reached a mass market, home buying has gone sky-high with flat prices at the upper end. All said, the K story retains its resilience. https://www.livemint.com/opinion/indias-k-shaped-recovery-is-not-so-easily-debunked-11704813243035.html

15. CM flags debt burden on discoms *(timesofindia.indiatimes.com)*

Updated: Jan 10, 2024

JAIPUR: Power distribution companies (discoms) in state are in dire straits, reeling under a debt load of Rs 91,000 crore, admitted chief minister Bhajan Lal Sharma at a review meeting of the on Monday.

While he said that a large portion of the is going towards repaying this debt, he did not offer any roadmap to bail them out, nor hinted at withdrawing, fully or partially, the tariff subsidies doled out to consumers before the state assembly elections.

Rather, the chief minister focused on tapping the renewable sources to get cheaper solar power. But renewable energy has a limitation because of being infirm (not continuous) in nature.

Of the total consumption of about 102 units in Rajasthan, the state currently gets 9% from solar and 5.6% wind sources.

While renewable sources can help, the fiscal health of the discoms and the is critical to ensure uninterrupted power that the chief minister and the energy minister promised.

TOI was the first to report on the mammoth debt of the discoms at Rs 91,000 crore in its December 23 edition. The report pointed out how the debt accelerated after the previous Congress government announced 200 units of free power to general consumers and 2,000 units for farmers. https://timesofindia.indiatimes.com/city/jaipur/cm-flags-debt-burden-on-discoms/articleshow/106687455.cms