



## The Union Budget 2022 Podcast Transcript

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**Guest: Atanu Chakraborty**, Former Economic Affairs Secretary, Government of India, Research Affiliate with Lakshmi Mittal & Family South Asia Institute, and part-time chairman of HDFC bank.

Mr. Chakraborty served in the Indian Administrative Service for more than three decades. He is the former Economic Affairs Secretary in the Ministry of Finance. He dealt with coordination of economic policy, management of project finance from multilateral institutions, budget-making, and formulation of policy for capital markets. In the past Mr. Chakraborty has served on the board of World Bank as Alternate Governor as well as on the central board of directors of the Reserve Bank of India.

### **BEGIN TRANSCRIPT**

**Taamra Segal:** Welcome to this episode of the India In-Focus Podcast. My name is Taamra Segal, and I'm the Communications and Outreach Manager at Harvard's Lakshmi Mittal and Family South Asia Institute. This podcast is brought to you by the Mittal Institute at Harvard University and Times of India. For this episode, we are joined by Mr. Atanu Chakraborty, the former Economic Affairs Secretary of India. Mr. Chakraborty served in the Indian Administrative Service for more than three decades. As the former Economic Affairs Secretary in the Ministry of Finance, he dealt with coordination of economic policy management of project finance from multilateral institutions, budget making and formulation of policy for capital markets. In the past Mr. Chakraborty has served on the board of World Bank as alternate governor as well as on the central board of directors of the Reserve Bank of India. He is currently serving as the part time chairman of HDFC Bank and the research affiliate at the Lakshmi Mittal and Family South Asia Institute. His research interests include the evolving viable public policy models in health, education, and urban sectors. Mr. Chakraborty, welcome to the podcast.

**Atanu Chakraborty:** Thank you, Taamra. It's a pleasure and you have been very kind in introducing me. Thank you.

**Taamra Segal:** Mr. Chakraborty, you've had a long and distinguished career in the Indian administrative services. As Secretary of the Department of Economic Affairs, you played a key role in the formulation and passage of the union budget. What are some of the most exciting and challenging aspects of that job?

**Atanu Chakraborty:** See, Indian budget is a very unique document. It's both an economic statement as well as a set of accounts because the numbers have to be presented since the money gets spent out of the consolidated fund of India. However, it gets ridiculously implemented. So in a sense, something which gives a policy direction brings in number. And it's also a very, very forward looking statement because it gives an idea about not only the next year but for the time to come because it does contain lots of policy statement. It's also a collaborative effort. So that brings out to prepare the entire budget make it because the government of the day has its policy

imperatives contained putting that in place and makes it a very unique document. And the preparation certainly involves, you know, full participation for a host of stakeholders.

**Taamra Segal:** Thank you. Could you tell us a little more about the budget formulation process? When does the process begin? How are engagements with line ministries and various stakeholders structured? Could you also describe some of the typical scenes inside north block on the day of the announcement?

**Atanu Chakraborty:** The last question, first in the day of announcement such relief. Well, I should be able to share with you that part which is in the public domain, because you'll appreciate there are certain areas which are a bit confidential and which precludes me from sharing that. But even what can be shared is interesting. It's a process which is much longer than what one thinks. It starts with the Prime Minister's 15th August independence speech, which is quite a bit of a policy statement, which ultimately does in some way or the other has to be and gets built into the budget. Thereafter, the real work starts with the revised estimate preparation for the current year, as well as the projections for the next year. That is where secretary expenditure and Department of Economic Affairs and Revenue they sit with various ministries and departments and work out how the new fitment for the current year has to be because the good idea of the full taxes and other revenues and their good idea of expenditure is there. At the same time, they are able to various ministries and departments very rigorous interaction at their topmost administrative levels and also involvement of all the ministers along with finance minister are able to bring out the revised estimate for the next year, so what is known as RE. As you've seen, the budget document is worked out which is very critical element we have which comes very close to the real spends. Can you also get a hang of how the economy is doing during the year apart from the projections that are done during the start of the year? The budget making is housed in the budget division of Department of Economic Affairs. And its economic component for that comes from the economic division which is again housed in Department of Economic Affairs. However, they are supported by almost every other department, very substantial participation comes from expenditure and Department of Revenue. Of course, Department of Disinvestment Banking, etc., all of them do get involved, that is within finance ministry. So all the secretaries work very closely with each other and of course under the leadership of the finance minister. But continuously thereafter, their interactions with the Ministry after the revise estimate exercise, they come up, they meet their own stakeholders, and then send back the suggestions, many of them are accepted, they're discussed, they're are discussions that areas around reforms which are brought in by earlier with Planning Commission now by NITI Aayog and many ideas which keep, which has mentioned that around 15th August those ideas and in the Prime Minister's speech or subsequent you know, the policy statements which the government and that they want. You know, all this and thereafter, Finance Minister starts and exercise of stakeholder meetings. And, you know, from December onwards a suggestion start pouring in. And almost every session is tabulated responded to in a fashion in through the budget, in a fashion whether it's worth taking apart, what are the merits or otherwise of that suggestion. And the same time, the projections for the next year have to be done for the economy so that the nominal growth rate is worked out. And on that basis, the tax projections, disinvestment, other non-tax receipts are worked out based upon the revised estimates and need for the next year and new schemes that have to be built in the expenditure side gets worked in. And then they are all matched to see where the borrowing has to go within the fiscal responsibility and Budget Management Act requirements and their boundaries. And of course, the way economy or some real time situations like COVID, they need to be factored in. So all that put together leads you to formulation of the same passage by the cabinet. And then presentation on February 1, which

is normally the nominated default, the budget presentation. So at the end, yes, really, for everybody on completing it.

**Taamra Segal:** I understand that. Thank you. So what were you hoping to see in this year's budget? How do you think the government performed and are there any parts of the budget that you were perhaps disappointed with?

**Atanu Chakraborty:** Well, there are expectations from every budget. However, this year, if you asked me, you know, economics very beautifully described this year as a year of predictable unpredictability. So, one was looking at stability, which is I guess, most critical. The other thing is of course, one wants the jobs back, one wants incomes to go back to the level they have reached the pre COVID level, but one wants now growth to come in. India recorded very fast growth rate of close to 9% in the last year, but one expects it, is expected to grow faster as may RBI put it around 7.8%, multilateral institutions are putting somewhere between 7 to 7.5%. But you know, stability and growth and of course, inclusiveness is the third leg of this is what one is at max expecting this year, considering that, you know, the fiscal in the previous years have taken hit. I see tax stability as a very, very important part. Tax has not changed, that will give us stability to the business environment and bring back private investment when the aggregate demand picks up because that's critical. Without that the private investment is not going to come in. On the growth side I see lots of capex PM Gati Shakti Program, etc. which are, and then lots of money on highways, railways, etc., which on the infrastructure side should provide for a sustainable growth as opposed to, you know, the revenue expenditure, which sometimes gives you a one-time shot, one shot kind of growth but doesn't sustain itself. The third most important thing which I saw was in that Amrit Kaal statement in paragraph five or paragraph six of the budget speech, which talked about the growth focus at macro level and inclusive focus at the micro level. And then it talks about that tech, digital, climate change, climate action. So that I found is a very, very forward-looking statement that has been made. And, you know, if a lot of large part of the budgets have thereafter followed this, I guess, if the same tune is continued all through and in the subsequent budgets also, it really puts us gives lot more stability, despite there would be market volatility and a lot of other external factors but it will give a lot of macroeconomic stability to the economy. So this year, frankly, what has come in in the budget beyond that most of us who are realists and practitioners had little expectation in such a year.

**Taamra Segal:** Thank you. This year's budget signaled a clear commitment towards addressing climate change. There are programs aimed at reducing carbon intensity of the economy and promoting green infrastructure development. You've been chairman of the National Infrastructure Investment Fund and have been deeply involved with the Ministry of Petroleum and Natural Gas at both center and state level. What are your thoughts on these new initiatives? And how successful do you think they will be in stimulating an energy transition in India?

**Atanu Chakraborty:** Well, energy transition as a measure would continue for quite some time. We'll be transiting and we will have to look at the kind of energy basket that we need to have. Yes, there's a panel also found for that, and I guess there would be some amount of public debate. We are obviously moving towards, you know, renewable sources of energy. But we'll also got to have gas as intermediate fuel while we move towards it, and possibly look at some other means. How quickly how fast that can be done? Possibly this panel should be able to tell us better. Because, you know, they are the technology, the growth rates in the economy, and how fast these things can come up. Bill will have a large role to play. But if we sort of look at the green bonds, specifically, which government has given an indication as to how it wishes to look at raising its own finances

in future and in a sense, gives that kind of a signal to the other financial institutions, I find this very interesting because at the end, whatever monies raised for the government is very fungible it goes into the consolidated fund. But there are enough, you know, initiatives on the other hand. I can name one, for example, there's a scheme called Kusum in agriculture. It's a solar pump scheme. Is hugely, you know, it's a green scheme in the sense that, you know, it replaces diesel. It's something against which this money can be set off. Maybe next year onwards and that would be very desirable that one sees a separate statement on the green initiative being brought in the budget itself. There are a lot many, but if they come together, that would make the government's initiative work more visible since they are also in the homiletical statement which has come. So I guess, then, you know, whatever is being raised through green bonds would reflect there. And in any case, manner in which private equity firms world over are trying to drive the ESG initiative, sooner than later, the private financing will start having a sustainability component. But then it has to cross many sort of bridges before we have a very firm thing on that. But it has a great signaling impact. And as, I know if we start with it as it develops, I guess it will help us to consolidate the total green initiatives which lie in the domain of various departments as of date.

**Taamra Segal:** Thank you. This year's budget saw a welcomed increase in spending on the health sector. However, there was little effort to address rising hospitalization costs and dismal rates of insurance coverage. Additionally, government health expenditure as part of the GDP continues to be extremely low. What more do you think the government could have done on health in this year's budget?

**Atanu Chakraborty:** Very interesting question. But we need to see in terms of our overall federal structure, it actually goes to the core of that. Health is a state issue is a state subject. And central government addresses it more as a support through the director principles, because it talks about it. So it comes in. So to that extent, central government does support very substantial budget. This year I saw it is 6,000 grows up on 2021 actual because that would be the real comparison 21 2235,000 crore was for vaccines alone, so a lot of money came in. So if you see it's about 7.5% rise, which is very substantial. But you know, 8.6 lakh crore goes from the tax alone, because 42% of the tax bill devolvement is to the states. So their more action has to be from the state so that they can formulate their own schemes. Through Ayush, this is an insurance based scheme available, which covers the poorer state. And then each state is working out their own insurance scheme, which covers various sets of society. But what the federal government has done, it has put a basic scheme which covers the very large scheme of Ayush and it keeps funding both the research setting up of medical colleges as well as funding some amount of funding through NHMS that's a national health scheme, national health mission. Beyond that, I guess it is the realm of the state governments to handle the public health part and also delivery of health systems on the ground. So those areas are best addressed by each and every state and their policymaking and through their budgets. They do it, is not that they do not do it. Therefore, it varies from state to state.

**Taamra Segal:** We have been seeing an increase in prices of essential goods and food due to the increasing taxes levied on fuels and fertilizers and reduced subsidies. Do you see this continuing in the coming year? Or has the latest budget given us hope of positive change in the near future?

**Atanu Chakraborty:** Well, I guess I'll, your question, I'll put it to your concern on the inflation I understand. Let's try to understand the factors which have gone into this phenomena which is very global. You know, it has come on account of very loose monetary policy with that advanced economies followed from 2008 onwards. That brought in a lot of liquidity. Then, of course, the crude prices whose volatility now has further added on to it, then there is and further the Ukraine

issue which has increased the gas prices very substantially and global supply chain disruption. I feel globally these are the major, major factors which are driving and in largest economy, US we are seeing about 7.4% inflation. Every emerging economy dollarized to some extent or the other. To that extent that inflation automatically gets imported into each and every emerging economy. We are doing well. I was seeing yesterday's governor released a bank statement and he was quite hopeful of containing it within a reasonable band of 4 to 6% during the year. So that's where the role of monetary policy would come in. Regarding taxation to some extent, it comes in on part of it, which is on fuel largely goes for infrastructure. So there's a virtuous cycle for that, because there is a sense which has been levied and rested governments tend to adjust the lower their excise duty lot of governments did it central government also did it. So that goes more with the price of the fuel itself. Subsidies are fairly structured, so they are paid as per the requirements. So whichever, whether it's a fertilizer subsidy or food subsidy, you know, that really has little connection with you know, the inflation. Inflation, it would move largely lie in the realm of the monetary policy thereafter, because you know, both federal and state government would continue to focus on growth. Of course in tandem the monetary policy will play its own part. But we must not forget the connectivity, international connectivity. So off inflation, to that extent more exports would help us. That would continue to balance the currency and not allow that sort of leakage of inflation in the country. But as of now, I see in India, it is I will not say benign, but it is certainly not touching the boundaries of tolerance which have been worked out.

**Taamra Segal:** What do you foresee are some of the challenges that the government should try to address as it sets out to implement these latest budgetary proposals?

**Atanu Chakraborty:** Well, the biggest challenge is unpredictability on account of COVID. And frankly, it doesn't allow anybody much of a choice to really understand. So they add the predictability is literal. And once you are looking and second is crude oil, where again, talking about the prices is pure crystal ball gazing. So these are the two factors which at a very macro level are challenges which any government would find very difficult to deal with. So same would remain at a broader level the challenges. On the level of implementation, it has to be the capex having been last year India exceeded the union budget exceeded its capex target. This year, I am sure they have through national infrastructure plan and PM Gati Shakti which have been the budget mentions putting them together. And investment in mobility, warehouses, largest takes roads, railways, were shovel ready projects are there. I guess, requirement would be to keep a very, very close monitoring to see that those things happen. And I'm sure seeing the last year's record, you know, that capex should go in. And that would remain a major area for monitoring to ensure that the objectives set out in the budget are met at the end of the day. And the rest is on the revenue side, of course, tax collection, disinvestment receipts and asset monetization program would remain sort of very, very important to see that the balance towards reduction of the overall debt in the country that thing starts happening with COVID hopefully behind us.

**Taamra Segal:** So we have one last question. The COVID-19 pandemic has caused widespread economic devastation across the world. At this juncture of the pandemic, what kinds of policy interventions do you think India needs to put us on a track of economic recovery?

**Atanu Chakraborty:** Well, more or less that part has been addressed in the budget, I must say that, because through large push on capex and also putting the forward looking statements, which are there, I guess, and on the direct benefit transfers where the money reaches without much of a leakage to that part of the society which suffered maximum. Their income really lost. And that's where we lost the aggregate demand that comes up. So I guess this direct benefit transfer is now

happening across most of the schemes. But if it keeps happening more, because that's where the digital fintechs of the world, they are the ones who are making lots of difference that's already happened and perhaps more would happen. UPI is a classic example which perhaps is one of the best payment systems in the world right now. Having said that, it's you know, these things, you know, the capex has some lag in bringing growth. However, wherever those projects are getting ready, they will bring in, you know, the growth in the service sector. Because while they are being implemented, there would be cement, steel being bought, construction sector coming up which is one of the largest employers of people and that's where people get employed and they would push the service sector growth. That should bring up consumption also. So I guess that is the mix if which is envisaged in the budget. And if that makes is the continues and we do not hopefully see any more surprises by the RNA known as COVID SARS-19 I guess we should be on, the globe would be on, the planet would be on path to recovery. I guess it's been a scourge which has sort of hurt the humanity tremendously though this.

**Taamra Segal:** Well, thank you Mr. Chakraborty for taking the time to speak with us and for sharing your views. We really appreciate it. Thank you.

**Atanu Chakraborty:** Thanks. Thanks very much. Thanks very much. It was really a pleasure.

**Taamra Segal:** Thank you.