

Integrity of Budget numbers under threat as oil prices spike

Updated: March 09, 2022, 07:57 IST

The integrity of the Budget numbers is under a threat and the much-hyped increase in capital expenditures may not materialise as much as it was hoped, says M. Govinda Rao, Chief Economic Adviser, Brickwork Ratings.

New Delhi, The integrity of the Budget numbers is under a threat and the much-hyped increase in capital expenditures may not materialise as much as it was hoped, says M. Govinda Rao, Chief Economic Adviser, Brickwork Ratings.

The basic assumption in formulating the Budget that the crude oil prices will remain in the range of \$ 75-80/barrel, has become unrealistic, not long after the Budget was presented.

However, the breaking of war between Russia and Ukraine has created grave uncertainty and poses a serious threat to both growth and stability.

The war has driven the prices to USD 130/barrel; this is likely to have a significant impact on transportation and energy costs and the manufacturing output, Rao said.

Although the budgeted tax revenue in the Budget looks realistic, there can be a significant overrun of revenue expenditure estimates. In particular, the fertiliser subsidy Bill, which was budgeted lower for 2022-23 by Rs 34,900 crore than the 2021-22 revised estimate, would require a significant upward revision as the increased prices of petroleum distillates and gas would drive up the costs.

Food subsidies are budgeted lower by Rs 80,000 crore, and with an increase in the cost of cultivation and pressure to increase procurement prices, this too will have to undergo an upward revision. Increased subsidies may result in lower capital expenditures or higher fiscal deficit and borrowing.

The fallout of the war on the already battered economy is on both the growth and inflation fronts. At a time when the western economies are bracing to normalise liquidity and increase interest rates, the impact of the war comes as a double whammy. This could pose adverse effects on external trade, foreign exchange outflows and the current account deficit.

Rao said the economic outlook has suddenly become insecure, and the uncertainty and adverse effect on the macroeconomy will be more, the longer the war lasts. This is not something that has been factored in even in the Budget and in the new environment; both the government and the RBI find themselves in reduced manoeuvrability in calibrating both fiscal and monetary policies.