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# Fiscal position under union budget 2021-22

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This article deals with the fiscal position as evident from the Union Budget 2021-22. The budget 2021-22 proposed a huge boost in capital expenditure from 4.39 lakh crores in 2020-21 (Revised estimates) to 5.54 crores (26.20%) in 2021-22. A closer look of budget figures of Union Budget 2021-22 raises some apprehensions. Though the estimated capital expenditure showed an increase of 26.20 per cent in 2021-22 over 2020-21 (RE), the total expenditure (revenue plus capital) increased only 0.87 per cent (34.50 lakh crore to 34.80 lakh crore). We note that the increase in the allocation of capital expenditure is being done at the cost of revenue expenditure. Another important aspect observed is that most of the capital expenditure proposed in the budget 2021-22 has only long run impact. Short run impact on employment would be minimal. Financing of capital expenditure mainly through borrowing and disinvestment is proposed in the budget. Minimum government and maximum governance are also advocated in the budget. But additional revenue mobilisation from tax and non-tax revenue has not been given much prominence. The relevant question here to is that "Whether the expenditure proposed in the union budget 2021-22 is sufficient for a V shaped recovery? . I would argue that it will be very difficult for a V shaped recovery at this juncture as the increase in capital expenditure is being proposed at the cost of revenue expenditure.

The need for demand acceleration and supply-side boost is also highlighted in Economic survey 2020-21. Economic survey 2020-21suggests to reframe the fiscal rules by considering the sustainability of debt and a counter cyclical expenditure policy. 11 per cent growth in GSDP is expected in the budget 2021-22. The Fiscal Responsibility and Budget Management

(FRBM) Act, 2003 requires the central government to progressively reduce its outstanding debt, revenue deficit and fiscal deficit. The Union government was supposed to achieve fiscal deficit of 3% of GDP by March 31, 2021. In Budget 2020-21, the fiscal deficit target was relaxed to 3.5% (as permitted by the FRBM Act) and it was estimated that fiscal deficit of 3.1% will be achieved by 2022-23. However, in 2021-22 budget, the government has not provided target for the next three years, and has suggested to amend the FRBM Act to accommodate the higher fiscal deficit. Fiscal deficit is an indicator of borrowings by the government for financing its expenditure. The estimated fiscal deficit for 2021-22 is 6.8% of GDP. For 2020-21, fiscal deficit increased to 9.5% of GDP, abnormally higher than the budget estimate of 3.5%. The alarming deficit position of the union government has already been highlighted by the Honourable Finance minister Prof Thomas Isaac in his inaugural address of the seminar.

The higher deficit was primarily due to higher spending mainly on revenue expenditure on subsidy and social security schemes, and lower revenue collection on account of COVID-19 lock down and social distancing. The government intends to reach fiscal deficit of 4.5% by 2025-26. Revenue deficit is the excess of revenue expenditure over revenue receipts. Such a deficit implies the government's need to borrow funds to meet committed expenses which may not provide future returns. The estimated revenue deficit for 2021-22 is 5.1% of GDP. In 2020-21, revenue deficit was 7.5%, much higher than the budget estimate of 2.7%. Since the revised revenue deficit was so high, it will be very difficult to contain it in 2021-22.

As far as Employment generation is concerned there is no immediate schemes proposed in the Union Budget 2021-22. The allocation towards MGNREGA showed only 1 per cent increase. Any credit help scheme for small businesses like extension of moratorium of loans and financial assistance to trading community are absent in the budget speech.

The policies proposed are intended to focus on recovering the economy from the devastating effect of pandemic. Here, it is important to note that even before the pandemic, the Indian economy was on a contractionary state. Pre-existing issues aggravated the catastrophe of the pandemic. GDP contraction was 8% in 2020-21. As per IMF forecasts however India is expected to rebound with 11.5 % GDP in 2021-22.

As far as the borrowing is concerned, it shoots up to 18.49 lakh crores in the revised estimate of 2020-21 as against the budget estimate of 7.96 lakh crore in 2020-21. During the year

2021-22, the estimated borrowing is Rs.15.07 lakh crore. My hunch is that it would be very difficult to contain the borrowing due to the fall in tax and non-tax revenue.

Outstanding debt is the accumulation of borrowing over the years. A higher debt implies that the government has a higher loan repayment obligation over the years. Outstanding debt of the government decreased from 66.7% of GDP in 2004-05 to 48% of GDP in 2018-19. The revised estimate of outstanding debt for 2020-21 was around 57%. Debt sustainability depends on the Interest Rate Growth Differential (IRGD) i.e.; the difference between the interest rate growth and the growth rate of GDP. In India, the interest rate growth is much lower than the growth rate of GDP. Economic survey 2020-21shows hope that given India's growth potential, debt sustainability is unlikely to be a problem even in the worst-case scenarios.

The fiscal deficit in Budget 2021-2022 is estimated to be 6.8% of GDP. The gross borrowing from the market for 2021-22 would be around `12 lakh crores. Government plans to continue with the path of fiscal consolidation, and intends to reach a fiscal deficit level below 4.5% of GDP by 2025-2026 with a fairly steady decline over the period. It is expected to achieve consolidation mainly by two ways. First, by increasing the buoyancy of tax revenue through improved compliance, and secondly, by increased receipts from monetisation of assets, including Public Sector Enterprises and land.

In 2021-22, the total expenditure on subsidies is estimated to be Rs 3.69 lakh crore, an annual increase of 19% over 2019-20. Allocation to food subsidy is estimated at Rs 2,42,836 crore in 2021-22, a 49% annual increase as compared to 2019-20. In 2020-21 budget, Rs 1,15,570 crore was allocated to food subsidy. Expenditure on fertiliser subsidy is estimated at Rs 79,530 crore in 2021-22, a 1% annual decrease as compared to 2019-20. In 2020-21, the revised allocation to fertiliser subsidy is 88% higher than the budgeted allocation. Allocation to petroleum subsidy decreased at an annual rate of 40% from 2019-20 to 2021-22. The allocation in 2021-22 is 64% lower than the 2020-21 revised estimate at Rs 14,073 crore. It indicates that there is a decline in the allocation of subsidy expenditure of food, fertiliser and oil subsidy in the budget 2021-22.

Another important factor that calls our attention is the fall in Government final consumption expenditure as observed ( 11.8 % to 5.8% ) in 2020-21 compared to 2019-20. As per MOSPI data, the private final consumption expenditure also declined from 5.3 per cent to -9.5 per cent. The export and imports already had a negative growth during 2019-20, which further deteriorated to -8.3 per cent and -20.5 per cent respectively in 2020-21. These are all indications of slowness in the economy.

The disinvestment estimated in 2020-21 was 2.10 lakh crore, but the realisation was only 0.32 lakh crore. In the year 2021-22, the estimate of disinvestment is 1.75 lakh crore. However, it would be very difficult to realise the estimated disinvestment due to past experiences of low realisation and also on account of the pandemic.

Promotion of disinvestment is another important feature of union budget 2021-22. The Disinvestment strategies proposed in the Budget 2021-22 have to be looked in great caution. The following are the important highlights of disinvestment strategies proposed in the budget:

a) Policy covers existing CPSEs, Public Sector Banks and Public Sector Insurance Companies.

b) Various sectors will be classified as strategic and non-strategic sectors.

c) The strategic sectors classified are:

- i) Atomic energy, Space and Defence
- ii) Transport and Telecommunications
- iii) Power, Petroleum, Coal and other minerals
- iv) Banking, Insurance and financial services

d) In strategic sectors, there will be bare minimum presence of the public sector enterprises. The remaining CPSEs in the strategic sector will be privatised or merged or subsidiarized with other CPSEs or closed.

e) In non-strategic sectors, CPSEs will be privatised, otherwise shall be closed.

To conclude, I would like to reiterate the quote in the budget speech of Honourable Finance Minister Smt Nirmala Sitharaman that "A King/Ruler is the one who creates and acquires wealth, protects and distributes it for common good. - Thirukkural 385"

In this context, the question I pose for discussion is whether disinvestment and privatisation the only means to the end?