Opinion

Spending more to stimulate growth

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An attempt has been made for a fiscal framework that is both credible and acceptable. But worries remain on fiscal deficit

The current fiscal year is perhaps the worst since Independence. CSO expects the economy to shrink by 7.7 per cent. With the Covid-19 epidemic receding, there were two expectations from the Budget. One was to provide a stimulus to economic growth and the other to do so within a fiscal framework which is both credible and acceptable. In a broad sense, the Budget has made a serious effort to achieve these objectives.

Revenue road map

Covid-19 had a serious impact on government revenues. Because of the lockdown, economic activity was seriously affected at least in the first half of 2020-21. Total tax revenue receipts of the Centre, according to Revised

Estimates, showed a decline of 23 per cent compared to Budget Estimates. The Centre's tax revenue for 2021-22 is budgeted to increase by 14.9 per cent. This is against a backdrop of an expected increase in GDP by 14.4 per cent.

Will nominal GDP increase by this per cent in 2021-22? There are doubts. The projections appear to be optimistic with an impact on fiscal deficit. On the revenue side, the Budget has not levied any new tax, direct or indirect, which itself has given great relief to tax-payers. There are also certain other tax changes that have been welcomed.

Expenditure plan

The Budget has made a sincere attempt to pull the economy up. The emphasis on capital expenditures is well taken. There is a substantial increase as a proportion of GDP. It has increased from 1.64 per cent in 2019-20 to 2.25 per cent in 2020-21 and 2.48 per cent in 2021-22. The shift is more in the composition than the total of the expenditures. The revised estimates for total expenditure for 2020-21 amounts to □34.50-lakh crore and the Budget estimate for 2021-22 is □34.83-lakh crore. There is hardly any difference.

Other measures

The strength of the Budget depends on a number of initiatives announced by the Finance Minister in various areas. The setting up of a long-term lending financial institution to promote investments is a good move.

It is in fact the revival of an earlier practice. The setting up of an institution to provide liquidity in the bond market again is an extremely good idea. In fact, in the late 1980s when it was decided to promote initially the Treasury Bill market and later a government bond market, two institutions were set up.

There are many other ideas in the Budget which are welcome such as the increase in the foreign holding in private insurance companies and setting up asset reconstruction companies to take care of bad debts of public sector banks. Privatisation of one or two public sector banks is also a good decision. All of these may improve investment climate.

Finance panel recommendations

This year's Budget incorporates the recommendations of the 15th Finance Commission. Normally, in the year in which the Finance Commission recommendations are incorporated, there is a jump in the allocation of funds for States out of the gross tax revenue.

In this year, this has not happened as the Finance Commission has retained the share of States of 41 per cent in the tax devolution as the previous Commission had raised the share sharply. However, the distribution among States may change because of the change in the horizontal formula of distribution. The 15th Finance Commission has not rocked the boat and maintained a reasonable balance between the needs of Centre and States.

Fiscal deficit

In a difficult year like the current one, fiscal deficit consideration recedes to back. The fiscal deficit of 9.5 per cent of GDP in 2020-21 is truly high.

The main reason is fall in revenue. For all we know, the fiscal deficit of 2021-22 will also exceed the budgeted level for several reasons.

First, tax revenue is perhaps overestimated for reasons already mentioned. Second, non-tax revenues are always overestimated. For example in 2020-21, disinvestment receipts were put at □2,10,000 crore in the Budget and the actual according to revised estimates was □32,000 crore.

The time has come to redraw the road map for fiscal consolidation. It is difficult to see how the government could achieve a fiscal deficit 4.5 per cent of GDP by 2025-26. In fact even a level of 4.5 per cent is high. We need to spell out when we can reach 3 per cent of GDP. Some people despise fiscal rules. Fiscal prudence goes with long-term stability and growth.

In fiscal 2021-22, interest payments against total revenue receipts will be 45.3 per cent. Thus interest payments preempt a significant part of revenue receipts.

To sum up

By raising capital expenditure, the Finance Minister has made a sincere effort to pull the economy up. While the shift in the composition of expenditures is welcome, the total remains the same between 2020-21 and 2021-22.

On the revenue side, while the assumption of tax buoyancy of 1 is reasonable, the expectation of increase of 14.4 per cent in nominal income of 2021-22 seems a little optimistic. Perhaps, there is every possibility of the fiscal deficit being exceeded.

The writer is former Chairman of the Economic Advisory Council to the Prime Minister and former Governor of RBI