Opinion

Govt must raise spending to boost growth

C Rangarajan/DK Srivastava | Updated on January 13, 2021 | Published on January 13, 2021

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In 2021-22, government expenditure must grow by at least 10% to get the economy back to where is was at end-March 2020

The first advanced estimates of the National Statistical Office (NSO) for 2020-21 real GDP growth at (-)7.7 per cent show an improvement over the predictions by multilateral agencies such as the IMF and the World Bank at (-)10.3 per cent and (-)9.6 per cent respectively.

This is driven largely by an expected robust recovery in the second half of 2020-21 in three sectors — financial, real estate and professional services; construction; and public administration, defence and other services. Their growth rates in the second half of 2020-21 over the corresponding period of last year are estimated at 7.1 per cent, 4.4 per cent and 3.3 per cent respectively.

Agriculture has shown a steady positive growth at 3.4 per cent for the year. The recovery in 'public administration, defence and other services' is contingent upon Central and State governments being able to substantially raise their expenditures in the last quarter of the fiscal year. This may call for incurring a larger than the already announced borrowing programme of ₹12-lakh crore by the Centre, that is, 6.2 per cent of GDP. Given the current revenue trends, the Central government may need to revise its borrowing target upwards, exceeding 7 per cent of nominal GDP, to ensure increase in government final consumption expenditure (GFCE) and in GVA of 'public administration, defence and other services' in line with the NSO's first advanced estimates.

Budgetary aggregates

The key budgetary aggregates for 2020-21 may be assessed taking into account the Controller General of Account's fiscal data for eight months covering April to November 2020, and the signals from the NSO's first advanced estimates for 2020-21 GDP reflecting Covid's full-year impact. In the first eight months of the fiscal year, the Centre's gross tax revenues showed a contraction of (-)12.6 per cent over the corresponding period of the previous year.

Except for union excise duties, which showed a positive and high growth of 48 per cent during April-November 2020, all other central taxes had shown a contraction. Corporate income tax showed the highest contraction at (-)35.7 per cent, followed by Customs duties at (-)17 per cent, GST at (-)16.5 per cent, and personal income tax at (-)12.3 per cent. As recovery strengthens in the fourth quarter of 2020-21, the rate of contraction in central taxes may fall tangibly.

For assessing full year tax revenue prospects, the NSO's nominal GDP growth estimate of (-)4.2 per cent may be utilised along with a tax buoyancy of 0.8, same as in 2018-19. This gives an estimate of the Centre's 2020-21 gross tax revenues at ₹19.4-lakh crore, showing a contraction of (-)3.4 per cent compared to the actual 2019-20 level. However, compared to the budgeted 2020-21 magnitude, there would be a significant contraction of close to (-)20 per cent.

The Centre's non-tax revenues and non-debt capital receipts, which primarily reflect disinvestment, may also fall well short of their respective budgeted magnitudes. By November 2020, non-tax revenues were at ₹1.2-lakh crore against the budgeted magnitude of ₹3.8-lakh crore. Similarly, non-debt capital receipts during the first eight months stood at ₹18,141 crore as against the budgeted magnitude of ₹2.25 lakh crore. Even though spectrum sales have been announced to take off in March 2021, it may be possible to raise only limited amounts before the fiscal year closes.

Up to November 2020, Central government's expenditure — total, revenue, and capital grew by 4.7 per cent, 3.7 per cent and 12.8 per cent respectively. A substantial step up of this growth rate would need to be ensured in the remaining four months. According to available information, the government has already utilised nearly 90 per cent of the announced borrowing programme amounting to ₹12-lakh crore. Raising fiscal deficit to 7 per cent of GDP or marginally above would ensure a growth in total expenditure of about 9 per cent for the full year over actuals of 2019-20.

Prioritising expenditure growth

In the 2021-22 Budget, deciding the level of government expenditure, which is a measure of support to overall demand and its sectoral prioritisation, would be an important consideration. The magnitude of expenditure would depend on the revenue growth and the extent of government borrowing. It is important to stress the need to step up expenditure growth to support overall demand while prioritising capital expenditure to stimulate investment.

A new fiscal consolidation roadmap may have to be drawn up although the reduction in fiscal deficit from the current year level may be limited. Policy observers are expecting real growth rate to be 8 per cent or above in 2021-22. For nominal growth, the feasible range being considered is 11-15.5 per cent.

Considering the mid-point of this range at about 13 per cent, the level of tax revenues may be assessed by applying a buoyancy of 1.2, which is the average tax buoyancy during the period from 2015-16 to 2018-19. This gives an estimate of tax revenue growth marginally above 15 per cent and its level at ₹22.5-lakh crore.

An improvement in non-tax revenues and non-debt capital receipts may also be considered feasible. A more fruitful disinvestment programme may be reactivated and some monetisation of government assets should also be initiated. Given the buoyant stock market conditions, this would be the appropriate time for reaping reasonable disinvestment revenues.

Keeping fiscal deficit in the range of 6-7 per cent of GDP, it should be possible to ensure a growth of 10 per cent in total government expenditure over estimated expenditure of 2020-21. Capital expenditure should be targeted to increase at a faster rate at, say, 20 per cent plus. A review of the National Infrastructure Pipeline (NIP) may be undertaken highlighting the extent of deficiency as compared to the planned timelines.

The Budget should clearly state the investment to be undertaken by the Central government and by the central public sector enterprises. It may be recalled that in the aftermath of the 2008 crisis, fiscal deficit was raised in two successive years namely 2008-09 and 2009-10 to 6.1 per cent and 6.6 per cent of GDP, respectively. The 2020-21 Covid crisis is a more serious crisis. Even if there is a slippage in fiscal deficit in two consecutive years, this may be considered acceptable in favour of restoring growth.

To sum up, it is necessary that the Indian economy grows by at least 8 per cent in 2021-22. Only then, will we be back to where we were at the end of March 2020. For this to happen, it is imperative to ensure that total government expenditure grows at more than 10 per cent and, within it, capital expenditure at more than 20 per cent in 2021-22. The fiscal deficit may be in the range of 6-7 per cent.

A new fiscal consolidation roadmap would need to be drawn up even though the scope for reduction in fiscal deficit in 2021-22 is limited. On the revenue side, the present tax structure may be maintained.

Rangarajan is a former Chairman, Prime Minister's Economic Advisory Council, and a former RBI Governor; Srivastava is Chief Policy Advisor, EY India. Views are personal

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