Recalibrate growth, reprioritise expenditures

Protecting total expenditures at the budgeted level and mass vaccination are important in India's pandemic situation

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The second wave of COVID-19 currently sweeping India is forcing States into successive lockdowns, in turn eroding economic activities. The growth projections of different national and international agencies and the fiscal projections of Centre's 2021-22 Budget require recalibration.

COVID-19-induced erosion

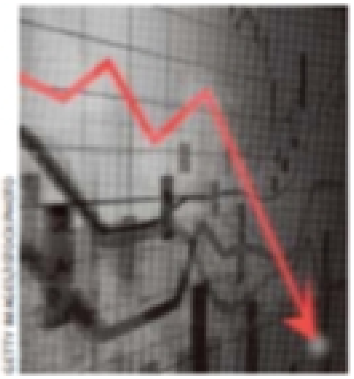
The International Monetary Fund (IMF), the Reserve Bank of India (RBI), and the Ministry of Finance's Economic Survey had forecast real GDP growth for 2021-22 at 12.5%, 10.5%, and 11.0%, respectively. Moody's has recently projected India's GDP growth in 2021-22 at 9.3% (https://bit.ly/3flkWs8). This is close to the benchmark growth rate of 8.7% which would keep India's GDP at 2011-12 prices at the same level as in 2019-20. This level of growth may be achieved based on the assumption that the economy normalises in the second half of the fiscal year. If the lockdowns come to an end earlier, the growth rate may be higher, but that is perhaps unlikely.

The 2019-20 real GDP was ₹145.7-lakh crore at 2011-12 prices. It fell to ₹134.1-lakh crore in 2020-21, implying a contraction of minus 8.0%. If even the growth rate of 8.7% for 2021-22 comes under challenge because of a prolonged lockdown, not only will India see a fall in the real GDP in the current year as compared to 2019-20 level but the nominal GDP numbers assumed in the Budget will also be belied adversely affecting the fiscal aggregates in the Centre's 2021-22 Budget. At 8.7% real growth, the nominal GDP growth would be close to 13.5%, assuming an inflation rate of 4.5%. This would be lower than the nominal growth of 14.4% assumed in the Union Budget. At 13.5% growth, the estimated GDP for 2021-22 is ₹222.4-lakh crore at current prices. This will lead to a lowering of tax and non-tax revenues and an increase in the fiscal deficit as compared to the budgeted magnitudes.

Budget magnitudes

The budgeted gross and net tax revenues for 2021-22 were ₹22.2-lakh crore and ₹15.4-lakh crore, respectively. The assumed buoyancy for the Centre's gross tax revenues (GTR) was 1.2. Even if this buoyancy is achieved, the lower nominal GDP growth would imply a GTR growth of 15.7% as compared to the budgeted growth of 16.7%. If, however, the buoyancy of 1.2 proves optimistic and instead a buoyancy of 0.9, which is the average buoyancy of the five years preceding the COVID-19 year, is applied, the nominal growth of GTR would be 12.2%. This would lead to the Centre's GTR of about ₹21.3-lakh crore. The corresponding shortfall in the Centre's net tax revenues is estimated to be about ₹0.6 lakh crore.

The budgeted magnitudes for non-tax revenues and non-debt capital receipts at ₹2.4-lakh crore and ₹1.9-lakh crore, respectively, may also prove to be optimistic. In these cases, the budgeted growth rates were 15.4% and 304.3%, respectively. The excessively high growth for the non-debt capital receipts was premised on implementing an ambitious asset monetisation and disinvestment programme. The COVID-19-disturbed year may not permit any of this. The budgeted growth in non-tax revenues is largely dependent on an assumed growth of 60% in revenues from communication services and of 44.1% in dividends and profits from non-departmental undertakings. We consider that a shortfall of ₹1.5-lakh crore in non-tax revenues and non-debt capital receipts together may not be ruled out. Together with the tax revenue shortfall of nearly 0.6 lakh crore, the total shortfall on the receipts side may be about ₹2.1-lakh crore.



Two factors will affect the fiscal deficit estimate of 6.76% of GDP in 2021-22. First, there would be a change in the budgeted nominal GDP growth. Second, there would be a shortfall in the receipts from tax, non-tax and non-debt sources. The budgeted magnitude of fiscal deficit is ₹15.06-lakh crore. Together, these two factors may lead to a slippage in fiscal deficit which may be close to 7.7% of GDP in 2021-22 if total expenditures are kept at the budgeted levels. This would call for revising the fiscal road map again. Protecting total expenditures at the budgeted level is, however, important given the need to support the economy in these challenging times. There is a case for reprioritising these expenditures.

Other steps, vaccination

The second wave of the novel coronavirus has put a spotlight on India's serious under-capacity in health infrastructure. Given the likelihood of a third COVID-19 wave, there is an urgent need to ramp up health and related infrastructure by enhancing the number of hospitals and hospital beds, sources of oxygen supplies, and the manufacture of COVID-19 vaccines and drugs. The Centre's 2021-22 Budget has provided for ₹71,269 crore for the Department of Health and Family Welfare. This included a budgeted capital expenditure of ₹2,508.7 crore. In contrast, in 2020-21, the total health and family welfare expenditure (RE) was ₹78,866 crore, implying a fall of ₹7,597 crore in 2021-22. In the budgeted capital expenditure for health also, there was a fall of ₹1,724.8 crore as compared to the RE of 2020-21 at ₹4,233.5 crore. Clearly, these magnitudes are quite inadequate for an economy challenged by COVID-19 for two successive years. The allocation for the health sector should be increased substantially by reprioritising expenditures.

Construction activities within the health sector will have high multipliers. There may also be higher expenditure on inducting a larger workforce of doctors, nurses and paramedics and other hospital-related administrative staff. Furthermore, strong support is needed for the vulnerable groups of the society including migrant labour and the rural and urban unemployed population.

Speedy and larger vaccination coverage of the vulnerable population is key to minimising economic damage.

The Centre's Budget had allocated ₹35,000 crore for vaccination as shown in the Budget for the Department of Finance (demand for grant number 40) as an amount to be transferred to the States. India's population aged 12 years and above is 109 crore. Total vaccination doses (at two doses per person) adds to 218 crore. At an average price of ₹300 per dose, this would require an amount of ₹65,108 crore. This is a rough estimate.

The cost to the government would be less if the coverage is less than full. COVID-19 vaccination is characterised by strong inter-State positive externalities, making it primarily the responsibility of the central government. The entire vaccination bill should be borne by the central government. Rather than having individual State governments floating global tenders for vaccines, if the central government is the single agency for vaccine procurement, the economies of scale and the Centre's bargaining power would keep the average vaccine price low. The total vaccination cost would go up if the unit cost goes up. The central government may transfer the vaccines rather than the money that it has budgeted for transfer. Some of the smaller States may find procuring vaccines through a global tender to be quite challenging.

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