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View: Nifty job on expenditures, just keep an eye on fiscal deficit post-Covid

Synopsis

Even the high fiscal deficit target of 4.5% of GDP by 2025-26 is optimistic, and the total expenditure is likely to remain static, despite highe capital expenditure.

Agencies

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The budget for 2021-22 has to be prepared against a difficult background. According to **Central Statistics Office** (CSO) data, the economy shrank by 7.7%. There are other forecasts that predict a sharper downturn. The task of the finance minister was twofold: one, to revive the economy and set it on a high growth path; two, to frame the budget within a fiscal framework that is credible and acceptable. On both these counts, the budget has done reasonably well.

Total expenditures for 2021-22 constitute 15.6% of GDP, and fiscal deficit is pegged at 6.8%. While the impact of the expenditures depends on implementation, the fiscal deficit depends upon the fulfilment of expected revenue growth.

The budget is big on expenditures. The FM went over the several pillars on which the system would rest. The emphasis on healthcare and infrastructure is very welcome. In fact, what has really happened is a shift in expenditure. The revised estimates for total expenditure for 2020-21 amount to Rs 34.50 lakh crore, and the budget estimate for 2021-22 is Rs 34.83 lakh crore. There is hardly any difference. Only capital expenditure has increased from Rs 4.39 lakh crore to Rs 5.54 lakh crore.

As a proportion of GDP, capital expenditure rises from 1.64% in 2019-20 to 2.25% in 2020-21 and 2.48% in 2021-22. This is a significant shift. However, the stimulus to the economy depends on total expenditure that has remained at the current year's level. In fact, total expenditure as a proportion of GDP goes down from 17.7% in 2020-21 to 15.6% in 2021-22. Thus, while the increase in capital expenditures is a welcome sign, the total expenditures remain unchanged.

On the revenue side, the budget has not levied any new tax, direct or indirect, which is a big relief for taxpayers. There are, however, certain other tax changes that are welcome. Centre's tax revenue for 2021-22 is budgeted to increase by 14.9%. The implied tax buoyancy is little over 1 because GDP is expected to increase by 14.4%. The key question is whether GDP will increase by this percentage. Earlier, it was put out by the government that real GDP will grow by 11%. These projections appear to be optimistic. This has a direct bearing on fiscal deficit.

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

Other welcome ideas in the budget include 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 (PSBs). Privatisation of one or two PSBs is a good decision. All of these may improve India's investment climate.

In a difficult year like the current one, fiscal deficit consideration recedes to the background. For all we know, the fiscal deficit of 2021-22 will 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 Rs 2,10,000 crore in the budget and the actual, according to revised estimates, was Rs 32,000 crore. The time has come to redraw the road map for fiscal consolidation. It is difficult to see how GoI could achieve a fiscal deficit of 4.5% of GDP by 2025-26. In fact, even a level of 4.5% is high. We need to spell out when we can reach 3% of GDP.

To sum up, Nirmala Sitharaman has done her best in a difficult situation to revive the economy. The most significant change on the expenditure side is the rise in capital expenditures. The total, however, remains the same. Fiscal deficit is likely to be exceeded. Once Covid problems are out of the way, a new road map must be drawn to take the deficit to the previously mandated level.

C Rangarajan is former Governor of the Reserve Bank of India.

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