Economy

Budget 2021: The challenges before the Finance Minister

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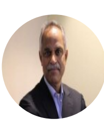
› The tricky part for the Union Budget 2021 would be - how to raise the money?



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It is that time of the year again when there is feverish activity at the North Block. The entry is restricted to the sections which house the Tax Research Unit (TRU) and the Tax Planning & Legislation (TPL), the wings of the CBIC and CBDT respectively which directly deal with the preparation of the Union Budget. Access is given only to the few people with security clearance even from the Department. During this time, long hours are spent discussing and debating the Tax Policy, the fiscal position, the way forward et al. The Halwa ceremony would happen in the next few days when tucked within the labyrinth which is North Block, the security press will start the process of printing the budget papers.

It is also that time of the year when economists of all hues and captains of the industry, trade associations and industry bodies, give their wish lists and their prescription as to what ails the country, their sectors and the solutions. Invariably trade bodies seek exemptions and protection from competition.

It is Union Budget time scheduled to be presented to the Parliament on February 1. Incidentally, the word 'Budget' does not figure in the Constitution. Article 112(1) talks of an annual financial statement, a statement of estimated receipts and expenditures of the government which is what the budget is.

The Union Budget coming as it does after a year when the Indian economy has been ravaged by the pandemic assumes a huge significance. The CSO has estimated a contraction of 7.7 percent for the economy; the Reserve Bank of India (RBI) has estimated the contraction to be at 7.5 percent; these are still better when juxtaposed with the estimates of multilateral institutions. IMF has estimated a drop of 10.3 percent, OECD 9.9 percent, and World Bank 9.6 percent. The short point is that the nominal GDP is at a record low and is estimated to be at Rs 194.9 lakh crore for the year. The Indian economy has entered a technical recession.

Barring agriculture and electricity, as a report by CARE Ratings has pointed out, all other sectors are estimated to fall in gross value added (GVA). The fall in trade, hotel, tourism, transport, mining, quarrying, manufacturing being the most severe. There was a drop also in financial services, real estate and professional services. Similarly, the report estimates that barring government expenditure, all other components of GDP are expected to register a sharp decline with consumption at -9.5 percent and investment at –14.5 percent being the sharpest. Exports are expected to decline by 8.3 percent, while imports are to decline by nearly 20 percent. The trade deficit for the period ending December 20 was $15.71 billion.

GST collections for December were Rs 1.15 lakh crore—the highest since GST was launched. For the period April-December 20, the total GST collection stood at Rs 7.8 lakh crore, which is 14 percent lower than the corresponding period the previous year.

The fiscal deficit is likely to be in excess of Rs 10.75 lakh crore, which is 33 percent higher than the corresponding period last year and 135 percent of the budget estimate. This highlights the financial stress—a decline in income, an increase in expenditure, and a consequent widening deficit. Revenue receipts have decreased sharply. Except for receipts from excise, thanks to petroleum products still being out of GST, and interest, all other collections from the major heads of revenue are lesser than the previous year. The Finance Minister should not hesitate to invoke the provisions of the FRBM Act like was done in the last budget to take deviations from the provisions of the Act.

The only silver lining in this dismal scenario is the steady growth in the foreign exchange reserves which presently is at a historic high of $581 billion and the galloping strides at which the equity market is growing—with foreign portfolio investors continuing to pump in money. It is in this backdrop that the FM will rise to present the Budget.

Obviously, the focus has to be on growth and recovery. This will mean spending to stimulate growth. The limitations of the health sector were brought out starkly during the pandemic. The MSME sector, the backbone of the economy, and so essential for the creation of jobs, will need special attention. Infrastructure would need big spending. Agriculture in the wake of the current protests would need special schemes for farmers' welfare.

Given the current dire situation, a fiscal boost should be provided through higher expenditure and appropriate tax cuts which in effect is very similar to the theme of budget 2020 where the FM had highlighted three themes—Aspirational India and meeting those aspirations, Economic development for all and caring society, Antyodaya; each of these themes with an emphasis on health, education, better jobs, economic development and humane society and rise of the last person, to rid the nation of poverty, are even more relevant today. And to add to these themes is the current focus on Atmanirbharta.

All of which means you need money. So, the tricky part would be Part B of the Union Budget speech—how are we going to raise the money?

On the indirect tax side, with all aspects of GST to be first discussed and approved by the GST council, there is very little elbow room with the Central government. One does wish the larger issue of increasing the scope of GST had been discussed in the GST Council. The budget would have provided an ideal opportunity to include petroleum products, land, electricity within the ambit of GST. The budget will be restricted to addressing making amendments in the CGST and

IGST law as already recommended by the GST Council.

The customs side will present challenges. Should the Government in its quest for Atmanirbharta become protectionist and increase import duty rates across the board? One hopes this does not happen—we have reached where we are after years of gradually reducing rates and this will be a retrograde step. Having said that if at all we do need to protect specific sectors, the message should be given that these are temporary measures; a clear sunset clause should be mentioned. Ultimately with globalisation here to stay Indian manufacturers need to compete.

Protectionism increases inefficiencies and ultimately makes domestic products uncompetitive in the global market. What does need to be done is to look at the inverted duty structure and take steps to address the problem. Exports desperately need support. The Remission of Duties and Taxes on Exported Products (RoDTEP) scheme has been announced; the rates have not. The last budget had announced a NIRVIK scheme to provide higher insurance cover for small exporters. Nothing has been heard of since.

On the direct taxes front, there have been steady calls for the abolition of the Long-Term Capital Gains Tax (LTCG). A point made is that LTCG and Securities Transaction Tax (STC) coexisting act as a deterrent against investment. With Corporate Tax rates having been rationalised recently there is unlikely to be any change; similarly, on the personal income tax side, the only possible relief can be tax deduction because of increased health expenses. With direct tax collections at about Rs 4.95 lakh crore as against Rs. 6.01 lakh crore in the same period last year, there is little space for further relaxation in rates.

What both Indirect and Direct tax administrations should focus on is on simplification of laws and rules, swift dispute resolution, on increased accountability. Both statutes need to reduce exemptions; these should be exceptions. The CBIC and CBDT should focus on ensuring compliance with stern action need to be taken against evasion.

Revenue generation thus will be a challenge. Disinvestment has not been successful. As former RBI governor Raghuram Rajan has said the government should take advantage of the ‘peaks in the Indian equity market ‘and sell stakes in PSUs.

The FM has an unenviable task ahead.

—*Najib Shah is the former chairman of the Central Board of*