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Budget 21-22 to focus on infrastructure and welfare measures

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CARE expects the government to incur expenditure to the tune of ₹12,000 crore towards the vaccination programme

The Union Budget for FY2021-22 would be expansionary, with the total expenditure of the Government expected to increase to ₹32-33 lakh crore from ₹30.4 lakh crore in 2020-21 (budget estimate), according to CARE Ratings.

The rating agency sees higher than trend expenditure allocations for infrastructure and welfare measures. It expects that there would also be an additional head of expenditure in this budget – the vaccination programme.

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Both revenue and capital expenditure are slated to see an increase, with the growth in expenditure in the latter being higher, the agency said in its, not on expectation from the Union Budget for 2021-22.

Revenue expenditure: Welfare allocations

CARE observed that revenue expenditure, which accounts for around 85 per cent of the total expenditure, is expected to increase to ₹27-28 lakh crore. This would be a 6 per cent increase from the budgeted increase of the preceding year.

Although various expenditure rationalisation measures would be adopted, the government would nevertheless be required to augment the prevailing welfare allocations given the underlying weakness in the domestic economy, the agency said.

Further, given that vaccination and domestic economic revival are linked, the government would have to be at the forefront of the vaccination programme.

CARE expects the government to incur expenditure to the tune of ₹12,000 crore towards the vaccination programme.

Capital expenditure: Infra focus

Capital expenditure for 2021-22 is expected to be around ₹5 lakh crore, compared with ₹4.1 lakh crore targeted last year with an addition of ₹25,000 crore being announced during the year under the Atmanirbhar schemes.

Capital expenditure would be targeted on the creation/ development of key infrastructure - road, power, ports, railways and agriculture and allied activities, all of which are expected to see higher allocations in the budget.

“The multiplier effect of infrastructure spending is being banked upon to facilitate sustainable economic recovery and growth. Outlay towards defence, which accounts for nearly 30 per cent of capital expenditure, too is expected to see an increase,” opined the agency.

Moderate increase in receipts

Per the report, prepared by a team of economists and analysts, the avenues for fresh revenues for the government are limited. Receipts in 2021-22 would however see a year-on – year increase mainly due to the non- materialization of the budgeted receipts in 2020-21.

Given the dramatic fall in the economy and projected gradual recovery, CARE expects the tax revenues to see only a moderate increase in 2021-22 from that in 2020-21 (₹16.4 lakh crore).

The report said the Government is likely to raise import duties on various manufacturing, electrical and electronics items to further the government's vision of making the nation self-reliant and promote local manufacturing.

Non-tax revenues

Similarly, in the case of non-tax revenues too, the increments would be limited.

The agency said receipts from dividends (from the Reserve Bank of India/RBI, nationalised banks and Public Sector Undertakings/PSUs which together account for 40% of non-tax revenue) are expected to be lower than that in 2020-21 even after factoring in the expected shortfalls in the budgeted receipts (of ₹1.6 lakh crore).

This mainly on account of the RBI directive against the transfer of dividends pertaining to 2019-20 by banks and expected lower dividends from the RBI.

In the case of the RBI dividend transfer, owing to the aligning of its accounting year with the fiscal year (from June-July to April-March), its 2020-21 financial year would be made up of only nine months.

Hence the way the surplus is declared by the RBI as also an interim transfer would determine the amount that would be available from this source.

CARE assessed that lower levels of activity in 2020-21 would also impact profits and thereby the dividend payments of PSUs. At the same time, it is expected that revenues from spectrum auction (estimated to be ₹1.3 lakh crore could add to the non-tax revenues in 2021-22.

Disinvestments of 2020-21 are likely to be pushed forward to 2021-22 and the agency expects the receipts on this account to be retained at ₹2.1 lakh crore.

Flexible fiscal deficit

The agency noted that higher expenditure needed to stimulate economic revival would require the government to be flexible on the fiscal deficit target of 3.3 per cent of GDP in 2021-22.

CARE expects the fiscal deficit to be budgeted at 5 to 5.5 per cent for the year which would be an improvement from the estimated fiscal deficit of 7.8 per cent to 8.4 per cent in 2020-21. There can be a downward bias for the latter depending on the expenditure cuts that could be reckoned in the last two months of the year, it added.

The agency emphasised that the pre-pandemic target of containing the fiscal deficit at 3.1 per cent of GDP by 2022-23 would necessarily have to be revisited given that prolonged higher government spending would be required for sustainable economy recovery.

At the same time, a feasible roadmap for reigning in the deficit would have to be clearly outlined.

Market borrowings

Pursuant to CARE's expectations of fiscal deficit at 5-5.5 per cent of GDP, nominal GDP growth of 15 per cent and repayment of market borrowings of around ₹3.1 lakh crore in 2021-22, it expects the gross market borrowings at around ₹10.1 – 11.3 lakh crore for FY22 (Budget Estimate).

The agency said Government Security yields could be pressured to some extent owing to the elevated level of borrowings but RBI in recent times has managed to keep the yields range-bound and is likely to continue to do so.

For 2020-21, the gross market borrowings was budgeted at ₹7.8 lakh crore but the government revised it to ₹13.1 lakh crore on account of the pandemic led disruptions.

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