Budget 2021: Why you should not expect much

Considering the low revenues and the need to provide a booster shot to the industry, the prospects for an
income tax rate cut are low

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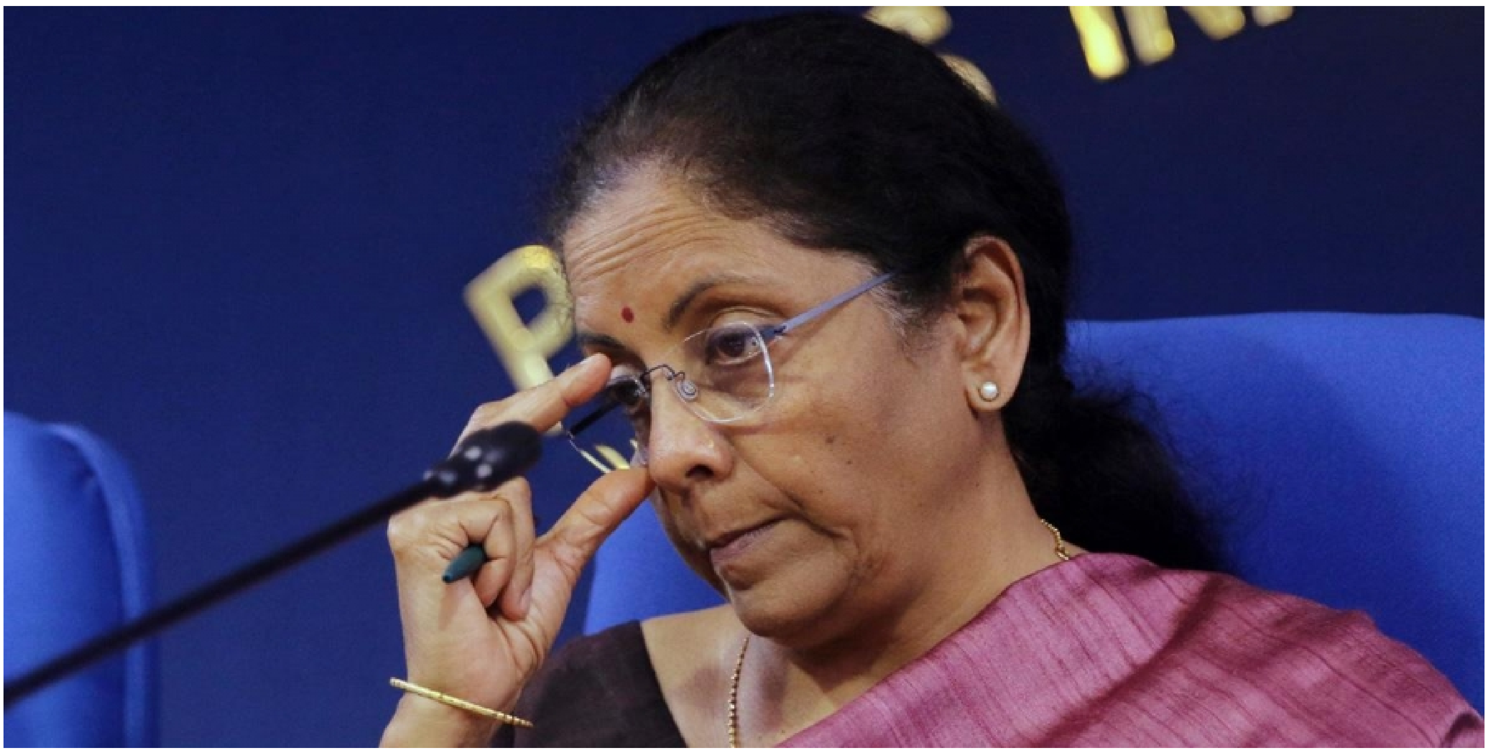

Union Finance minister Nirmala Sitharaman. (Photo | Shekhar Yadav, EPS)

By Rajas Kelkar

Express News Service

The Union Budget is usually associated with anticipation about tax relief. You want the government to reduce the burden on your income to plan your finances well. Be that as it may, this year, the government is in no position to oblige. The Reserve Bank of India's recent Financial Stability Report projects a significant deterioration in the government finances. During April-November 2020, total receipts of the Union government shrunk by 17.9 per cent compared to the same period last year. It attributes this to Covid-19 related disruptions that caused a drop in tax and non-tax revenue.

The government, in the latest release, has projected India's growth to contract by 7.7 per cent in 2020-21. After shrinking for two successive quarters and 15.7 per cent in the first half of the financial year 2020-21, India's economy is in a recession (technically speaking). Raghuram Rajan, former RBI governor, said in a recent interview that the economy would take a couple of years to reach growth levels seen before the pandemic. In this backdrop, the government's priority would be to boost growth.

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Last month, finance minister Nirmala Sitharaman said that the budget for 2021-22 would be one like none other. She was addressing industry captains at an event and invited them to put forward suggestions. The government is most likely to announce schemes to make India an attractive manufacturing destination. The idea is to make most of the global trade disputes involving China. Multinational companies are reportedly seeking alternatives to China.

The government may also focus on the banking sector. The RBI's Financial Stability Report reveals that the gross non-performing assets in the banking sector could see a sharp rise as borrowers fail to pay the interest or EMIs. In the first half of the year, the moratorium enforced ensured fewer such failures. However, with EMIs back in the monthly outgo of consumers, banks are gearing up for non-payment of interest or loans. The government may have to support the banking sector as a result.

The drop in tax and non-tax revenue means that the government would have to make some money available to finance a projected combined central and state government fiscal deficit of over 12 per cent. There are signs of a sharp recovery in the collection of GST. The latest data for December 2020 shows that the monthly collection of GST was the highest ever. A key factor to watch out for is buoyancy consistency in the monthly GST collection in 2021.

The other significant revenue source could be disinvestment. The government is keen to push through the initial public offering of the Life Insurance Corporation of India. This is likely to bring in a significant windfall to the government. A strategic sale of corporations such as Bharat Petroleum could help too. The government could quickly move to push through some transactions as benchmark indices hover around a record high. However, we have to keep in mind that the government has rarely met any disinvestment targets.

The Federation of Indian Chambers of Commerce in India, the industry body, has recommended pledging public sector shares with India's Reserve Bank to get Rs 5,00,000 crore. It can be a loan issued at low rates near the repo rate. Some other recommendations include issuing long-term pandemic bonds—both in India and the international markets. Sovereign Gold Bond schemes could help India's households move away from physical gold and provide necessary resources to the government.

For India's economy to grow fast, there is a need for a boost to consumption as it accounts for two-thirds of the economic growth. However, sectors like aviation, hospitality, and retail are likely to witness a slow recovery. "Consumption demand and investments which is necessary to propel the economy would continue to be tepid and is unlikely to see a noteworthy improvement during the year," said CARE Ratings, a credit rating agency, in an analysis of India's growth data.

The pressure on the expenditure side of the budget is high as everyone expects the government to provide relief to ordinary citizens. The government may also incur significant expenditure on account of the nationwide vaccination to fight the Covid-19 pandemic. Besides that, incentives to stimulate economic growth may take away resources. Under such circumstance, the government is unlikely to provide any cash handout or tax relief to individuals.

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