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Budget 2021 | Five reasons why it might not be an exciting Budget

Finance Minister Nirmala Sitharaman has promised a “never before”-like Union Budget in order to steer the pandemic-struck economy towards revival and recovery. Certainly this Budget is going to be different from the previous ones as it has to be prepared in the backdrop of a record contraction of 7.7 percent in the economy.

It is important to note that this is not the first instance and there have been three Budgets since 1960 when the Budget was presented when the economy had recorded negative growth: 1967, 1974 and 1981. AK Bhattacharya points out that none of these Budgets had exciting proposals barring some direct tax reliefs and raising customs duty. There are five reasons why history is likely to repeat, and one shouldn’t expect too much on February 1 despite the fall-out of the economy.

First, the committed expenditure (salaries, pensions, interest, subsidies) of the government accounts for little more than half of the budget size (Rs 30 lakh-core). Although this share has declined from 58 percent in 2016 to 51 percent in 2021, such a high share of committed expenditure leaves lower room for scheme-based and capital expenditure.

Second, the government has already announced a host of relief and reform measures under its economic stimulus packages. Some expenditure announced, such as the performance linked incentive (PLI) schemes, infrastructure fund, interest subventions were not limited for spending in FY21 but had a future spending plan. With the fiscal deficit of the government already at 135 percent of the Budget estimates, it is likely that the spending announced for FY21 could also spill over to FY22.

Third, capital expenditure which was budgeted to grow by 18 percent to Rs 4.1 lakh-crore in FY21 has already seen an additional provision of Rs 35,000 crore for the year. Capital expenditure accounts for only 13-14 percent of the total budget size, and this share has broadly remained unchanged in the last six years. The government in recent years has also relied on spending on capital expenditure via public enterprises wherein the share of capex spending by PSUs in total capital expenditure (including government capex) has increased from 54 percent in 2016-17 to 67 percent in FY20(RE), and subsequently moderating to 62 percent in FY21(BE). The government will continue to resort to the internal and external budgetary resources (IEBR) route for more capital expenditure rather than spending it directly from the Budget.

Fourth, the government has been constrained with revenue resources during FY21. But some tax announcements have already preceded the pandemic. Corporate tax rates were already reduced in September 2019 and during the previous Budget, income tax payers were allowed the option of choosing between two regimes with the new one offering lower taxes with no investment deductions. Despite theoretical counter-cyclical measures suggest a prescription of cutting taxes to stimulate economic recovery during the slowdown, the unique nature of the current pandemic scenario — which hampered revenues owing to nation-wide lockdowns, will prohibit additional taxation relief measures for both individuals and corporates.

Fifth, a close eye will be on the nominal GDP for FY22 as this number is critical for other ratios like tax to GDP, fiscal deficit to GDP. The first advance estimates for FY21 has estimated nominal GDP at around 195 lakh-crore, which means the unprecedented crisis has taken the overall value of economic activities to 2018-19 levels. Even if we assume a nominal GDP growth of 15-16 percent for the next fiscal and a tax to GDP ratio of 10.5-11 percent (average of the last five years), gross tax revenues will remain close to the budget estimates of FY21. So despite a high GDP growth number, tax revenues and nominal GDP will remain at the same level as that of the previous Budget, indicating that high GDP growth does not mean high GDP.

COVID-19 certainly has made its task cut out for the minister and her team while preparing the Budget. Nonetheless, the series of mini-Budgets which we had in May, October and November means that the focus should be more on how the announcements translate into numbers. With one eye closely on the allocation for the health sector (which as a percentage of GDP has always been below 1 percent for the central government), the second will be on the revised trajectory for fiscal consolidation.

A “never before”-like Budget is an encouraging signal, but hopefully it is in terms of more appropriate allocations and a condensed speech in its paperless avatar.

Sushant Hede is Associate Economist, CARE Ratings. Views are personal.