Reprioritise the Expenditure

What is the issue?

· The second wave of COVID-19 which currently sweeps India has forced states to announce lockdowns, affecting the economy.

· So the growth and the fiscal projections for 2021-22 budget requires a recalibration.

What are the projections in the GDP?

· The 2019-20 real GDP was Rs. 145.7-lakh crore at 2011-12 prices which fell to Rs. 134.1-lakh crore in 2020-21, a contraction of -8.0%.

· At 8.7% real growth, the nominal GDP growth would be close to 13.5%, which is lower than the nominal growth of 14.4% assumed in the Union Budget.

· At 13.5% growth, the estimated GDP for 2021-22 is Rs. 222.4-lakh crore at current prices.

· This will lead to a lowering of tax and non-tax revenues and an increase in the fiscal deficit as compared to the budgeted magnitudes.

What are the projections in the tax revenues?

· The budgeted gross and net tax revenues for 2021-22 were Rs. 22.2-lakh crore and Rs. 15.4-lakh crore, respectively and the assumed buoyancy for the Centre's gross tax revenues (GTR) was 1.2.

· Even if this buoyancy is achieved, the lower nominal GDP growth would imply a GTR growth of 15.7% as compared to the budgeted growth of 16.7%.

· If, however, the buoyancy of 1.2 proves optimistic and instead a buoyancy of 0.9, the nominal growth of GTR would be 12.2%.

· This would lead to the Centre's GTR of about Rs. 21.3-lakh crore and a corresponding shortfall in the Centre's net tax revenues which is

estimated to be about Rs. 0.6 lakh crore.

What are the projections in the non- tax revenues?

· The budgeted magnitudes for non-tax revenues and non-debt capital receipts at Rs. 2.4-lakh crore and Rs. 1.9-lakh crore, respectively, may also prove to be optimistic.

· In these cases, the budgeted growth rates will be 15.4% and 304.3%, respectively.

· The excessively high growth for the non-debt capital receipts was premised on implementing an ambitious asset monetisation and disinvestment programme.

· The budgeted growth in non-tax revenues is largely dependent on an assumed growth of 60% in revenues from communication services & 44.1% in dividends and profits from non-departmental undertakings.

· Therefore there will be a shortfall of Rs. 1.5-lakh crore in non-tax revenues and non-debt capital receipts.

How will the fiscal deficit affected?

· There are two factors that will affect the fiscal deficit estimate of 6.76% of GDP in 2021-22.

· First, is the change in the budgeted nominal GDP growth and second is the shortfall in the receipts from tax, non-tax and non-debt sources.

· Together, these two factors may lead to a slippage in fiscal deficit which may be close to 7.7% of GDP in 2021-22 if total expenditures are kept at the budgeted levels.

· Therefore protecting total expenditures at the budgeted level is important given the need to support the economy in these challenging times.

What are the other steps needs to be taken?

· The second wave of the novel coronavirus has put a spotlight on India's serious under-capacity in health infrastructure.

· The Centre's 2021-22 Budget has provided for Rs. 71,269 crore for the Department of Health and Family Welfare, a fall of Rs. 7,597 crore when

compared to 2020-21.

· The allocation for the health sector should be increased substantially by reprioritising expenditures.

· Furthermore, strong support is needed for the vulnerable groups of the society- migrant labour, rural and urban unemployed population.

· Also speedy and larger vaccination coverage of the vulnerable population is the key to minimise economic damage.

· The entire vaccination bill should be borne by the centre as it's bargaining power would keep the average vaccine price low.

· It can then transfer the vaccines rather than the money that it has budgeted for transfer.

Source: The Hindu

