CRITICAL OBSERVATIONS FROM UNION BUDGET 2020-21

InfoSphere

A Centre for New Economics Studies Initiative

By Swasti Ray and Diya Chadha
A careful examination of 2020-21 Union Budget documents reflect key issues in the Government's fiscal position:

a) The government has been unable to collect the taxes it says it will, leading to large shortfalls already.

b) It has not been able to disinvest as much as it says it wants to.

c) Tax-GDP ratios are falling y-o-y.

d) The fiscal hole in the revenue side has led to cutting down of critical social expenditure and an increase in borrowing. So, size of government spending has shrunk as a % of GDP.

This Issue of InfoSphere seeks to cover three major points of information:

1. Allocations to Union Government financed Social Sector Schemes
2. Divergences Observed in Fiscal Deficit Projections with Tax and Non-Tax Revenue Estimates vs. Their Actual Receipts
3. Achievement (so far) in Disinvestment Targets
CHANGES IN ALLOCATIONS FOR SOCIAL SECURITY SCHEMES

PM-KISAN

The government has lowered allocation to Rs. 54,370.15 crore as against the budget projection of Rs. 75,000 crore because of implementation hurdles in states.

There is a 28% gap between revenue estimates and budget estimates

The number of installments being provided has fallen and the movement of funds has slowed down.

Source: indiabudget.gov.in
Rural unemployment has increased by 8% and overall unemployment is at a 45-year low. Rural distress has risen to alarming levels.

After the scheme had already run through its original budgetary allocation for 2019-20, 15 states were in the ‘red’.

Being in the ‘red’ means that the state is in debt. They have more expenses and bills than the money to pay them.

Despite economists suggesting how putting money directly into the hands of rural consumers at the bottom of the pyramid might help spur consumption demand through investment expenditure schemes like MGNREGA, the Union Finance Minister chose not to significantly increase outlays this fiscal.

Source: indiabudget.gov.in
The government has said that it will continue to push for the next phase of this project, after the initial target of making India open defecation free (ODF).

Trying to highlight the success of this programme, they are aiming for ODF Plus – regular use of toilets, their maintenance and management of solid and liquid waste.

Source: indiabudget.gov.in
Although the government’s ambitious plan to provide tap-water to all the households in the country by 2024 is estimated to cost Rs. 3.6 lakh crore, there has been a 15% increase from the last budget.

Safe drinking water, combined with a sanitation programme is important to reduce incidence of diseases, said Union Finance Minister Nirmala Sitharaman.

Source: indiabudget.gov.in
The PMJAY, launched in September 2018, aims to provide health insurance for secondary and tertiary hospitalization to over 100 million poor and vulnerable families, which would total around 500 million beneficiaries.

However, since its introduction, only 8.1 million hospitalizations have taken place using the scheme, primarily attributed to lack of hospitals.

Although this large increase is seen, the government is expected to utilize only half of its initial allocation in the current financial year. Revised budget estimates are to be slashed to Rs. 3200 crore.
Actual revenue receipts have been falling short of budget estimates by a large margin.

The gap between actuals and estimates has risen further.
Increasing dissociation between the estimated budget and the executed budget can be seen.

### Difference (Estimates-Actual)

<table>
<thead>
<tr>
<th>Year</th>
<th>Difference (Rs. in crores)</th>
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<tbody>
<tr>
<td>2016-17</td>
<td>2819</td>
</tr>
<tr>
<td>2017-18</td>
<td>80538</td>
</tr>
<tr>
<td>2018-19</td>
<td>172822</td>
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<tr>
<td>2019-20</td>
<td>815864</td>
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Source: Union Budget, Receipt Budget Part A, Controller General of Accounts
The govt has reported a steady fall in fiscal deficit over the last 3 years, which is difficult to interpret given the constant fall in revenue receipts.

When adjusted for off-budget borrowings, the scenario emerging from the data is not so optimistic.

We see that not only is the **adjusted fiscal deficit much higher than the reported fiscal deficit**, it is steadily rising as opposed to falling.

Source: Controller General of Accounts, Ministry of Finance, Medium Term Fiscal Policy, Union Budget
When the fiscal deficit of 2017-18 was recalculated it showed that it actually works out to 5.85%. The government had reported a fiscal deficit of 3.46% that year.

Thus, there is actually an upward spiral in the general government deficit, while the official line is that the prescribed glide path is being adhered to.
The government has **been falling short of its disinvestment target by huge margins.**

In next fiscal, it expects that tripling of disinvestment targets will reduce fiscal deficit in the face of falling revenue receipts.

Sources: Receipts Budget, Union Budget; Controller General of Accounts, Ministry of Finance, Department of Investment and Public Asset Management
Failure to meet the target receipts has resulted in increased off-budget borrowings.

What are they?
Off-budget borrowings are those borrowings by state-owned firms that are not part of the official budget calculations but are used to fund government schemes.

An off-budget borrowing is excluded from the fiscal deficit calculations though it does add to the total debt of the government.

<table>
<thead>
<tr>
<th>Year</th>
<th>Off-Budget Borrowings</th>
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<tbody>
<tr>
<td>2018-19</td>
<td>520378</td>
</tr>
<tr>
<td>2019-20</td>
<td>173000</td>
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<tr>
<td>2020-21</td>
<td>186000</td>
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It is important to note that though the off-budget borrowings in 2018-19 are higher than that of subsequent years, it actually accounts for a lower percentage of GDP.

This highlights that the Govt is resorting incrementally to more off budget borrowings to make up for shortfall in revenue receipts.

Given its past record, tripling the disinvestment targets over the coming fiscal seems difficult and if the target is missed again, it is then important to monitor government’s off-budget borrowings for the fiscal year (to finance its estimated expenditures).
CONCLUSION

Considering that the government has only met its disinvestment target twice in the last 10 years, the disinvestment targets are very high.

While fiscal deficit is shown to be falling, due to off-budget borrowings, we saw that it is actually rising.

An increase in the expenditure GDP ratio by 0.33 per cent of GDP in FY21, even in the face of falling tax-GDP ratios, is puzzling until one sees that disinvestment receipts are projected to more than triple from Rs. 65,000 crore to Rs. 2.1 trillion in FY 21. Thus, a massive increase in asset sales will finance a modest increase in the expenditure-GDP ratio plus reduce the fiscal deficit.

Disinvestment targets are rising despite a fall in revenue receipts. Thus, a massive rise in asset sales to reduce fiscal deficit is a risky disinvestment target as we have failed to meet disinvestment expectations in recent years and are forced to resort to off budget expenditures.
For any inputs, comments or clarifications please contact The Centre for New Economics Studies at cnes@jgu.edu.in.

Thank you!