A Comprehensive Analysis of India's Union Budget

Financial Year 2021-22

InfoSphere

A Centre for New Economics Studies Initiative

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INTRODUCTION

India is still in the midst of pandemic which has disrupted economy and growth. The lockdown brought all economic activities to a halt and resulted in a down trend in income, consumption and investment. The union budget was primarily aimed at providing fiscal stimulus to bring India back to its growth trajectory.

Given the fall in tax collection, this expenditure was financed through borrowing, disinvestments and long-term structural reforms.

Investment was directed towards infrastructure to provide a push to the economy. Other focal points of expenditure were health, agriculture, education and rural development schemes.

In the midst of heavy requirement for spending, there is an uncertainty about fiscal and debt sustainability of India. Further constraints were implemented to prevent interest rates and inflation from rising.

India may need to maintain market and international credibility while adhering to the current popular prescription (for developed economies) of borrowing and spending if the interest rates are far below the growth rate.

ISSUE BRIEF

The Edition covers a discussion on:

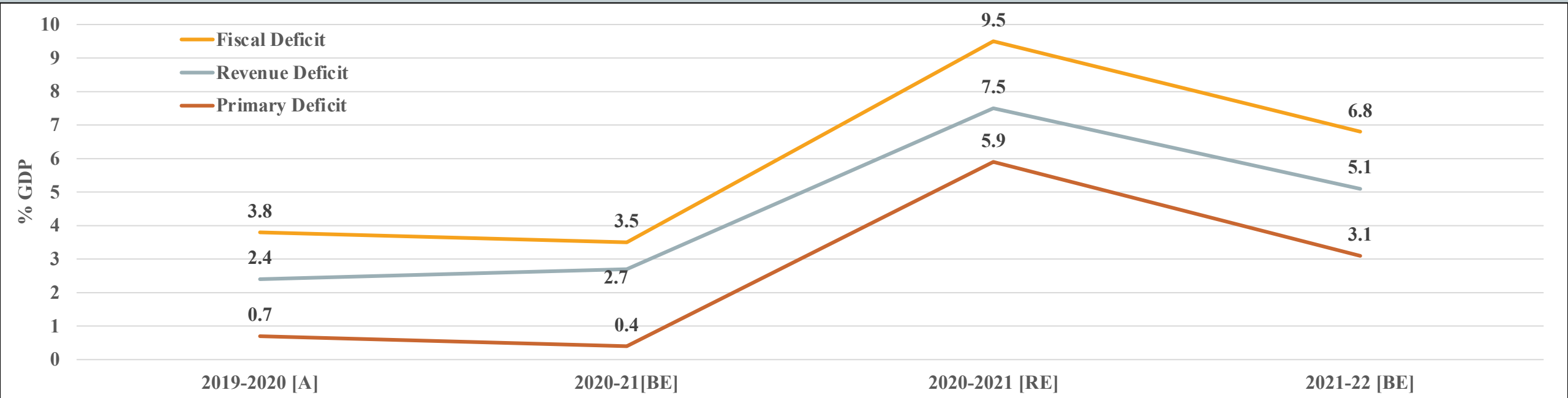
1. **Analysis of Macroeconomic Trends:**
    1. Fiscal Indicators
    2. Revenue Allocative Priorities for Union Government
    3. Central Tax Devolution to State (15th Finance Commission)

2. **Analysis of resource creation via:**
    1. Disinvestment
    2. Long-term structural reforms

3. **Analysis of Investment in:**
    1. Infrastructure
    2. Health
    3. Rural Development Scheme
    4. Agriculture
    5. Subsidies

Trends in DEFICITS

The FRBM act states the fiscal deficit of the union government should progressively move towards 3% of GDP set according to the financial saving of India. However, high union government fiscal deficit takes up predominant financial resources which could possibly affect interest rates and inflation. This could reduce future investments and hamper growth from reaching its potential.



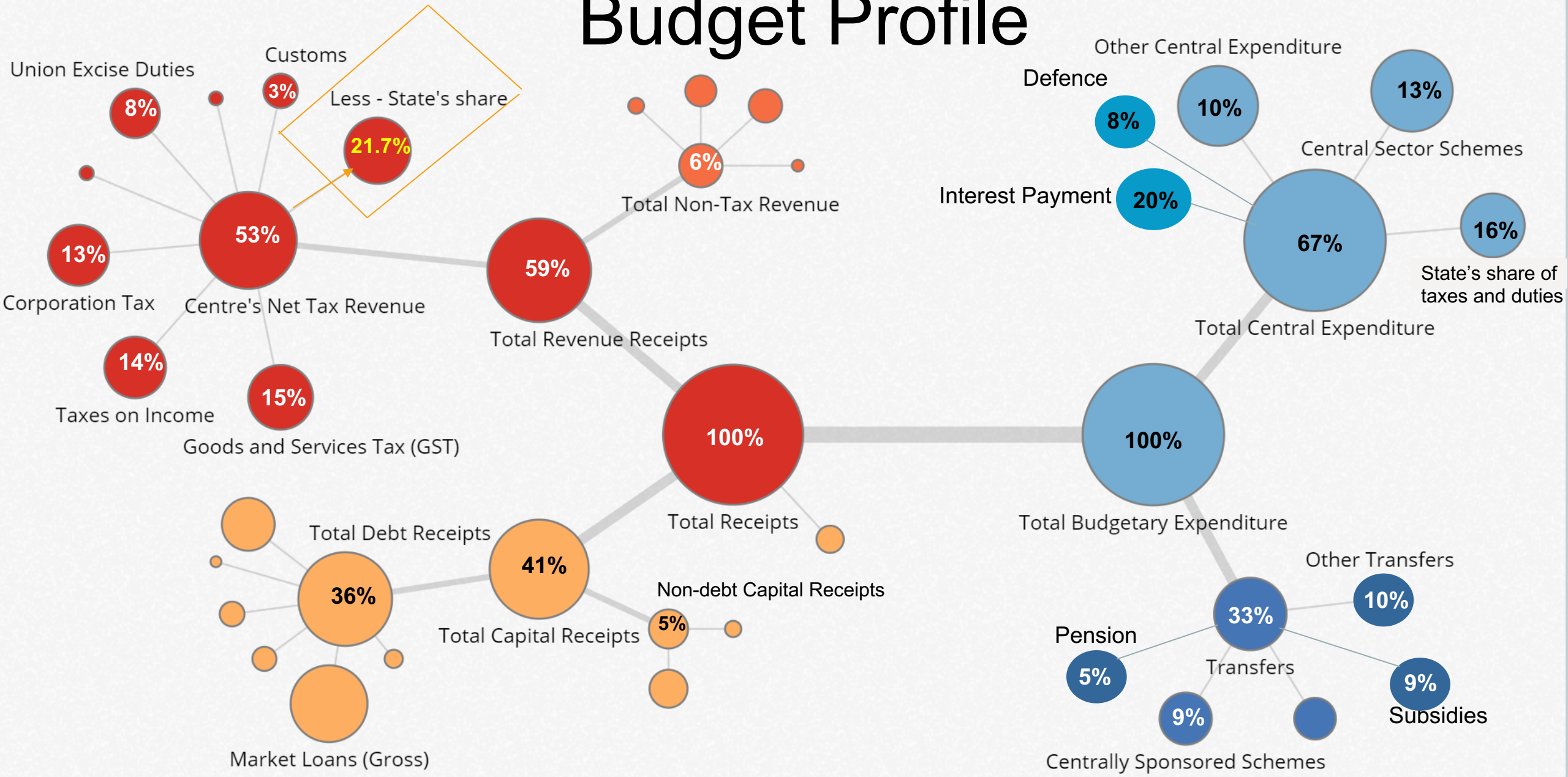
Source: Budget multiple years

→ **Interest Payment accounts for 23% of the government's projected 2021-22 expenditure.**

Central Government Debt (Rs. Lakh Crore)	
Public Debt	97.5
External Debt	6.3
Internal Debt	91.2

Source: Union Budget 2021-22

Budget Profile



Source: Budget 2021-22, https://www.indiabudget.gov.in

Constrained Tax Collection

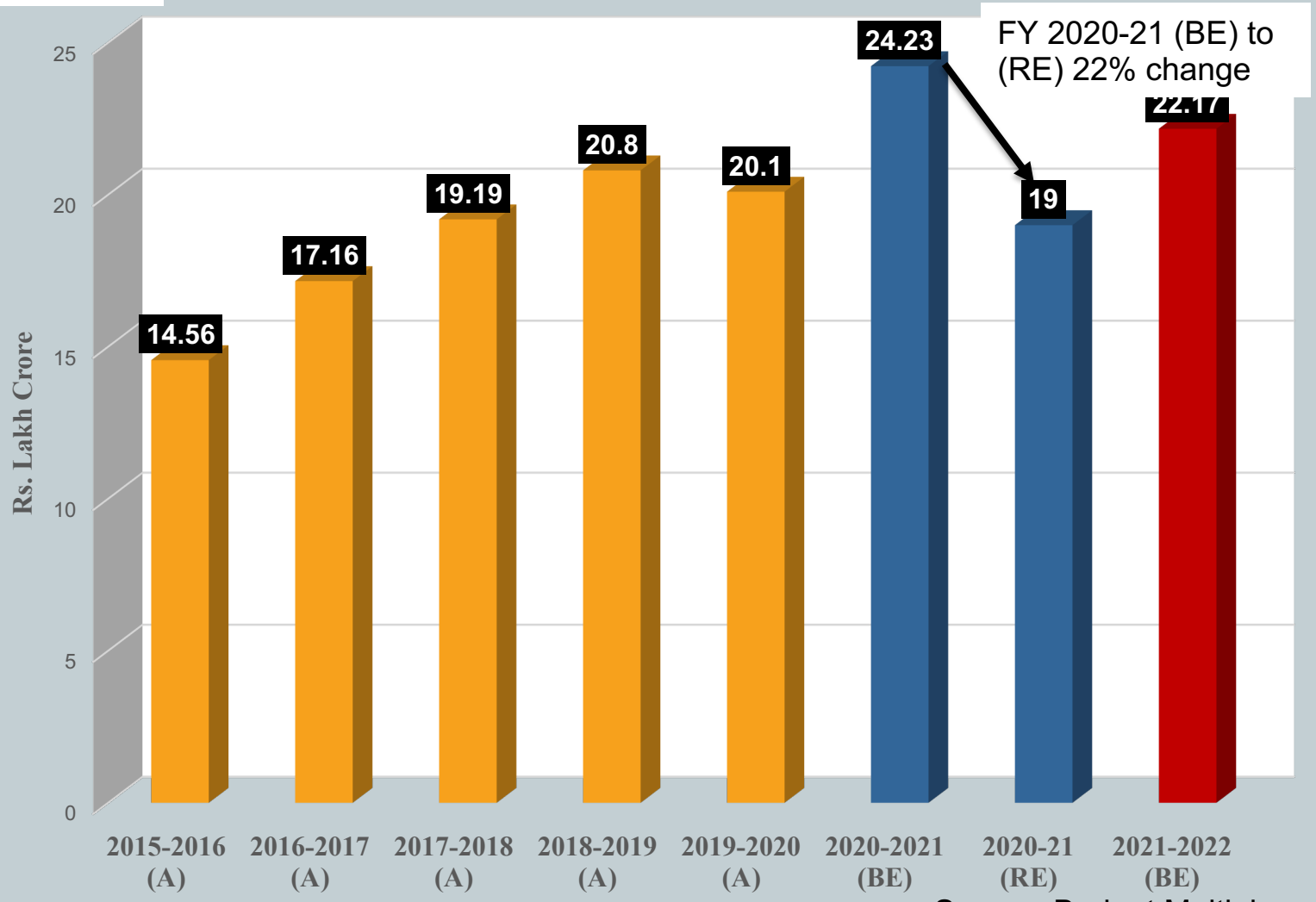
- BE (Budget Estimate) projection for tax collection in 2020-21 was unrealistically high. Hence, a part of the decline in the ongoing fiscal year from the budget estimates to the revised estimates can be attributed to the higher projection in last year's budget

- The conservative projection (RE for 2020-21) could be that the government expects higher tax refunds in the last three months of the ongoing fiscal year.

- Revised estimate for 2020-21 seems conservative; in other words, it is more realistic than similar projections in previous budgets.

For more Information:
https://www.prsindia.org/parliamenttrack/budgets/union-budget-2021-22-analysis

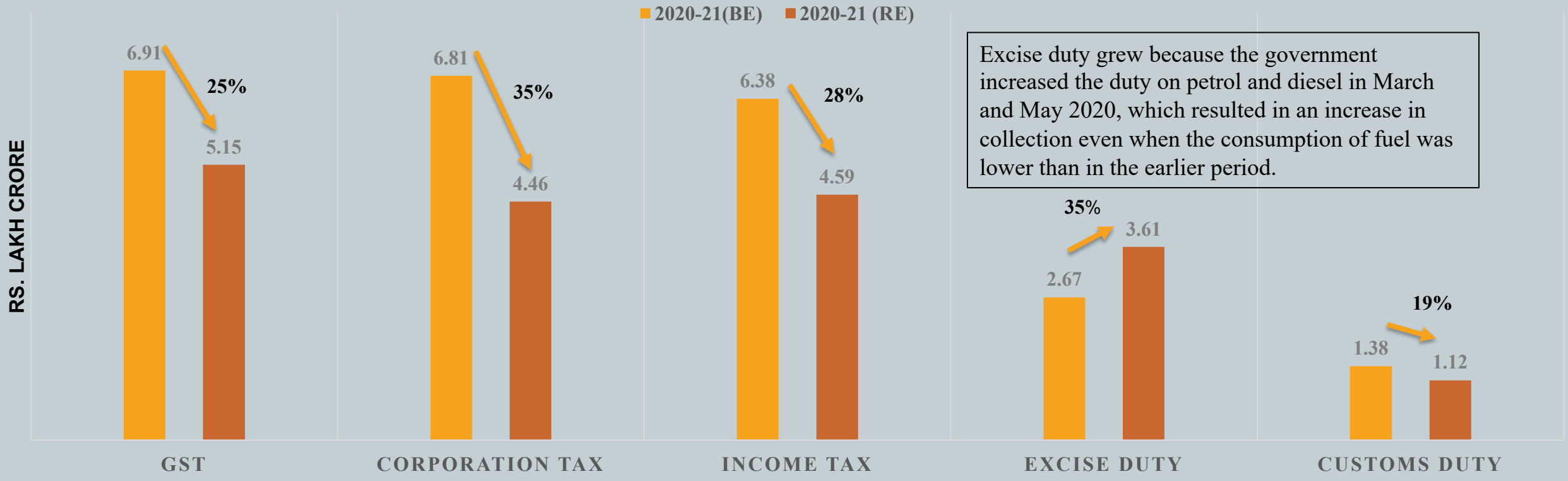
Total Central Tax (Rs. Lakh Crore)



Source: Budget Multiple years

The decline in taxes collection in FY 2020-21 and conservative estimates on FY 2021-22 along with loose (counter cyclical) fiscal policy has stressed financial resources for both the center and the states

CHANGE IN TAX COLLECTION: 2020-21 BE VS. RE



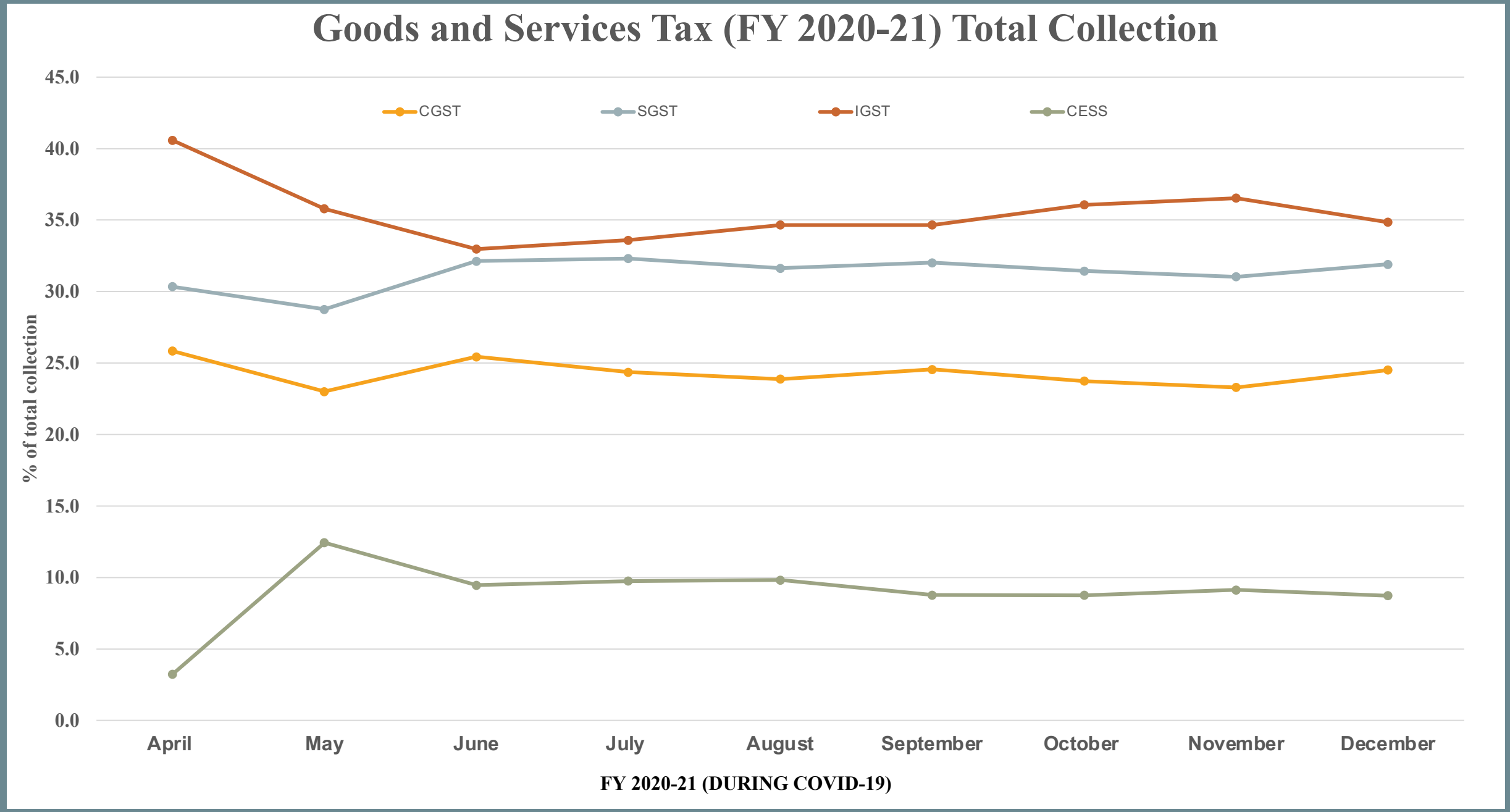
Excise duty grew because the government increased the duty on petrol and diesel in March and May 2020, which resulted in an increase in collection even when the consumption of fuel was lower than in the earlier period.

- Attempt has been made in the budget to reduce this regressivity: when employees make a payment towards the provident fund (PF), the income earned from this contribution would be exempted from income tax.

- In the new union budget, the tax exemption has been limited only to those taxpayers who make an annual contribution of Rs. 2.5 lakh or less.

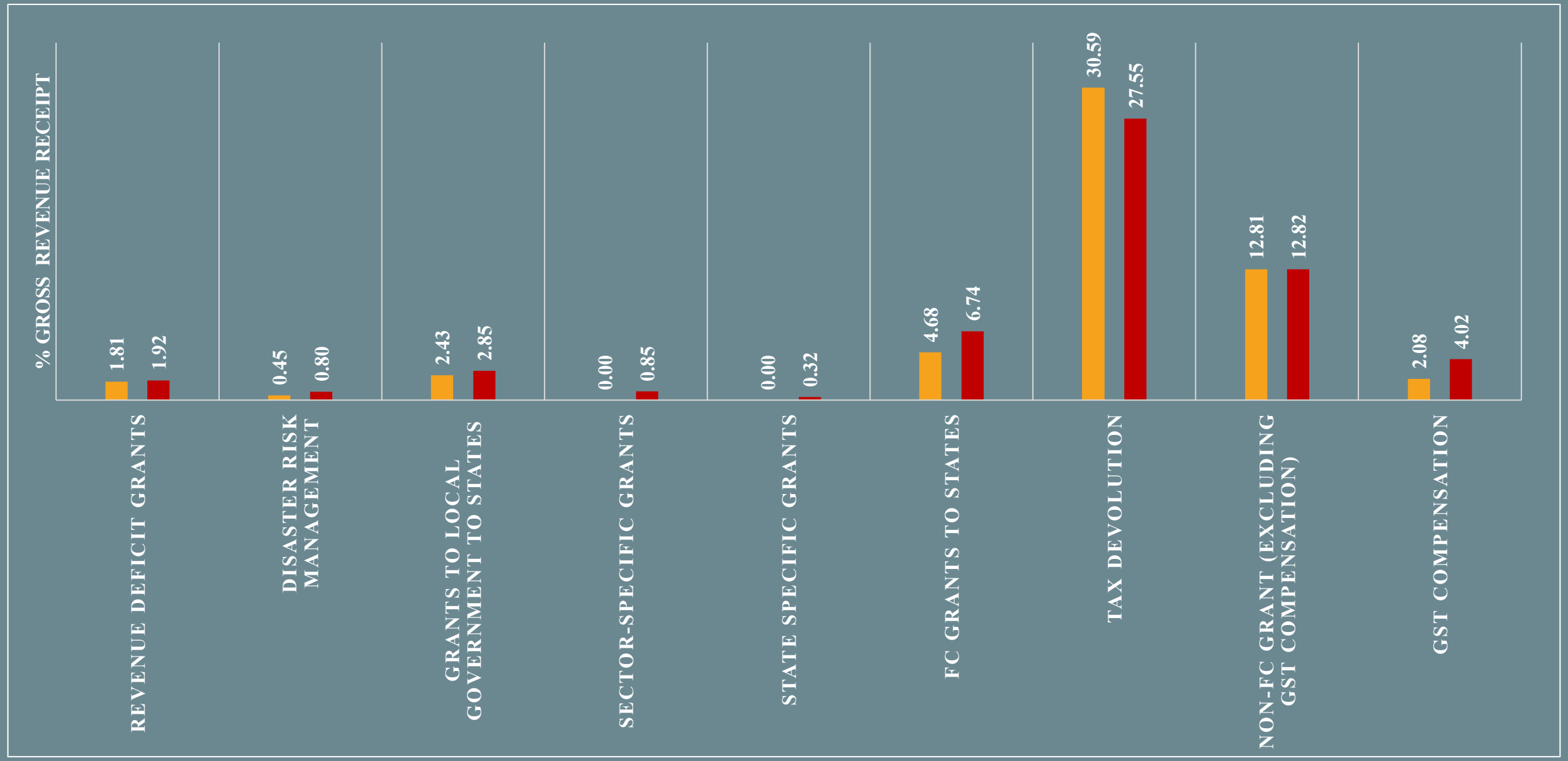
- Taxpayers who contribute a higher amount to PF will now see the interest income taxed. However, this is a minor change as it is unlikely to have a significant impact on overall tax collection.

Source: https://www.prsindia.org/parliamenttrack/budgets/union-budget-2021-22-analysis



Source: Budget 2021-22, https://www.indiabudget.gov.in

Transfer as Percent of Gross Revenue Receipt (%)



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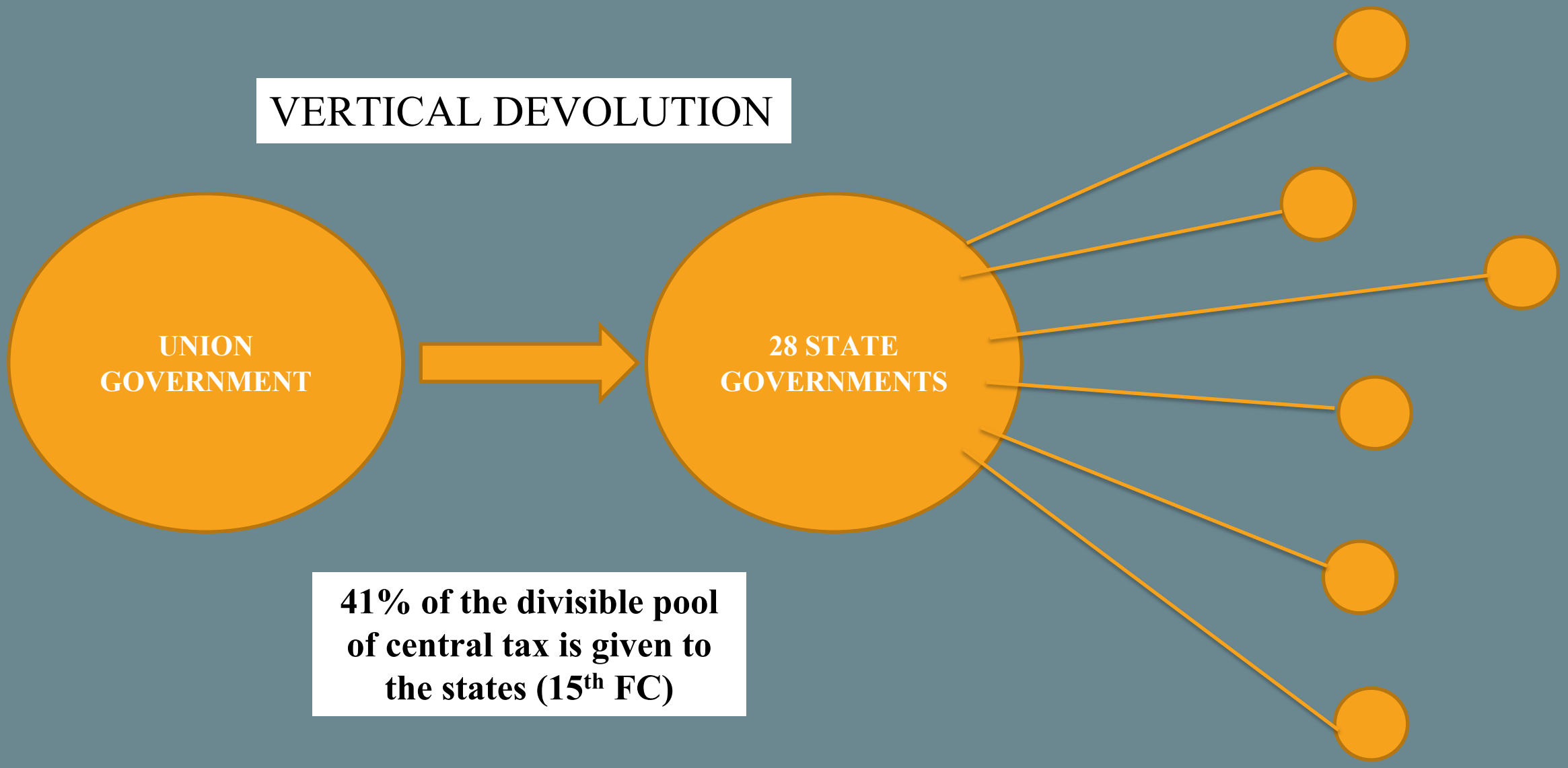
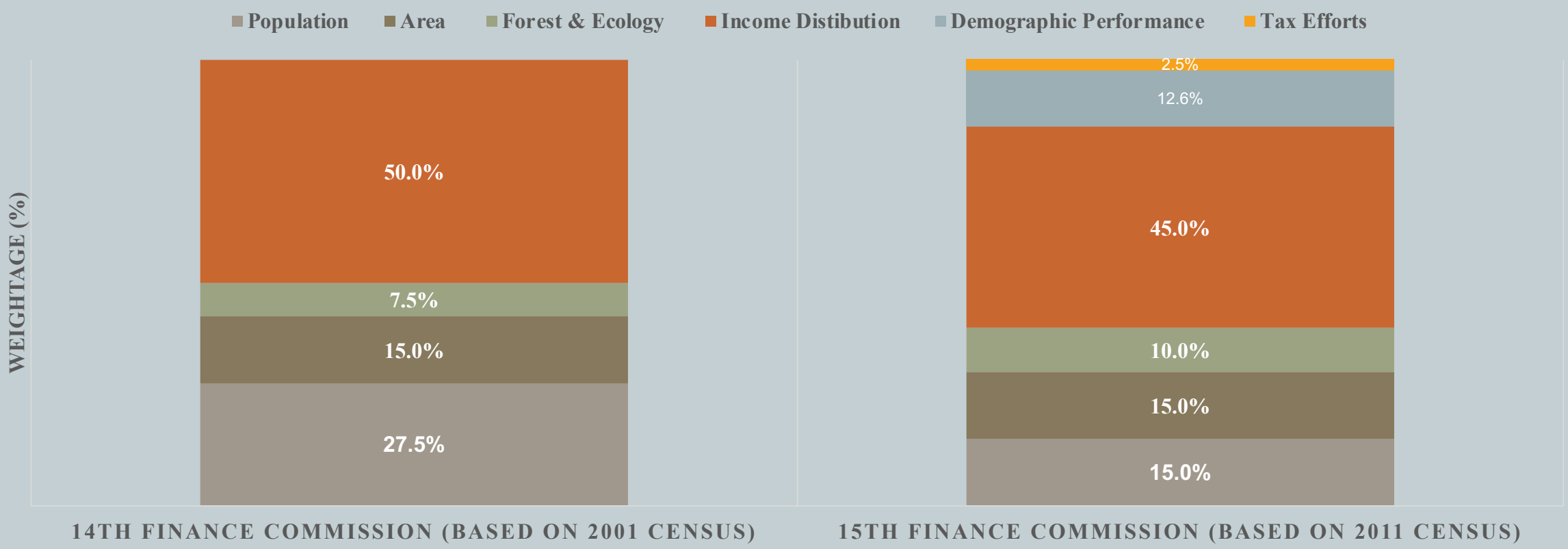
VERTICAL DEVOLUTION



41% of the divisible pool of central tax is given to the states (15th FC)

HORIZONTAL DEVOLUTION

Revenue Sharing Formula Comparison between 14th and 15th Finance Commission



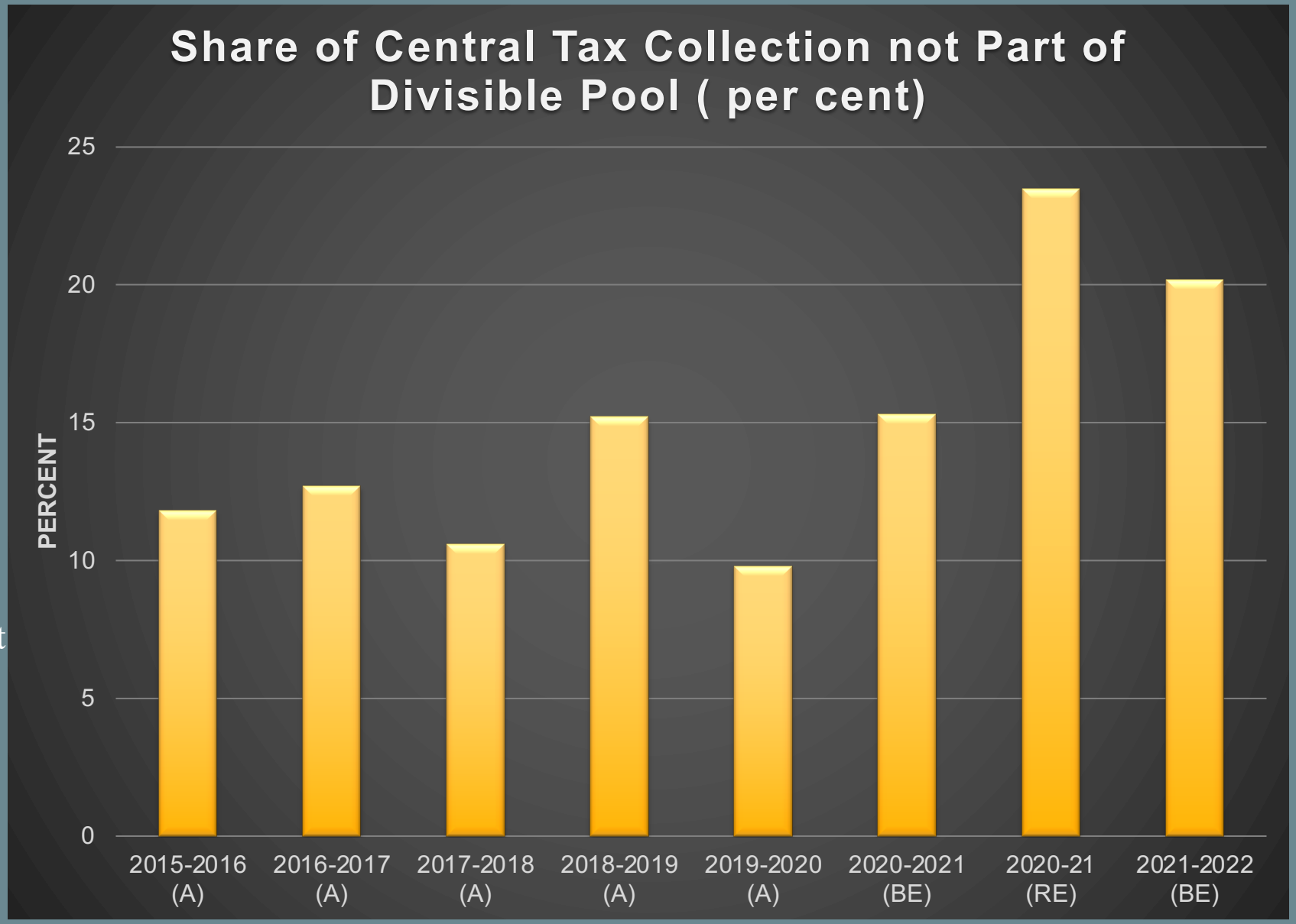
With a shift from using the 2001 census to 2011 census, the horizontal tax devolution penalized states for controlling their demography in accordance with revenue sharing criteria of the 14th finance commission. Thus, 15th finance commission added demographic performance as a criteria for incentivising population control.

Additionally, a criteria incentivising efficiency of tax collection, namely tax efforts was also added.

Source: https://fincomindia.nic.in/ShowContent.aspx?uid1=3&uid2=0&uid3=0&uid4=0

Centralization of Taxes

- In recent years, both cesses and surcharges have assumed a more permanent role in the central tax system.
- The increase in 2020-21 (RE) is on account of two cesses levied on fuel—Special Additional Duty of Excise on Motor Spirit, and Road and Infrastructure Cess.
- In February 2020, the government had also levied a health cess on the import of medical devices but had suspended it subsequently in the wake of the pandemic.
- In this year's budget, new cess in the form of an Agriculture Infrastructure and Development Cess has been announced.



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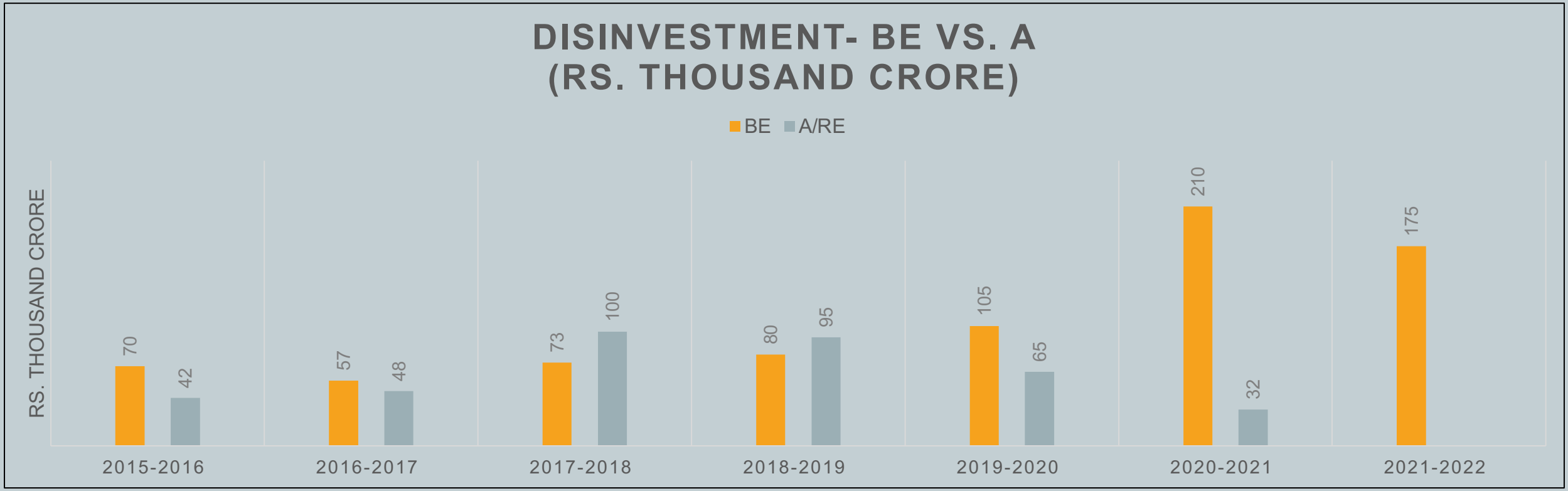
Disinvestment



- Disinvestment of Air India, IDBI Bank, and Pawan Hans will be completed in 2021-22.
- Legislative amendments will be introduced to privatise two public sector banks and a General Insurance company.
- The IPO for LIC will also be completed in 2021-22.
- The government has approved a strategic disinvestment policy under which CPSEs will be maintained only in four sectors, with the rest being privatised.
- States will be incentivised to disinvest their public sector companies.
- A Special Purpose Vehicle will be used to monetise government owned land.

Source: Budget 2021-22, https://www.indiabudget.gov.in

Addressing Rising NPAs and ‘Bad Loan’ Crisis

Asset Reconstruction Company Limited and Asset Management Company

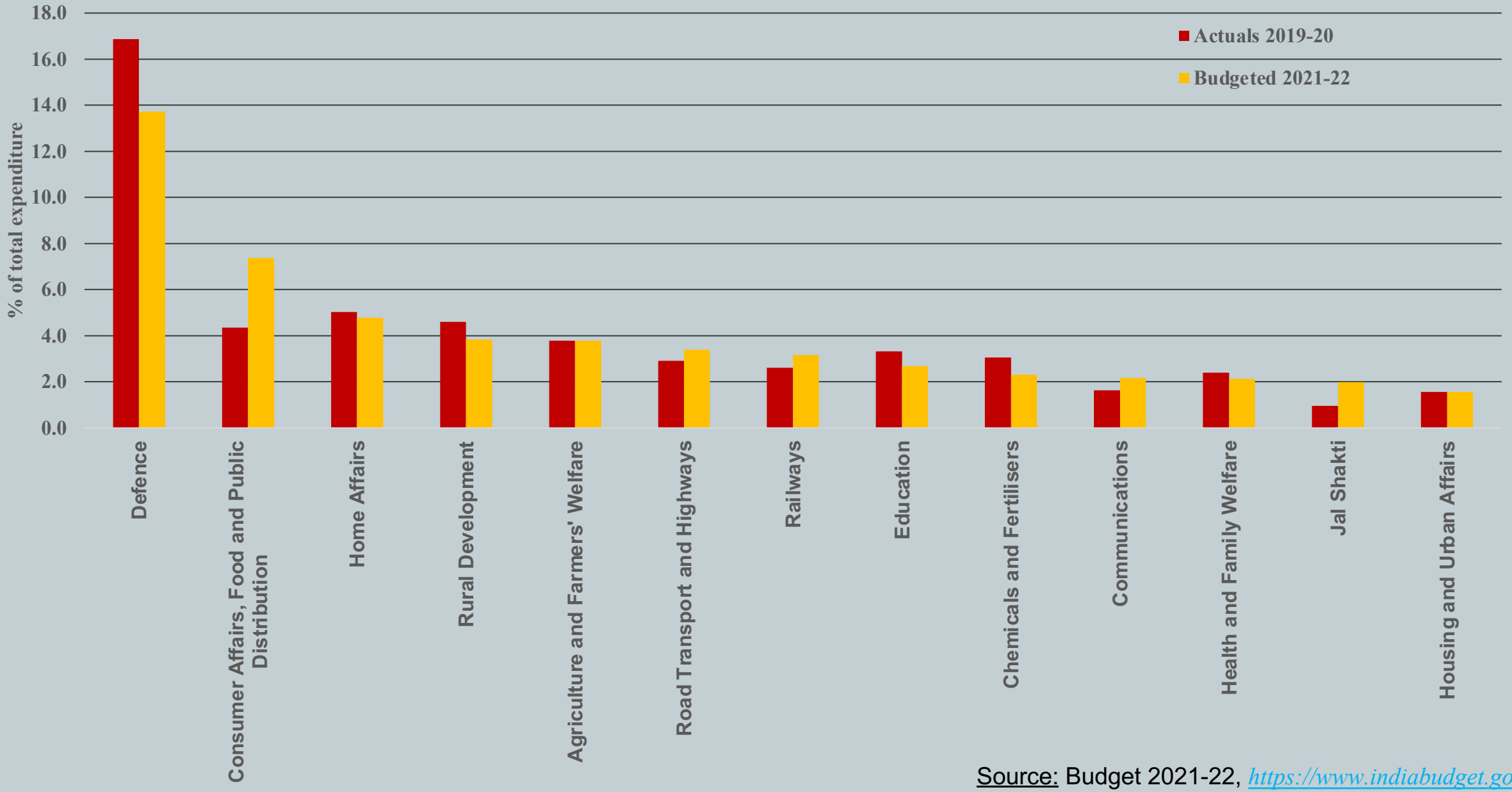
The company will be set up to consolidate and take over existing stressed debt, and manage and dispose assets.

Bad Bank

The new structure would aggregate bad loans from Indian banks to help them clean up their strained balance sheets.

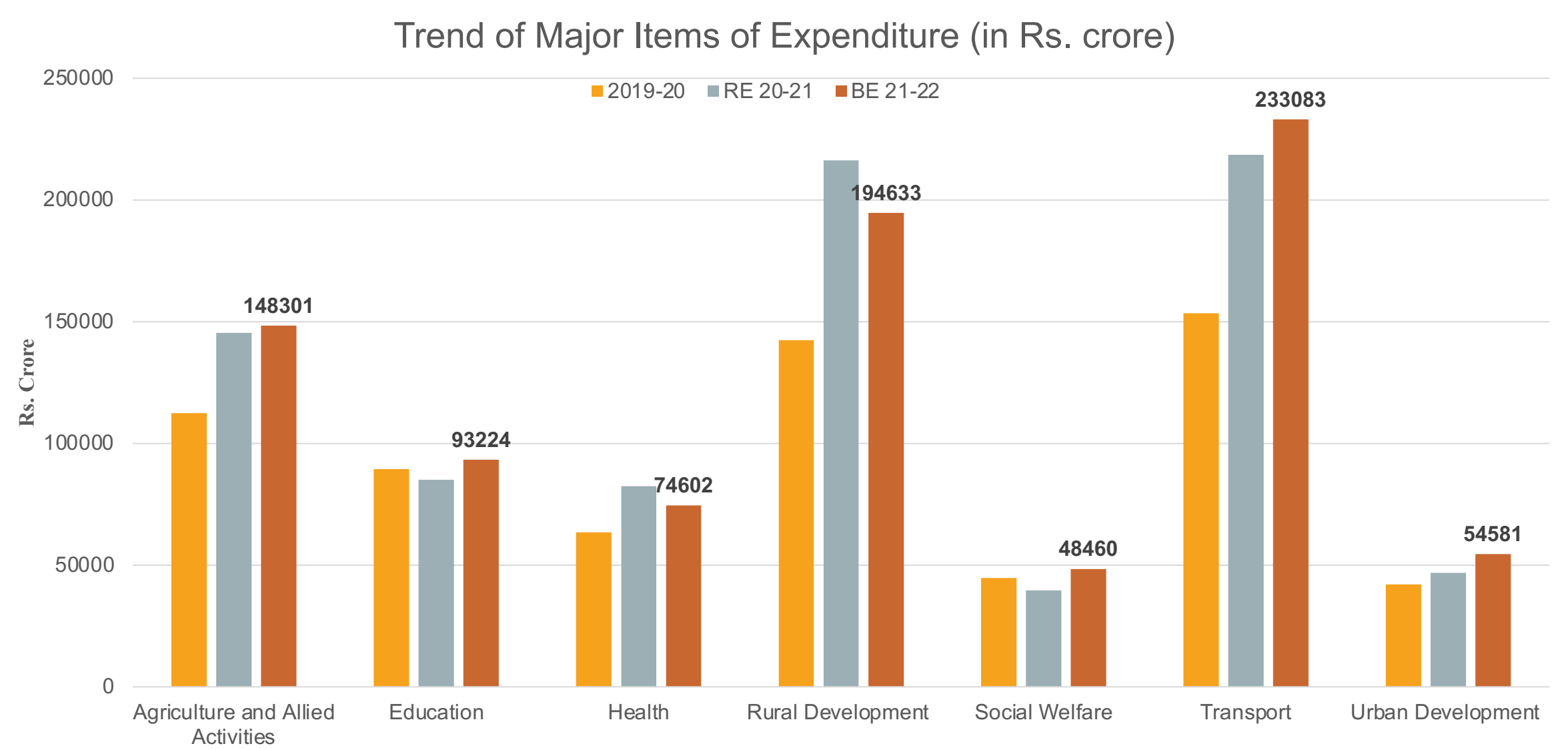
This will allow for banks to clear non- performing assets from their balance sheet and provide them space to lend. This will boost investment, create employment and generate income and the willingness to consume.

Ministry-Wise Expenditure in 2021-22



Source: Budget 2021-22, https://www.indiabudget.gov.in

Expenditure



Source: https://www.indiabudget.gov.in/doc/Budget_at_Glance/budget_at_a_glance.pdf

Infrastructure

National Infrastructure Pipeline (NIP) - announced in December 2019 was launched with 6835 projects; the project pipeline has now expanded to 7,400 projects. Around 217 projects worth Rs 1.10 lakh crore under some key infrastructure Ministries have been completed.

Roads and Highway Infrastructure	Railway Infrastructure	Urban Infrastructure	Power Infrastructure
Highest ever outlay of Rs 1,18,101 crore for Ministry of Road Transport and Highways.	The budget provided a record sum of Rs 1,10,055 crore, out of which Rs 1,07,100 is for capital expenditure.	A new scheme would be launched at a cost of Rs 18,000 crore to support augmentation of public bus transportation.	Revamped reforms-based result-linked power distribution scheme to be launched with an outlay of Rs 3,05,984 crore over 5 years.

Source: https://pib.gov.in/PressReleasePage.aspx?PRID=1693908

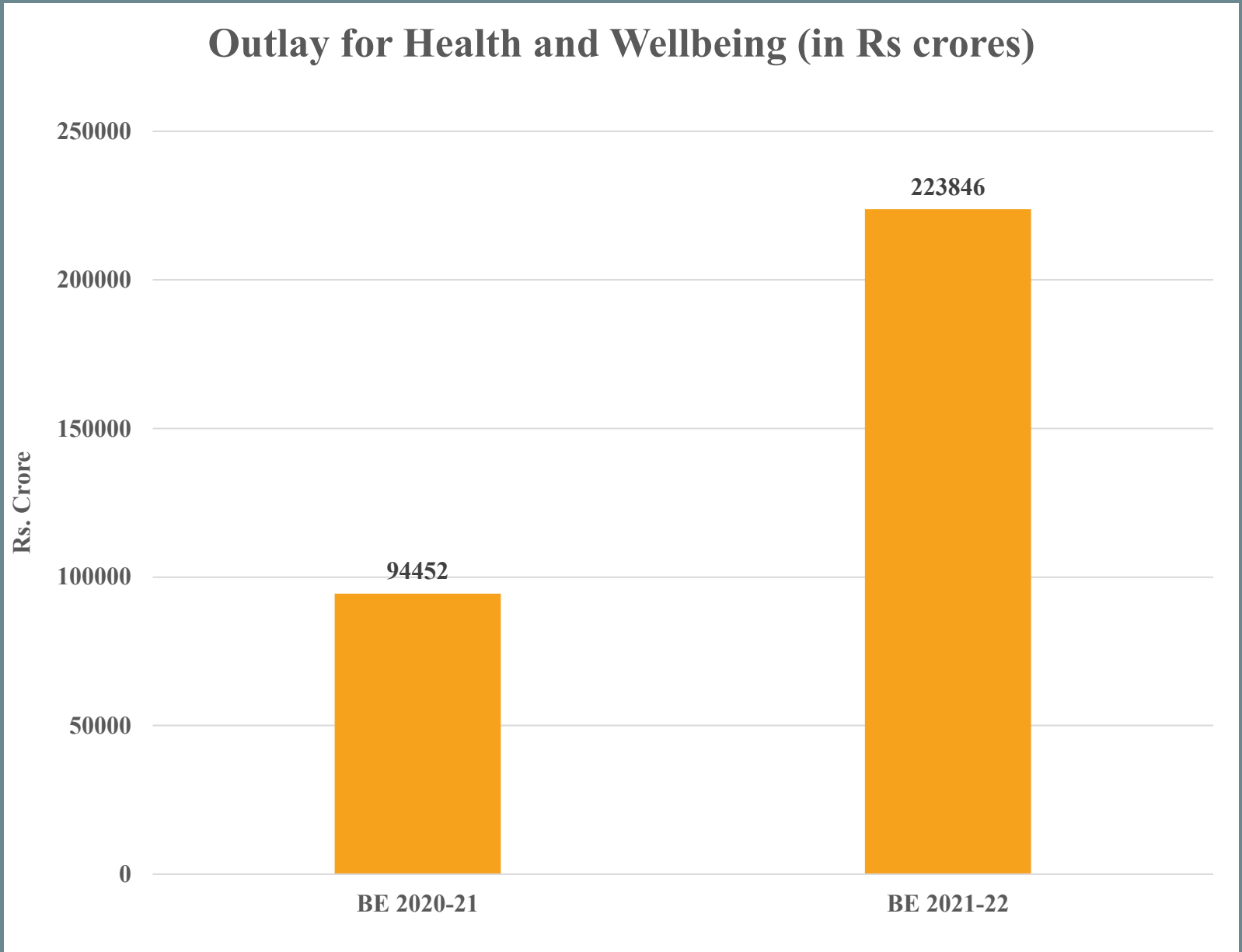
Health

- **Rs. 2,23,846 crore** outlay for *Health and Wellbeing* in BE 2021-22 as against **Rs. 94,452 crore** in BE 2020-21 – an **increase of 137%**.

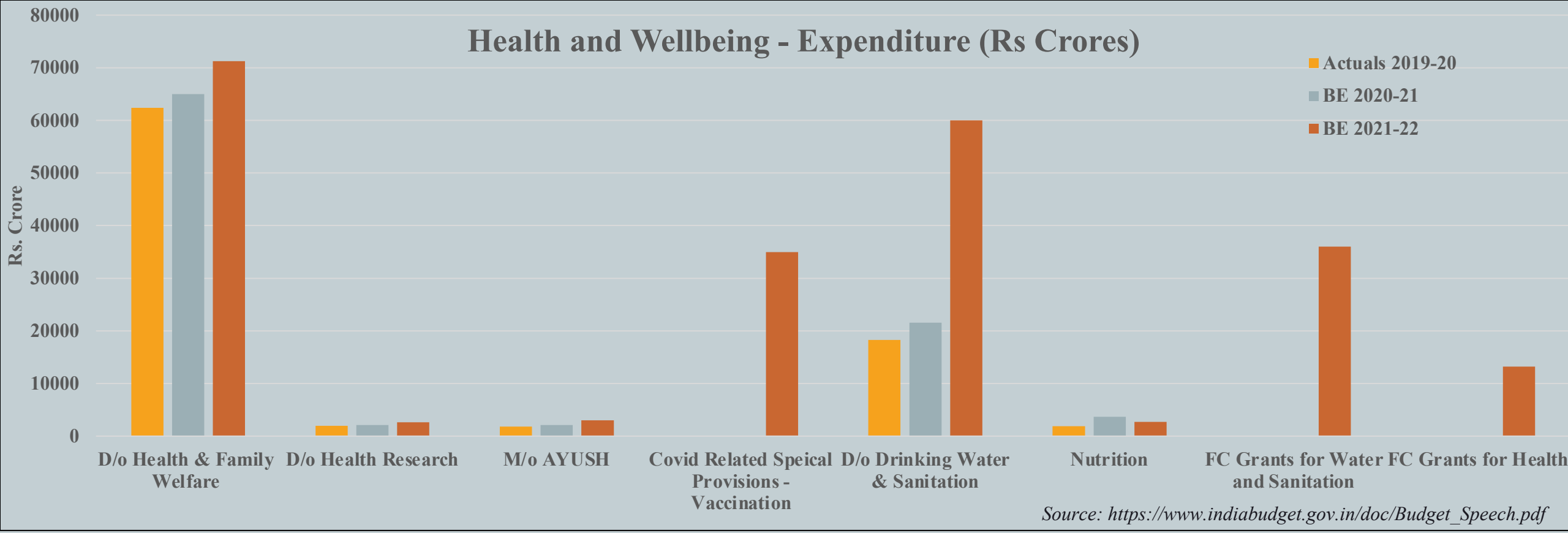
- The main initiatives taken under health improvement are:

1. Vaccines
2. Health Systems
3. Nutrition
4. Universal Coverage of Water Supply
5. Swachch Bharat, Swasth Bharat
6. Clean Air
7. Scrapping Policy

A detailed analysis of these allocations follows.



Source: https://pib.gov.in/PressReleseDetailm.aspx?PRID=1693907



The main schemes that were introduced for health and wellbeing are:

•Rs. 35,000 crore for COVID-19 vaccine in BE 2021-22.

•Rs. 64,180 crore outlay over 6 years for PM Aatma Nirbhar Swasth Bharat Yojana – a new centrally sponsored scheme to be launched, in addition to NHM.

•Mission Poshan 2.0 to be launched.

•Rs. 2,87,000 crore over 5 years for Jal Jeevan Mission (Urban) - to be launched.

•Rs. 1,41,678 crore over 5 years for Urban Swachh Bharat Mission 2.0.

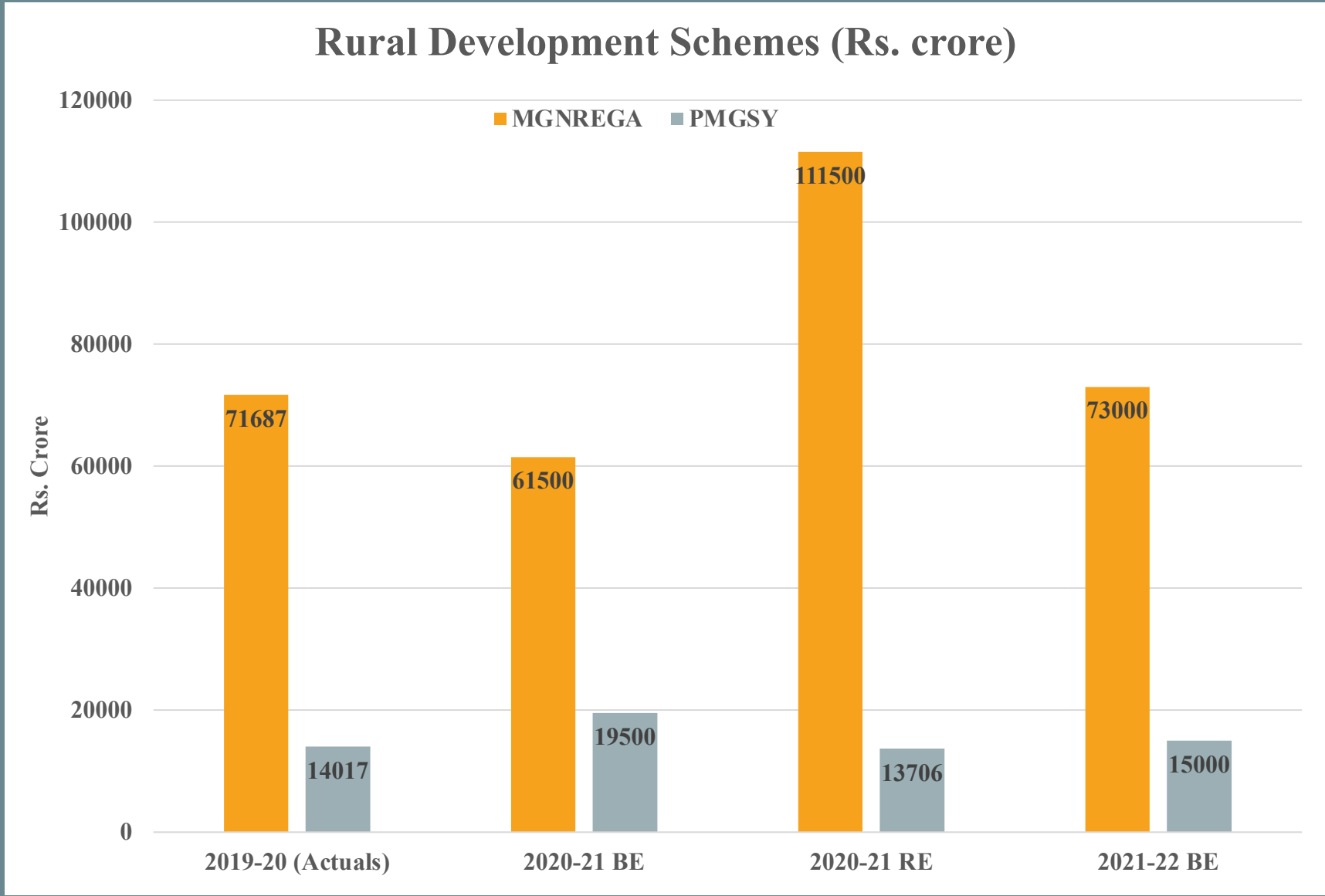
•Rs. 2,217 crore to tackle air pollution, for 42 urban centers with a million-plus population.

•Voluntary vehicle scrapping policy to phase out old and unfit vehicles.

Rural Development Schemes

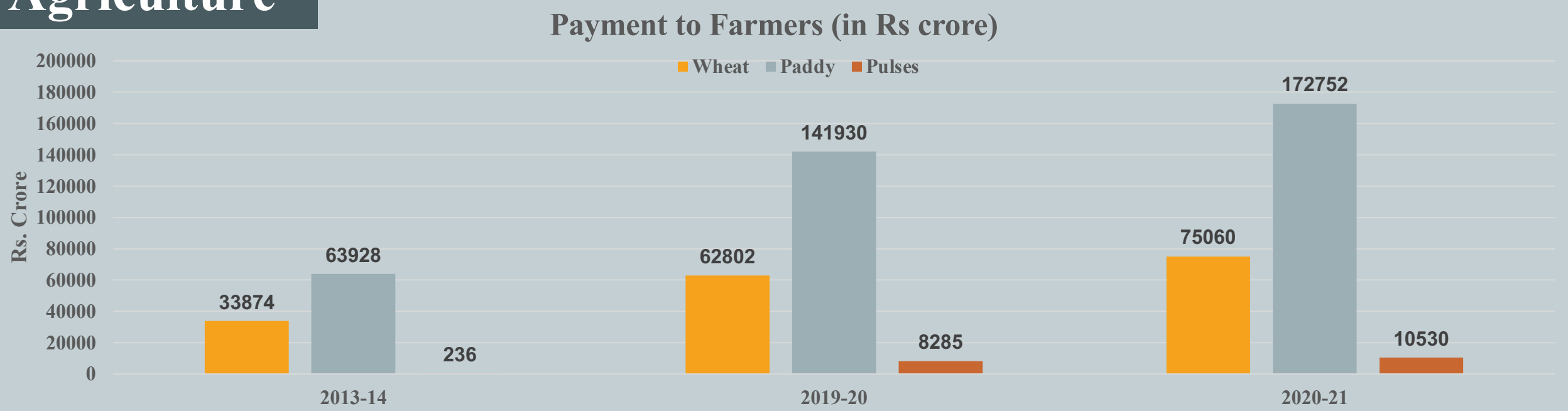
- The decreasing trend of allocation towards Pradhan Mantri Gram Sadak Yojna (PMGSY) raises concerns over the progress of rural infrastructure and subsequent generation of employment.

- Given that Mahatma Gandhi Rural Employment Guarantee Scheme is a demand driven scheme and there was a need for an additional funding in FY 2021. The additional demand should be met by additional funding towards the scheme.



Source: https://www.indiabudget.gov.in/doc/Budget_at_Glance/budget_at_a_glance.pdf

Agriculture



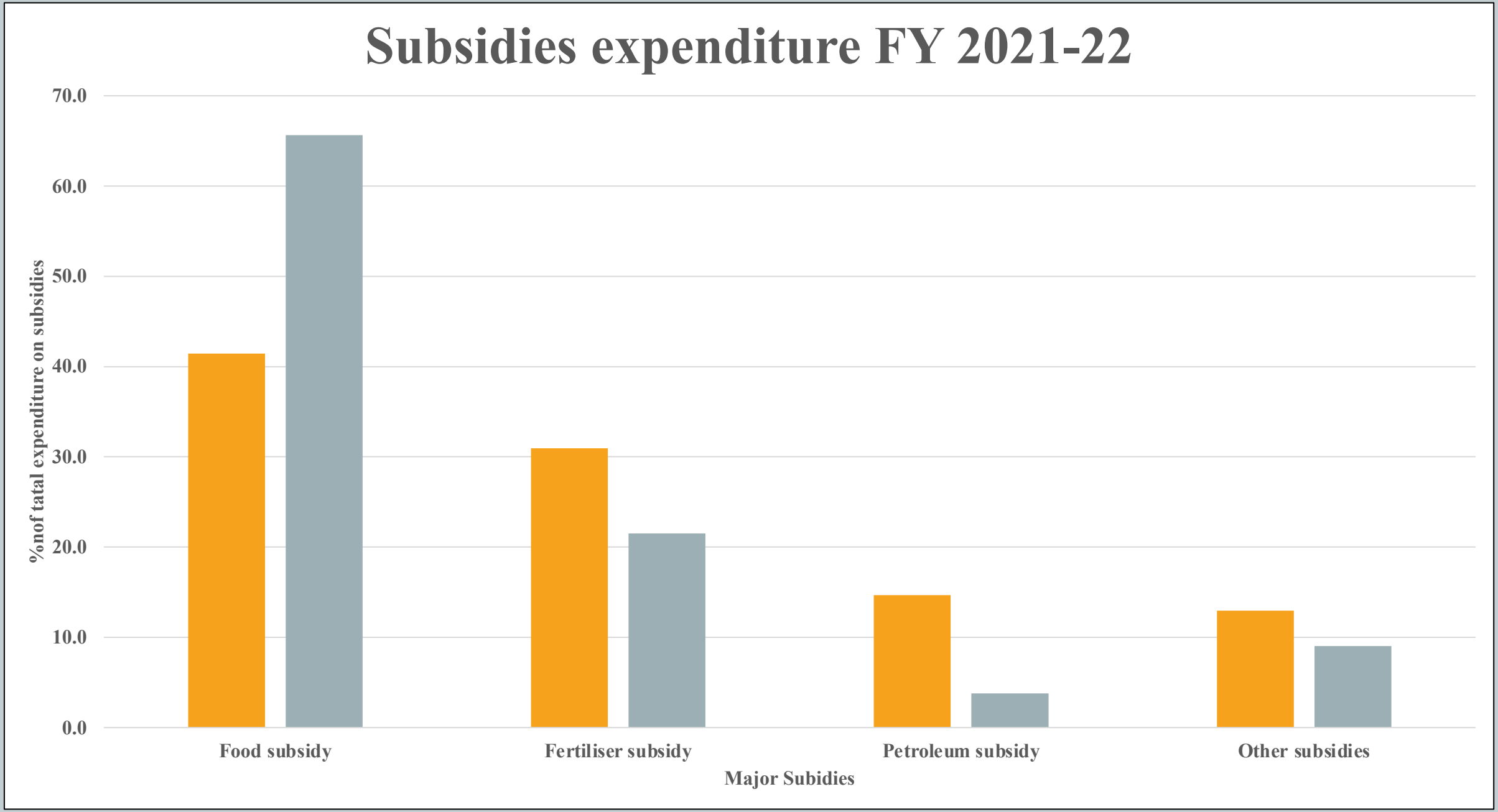
Source: https://pib.gov.in/PressReleasePage.aspx?PRID=1693908

- The micro irrigation fund doubled by Rs 5000 crore.
- The number of wheat growing farmers that were benefited increased in 2020-21 to 43.36 lakhs as compared to 35.57 lakhs in 2019-20.
- The paddy growing farmers benefited increased from 1.24 crore in 2019-20 to 1.54 crore in 2020-21.
- The SWAMITVA extended to cover all states/UTs.
- ‘Operations Green Scheme’ extended to 22 perishable products.
- Agricultural credit target enhanced to Rs 16.5 lakh crore in FY22 with focus on credit flows to animal husbandry, dairy and fisheries.
- 1000 more Mandis will be integrated with e-NAM to bring transparency and competitiveness.
- Agricultural Infrastructure Funds to APMCs for augmenting infrastructure facilities.

Education

School Education	Higher Education	SC and ST Welfare	Skilling
15000 schools to be strengthened by implementing all NEP components. 100 new Sainik Schools to be opened.	Legislation to setup Higher Education Commission as an umbrella body with 4 separate vehicles for standard-setting, accreditation, regulation, and funding.	750 Eklavya model residential schools in tribal areas with unit cost of each school to be increased to Rs. 38 crore and for hilly and difficult areas, to Rs. 48 crore. Rs. 35,219 crore enhanced Central Assistance for 6 years till 2025-2026.	Rs. 3000 crore for realignment of existing National Apprenticeship Training Scheme (NATS) towards post-education apprenticeship, training of graduates and diploma holders in Engineering.

Source: https://pib.gov.in/PressReleseDetailm.aspx?PRID=1693907



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CONCLUSION

1. The focus of the budget lied on increasing expenditure to revive growth. Adherence to implement counter cyclical fiscal policy tax rates remained the same and measures of disinvestment, key being **two public sector banks and one general insurance company,** was taken. Monetizing of assets was another step taken to raise resource pool.

2. This was primarily done to increase consumption which in turn would increase investment, creating more jobs. Reviving growth requires this upward spiral.

3. However, banks not willing to lend as their balance sheets are under stress is another predicament. The government introduced two long term reforms – **Asset Reconstruction Company Limited and Asset Management Company and Bad Bank**

4. Lastly, to keep the interest rate and inflation from increasing, fiscal consolidation pathway was specified targeting three years time period. This was done to keep debt sustainable and outlook of international markets and rating agencies to remain favorable. However, credit ratings agency-Moody is far from satisfied with the measures taken.

5. The part of the budget that seemed to be missing was in terms of direct cash incentives and support for the poor, vulnerable sections that has received little to no support from the Government since a pandemic wreaked havoc in India's deeply unorganized working landscape.

For any inputs, comments or clarifications please contact The Centre for New Economics Studies at cnes@jgu.edu.in

Thank you!