Union Budget 2020: The Fiscal Crisis Worsens

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Serious structural problem

- I've been saying for the past three years that we have a serious structural problem in the central government public finances.
- The government is simply not able to, year after year, collect the taxes that it says it will collect, and the shortfalls are large.
- This year, for example, the government was 0.7% of GDP short on its tax collections.
- The second problem is the government is simply not able to, year after year, disinvest to the extent it wants to disinvest

Serious structural problem

	2014-15	2018-19	2019-20 BE	2019-20 RE	2020-21 BE
GDP	**12467959**	**19010164**	**20442233**	**20442233**	**22489420**
Revenue Receipts	1101472	1552916	1962761	1850101	2020926
	8.83	**8.17**	**9.60**	**9.05**	**8.99**
Net Tax Revenue	903615	1317211	1649582	1504587	1635909
	7.25	**6.93**	**8.07**	**7.36**	**7.27**
Non-Tax Revenue	197857	235705	313179	345514	385017
	1.59	**1.24**	**1.53**	**1.69**	**1.71**
Disinvestment receipts		94727	105000	65000	210000
		0.50	**0.51**	**0.32**	**0.93**

Serious structural problem

- So that is leaving a big hole in the revenue side…
- The government then has to scramble to borrow or cut expenditure in the middle of a slowdown to make up for this shortfall, so the structural problem I think has not been sufficiently acknowledged.

Serious structural problem

- A consequence of that is very simple: you would imagine that the government would borrow to increase expenditure
- Well, this year, the government has not borrowed to increase expenditure.
- The entire borrowing of government has gone to make up for the tax shortfall and the disinvestment shortfall.
- There were still some shortfall leftover over and above that…
- Therefore, actually, the expenditure-GDP ratio this year, in the revised estimates of FY20, are lower than in July.
- So the government budget is actually contracted, not expanded.

Serious structural problem

	2014-15	2018-19	2019-20 BE	2019-20 RE	2020-21 BE
GDP	**12467959**	**19010164**	**20442233**	**20442233**	**22489420**
Total Expenditure	1663673	2315113	2786349	2698552	3042230
	13.34	**12.18**	**13.63**	**13.20**	**13.53**
Revenue Expenditure	1466992	2007399	2447780	2349645	2630145
	11.77	**10.56**	**11.97**	**11.49**	**11.70**
Interest Payments	402444	582648	660471	625105	708203
	3.23	**3.06**	**3.23**	**3.06**	**3.15**
Capital Expenditure	196681	307714	338569	348907	412085
	1.58	**1.62**	**1.66**	**1.71**	**1.83**
Revenue Deficit	365519	454483	485019	499544	609219
	(2.9)	**(2.4)**	**(2.3)**	**(2.4)**	**(2.7)**
Fiscal Deficit	510725	649418	703760	766846	796337
	(4.1)	**(3.4)**	**(3.3)**	**(3.8)**	**(3.5)**

States also impacted

- The shortfall in net tax revenue to the Centre is 0.7 per cent of GDP and 0.75 per cent of GDP for the states.
- This reflects the disproportionate impact of a tax shortfall on states caused by the high share of cesses (which were not, for example, affected by the tax rate cuts).
- So the fiscal stress is now impacting the states, a fact that the Fifteenth Finance Commission’s interim report seems to have conveniently ignored.

Quality of expenditure

- I was hoping to see expenditure switching policies to address the growth slowdown.
- Unfortunately, it continues to be the case that committed expenditure (Expenditure on Establishment, GST Cess, Interest payments, Statutory and Finance Commission Transfers) is constant at between 6.8 and 7 per cent of GDP from FY 19 through to FY 21 BE.
- Thus, over half of government expenditure is locked down.
- As to the other half, there is a reduction in the share of subsidies which has been used to increase the share of central sector schemes.

Quality of expenditure

	2018-19	2019-20 BE	2019-20 RE	2020-21 BE
Committed Expenditure	1292680	1437206	1414275	1578213
CE (% GDP)	**6.80**	**7.03**	**6.92**	**7.02**
CE (% TE)	**55.84**	**51.58**	**52.41**	**51.88**

Quality of expenditure

- For uncommitted expenditure in FY 20 RE, spending on agriculture grows by 13 percent in FY 21 compared to FY 20.
- Other than that and the surprisingly small 12,500 crore allocation to the infrastructure pipeline, no development expenditure allocation has increased by more than the nominal GDP growth rate of 6.5 per cent.
- Many, like education, energy, and rural development have increased by much less.

Are these targets for fiscal deficit achievable, credible?

- The 3.8% is achievable because all the government will do is borrow more and fill the tax hole
- There is also 0.8 per cent of GDP that is off-budget.
- This year what the finance minister has done very correctly is made it explicit and it is 0.8% and most of which is going to fund FCI so it's not particularly counter recessionary or counter slowdown

Off-budget borrowing

	2016-17 Actuals	2017-18 Actuals	2018-19 Actuals	2019-20 RE	2020-21 BE
Part-A – EBRs mobilised through issue of Govt. fully serviced bonds	9167.00	15095.00	65602.10	44583.96	49500.00
Part-B – Financial support extended through loans from NSSF	70000.00	73000.00	97000.00	128115.00	136600.00
Grand Total	79167.00	88095.00	162602.10	172698.96	186100.00
% GDP	**0.52**	**0.52**	**0.85**	**0.84**	**0.82**

Are these targets for fiscal deficit achievable, credible?

- So these targets are imminently achievable.
- unless in April we find in the revised provisional accounts for 2020 that the tax shortfall is even lower than they're saying it is
- or the disinvestment shortfall is even lower than they're saying it is
- or the non-tax revenue collections which are above target are not actually above target because then things will be much worse this year and therefore the distance to climb next year will be that much harder

Escape Clause

- Finally, the casual reference to the escape clause by the FRBM review committee is not credible.
- The clause was to be invoked on the advice of an independent fiscal council which has not been constituted.
- There is not a word in the budget that analytically explains why the clause has been invoked.
- The government has presented no plan which evinces a road map to returning to fiscal prudence as recommended by the FRBM committee.
- And worst of all, as I have shown, the increased fiscal space has only been used to plug a hole in tax revenues.
- In effect, this invocation is spurious and cannot hide the fact that the medium term fiscal position is weak and, therefore, it is futile to pretend to pretend that a controlled return in the FRBM path is a credible objective.