EXPERT TAKE

Has the government got the fiscal numbers right?

THE 2020-21 UNION Budget was presented on the back of a sharp slowdown in the economy, primarily due to a decline in demand across segments. Hence, there were expectations that the Budget should come out with fiscal stimulus measures that could boost demand, even if it means deviating from the fiscal deficit target temporarily. The government, indeed, invoked the escape clause in the FRBM Act that allows for 0.5% room in fiscal deficit when there are 'structural reforms'. But, unfortunately, the government invoked it for two consecutive years — revising the fiscal deficit to 3.8% for FY20 and 3.5% for FY21. While we know GST was a structural reform in FY18, we are not sure what structural reforms did the government entail in FY20. Besides, what major reforms are expected in FY21—this, at least, is not clear from the Budget! Instead of opting for an escape clause, it would have been timely and wiser if the whole FRBM Act would have been relooked. And, if the government, as I have been arguing for a while, would have come up with range targets, instead of point targets allowing for unanticipated fiscal shocks.

Does invoking of an escape clause lead to a revival in demand? The reduction in the income tax rate (subject to availing of exemptions), if it leads to more disposable incomes should help in reviving demand. But the reduction in income tax rates is neither simpler nor smoother as claimed.

There was rather a hope that there could be a stimulus on the expenditure side as well, especially towards rural areas. But the Budget numbers show otherwise.

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There is a decline in allocation to the core of the core schemes, especially, MGNREGS where the cut is about ₹9,500 crore. There are other fears as the government may take the route of automatic monetisation of an additional 0.5% fiscal deficit via direct borrowings from the RBI. This may potentially trigger inflationary pressures. And may even force the Monetary Policy Committee to target higher inflation as and when the monetary policy framework is relooked.

There are also issues concerning the quality of expenditures. In FY20, the RE numbers show the increase in fiscal deficit was mainly due to a rise in government capital expenditure, which increased from 1% in FY19 to 1.4%. For FY21, capex is projected to decline to 0.8%. This could have implications on achieving 6-6.5% growth in the next year.

In the overall fiscal math, one value that is more worrying, which might concern the rating agencies as well, is the disinvestment target (₹2.1 lakh crore). Contrast this with the fact that the government may only be able to generate ₹65,000 crore in FY20 against a target of ₹1.05 lakh crore.

On the taxes side, despite the reduction in both corporate and personal income tax rates, the Budget assumes a higher GTR of about 10.8%, against 10.6% in FY20. In terms of growth rates, the Budget assumes a high of 12% in FY21 compared to about 4% in FY20. Such ambitious assumptions only weaken the fiscal math and question the credibility of macro numbers as well as its impact on growth.