

Union Budget

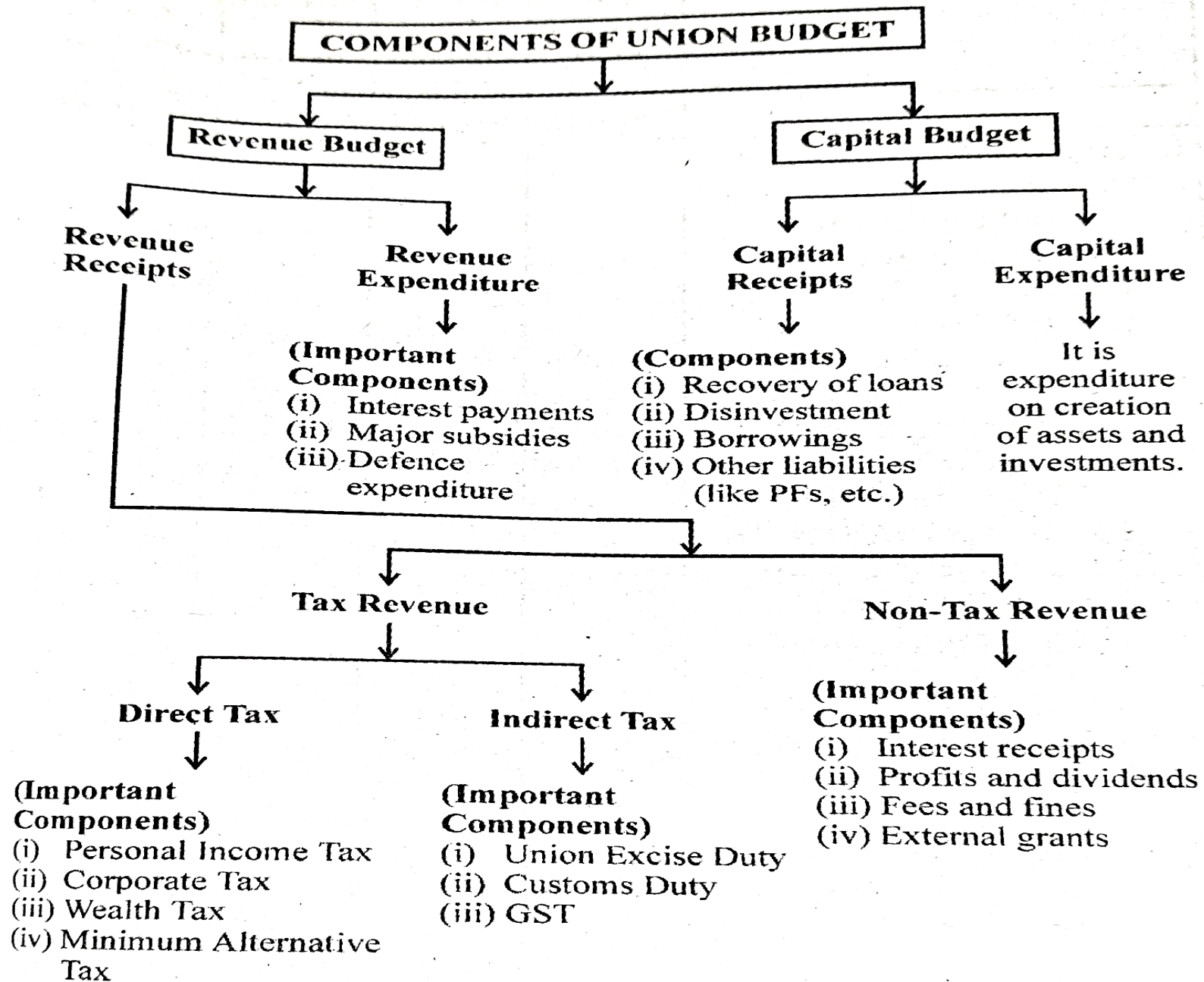
- According to Article 112 of the Indian Constitution, the Union Budget of a year, also referred to as the annual financial statement, is a statement of the estimated receipts and expenditure of the government for that particular year.
- Accordingly, every year Union budget for the coming financial year is presented by the Finance Minister of India in the Lok Sabha.
- Union budget contains the details of the government receipts and expenditures for three consecutive years:

1. Actual for the preceeding year (2019-20)
2. Budget Estimates for the current year (2020-21)
3. Revised estimates for the current year (2020-21)
4. Budget Estimate for the coming year (2021-22)

Union budget is divided into two parts – Revenue budget and capital budget

- The revenue budget comprises revenue expenditure and revenue receipts. Capital budget includes capital expenditure and capital receipts.

Chart 13.1 : Components of Budget



Concepts of Deficit

- Revenue Deficit:
- The excess of expenditure on revenue account over receipts on revenue account measures revenue deficit.
- Receipts on revenue account include both tax and non-tax revenue and also grants. The non-tax revenue includes interest receipts, dividends and profits.

- Expenditure on revenue account includes interest payments, defence expenditure on revenue account, subsidies, debt-relief to farmers, postal services, police, pensions, other general services, social services, economic services, non-plan revenue grants to States and Union Territories, expenditure of Union Territories with legislature, and grants to foreign governments.
- Revenue deficit means dissavings on government account and the use of the savings of other sectors of the economy to finance a part of the consumption expenditure of the government.

- Capital Deficit = Expenditure on Capital Account – Capital Receipts
- Fiscal Deficit = Total Expenditure – (Revenue Receipts + Non-debt Capital Receipts)
- Primary Deficit: It is simply fiscal deficit minus interest payments. This measure is also referred to as Gross Primary Deficit (GPD). Measures of deficit described above (except capital deficit) include payments and receipts of interest. These transactions, however, reflect a consequence of past actions of the government, namely, loans taken and given in years prior to the one under consideration.

Analysis of Budget and Deficit in India

Table 1: Budget at a Glance 2021-22 (Rs crore)

	Actuals 2019-20	Budgeted 2020-21	Revised 2020-21	Budgeted 2021-22	Change (Annualised) (Actuals 2019-20 to BE 2021-22)
Revenue Expenditure	23,50,604	26,30,145	30,11,142	29,29,000	12%
Capital Expenditure	3,35,726	4,12,085	4,39,163	5,54,236	29%
<i>of which:</i>					
Capital outlay	3,11,312	3,80,322	3,32,247	5,13,862	29%
Loans	24,414	31,763	1,06,916	40,374	29%
Total Expenditure	26,86,330	30,42,230	34,50,305	34,83,236	14%
Revenue Receipts	16,84,059	20,20,926	15,55,153	17,88,424	3%
Capital Receipts	68,620	2,24,967	46,497	1,88,000	66%
<i>of which:</i>					
Recoveries of Loans	18,316	14,967	14,497	13,000	-16%
Other receipts (including disinvestments)	50,304	2,10,000	32,000	1,75,000	87%
Total Receipts (without borrowings)	17,52,679	22,45,893	16,01,650	19,76,424	6%
Revenue Deficit	6,66,545	6,09,219	14,55,989	11,40,576	31%
% of GDP	3.3%	2.7%	7.5%	5.1%	
Fiscal Deficit	9,33,651	7,96,337	18,48,655	15,06,812	27%
% of GDP	4.6%	3.5%	9.5%	6.8%	
Primary Deficit	3,21,581	88,134	11,55,755	6,97,111	47%
% of GDP	1.6%	0.4%	5.9%	3.1%	

Notes: Budgeted estimates (BE) are budget allocations announced at the beginning of each financial year. Revised Estimates (RE) are estimates of projected amounts of receipts and expenditure until the end of the financial year. Actual amounts are audited accounts of expenditure and receipts in a year. Change from Actuals 2019-20 to BE 2021-22 represents the compounded annual growth rate (CAGR) for the period.

Sources: Budget at a Glance, Union Budget Documents 2021-22; PRS.

Budget 2021-22

- **Expenditure:**

The government proposes to spend Rs 34,83,236 crore in 2021-22. As per the revised estimates, the government spent Rs 34,50,305 crore in 2020-21, 13% higher than the budget estimate.

- **Receipts:**

The receipts (other than borrowings) are expected to be Rs 19,76,424 crore in 2021-22, which is 23% higher than the revised estimates of 2020-21. In 2020-21, revised estimates for receipts were 29% lower than budget estimates. Given the impact due to COVID-19, it is useful to see the growth from 2019-20, an annual average of 6.2%.

- **GDP growth:**

Nominal GDP is expected to grow at of 14.4% (i.e., real growth plus inflation) in 2021-22.

- **Deficits:**

Revenue deficit is targeted at 5.1% of GDP in 2021-22, which is lower than the revised estimate of 7.5% in 2020-21 (3.3% in 2019-20). Fiscal deficit is targeted at 6.8% of GDP in 2021-22, down from the revised estimate of 9.5% in 2020-21 (4.6% in 2019-20). The government aims to steadily reduce fiscal deficit to 4.5% of GDP by 2025-26.

- **Ministry allocations:**

Among the top 13 ministries with the highest allocations, the highest annual increase over 2019- 20 is observed in the Ministry of Jal Shakti (64%), followed by the Ministry of Consumer Affairs, Food and Public Distribution (48%) and the Ministry of Communications (31%).

- **Disinvestment:**

- Disinvestment of Air India, IDBI Bank, and Pawan Hans will be completed in 2021-22.
- Legislative amendments will be introduced to privatize 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.

- **Health and Nutrition:**

PM Atma Nirbhar Swasth Bharat Yojana will be launched to develop capacity of health systems, strengthen national institutions, and create institutions to detect and cure new and emerging diseases. Mission Poshan 2.0 will be launched after merging Supplementary Nutrition Programme and the Poshan Abhiyan to strengthen nutrition outcomes. The National Nursing and Midwifery Commission Bill will be introduced.

- **Education:**

Legislation to set-up a Higher Education Commission of India will be introduced, having vehicles for standard-setting, accreditation, regulation, and funding. A grant to create formal umbrella structures for institutes of higher education in nine cities will be created. More than 15,000 schools will be strengthened to include all components of the National Education Policy and subsequently mentor other schools to achieve ideals of Policy.

- Total receipts (including borrowings) in 2021-22 are estimated to be Rs 34,83,236 crore and net receipts (excluding borrowings) are estimated at Rs 19,76,424 crore. Receipts (without borrowings) are estimated to record an annual increase of 6% over 2019-20.
- Gross tax revenue is estimated at Rs 22,17,029 crore (annual increase of 5% over 2019-20). Net tax revenue of the central government (excluding states' share in taxes) is estimated to be Rs 15,45,397 crore in 2021-22.
- Devolution to states from centre's tax revenue is estimated to be Rs 6,65,563 crore in 2021-22, marginally higher than the devolution of Rs 6,50,678 crore in 2019-20.
- Non-tax revenue is expected to be Rs 2,43,028 crore in 2021-22 an annual decrease of 14% over the actuals for 2019-20.
- Capital receipts (without borrowings) are estimated to record an annual increase of 66% over 2019-20. This is on account of disinvestments, which are expected to be Rs 1,75,000 crore in 2021-22, as compared to Rs 50,304 crore in 2019-20. Borrowings are expected to be Rs 15,06,812 crore in 2021-22 (annual increase of 27% over 2019-20). Borrowings in 2021-22 are estimated to be lower than the revised estimate for 2020-21 (of Rs 18,48,655 crore) by 19%.

Table 2: Break up of central government receipts in 2021-22 (Rs crore)

	Actuals 2019-20	Budgeted 2020-21	Revised 2020-21	Budgeted 2021-22	Change (Annualised) (Actuals 2019-20 to BE 2021-22)
Gross Tax Revenue	20,10,059	24,23,020	19,00,280	22,17,059	5%
<i>of which:</i>					
Corporation Tax	5,56,876	6,81,000	4,46,000	5,47,000	-1%
Taxes on Income	4,92,654	6,38,000	4,59,000	5,61,000	7%
Goods and Services Tax	5,98,750	6,90,500	5,15,100	6,30,000	3%
Customs	1,09,283	1,38,000	1,12,000	1,36,000	12%
Union Excise Duties	2,40,615	2,67,000	3,61,000	3,35,000	18%
Service Tax	6,029	1,020	1,400	1,000	-59%
A. Centre's Net Tax Revenue	13,56,902	16,35,909	13,44,501	15,45,397	7%
Devolution to States	6,50,678	7,84,181	5,49,959	6,65,563	1%
B. Non Tax Revenue	3,27,157	3,85,017	2,10,653	2,43,028	-14%
<i>of which:</i>					
Interest Receipts	12,349	11,042	14,005	11,541	-3%
Dividend and Profits	1,86,132	1,55,396	96,544	1,03,538	-25%
Other Non-Tax Revenue	1,28,675	2,18,580	1,00,105	1,27,949	-0.3%
C. Capital Receipts (without borrowings)	68,620	2,24,967	46,497	1,88,000	66%
<i>of which:</i>					
Disinvestment	50,304	2,10,000	32,000	1,75,000	87%
Receipts (without borrowings) (A+B+C)	17,52,679	22,45,893	16,01,651	19,76,424	6%
Borrowings	9,33,651	7,96,337	18,48,655	15,06,812	27%
Total Receipts (including borrowings)	26,86,330	30,42,230	34,50,306	34,83,236	14%

Sources: Receipts Budget, Union Budget Documents 2021-22; PRS.

Table 3: Break up of central government expenditure in 2021-22 (Rs crore)

	Actuals 2019-20	Budgeted 2020-21	Revised 2020-21	Budgeted 2021-22	Change (Annualised) (Actuals 2019-20 to BE 2021-22)
Central Expenditure					
Establishment Expenditure of Centre	5,70,244	6,09,585	5,98,672	6,09,014	3%
Central Sector Schemes/ Projects	7,57,091	8,31,825	12,63,690	10,51,703	18%
Other Expenditure	7,27,025	8,87,574	8,26,536	10,11,887	18%
Centrally Sponsored Schemes and other transfers					
Centrally Sponsored Schemes	3,09,553	3,39,895	3,87,900	3,81,305	11%
Finance Commission Grants	1,23,710	1,49,925	1,82,352	2,20,843	34%
<i>of which:</i>					
Rural Local Bodies	59,361	69,925	60,750	44,901	-13%
Urban Local Bodies	25,098	30,000	25,000	22,114	-6%
Grants-in-aid	10,938	20,000	22,262	35,376	80%
Post Devolution Revenue Deficit Grants	28,314	30,000	74,340	1,18,452	105%
Other Grants	1,98,707	2,23,427	1,91,155	2,08,484	2%
Total Expenditure	26,86,330	30,42,230	34,50,305	34,83,236	14%

Sources: Budget at a Glance, Union Budget Documents 2021-22; PRS.

Concept of Deficit

- The Fiscal Responsibility and Budget Management (FRBM) Act, 2003 requires the central government to progressively reduce its outstanding debt, revenue deficit and fiscal deficit.
- The central government gives three-year rolling targets for these indicators when it presents the Union Budget each year. The government was supposed to achieve fiscal deficit of 3% of GDP by March 31, 2021.
- In Budget 2020-21, the fiscal deficit target was relaxed to 3.5% (as permitted by the FRBM Act) and it was estimated that fiscal deficit of 3.1% will be achieved by 2022-23. In 2021-22, the government has not provided target for the next three years, and will amend the FRBM Act to accommodate the higher fiscal deficit.
- Fiscal deficit is an indicator of borrowings by the government for financing its expenditure. The estimated fiscal deficit for 2021-22 is 6.8% of GDP. For 2020-21, fiscal deficit is estimated at 9.5% of GDP, higher than the budget estimate of 3.5%. This was primarily due to higher spending, and lower revenue collection on account of COVID-19. The government intends to reach fiscal deficit of 4.5% by 2025-26.

- **Revenue deficit** is the excess of revenue expenditure over revenue receipts. Such a deficit implies the government's need to borrow funds to meet expenses which may not provide future returns. The estimated revenue deficit for 2021-22 is 5.1% of GDP. In 2020-21, revenue deficit was 7.5%, higher than the budget estimate of 2.7%.
- **Outstanding debt** is the accumulation of borrowings over the years. A higher debt implies that the government has a higher loan repayment obligation over the years. Outstanding debt of the government decreased from 66.7% of GDP in 2004-05 to 48% of GDP in 2018-19. The revised estimate of outstanding debt for 2019-20 was 48%.
- **High borrowings** in the current year (indicated by fiscal deficit) and increase in outstanding debt leads to high interest cost. In 2021-22, interest payments are estimated to be 15% higher than the interest obligations in 2019-20. Interest payment is estimated at 45% of revenue receipts in 2021-22, up from 36% in 2019-20.