ISSN : 2583-4436

KERALA ECONOMY
2022, VOL.3, NO.1. pp 43-54

GULATI INSTITUTE OF FINANCE AND TAXATION

# Fiscal position of union government under budget 2022-23: An analysis through the lens of economic survey 2021-22

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Economic Survey 2021-22 and Union Budget of 2022-23 are tabled amidst the third wave of the COVID-19 pandemic, which is still evolving. The pandemic and lockdowns that accompanied threatened lives and livelihoods at an unimaginable scale and severely affected the whole economy. In such a situation, the people have many expectations about the budget. The Union budget is not just a financial statement but a socio-political statement too. Interestingly, the recent data on the economy shows signs of economic recovery in the country. The Economic Survey 2021-22 claims that the agile fiscal policy response of the government through the budgetary stimulus helps for a comparatively faster recovery. The stimulus measures announced during 2021-22 are a comprehensive package including liquidity enhancing and investment boosting measures such as the Production Linked Incentives scheme, credit guarantee schemes, and export boosting initiatives. Since the pandemic is both a supply-side and demand-side shock, stimulus measures should take care of both sides. For this purpose, both capital and revenue spending should have an equal weightage for effective economic recovery in both the short and long run. The Indian fiscal federal setup is based on diversities and inequalities; hence, state governments play an essential role in addressing regional issues. As a vast vertical and horizontal imbalance prevails in the system, the transfers and borrowing through the Union budget are crucial for the States to reinstate the economy, at least in a pre-pandemic condition.

Against this backdrop, in this paper, an attempt is made to analyze the fiscal position of the Central government using the estimates of the Economic Survey 2021-22 and Union Budget 2022-23. The economic survey gives us an idea about what the economy has already achieved, and the budget shows the estimates for the coming financial year. The budget has a lot of impact on the lives of ordinary people; thus, it often acts as a political tool. In the context of the pandemic, fiscal policies of central and state governments have a significant role in tackling the situation as it has both macro and micro-level implications. Is this union budget allocation adequate to address both supply-side and demand-side shock for the fast and effective recovery of the economy? Table 1 shows the state of central finances through the major fiscal indicators, while the first column shows the budgeted figures for the last year, i.e., 2021-22. The second column shows the realized figures up to November based on the CGA monthly Accounts. Based on the monthly data, we estimated the figures for FY 2021-22, shown in the third column. The fourth and fifth columns show the revised (2021-22) and budget estimates (2022-23) of the respective variables reported in the union Budget 2022-23.

**Table 1:** Fiscal position of union Govt. 2021-22 budget and revised and BE for 2022-23 (in Crore)

| Sl. No | Items | 2021-22 (BE) | Provisional Outcome of CAG for 2021-22 (April-Nov 2021) | Author's Estimation of RE based on the Provisional outcome of CAG | E as per Union Budget 2022-23 for 2021-22 | 2022-23 (BE) |
|---|---|---|---|---|---|---|
| 1 | Revenue Receipts | 17.88 | 13.59 | 20.39 | 20.78 | 22.04 |
| 2 | Gross Tax Revenue | 22.17 | 15.42 | 23.13 | 25.16 | 27.57 |
| 3 | Assignments to states | 6.66 | 4.03 | 6.05 | 7.44 | 8.16 |
| 4 | Tax revenue (net to Centre) | 15.45 | 11.35 | 17.03 | 17.65 | 19.34 |
| 5 | Non-Tax Revenue | 2.43 | 2.23 | 3.35 | 3.13 | 2.69 |
| 6 | Non-Debt Capital Receipts | 1.88 | 0.21 | 0.32 | 0.99 | 0.79 |
| 7 | Total Expenditure | 34.83 | 20.75 | 31.13 | 37.7 | 39.44 |
| 8 | Revenue Expenditure | 29.29 | 18.01 | 27.02 | 31.67 | 31.94 |
| 9 | Capital Expenditure | 5.54 | 2.74 | 4.11 | 6.02 | 7.5 |
| 10 | Revenue Deficit | 11.41 | 4.43 | 6.65 | 10.88 | 9.9 |
| 11 | Fiscal Deficit | 15.07 | 6.96 | 10.44 | 15.91 | 16.61 |
| 12 | Primary Deficit | 6.97 | 2.35 | 3.53 | 7.77 | 7.2 |

*Source: Author's estimate based on CGA Monthly Accounts (ES); BE: Budget Estimates; RE: Revised Estimates*

The analysis of the fiscal position of the union government-based budget 2022-23 in the backdrop of the Economic survey 2021-22 in this study is confined to revenue position, including States' share in central taxes, expenditure position, deficit position, and borrowing.

**Revenue position**

An attempt has been made to estimate the revenue receipts for the year 2021-22, based on the CAG's average monthly revenue collection up to November 2021 (Economic Survey also used the CAG data up to Nov 2021, page 49). Further, we compare our estimate with the union budget figures. As per our estimate, the revenue receipts for 2021-22 are Rs.20.39 lakh crore against the union budget figure of Rs.20.78 lakh crores. Comparatively, our estimate stands close to the union budget figure. Notably, there is a revenue appreciation of Rs. 2.51 lakh crore from the budget estimates of 2021-22 to revised estimates. This significant increase in the revenue collection could be due to the increased collection from Income Tax, Corporate tax, GST, and others in the last quarter. We also observed that the higher revenue receipts had been mobilized from the existing tax structure, not through the additional revenue mobilization from direct and indirect taxes.

**States' share in central taxes**

Another critical concern is the decline in the central government's assignment of taxes to state governments even after increasing central revenue collection. States have a significant role as they are the forefront fighters in handling the situation; they will be able to act accordingly as they are witnessing the ground reality. Therefore, supporting state governments to get back on track is a significant responsibility vested with the Central government in the federal fiscal setup. An increase in the tax collection, especially Income tax and Corporate tax, can increase the states' share in central taxes. As per our estimate in Table 1, the net tax revenue of the central government would increase from Rs.15.45 lakh crore to around Rs.17 lakh crores in 2021-22, and Union Budget's RE is also showing more or less the exact figure. However, the assignments of taxes to states report a decline of Rs. 0.62 lakh crore, estimated from Rs. 6.66 lakh crore (BE) to Rs. 6.05 as per our estimation.

In contrast, the budget reported an increase to Rs. 7.44 lakh crores; about Rs. 1.39 lakh crore increase in the budget from our assessment seems unrealistic. Notably, the budget allocation of tax assignment to states for 2022-23 is Rs. 8.16 lakh crore, requiring more clarity. Going with our estimation would imply that the increase in revenue collection of the Union

Government is not beneficial to states for meeting their fiscal shock. This decline in assignment to states would be a severe blow to fiscal federalism. One possible reason for the loss in the shares even after the rise in the revenue receipts of the Union Government could be the increase in the percentage of cesses and surcharges (around 25 percent of gross tax revenue of the Union government based on the 2021-22 RE data) in the kitty which are not included in the divisible pool. The exclusion of cess and surcharges in the tax assignment to states seems to be a serious concern. It is time to revisit this provision with appropriate legal changes.

**Expenditure position**

An increase in the revenue receipts automatically warrants an increase in revenue and capital expenditure. Our estimation shows a decline in the revenue expenditure by Rs. 2.28 lakh crore based on the CGA's monthly data from the budget estimates for 2021-22. And the Union Budget's RE showed an increase in the revenue expenditure, around Rs. 2.38 lakh crore from the budget estimates. Compared to our estimates with Union Budget figures, there is a difference of around Rs. 4.65 lakh crore. And the materialization of this considerable expenditure in this short period (two months-February and March 2022 only) is a herculean task and seems unrealistic.

Furthermore, the pandemic, which threatened the population's lives and livelihood, needs to be appropriately addressed through increased subsidies and income support schemes. They are crucial as they can effectively contribute to the economy's short-run recovery. It is clear from the data that the food subsidies, which is an essential component in the total subsidies, decreased drastically for the year compared to the last year's actuals. It further shrinks the budget allocation for 2022-23 (see Figure 1). Along with capital spending and colossal investment plans, social welfare and security aspects should also need an emphasis in this dire situation.

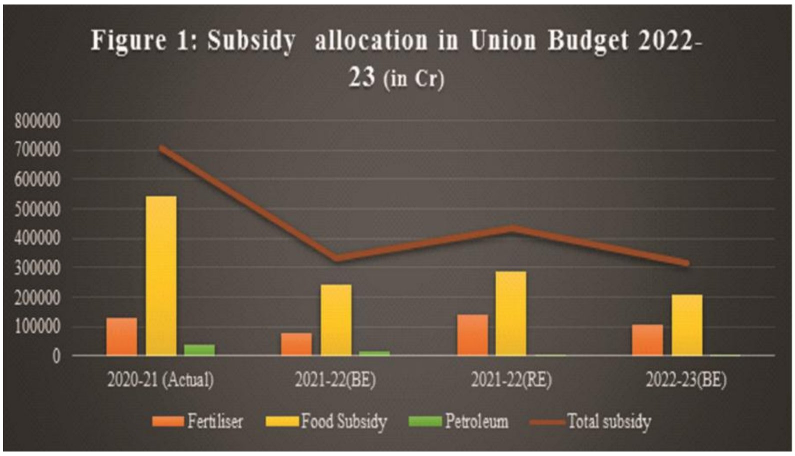

Figure 1: Subsidy allocation in Union Budget 2022-23 (in Cr)

While focusing on the long-run measures through increasing the infrastructure, Union Budget 2022-23 ignored the short-run measures for addressing the severe effect of the pandemic. In the short run, the scope for employment generation is not possible with this sort of allocation. In the case of Capital expenditure, according to the union budget's RE Rs. 6.02 lakh crore, which is slightly more than the budgeted figure, our estimates show a decline from 2021-22 BE. Our estimation stands at Rs. 4.11 lakh crore, which shows a difference of Rs. 1.91 lakh crore between our assessment and RE by the Union budget. There is apprehension that meeting the remaining capital expenditure within two months is highly unrealistic. Thus, there is a possibility of a decline in capital spending for FY 2021-22. The claims of the union government at this point are doubtful. There is a significant push toward capital spending through announcements for the upcoming year, as the Finance minister saw the huge capital spending as the way out from this labyrinth of low economic growth. Hence, the budget allocation increased considerably, i.e., from a RE of Rs. 6.02 lakh crore to Rs. 7.50 lakh crore. How much it will realize is a matter of great concern? Moreover, the current year's decline in capital spending reflects the lack of stress on employment generation measures, as observed in the Economic survey 2021-22. Notably, the situation demands more focus on increasing employment opportunities and reducing inequality; still, the allocation for this cause showing a decline is disturbing.

The actual growth of revenue expenditure is showing a decline of 7 percent, i.e., from the budget estimate of 2021-22 of Rs. 29.29 lakh crore to Rs. 27.02 as per our estimation for 2021-22. It is observed that the increase in the share of capital expenditure is at the cost of a cut in revenue expenditure. However, there is only a meager increase in the total expenditure for 2022-23, i.e., around 4 percent from the 2021-22 RE of the Union Budget. It implies that the expenditure of the Union Government is not at all expansionary during this pandemic period.

**Deficit position and borrowing**

The deficit scenario is quite puzzling; our assessment based on the monthly CGA data shows a decline, while the revised estimates of the Union budget showed a considerable increase. Based on our estimation, the revenue and fiscal deficit stood at Rs.6.65 and Rs.10.44 lakh crore, respectively, which means there is a decline in the deficit scenario compared with the budget estimates for 2021-22. On the other hand, the RE of the Union Budget shows a high figure for the revenue and fiscal deficit compared with our estimates; the difference stands at Rs.4.23 and Rs.5.47 lakh crore for revenue and fiscal deficit respectively. Generally, the high revenue deficit, fiscal deficit, and the corresponding upsurge in borrowing are observed features in the fiscal scenario of the Union Government, which is quite disturbing. A decline in revenue and fiscal deficit from the revised estimate of 2021-22 to the Budget estimate of 2022-23 is a good sign for the fiscal consolidation path and macroeconomic stability. Still, the fiscal deficit and revenue deficit stand around 6 and 4 percent of GDP, respectively, higher than the FRBM targets. Moreover, the vast difference in Economic survey estimates and Union Budget figures needs further investigation. However, an expenditure cut during this pandemic affects the economy's recovery and resilience.

**Conclusion**

Examining the Economic Survey 2021-22 and Union budget 2022-23 evokes many apprehensions. Firstly, one main point emphasized in the study was the differences between our estimates based on the CGA's monthly data, Economic Survey 2021-22, and the Union budget 2022-23, which is quite natural as the budget also has political connotations. The second point is that even after increasing revenue receipts, the need to increase expenditure and the assignments to the States' is not adequately addressed. Though there is a higher estimate in the assignment to state as per the budget figures, the realization is not higher in 2021-22 based on the CAG's estimate.

Another notable point is a drastic decline in social welfare expenditures through subsidies, income support schemes, and short-run employment generation schemes like MGNREGA, which is a grave concern during this pandemic. It is important to note that higher expenditure allocation in revenue and capital expenditure in the budget estimate of 2022-23 is difficult to realize when considering the past performance in 2021-22 as per the estimates. Another observation of the study is that the budget emphasizes more capital spending while ignoring the revenue expenditure, which is not the right way to address the existing issues in the economy amidst the pandemic. Short-run unemployment and demand shocks also deserve equal attention along with the long-run and supply-side measures for the economy's recovery. It is seen that the expenditure of the Union Government is not at all expansionary during this pandemic period. This year's budget is looking up to the future with starry eyes while standing in hellfire, without doing much to address the present issues.

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