

# Union Budget 2021-22 Analysis

## Budget Highlights

- **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 increase of 6%.
- **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%).

## Main tax proposals in the Finance Bill

- No changes in income tax rates for individuals and corporations.
- **Limit on tax-free Income from provident funds:** Tax exemption on the interest income on the employees' contributions to provident funds will be limited up to Rs 2.5 lakh.
- **Extensions on tax incentives by a year upto the end of fiscal 2021-22.** This includes tax deduction upto Rs 1.5 lakh on interest on housing loan, and tax holiday for affordable housing projects, profits of startups, and investing capital gains in start-ups.
- **Agriculture and Infrastructure Development Cess:** The cess will be levied on some imported items including gold, silver, alcoholic beverages, coal, and cotton, and basic customs duty will be reduced by an equal amount. The cess will be levied on petrol and diesel at the rate of Rs 2.5 and Rs 4 per litre respectively, with equivalent cuts in excise duty. As the cess is not part of the divisible pool of revenue shared with states, their revenue receipts will be adversely affected.
- **Changes in customs duty:** The duty has been increased on some items such as cotton, silk, some auto and mobile parts.
- **“Mini-budget” announcements made earlier:** The safe harbour threshold for real estate transactions above the circle rate increased from 10% to 20%. Encashment of leave travel concession will be exempt from tax if the amount is used for purchasing certain goods.
- **Reduction in time for income tax proceedings:** Time limit for the re-opening of income tax assessment will be reduced from 6 years presently to 3 years.
- **Exemption from audit:** Businesses which carry 95% of their transactions digitally and whose turnover is less than five crore rupees, are exempted from keeping audited accounts. The threshold will be increased to Rs 10 crore.

## Non-Tax proposals in the Finance Bill

- **There are some items that may not meet the Money Bill definition.** These are listed below.
- **LIC Act, 1956** amended to create a board of directors, issue shares, reduce government shareholding upto 51% of equity (minimum 75% in the first five years), cap voting rights at 5% to shareholders other than central government.
- **Securities Contracts (Regulations) Act, 1956** amended to allow pooled investment fund which collects money from investors. They may borrow money or issue debt securities. Consequential amendments made in the SARFAESI Act, 2002 and in the Recovery of Debts due to Banks and Financial Institutions Act, 1993.
- **SEBI Act, 1992** amended to require registration by Alternative Investment Trusts and Business Trusts.

## Policy Highlights

- **Legislative Changes:** A Securities Markets Code will be introduced to consolidate four Acts including the SEBI Act, 1992 and the Government Securities Act, 2007. The Insurance Act, 1938 will be amended to increase the permissible FDI limits in insurance companies from 49% to 74%, and allow foreign ownership and control with safeguards. The Companies Act, 2013 will be amended to revise the definition of small companies by increasing threshold for paid up capital (from Rs 50 lakh to Rs 2 crore) and annual turnover (from Rs 2 crore to Rs 20 crore). Certain offences under the

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Limited Liability Partnership Act, 2008 will be decriminalised. The Deposit Insurance and Credit Guarantee Corporation Act, 1961 will be amended to ensure that depositors get time-bound and easy access to their deposits to the extent of their insurance cover. The minimum loan size for NBFCs to be eligible for debt recovery under the SARFAESI Act, 2002 will be reduced from Rs 50 lakh to Rs 20 lakh.

- **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.
- **Finance:** An Asset Reconstruction Company Limited and Asset Management Company will be set up to consolidate and take over existing stressed debt, and manage and dispose assets. An institutional framework will be created for the corporate bond market to instil confidence among participants and enhance liquidity of secondary markets. An investor charter will be introduced for financial investors across all products.
- **Corporate Affairs:** Alternate methods of debt resolution and special frameworks for MSMEs will be introduced. A Conciliation Mechanism will be set up for quick resolution of contractual disputes.
- **Commerce and Industry:** Seven textile parks will be established over three years to create infrastructure and increase exports. Incorporation of one-person companies will be encouraged by regulatory changes such as removal of restrictions on paid up capital and turnover, and NRIs will be allowed to establish such companies.
- **Labour and Employment:** A portal to collect information on gig workers, and construction workers, among others will be launched to help frame schemes on health, housing, insurance, and others for migrant unorganised workers. The Apprenticeship Act will be amended to enhance apprenticeship opportunities.
- **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.
- **Infrastructure and Real Estate:** A Bill to establish a Development Financial Institution for infrastructure financing will be introduced. The DFI will be used to establish a lending portfolio of at least five lakh crore rupees for financing infrastructure projects. A National Monetisation Pipeline of potential infrastructure assets such as dedicated freight corridor assets of the railways will be launched. Debt financing of real estate and infrastructure investment trusts by foreign portfolio investors will be enabled to ease access of finance in the infrastructure and real estate sectors.
- **Transport:** Economic corridors to augment road infrastructure are being planned in Tamil Nadu, Kerala, West Bengal, and Assam. A scheme to enable private sector to finance, acquire, operate and maintain buses in public transport services will be launched. New technologies including MetroLite and MetroNeo will be used to develop metro rail systems in Tier-1 and Tier-2 cities. Seven projects for major ports will be offered on public-private partnership mode in 2021-22. A voluntary vehicle scrapping policy to phase out old and unfit vehicles was also announced.
- **Energy:** A reforms-based scheme to provide assistance to power distribution companies for infrastructure creation will be launched to address concerns over viability. A framework to provide choice to consumers among distribution companies will be launched. Ujjwala scheme will be extended to cover one crore more beneficiaries. An independent gas transport system operator will be set up to coordinate booking of common carrier capacity in all natural-gas pipelines. A Hydrogen Energy Mission to generate hydrogen from green power sources will be launched.
- **Science and Technology:** A scheme to provide financial incentives for digital modes of payments has been proposed. The Deep Ocean Mission will be launched, covering survey explorations and projects for conservation of bio-diversity.
- **Water and Sanitation:** The Jal Jeevan Mission (Urban) will be implemented to enable universal water supply and liquid waste management in urban areas. The Urban Swachh Bharat Mission 2.0 will focus on sludge and waste water management, and on ensuring a reduction in single-use plastic and air pollution.
- **Agriculture and allied sectors:** Operation Green Scheme, currently applicable to tomatoes, onions, and potatoes, will be enlarged to include 22 perishable products. The Agriculture Infrastructure Fund will be made available to APMCs to improve infrastructure facilities.
- **Social Justice:** To facilitate credit flow for SCs, STs, and women, margin money requirement under Stand Up India scheme will be reduced from 25% to 15%. 750 Eklavya model residential schools will be established in tribal areas.

## Budget estimates of 2021-22 as compared to actuals for 2019-20

The Finance Minister, Ms. Nirmala Sitharaman, introduced Budget 2021-22 on February 1, 2021, amidst the COVID-19 pandemic. 2020-21 was a non-standard year with respect to the performance of the economy and government finances. In this note, the budget estimates for 2021-22 have been compared to the actual expenditure for 2019-20.

- **Total Expenditure:** The government is estimated to spend Rs 34,83,236 crore during 2021-22 which is an annual increase of 14% over 2019-20. Out of the total expenditure, revenue expenditure is estimated to be Rs 29,29,000 crore (12% annual increase over 2019-20) and capital expenditure is estimated to be Rs 5,54,236 crore (29% annual increase over 2019-20).
- **Total Receipts:** The government receipts (excluding borrowings) are estimated to be Rs 19,76,424 crore, annual increase of 6% over 2019-20. Borrowings are estimated at Rs 15,06,812 crore (27% annual increase over 2019-20).
- **Transfer to states:** The central government will transfer Rs 13,88,502 crore to states and union territories in 2021-22 (annual increase of 10% over 2019-20). This includes devolution of (i) Rs 6,65,563 crore to states, out of the centre's share of taxes (increase of 1%), and (ii) Rs 7,22,939 crore in the form of grants and loans (increase of 21%). In 2020-21, while devolution to states fell by 30% at the revised stage (compared to budget estimates), grants were higher by 26%.
- **Deficits:** Revenue deficit is targeted at 5.1% of GDP, and fiscal deficit is targeted at 6.8% of GDP in 2021-22. The target for primary deficit (which is fiscal deficit excluding interest payments) is 3.1% of GDP. In 2020-21, as per the revised estimate, revenue deficit is 7.5% of GDP, and fiscal deficit is 9.5% of GDP.
- **GDP growth estimate:** The nominal GDP is estimated to grow at a rate of 14.4% in 2021-22. In Budget 2020-21, GDP was estimated to grow at 10%, which was revised to -13%.

**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%
<b>Total Expenditure</b>	<b>26,86,330</b>	<b>30,42,230</b>	<b>34,50,305</b>	<b>34,83,236</b>	<b>14%</b>
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%
<b>Total Receipts (without borrowings)</b>	<b>17,52,679</b>	<b>22,45,893</b>	<b>16,01,650</b>	<b>19,76,424</b>	<b>6%</b>
Revenue Deficit	6,66,545	6,09,219	14,55,989	11,40,576	31%
<b>% of GDP</b>	<b>3.3%</b>	<b>2.7%</b>	<b>7.5%</b>	<b>5.1%</b>	
Fiscal Deficit	9,33,651	7,96,337	18,48,655	15,06,812	27%
<b>% of GDP</b>	<b>4.6%</b>	<b>3.5%</b>	<b>9.5%</b>	<b>6.8%</b>	
Primary Deficit	3,21,581	88,134	11,55,755	6,97,111	47%
<b>% of GDP</b>	<b>1.6%</b>	<b>0.4%</b>	<b>5.9%</b>	<b>3.1%</b>	

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.

- Expenses which bring a change to the government's assets or liabilities (such as construction of roads or recovery of loans) are capital expenses, and all other expenses are revenue expenses (such as payment of salaries or interest payments).
- In 2021-22, **capital expenditure** is estimated at Rs 5,54,236 crore (annual increase of 29% over 2019-20). **Revenue expenditure** is estimated to be Rs 29,29,000 crore (annual increase of 12% over 2019-20). In 2020-21, total expenditure was 13% higher than the budget estimate, with revenue expenditure increasing by 15% and capital expenditure by 7%.
- In 2019-20, capital outlay formed 12% of the total expenditure of the central government. This is estimated to increase to 15% of the total expenditure in 2021-22
- In 2021-22, disinvestment is estimated at Rs 1,75,000 crore which is 3.5 times higher than the actual disinvestment in 2019-20. The highest disinvestment achieved over the last few years was in 2017-18, of Rs 1,00,045 crore.

## Receipts Highlights for 2021-22

- **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)
<b>Gross Tax Revenue</b>	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%
<b>A. Centre's Net Tax Revenue</b>	<b>13,56,902</b>	<b>16,35,909</b>	<b>13,44,501</b>	<b>15,45,397</b>	7%
<b>Devolution to States</b>	<b>6,50,678</b>	<b>7,84,181</b>	<b>5,49,959</b>	<b>6,65,563</b>	1%
<b>B. Non Tax Revenue</b>	<b>3,27,157</b>	<b>3,85,017</b>	<b>2,10,653</b>	<b>2,43,028</b>	-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%
<b>C. Capital Receipts (without borrowings)</b>	<b>68,620</b>	<b>2,24,967</b>	<b>46,497</b>	<b>1,88,000</b>	66%
<i>of which:</i>					
Disinvestment	50,304	2,10,000	32,000	1,75,000	87%
<b>Receipts (without borrowings) (A+B+C)</b>	<b>17,52,679</b>	<b>22,45,893</b>	<b>16,01,651</b>	<b>19,76,424</b>	6%
<b>Borrowings</b>	<b>9,33,651</b>	<b>7,96,337</b>	<b>18,48,655</b>	<b>15,06,812</b>	27%
<b>Total Receipts (including borrowings)</b>	<b>26,86,330</b>	<b>30,42,230</b>	<b>34,50,306</b>	<b>34,83,236</b>	14%

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

- **Indirect taxes:** The total indirect tax collections are estimated to be Rs 11,02,000 crore in 2021-22. Of this, the government has estimated to raise Rs 6,30,000 crore from GST. Out of the total tax collections under GST, 84% is expected to come from central GST (Rs 5,30,000 crore), and 16% (Rs 1,00,000 crore) from the GST compensation cess.
- **Union Excise Duties:** Revenue from Union Excise Duties is estimated at Rs 3,35,000 crore (annual increase of 18% over 2019-20). In 2020-21, the revised estimate for revenue from excise duties was higher than the budget estimate by 35% due to revenue from duty on petrol and diesel.
- **Corporation tax:** The collections from taxes on companies are expected to be Rs 5,47,000 crore in 2021-22, marginally lower (1%) than 2019-20. In 2020-21, as per revised estimates, revenue from corporation tax was Rs 4,46,000 crore, 35% lower than the budget estimate. Among all direct taxes revenue from corporation tax declined the most.
- **Income tax:** The collections from income tax are expected to record an annual increase of 7% in 2021-22 to Rs 5,61,000 crore. In 2020-21, the revised estimate for revenue from income tax was 28% lower than the budget estimate.
- **Non-tax receipts:** Non-tax revenue consists of interest receipts on loans given by the centre, dividends and profits, external grants, and receipts from general, economic, and social services, among others. Non-tax revenue is expected to decrease by 14% over 2019-20 to Rs 2,43,028 crore. The decline is due to a 40% fall in the dividend received from the Reserve Bank of India, nationalised banks and other financial institutions owned by the government.
- **Disinvestment target:** The disinvestment target for 2021-22 is Rs 1,75,000 crore. This target is 3.5 times higher than the disinvestment of Rs 50,304 crore in 2019-20.

## Expenditure Highlights for 2020-21

- **Total expenditure** in 2021-22 is expected to be Rs 34,83,236 crore, which is 1% higher than the revised estimate of 2020-21. Expenditure in 2021-22 has increased at an annual rate of 14% over 2019-20. Out of this, (i) Rs 10,51,703 crore is proposed to be spent on central sector schemes (18% annual increase over 2019-20), and (ii) Rs 3,81,305 crore is proposed to be spent on centrally sponsored schemes (11% annual increase over 2019-20).
- The government is expected to spend Rs 8,09,701 crore on interest payments in 2021-22, which is 17% higher than the revised estimate of 2020-21. It makes up 23% of the government's estimated expenditure in 2021-22. Expenditure on pensions in 2021-22 is expected to be Rs 1,89,328 crore (1% annual increase over 2019-20).

**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)
<b>Central Expenditure</b>					
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%
<b>Centrally Sponsored Schemes and other transfers</b>					
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%
<b>Total Expenditure</b>	<b>26,86,330</b>	<b>30,42,230</b>	<b>34,50,305</b>	<b>34,83,236</b>	<b>14%</b>

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

**Expenditure on Subsidies:** In 2021-22, the total expenditure on subsidies is estimated to be Rs 3,69,899 crore, an annual increase of 19% over 2019-20. This is largely due to a higher allocation to food subsidy. Details are given below (Table 4):

- **Food subsidy:** Allocation to food subsidy is estimated at Rs 2,42,836 crore in 2021-22, a 49% annual increase as compared to 2019-20. In 2020-21 budget, Rs 1,15,570 crore was allocated to food subsidy. However, the revised estimate is 266% higher than the budgeted estimate at Rs 4,22,618 crore. According to the budget speech, additional allocation has been made in the 2021-22 budget to clear the pending food subsidy dues of the Food Corporation of India.
- **Fertiliser subsidy:** Expenditure on fertiliser subsidy is estimated at Rs 79,530 crore in 2021-22, a 1% annual decrease as compared to 2019-20. In 2020-21, the revised allocation to fertiliser subsidy is 88% higher than the budgeted allocation.
- **Petroleum subsidy:** Allocation to petroleum subsidy decreased at an annual rate of 40% from 2019-20 to 2021-22. The allocation in 2021-22 is 64% lower than the 2020-21 revised estimate at Rs 14,073 crore. Petroleum subsidy consists of subsidy on LPG and kerosene. In 2021-22, the LPG subsidy is estimated to decrease to Rs 14,073 crore (from Rs 36,072 crore in 2020-21) and no allocation has been made for the kerosene subsidy (as compared to Rs 2,982 crore in 2020-21).
- **Other subsidies:** The government also provides certain other subsidies such as interest subsidies on loans given under various government schemes and subsidies for procurement of agricultural produce other than paddy and wheat. In 2021-22, the expenditure on these other subsidies is estimated to be Rs 33,460 crore, a 1% annual decrease over 2019-20.

**Table 4: Subsidies 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)
Food subsidy	1,08,688	1,15,570	4,22,618	2,42,836	49%
Fertiliser subsidy	81,124	71,309	1,33,947	79,530	-1%
Petroleum subsidy	38,529	40,915	39,055	14,073	-40%
Other subsidies	33,963	34,315	53,116	33,460	-1%
<b>Total</b>	<b>2,62,304</b>	<b>2,62,109</b>	<b>6,48,736</b>	<b>3,69,899</b>	<b>19%</b>

Sources: Expenditure Profile, Union Budget 2020-21; PRS.

**Expenditure by Ministries:** The ministries with the 13 highest allocations account for 53% of the total budgeted expenditure in 2021-22. Of these, the Ministry of Defence has the highest allocation in 2021-22 at Rs 4,78,196 crore (14% of the total budgeted expenditure of the government). Other Ministries with high allocation include: (i) Consumer Affairs, Food and Public Distribution, (ii) Home Affairs, (iii) Rural Development, and (iv) Agriculture and Farmers' Welfare. Table 5 shows the expenditure on Ministries with the 13 highest allocations for 2021-22 and the annual growth estimated over 2019-20.

**Table 5: Ministry-wise 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)
Defence	4,52,996	4,71,378	4,84,736	4,78,196	3%
Consumer Affairs, Food and Public Distribution	1,17,096	1,24,535	4,50,687	2,56,948	48%
Home Affairs	1,34,978	1,67,250	1,49,388	1,66,547	11%
Rural Development	1,23,622	1,22,398	1,98,629	1,33,690	4%
Agriculture and Farmers' Welfare	1,01,775	1,42,762	1,24,520	1,31,531	14%
Road Transport and Highways	78,249	91,823	1,01,823	1,18,101	23%
Railways	69,972	72,216	1,11,234	1,10,055	25%
Education	89,437	99,312	85,089	93,224	2%
Chemicals and Fertilisers	82,063	71,897	1,35,559	80,715	-1%
Communications	43,939	81,957	61,060	75,265	31%
Health and Family Welfare	64,258	67,112	82,928	73,932	7%
Jal Shakti	25,683	30,478	24,286	69,053	64%
Housing and Urban Affairs	42,054	50,040	46,791	54,581	14%
Other Ministries	12,60,209	14,49,071	13,93,577	16,41,398	14%
<b>Total Expenditure</b>	<b>26,86,330</b>	<b>30,42,230</b>	<b>34,50,305</b>	<b>34,83,236</b>	<b>14%</b>

Note: Expenditure is net of recoveries such as fines, and ticket sales.

Sources: Expenditure Budget, Union Budget 2021-22; PRS.

- **Ministry of Consumer Affairs, Food and Public Distribution:** Allocation to the Ministry in 2021-22 saw an annual increase of 48% over 2019-20 due to a higher allocation for food subsidy. Due to the same reason, the Ministry's revised allocation for 2020-21 has also been increased, by Rs 3,26,151 crore (262%) from the budgeted allocation for the year.
- **Ministry of Railways:** Allocation to the Ministry of Railways in 2021-22 is Rs 1,10,055 crore, an annual increase of 25% over 2019-20. This includes Rs 79,398 crore allocated through a special loan to: (i) bridge the resource gap of Indian Railways caused due to COVID-19 in 2020-21, and (ii) clear its pension dues for the year 2019-20.
- **Ministry of Health and Family Welfare:** Allocation to the Ministry of Health and Family Welfare in 2021-22 is Rs 73,932 crore, an annual increase of 7% over 2019-20. In 2020-21, the Ministry was allocated Rs 67,112 crore at the budgeted stage, which has been increased by 24% to Rs 82,928 crore at the revised stage. This increase is primarily due to an allocation of Rs 11,757 crore for the COVID-19 Emergency Response and Health System Preparedness Package.
- **Ministry of Jal Shakti:** Allocation to the Ministry increased to Rs 69,053 crore in 2021-22, which is 184% higher than the revised estimate of 2020-21. This increase is primarily due to a higher allocation for the Jal Jeevan Mission (earlier known as the National Rural Drinking Water Mission), which accounts for 72% of the allocation to the Ministry.

## Expenditure on Major Schemes

**Table 6: Scheme-wise allocation 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)
MGNREGS	71,687	61,500	1,11,500	73,000	1%
PM-KISAN	48,714	75,000	65,000	65,000	16%
Jal Jeevan Mission*	10,030	11,500	11,000	50,011	123%
National Health Mission	35,155	34,115	35,554	37,130	3%
National Education Mission	33,654	39,161	28,244	34,300	1%
Pradhan Mantri Awas Yojana	24,964	27,500	40,500	27,500	5%
Integrated Child Development Services	22,032	28,557	20,038	24,114 <sup>#</sup>	5%
Pradhan Mantri Fasal Bima Yojana	12,639	15,695	15,307	16,000	13%
Pradhan Mantri Gram Sadak Yojana	14,017	19,500	13,706	15,000	3%
National Livelihood Mission	9,755	10,005	10,005	14,473	22%
AMRUT and Smart Cities Mission	9,599	13,750	9,850	13,750	20%
Green Revolution	9,895	13,320	10,474	13,408	16%
Swachh Bharat Mission	9,469	12,294	7,000	12,294	14%
Pradhan Mantri Krishi Sinchai Yojana	8,200	11,127	7,954	11,588	19%
Mid-Day Meal Programme	9,699	11,000	12,900	11,500	9%

Note: \*Earlier known as the National Rural Drinking Water Mission. <sup>#</sup>Umbrella ICDS scheme till 2020-21 and sum of its individual schemes in 2021-22.

Sources: Expenditure Profile, Union Budget 2021-22; PRS.

- Among schemes, the MGNREGS has the highest allocation in 2021-22 at Rs 73,000 crore. Allocation to the scheme has seen an annual increase of 1% over 2019-20. However, in 2020-21, allocation to the scheme has been increased by Rs 50,000 crore (81%) from the budgeted stage to the revised stage, following the announcement made under the Aatmanirbhar Bharat Economic Package in May 2020.
- The PM-KISAN scheme (income support to farmers) has the second highest allocation in 2021-22 at Rs 65,000 crore, an annual increase of 16% over 2019-20. In 2020-21, allocation to the scheme has decreased by 13% from Rs 75,000 crore at the budgeted stage to Rs 65,000 crore at the revised stage.
- Allocation to the Jal Jeevan Mission (earlier known as the National Rural Drinking Water Mission) has increased by 355% over the revised estimate of 2020-21 to Rs 50,011 crore.

**COVID-19 vaccination:** The central government has allocated Rs 35,000 crore to the Ministry of Finance for COVID-19 vaccination in 2021-22. This allocation has been made for providing financial assistance to states to meet their expenditure on COVID-19 vaccination.

#### Expenditure on Scheduled Caste and Scheduled Tribe sub-plans and schemes for welfare of women, children and NER

- Programmes for the welfare of women and children have been allocated Rs 2,39,039 crore in 2021-22, a decrease of 17% over the revised estimate of 2020-21. These allocations include programmes under all the ministries.
- The sub-plans for Scheduled Castes and Scheduled Tribes have been allocated a total of Rs 2,06,201 crore in 2021-22, which is a 51% increase over the revised estimate of 2020-21.

**Table 7: Allocations for women, children, SCs, STs and NER (Rs crore)**

	Budgeted 2020-21	Revised 2020-21	Budgeted 2021-22	% change (RE 2020-21 to BE 2021-22)
Welfare of Women	1,43,462	2,07,261	1,53,326	-26.0%
Welfare of Children	96,042	80,462	85,713	6.5%
Scheduled Castes	83,257	82,708	1,26,259	52.7%
Scheduled Tribes	53,653	53,304	79,942	50.0%
North Eastern Region (NER)	60,112	51,271	68,020	32.7%

Sources: Expenditure Profile, Union Budget 2021-22; PRS.

## Deficits, Debt and FRBM

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.

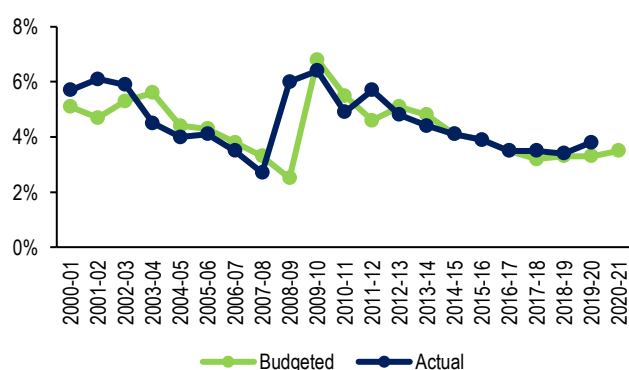
**Table 8: Deficits (as % of GDP)**

	Actuals 2019-20	Revised 2020-21	Budgeted 2021-22
<b>Fiscal Deficit</b>	4.6%	9.5%	6.8%
<b>Revenue Deficit</b>	3.3%	7.5%	5.1%

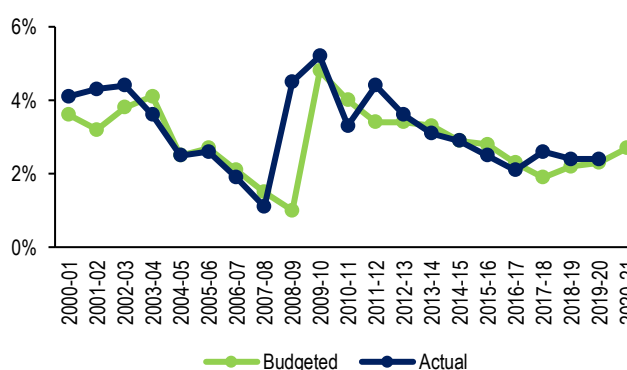
Sources: Union Budget 2021-22; PRS.

Note that in 2019-20 and 2020-21, the government showed certain expenditure carried out by public sector entities (such as the Food Corporation of India) as extra-budgetary resources, which was not included in the fiscal deficit calculation. In 2020-21, extra-budgetary resources were estimated at 0.9% of GDP. Extra-budgetary resources for 2020-21 were revised downwards to 0.6% of GDP. In 2021-22, extra-budgetary resources are estimated to be 0.1% of GDP as the government has accounted for most of the extra-budgetary resources in the budget.

**Fiscal Deficit: Budgeted vs Actual (% of GDP)**



**Revenue Deficit: Budgeted vs Actual (% of GDP)**



Sources: Medium Term Fiscal Policy Statement, Union Budget (multiple years); PRS.

- **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%. However, the Medium Term Fiscal Policy Statement has not given the estimate of outstanding debt for 2021-22, or revised estimate for 2020-21.
- 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.

### Recommendations by the 15<sup>th</sup> Finance Commission

The 15<sup>th</sup> Finance Commission for 2021-26 suggested a path for fiscal consolidation for the centre by reducing fiscal deficit to 4% of GDP, and outstanding liabilities to 56.6% by 2025-26.

For details on the recommendations of the 15<sup>th</sup> Finance Commission see the Annexure.

**Table 9: Suggested path for fiscal consolidation (as % of GDP)**

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
<b>Fiscal Deficit</b>	7.4%	6.0%	5.5%	5.0%	4.5%	4.0%
<b>Revenue Deficit</b>	5.9%	4.9%	4.5%	3.9%	3.3%	2.8%
<b>Outstanding liabilities</b>	62.9%	61.0%	61.0%	60.1%	58.6%	56.6%

Sources: Report of the 15<sup>th</sup> Finance Commission for 2021-26; PRS.



## Annexure: Recommendations of the 15<sup>th</sup> Finance Commission for 2021-26

The 15<sup>th</sup> Finance Commission (Chair: Mr. N. K. Singh) has submitted two reports. The first report, consisting of recommendations for the financial year 2020-21, was tabled in Parliament in February 2020. The final report with recommendations for the 2021-26 period was tabled in Parliament on February 1, 2021. Key recommendations of the Commission include:

- **Devolution Criteria:** The criteria for distribution of central taxes among states for 2021-26 period is same as that for 2020-21. The Commission has used 2011 population data for determining the share of states during its entire award period. To reward efforts made by states in controlling their population, the Commission has used the Demographic Performance criterion. States with a lower fertility ratio will be scored higher on this criterion.
- **Grants-in-aid:** The Commission has recommended grants from the centre to states and local bodies worth Rs 10.3 lakh crore for the 2021-26 period. These include: (i) revenue deficit grants to 17 states, (ii) grants to urban and rural local bodies, (iii) disaster management grants, (iv) grants for eight sectors including health, education, and agriculture, and (v) certain state-specific grants (see Table 2).
- **Funding of defence and internal security:** A dedicated non-lapsable fund called the Modernisation Fund for Defence and Internal Security (MFDIS) will be constituted to primarily bridge the gap between budgetary requirements and allocation for capital outlay in defence and internal security. The fund will have an estimated corpus of Rs 2,38,354 crore over the five years (2021-26). Of this, Rs 1,53,354 crore will be transferred from the Consolidated Fund of India. Rest of the amount will be generated from measures such as disinvestment of defence PSUs and monetisation of defence lands.
- **Fiscal consolidation:** The Commission suggested that the Centre bring down fiscal deficit to 4% of GDP by 2025-26. It recommended the fiscal deficit limit (as % of GSDP) for states to be: (i) 4% in 2021-22, (ii) 3.5% in 2022-23, and (iii) 3% during 2023-26. Extra annual borrowing worth 0.5% of GSDP will be allowed to states during 2021-25 for undertaking power sector reforms.
- The Commission observed that the recommended path for fiscal deficit for the Centre and states will result in a reduction of total liabilities of: (i) the Centre from 62.9% of GDP in 2020-21 to 56.6% in 2025-26, and (ii) the states on aggregate from 33.1% of GDP in 2020-21 to 32.5% by 2025-26. It recommended forming a high-powered inter-governmental group to: (i) review the fiscal responsibility legislation (FRBM Act), (ii) recommend a new fiscal responsibility framework and oversee its implementation.

**Table 10: Criteria for devolution**

Criteria	14 <sup>th</sup> FC 2015-20	15 <sup>th</sup> FC 2020-21	15 <sup>th</sup> FC 2021-26
Income Distance	50.0	45.0	45.0
Area	15.0	15.0	15.0
Population (1971)	17.5	-	-
Population (2011) <sup>#</sup>	10.0	15.0	15.0
Demographic Performance	-	12.5	12.5
Forest Cover	7.5	-	-
Forest and Ecology	-	10.0	10.0
Tax and fiscal efforts <sup>*</sup>	-	2.5	2.5
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

Note: <sup>#</sup>14<sup>th</sup> FC used the term "demographic change" which was defined as Population in 2011. <sup>\*</sup>The report for 2020-21 used the term "tax effort", however, there is no difference in the definition of the criteria.

Sources: Reports of the 14<sup>th</sup> and 15<sup>th</sup> Finance Commissions; PRS.

**Table 11: Grants for 2021-26 (five years) (Rs crore)**

Grants	Amount
<b>Revenue deficit grants</b>	2,94,514
<b>Local governments grants</b>	4,36,361
<b>Disaster management grants</b>	1,22,601
<b>Sector-specific grants</b>	1,29,987
Health	31,755
School Education	4,800
Higher Education	6,143
Implementation of agricultural reforms	45,000
Maintenance of PMGSY roads	27,539
Judiciary	10,425
Statistics	1,175
Aspirational districts and blocks	3,150
<b>State-specific grants</b>	49,599
<b>Total</b>	<b>10,33,062</b>

Source: Report of the 15<sup>th</sup> Finance Commission; PRS.

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