Fiscal Deficit Constrains for India

What is the issue?

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- India’s fiscal deficit is growing much than expected due to Lower revenue realisation and the rise in expenditure.
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- Measures needs to be taken to achieve the fiscal deficit target of 3.3% of the GDP for 2018-19 FY.
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What are the measures of the government on fiscal deficit?

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- Union government had inherited a fiscal deficit of 4.4 % of GDP in FY14 and it was steadily brought it down to 3.5 % in 2017.
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- Sharp fall in oil prices and rapid economic growth helped the government to reduce the fiscal deficit between years 2014-2017.
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- In budget 2018-19 the fiscal deficit target has been set at 3.3%, and the target of 3% has been postponed to FY 2020-21.
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What are the challenges before the government?

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- India's fiscal deficit till the end of November 2017 has already breached the target and touched 112 per cent of the budget estimate for 2017-18

due to higher expenditure.
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- The present situation is more difficult as growth faltered in FY17 and the first half of FY18 and oil prices started rising.
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- There is a revenue shortfall on account of lower tax collection under the GST and MSMEs are yet to picking up.
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- The government has a plan to raise additional market borrowings of Rs 50,000 crore through dated government securities, as a whole this may have much consequences on the fiscal targets.
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What will be the consequences of rising fiscal deficits?

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- Higher government expenditure will push up demand and generate more money in the economy which may lead to higher inflation.
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- The government in order to repay its debt would likely to levy more taxes in the future.
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- Higher fiscal deficit also leaves little room for interest rate cuts which would affect private investments from taking off.
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- Borrowing costs may remain high for consumersand industry/companies which might stall economic growth
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What measures needs to be taken?

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- Fiscal consolidation is important from the point of view of the credibility of policy-making.
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- Though there is an improvement in the tax to GDP ratio after the anti-tax

evasion steps, gains from tax revenues was lost on account of non-tax revenues.
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- Framing a proper asset monetisation plan will help a lot in generating non-tax revenues as the government is among the largest owners of property and immovable assets in the world.
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- Thus the non-tax revenue needs to be boosted by a structured long term plan which will help in outlining the course of action and help provide predictability to the earnings from non-tax revenues.
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- The government need to have a strong hold on its divestment and non-tax revenue targets to achieve the fiscal deficit target of 3.3%.
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Source: Business Standard, Business Times

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Quick fact

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Revenue receipts

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- Revenue receipts are divided into tax and non-tax revenue.
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1. Tax revenues constitute taxes like income tax, corporate tax, excise, customs, service and other duties that the Government levies.
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2. The non-tax revenue sources include interest on loans, dividend on investments.
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Sources of non-tax revenue receipts

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- These are not generated by taxing the public, it will be generated from profit making public enterprises (PSUs).
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- Interest which the Government earns on the money lent by it to external or internal borrowers.
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- Thus this revenue receipts may be in foreign currency as well as Indian Rupees.
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- The money which the government receives out of its fiscal services such as stamp printing, currency printing, medal printing etc.
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- Money which the Government earns from its “General Services” such as power distribution, irrigation, banking services, insurance, and community services etc. which make the part of the Government business.
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- Money which the government accrues as fees, fines, penalties etc. also comes under non tax receipts of the government.
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Source: Business Standard

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