

FISCAL CONSOLIDATION STRATEGY OF THE UNION GOVERNMENT

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The paper tries to analyze the fiscal consolidation strategy followed by the Union Government since the decade of 2000. Fiscal consolidation could be achieved either through revenue reforms or through expenditure reforms or through a combination of both. The paper tries to find out whether fiscal consolidation is largely revenue-led or driven by expenditure compression measures. The data analysis shows that the fiscal consolidation achieved, during some years, has been largely revenue-led. Further, the paper points out that in respect of expenditure compression measures, the Union government has failed to check growth in revenue expenditure and non-plan expenditure. Surprisingly, there has been a reduction in capital expenditure and plan expenditure during the study period. On the whole, it may be said that the fiscal consolidation strategy has not been successful in adhering to the targets set under the FRBM Act.

INTRODUCTION

Successive Finance Commissions, especially the recent ones, have dealt at length on the issue of fiscal sustainability of both the Union and State governments. The Eleventh Finance Commission (EFC) had one of the terms of references in respect of restructuring of the Country's public finances. Deficit in the revenue account, leading to diversion of borrowed funds to meet revenue expenditure, has become a recurring feature of the Union finances since 1979-80. Having experienced the failure of discretionary fiscal policy for over two decades, it was felt that there was need for a rule based fiscal policy. Accordingly, the parliament enacted Fiscal Responsibility and Budget Management (FRBM) Act, 2003 which came into effect on July 04, 2004. The main objective of the FRBM Act has been to restore fiscal health of the economy by specifying annual targets in respect of fiscal variables such as Revenue Deficit (RD)¹, Gross Fiscal Deficit (GFD)² and Gross Primary Deficit (GPD)³. As per the directives of the Union government, the States also took initiative in introducing Fiscal Responsibility Legislation (FRL)⁴.

Main focus of the 12th Five Year Plan has been on faster, sustainable and more inclusive growth. The plan targets a growth rate of 8 per cent per annum during the plan period. But, the growth rate of GDP of 5 per cent in the first year, i.e. 2012-13, of the 12th plan has not been encouraging (Economic Survey, 2012-13, p.3). The Union Government faced with slow down in the growth rate on the one hand and widening fiscal deficit on the other, during 2012-13, choose to contain the gross fiscal deficit at 5.2 per cent of GDP by scaling down plan expenditure and capital expenditure (RBI, June, 2013, p.37). The Government of India having been caught in a fix between accelerating growth rate on the one hand and adhering to fiscal targets on the other has relied largely on revenue-led fiscal consolidation, which depends on revival of investment climate and growth (Ibid, p.43).

Having realized the adverse implications of rising fiscal deficit on conducting counter-cyclical fiscal policies, the Union government followed its commitment to fiscal consolidation through tax reforms, which happened to be one of the five objectives of the Union Budget, 2003-04 (RBI, May,

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2003, p.263). The main objective of the paper has been to analyse fiscal consolidation strategy followed by the Union Government since the decade of 2000. Required data have been collected from the publications of the Reserve Bank of India and different issues of Economic Survey. The study covers the time period of 13 years starting from 2000-01 till 2012-13. Appropriate statistical techniques have been used to analyse data. The structure of the paper is as follows. Section I covers the introduction followed by discussion about fiscal consolidation measures, attempted over the years, in section II. Section III analyses the trends in fiscal indicators, revenue receipts and expenditure components. The IV section discusses about the imperative of fiscal measures and sums up the major findings.

FISCAL CONSOLIDATION MEASURES

Fiscal consolidation could be achieved either through revenue reforms or through expenditure reforms or through a combination of revenue as well as expenditure reforms. The decade of 1990s' witnessed the introduction of comprehensive economic as well as fiscal reforms in India. Owing to the reforms, there was substantial rise in the growth rate by the mid-nineties. The gains of fiscal reforms achieved in the mid-nineties did not last long. Towards the close of nineties, fiscal imbalances reappeared reflecting the need to have a relook at the fiscal consolidation path followed.

In 2000-01, the Government of India took initiative to issue guidelines to the States to prepare Medium-Term Fiscal Reform Programmes (MTFRPs). The purpose of MTFRPs was to reduce wasteful expenditure and improving efficiency of the tax administration. The MTFRPs did not succeed in improving the fiscal situation to the desired level. To improve fiscal performance of States, the 11th Finance Commission, in April 2000, introduced Fiscal Reform Facility (FRF). This measure was probably, insufficient, to drive the State governments' to take fiscal discipline rather seriously. Underlying the need for continuing fiscal reforms, the 12th Finance Commission (12th FC) recommended the debt write-off scheme to the States with a view to eliminating revenue deficit and reducing fiscal deficit. Further, the 12th FC required each state to enact Fiscal Responsibility Legislation (FRL). The 13th Finance Commission (13th FC) in its revised roadmap for fiscal consolidation recommended that each State to amend/enact FRL and made it clear that the release of State-specific grants be based upon compliance of this recommendation. Further, the Commission recommended that, on the lines of amendment to FRL, effected at the States' level, the Centre to institute "a similar process of independent review and monitoring of the implementation of its own FRBM process" (13th FC, p.137).

Report of the 13th FC, which carries a separate chapter on -- Revised Roadmap for Fiscal Consolidation, has been of the view that the Centre should adopt the policy of 'golden rule', which states that except during economic emergencies, borrowing should never be resorted to finance current consumption (13th FC, p.128,). It may be relevant here to discuss about roadmap for fiscal consolidation laid down by the 13th FC, Kelkar Committee, and the Union Budget 2013-14, which is shown in Table-1. The 13th FC, whose award period covers the time period of 2010-15, had laid down fiscal consolidation path for the Centre. As indicated in part 'A' of Table-1, taking the year 2011-12, for which year, actual figures are available, the Commission had laid down targets of 2.3 per cent, 4.8 per cent and 52.5 per cent in respect of RD/GDP, GFD/GDP and Debt/GDP ratios respectively. A comparison of this with actual figures of 2011-12 as shown in part 'C' of the Table-1, reveal that the RD/GDP (4.4 per cent), GFD/GDP (5.7 per cent) ratios are much higher, and Debt/GDP (51.8 per cent) ratio is within the target laid down by the 13th FC. Therefore, it is obvious that the Union government has not been successful in adhering to the fiscal targets set by the 13th FC.

Table-1 Fiscal Consolidation Path

(per cent to GDP)

“A”						
Thirteenth Finance Commission Fiscal Consolidation Path for The Centre						
Fiscal Indicators/Years	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
1	2	3	4	5	6	7
Revenue Deficit	4.8	3.2	2.3	1.2	0.0	-0.5
Non-Debt Capital Receipt	0.1	0.5	0.6	0.8	0.9	1.0
Capital Expenditure	2.1	3.0	3.1	3.8	3.9	4.5
Gross Fiscal Deficit	6.8	5.7	4.8	4.2	3.0	3.0
Outstanding Debt	54.2	53.9	52.5	50.5	47.5	44.8
“B”						
Kelkar Committee Roadmap for Fiscal Consolidation (Projections)						
Revenue Deficit	-	-	-	3.7	2.8	2.0
Effective Revenue Deficit	-	-	-	2.1	0.9	0.0
Gross Fiscal Deficit	-	-	-	5.2	4.6	3.9
Primary Deficit	-	-	-	2.0	1.4	0.9
Debt	-	-	-	46.1	44.9	42.9
“C”						
Union Budget 2013-14 Progress towards Fiscal Consolidation						
			Actual Figures	Revised Estimates	Budget Estimates	
Revenue Deficit	-	-	4.4	3.9	3.3	
Effective Revenue Deficit	-	-	2.9	2.7	1.8	
Gross Fiscal Deficit	-	-	5.7	5.2	4.8	
Gross Primary Deficit	-	-	2.7	2.0	1.5	
Total Outstanding Liabilities	-	-	51.8	46.1	44.9	

Source: (part-A) Report of the 13th FC, Table 9.3, p.131

(part-B) Kelkar L.Vijay: Report of the committee on Roadmap For Fiscal Consolidation, Sep, 2012, p 17.

(part-C) – RBI (2013). Union Budget 2013-14: An Assessment, Monthly Bulletin, June, p.44.

Note: Effective Revenue Deficit is revenue deficit less grants for the creation of capital assets.

The Finance Ministry had constituted a committee under the chairmanship of Dr. Vijay L. Kelkar to prepare a roadmap for fiscal consolidation in a medium term framework in the light of changes in the FRBM act. As shown in part ‘B’ of Table-1, for the year 2012-13, the committee laid down 3.7 per cent, 5.2 per cent and 46.1 per cent targets in respect of RD/GDP, GFD/GDP and Debt/GDP ratios. A comparison of this with revised estimates for 2012-13, as shown in part ‘C’ of Table-1, reveals that the roadmap suggested by the Kelkar Committee is close to the estimates laid down in the Union Budget, 2013-14. But, as per the true spirit of the FRBM act, i.e. to achieve zero revenue deficit and to limit GFD/GDP ratio to 3 per cent appears to be an uphill task in the near future, as per the fiscal variables reflected in the Interim Budget for 2014-15.

Fiscal Indicators

An attempt is made in this section to analyse trends in RD, GFD, GPD, RD/GDP, and Debt/GFD ratios over the years. As evident from Table-2, GFD and RD have registered a growth rate of 14.4 per cent and 15.6 per cent respectively and RD's share in GFD continues to be high except during 2007-08, in which year it was 41.4 per cent. The GFD/GDP ratio, which is supposed to be no more than 3 per cent, has been higher than the targeted figure except during 2007-08, in which year it was 2.7 per cent. The RD/GDP ratio which is supposed to be zero has never been zero except the year 2007-08, in which year it had reached the lowest ratio i.e., 1.1 per cent. It is obvious from the data that the RD and GFD targets which were achieved during 2007-08, could not be sustained in the subsequent years. Interestingly, the Debt/GDP ratio has shown a declining trend and it is close to the targets set by the 13th FC. The GPD, which showed surplus during 2006-07 and 2007-08, has shown a rising trend in the subsequent years.

Table-2 Fiscal Indicators of the Union Government

(Rs in Crore)

Year	RD	GFD	GPD	RD as a % of GFD	Debt as a % of GDP
1	2	3	4	5	6
2000-01	85234 (4.1)	118816 (5.7)	19502 (0.9)	71.7	61.4
2001-02	100162 (4.4)	140955 (6.2)	33495 (1.5)	71.1	65.5
2002-03	107879 (4.4)	145072 (5.9)	27268 (1.1)	74.4	69.0
2003-04	98261 (3.6)	123273 (4.5)	-815 (0.0)	79.7	68.0
2004-05	78338 (2.5)	125794 (4.0)	-1140 (0.0)	62.3	65.5
2005-06	92300 (2.6)	146435 (4.1)	13805 (0.4)	63.0	63.9
2006-07	80222 (1.9)	142573 (3.5)	-7699 (-0.2)	56.3	61.4
2007-08	52569 (1.1)	126912 (2.7)	-44118 (-0.9)	41.4	58.8
2008-09	253539 (4.5)	336992 (6.0)	144788 (2.6)	75.2	58.6
2009-10	338998 (5.2)	418482 (6.5)	205389 (3.2)	81.0	56.4
2010-11	252252 (3.3)	373591 (4.9)	139569 (1.8)	67.5	52.8
2011-12	394350 (4.4)	515990 (5.7)	242840 (2.7)	76.4	51.8
2012-13 (RE)	391250 (3.9)	520930 (5.2)	204250 (2.0)	75.1	-
2013-14(BE)	379840 (3.3)	542500 (4.8)	171810 (1.5)	70.0	-
CAGR	15.6	14.4			

Source: Union Budget-Assessment, (of different years) in Monthly Bulletin, RBI, Mumbai

Note: 1) RD- Revenue Deficit, GFD- Gross Fiscal Deficit, GPD-Gross Primary Deficit

2) Figures in parentheses are per cent to GDP

Revenue Receipts

In order to understand whether fiscal consolidation strategy has been revenue- led or driven by expenditure-compression measures, attempts have been made to analyse trends in revenue receipts. It may be observed from Table-3, that the revenue receipts and gross tax revenue have registered a CAGR of 14.7 per cent and 16.6 per cent respectively.

Table-3 Trends in Revenue Receipts

(Rs in Crore)

Year	Revenue Receipts	RR % of TR	Gross Tax Revenue	GTR % of TR	Tax (net to Centre)	Tax (N to C) % of TR	Non-tax Revenue	NTR % of TR	Total Receipts
1	2	3	4	5	6	7	8	9	10
2000-01	192605 (9.1)	58.9	188603 (8.9)	57.7	136668 (6.5)	41.8	55947 (2.7)	17.1	326789
2001-02	201306 (8.8)	55.3	187060 (8.2)	51.4	133532 (5.9)	36.7	67774 (3.0)	18.6	363806
2002-03	230834 (9.4)	56.1	216266 (8.8)	52.6	158544 (6.5)	38.5	72290 (3.0)	17.6	411365
2003-04	263813 (9.6)	55.5	254348 (9.2)	53.5	186982 (6.8)	39.4	76831 (2.8)	16.2	475146
2004-05	305991 (9.7)	60.4	304958 (9.7)	60.2	224798 (7.1)	44.4	81193 (2.6)	16.0	506382
2005-06	347462 (9.7)	66.0	366152 (10.2)	69.5	270264 (7.5)	51.3	77198 (2.2)	14.7	526626
2006-07	403465 (10.5)	69.7	471512 (11.4)	81.5	327205 (8.5)	56.5	76260 (2.0)	13.2	578869
2007-08	541864 (9.6)	76.0	593147 (11.9)	83.2	439547 (8.8)	61.7	102317 (2.1)	14.4	712671
2008-09	540259 (9.6)	61.1	605299 (10.8)	68.5	443319 (7.9)	50.2	96940 (1.7)	11.0	883956
2009-10	572811 (8.9)	55.9	624528 (9.7)	61.0	456536 (7.1)	44.6	116275 (1.8)	11.3	1024487
2010-11	788471 (10.1)	65.9	793072 (10.2)	66.2	569869 (7.3)	47.6	218602 (2.8)	18.3	1197328
2011-12(RE)	766989 (8.4)	58.2	890622 (9.9)	67.5	642252 (7.0)	48.7	124737 (1.4)	9.46	1318719
2012-13(BE)	935685 (9.3)	62.8	1077611 (10.7)	72.3	771071 (7.7)	51.7	164614 (1.6)	11.0	1490926
CAGR	14.7		16.6		16.5		9.0		13.8

Source: Government of India, Economic Survey (of different years)

Note: Figures in parentheses are per cent to GDP

RR : Revenue Receipts

TR: Total Receipts

GTR: Gross Tax Revenue

The share of Centre in the gross tax revenue has also registered a CAGR of 16.5 per cent. Interestingly, the revenue receipts (14.7 per cent) have grown at a higher rate than the total receipts (13.8 per cent). The revenue receipts and the gross tax revenue as per cent of GDP have shown considerable improvement in the recent years. The non-tax revenue both as per cent of GDP and the total receipts have shown a declining trend in the recent years. It is interesting to study trends in different taxes of the Central government to identify the taxes which have contributed to improved revenue receipts. As shown in Table-4, revenue from direct taxes are marginally higher than that of indirect taxes especially in the recent years. It is to be noted that the direct taxes have registered a growth rate of 21.3 per cent, whereas the indirect taxes have registered a growth rate of 14.0 per cent. Among the direct taxes, the corporation tax has contributed a larger share followed by the personal income tax. The corporation tax and the personal income tax have registered a CAGR of 23.9 per cent and 20.4 per cent respectively during the period under reference. Among the indirect taxes, the service tax has registered a higher growth rate (39.9 per cent) than the customs (13.0 per cent) and the excise (7.0 per cent). Of the three indirect taxes, excise duty has contributed a larger share followed by customs and service tax. Owing to the improvement in tax receipts, the Centre has been able to minimize further growth in fiscal variables such as revenue deficit and gross fiscal deficit.

Components of Expenditure

Expenditure compression measures refer mainly to strategies which need to be followed in effecting cut in revenue expenditure and non-plan expenditure, by not resorting to any type of reduction in capital expenditure and plan expenditure. Hence, among various components of expenditure, it is necessary to identify the components of expenditure which are pruned to achieve fiscal consolidation. As shown in Table-5, the revenue expenditure with a CAGR of 14.6 per cent has registered a higher growth rate than the capital expenditure with a CAGR of 9.5 per cent. It is gratifying to note that the plan expenditure has registered a higher growth rate of 14.4 per cent than the non-plan expenditure, which has registered a growth rate of 11.8 per cent. Although, the plan expenditure has registered a higher growth rate than the non-plan expenditure, the share of non-plan expenditure in the total expenditure has been higher than the plan expenditure. The RE/GDP ratio which had reached a peak (14.4 per cent) in 2008-09, has been showing a declining trend since then. The CE/GDP ratio which had reached a minimum (1.6 per cent) in 2008-09 has started increasing in the later years. The Non-Plan Revenue Expenditure (NPRE), an important component of revenue deficit, has registered a growth rate of 11.5 per cent. On the whole, it may be said that the fiscal consolidation strategy has not been successful in pruning revenue expenditure and non-plan expenditure, whereas it has chosen a wrong path of effecting reduction in capital expenditure and plan expenditure.

It is obvious from the foregoing explanation that the revenue expenditure and the non-plan expenditure as per cent of GDP are higher than the capital expenditure and the plan expenditure respectively. Hence, it is necessary to identify the items of expenditure which are causing ballooning of revenue expenditure. As shown in Table-6, food, fertilizer and petroleum subsidies have registered a CAGR of 15.2 per cent, 19.7 per cent and 32.9 per cent respectively than the interest payments, whose CAGR has been 9.8 per cent. It is the petroleum and fertilizer subsidies which are pushing up non-plan revenue expenditure, leading to a larger revenue deficit. Further, it is worth noting that the interest payments both as per cent of revenue receipts and revenue expenditure are showing a declining trend in the recent years. In order to slow down the rate of growth of non-plan revenue expenditure, there is a need to effect substantial cut in fertilizer and petroleum subsidies and moderate cut in food subsidy.

Table-4 Trends and Components of Tax Revenue

(Rs in crore)

Year	Direct Taxes	personal Income Tax	Corporation Tax	Indirect Taxes	Customs	Excise	Service tax
1	2	3	4	5	6	7	8
2000-01	68306 (36.2)	31764 (16.8)	35696 (18.9)	118681 (62.9)	47542 (25.2)	68526 (36.3)	2613 (1.4)
2001-02	69197 (37.0)	32004 (17.1)	36609 (19.6)	116125 (62.1)	40268 (21.5)	72555 (38.8)	3302 (1.8)
2002-03	83085 (38.4)	36866 (17.0)	46172 (21.3)	131284 (60.7)	44852 (20.5)	82310 (38.1)	4122 (1.9)
2003-04	105090 (41.3)	41387 (16.3)	63562 (25.0)	147294 (57.9)	48629 (19.1)	90774 (35.7)	7891 (3.1)
2004-05	132181 (43.3)	49268 (16.2)	82680 (27.1)	170936 (56.1)	57611 (18.9)	99125 (32.5)	14200 (4.7)
2005-06	165202 (45.1)	63629 (17.4)	101277 (27.7)	199348 (54.4)	65067 (17.8)	111226 (30.4)	23055 (6.3)
2006-07	230174 (48.8)	85561 (18.1)	144306 (30.6)	241536 (51.2)	86327 (18.3)	117612 (24.9)	37597 (8.0)
2007-08	295938 (49.9)	102644 (17.3)	192911 (32.5)	879031 (47.0)	104119 (17.6)	123611 (20.8)	51301 (8.6)
2008-09	319859 (52.8)	106046 (17.5)	213395 (35.3)	269433 (44.5)	99879 (16.5)	108613 (17.9)	60941 (10.1)
2009-10	367543 (58.9)	122370 (19.6)	244725 (39.2)	244737 (39.2)	83324 (13.3)	102991 (16.5)	58422 (9.4)
2010-11	438477 (55.3)	139069 (17.5)	298688 (37.7)	344530 (43.4)	135813 (17.1)	137701 (17.4)	71016 (9.0)
2011-12(RE)	489312 (54.9)	165276 (18.6)	323250 (36.3)	392270 (44.0)	149489 (16.8)	145205 (16.3)	97579 (11.0)
2012-13(BE)	564337 (52.4)	389866 (17.6)	373227 (34.6)	504423 (46.8)	186694 (17.3)	193729 (18.0)	124000 (11.5)
CAGR	21.3	20.4	23.9	14.0	13.0	7.0	39.9

Source: Government of India, Economic Survey (of different years)

Note: Figures in parentheses are per cent to Gross Tax Revenue

Imperative of Fiscal Consolidation

Recent developments at the global level have not been conducive to Indian economy. Rupee depreciation, rising imports, slow growth in exports and fall in the growth rate have affected the economy in many ways. India's current (2011) tax-GDP ratio of 10.4 per cent, is less when compared to some Asian countries and much less when compared to developed countries like Australia (20.5 per cent), France (21.3 per cent) etc. At the moment, Indian economy finds itself in a peculiar situation of not being able to raise adequate revenues on the one hand and unable to regulate rising expenditure on the other. In the Interim Budget for 2014-15, presented by the Finance Minister in February, 2014, the fiscal deficit has been contained at 4.6 per cent of GDP, below the red line of 4.8 per cent of GDP. On a close scrutiny, it appears that there is a bit of window dressing, that is, "subsidies getting rolled over into next year and taking credit for dividends that would normally accrue next year" (The Hindu, 24-02-14). Further, it is said that the deficit has been contained by pruning productive capital expenditure, by not resorting to any kind of cut in subsidies. A matter of serious concern, in the present juncture, has been that there has been an increase in the non-plan

expenditure by Rs.4927 Cr. from Budget Estimates(BE) to Revised Estimates(RE) of 2013-14. On the contrary, there has been reduction in the plan expenditure by Rs 79,790 Cr. from BE to RE of 2013-14. The revenue deficit, a worrisome aspect of government finances, has been pegged at 3.3 per cent of GDP (The Hindu,18-02-14). It is clear from the above analysis that the Union government has not been successful in achieving the goal of fiscal consolidation.

Table-5 Trends and Components of Expenditure

(Rs in Crore)

Year	Revenue Expenditure	RE/ TE	Capital Expenditure	CE/ TE	Plan Expenditure	PE/ TE	Non-Plan Expenditure	NPE/ TE	NPPE	TE
1	2	3	4	5	6	7	8	9	10	11
2000-01	277838 (13.2)	85.3	47754 (2.3)	14.7	82669 (3.9)	25.4	242923 (11.5)	74.6	185667	325592
2001-02	301468 (13.2)	83.2	60842 (2.7)	16.8	101194 (4.4)	27.9	261116 (11.6)	72.1	199669	362310
2002-03	338713 (13.8)	82	74535 (3.0)	18	111470 (4.5)	27	301778 (12.3)	73	223974	413248
2003-04	362074 (13.1)	76.8	109129 (4.0)	23.2	122280 (4.4)	26	348923 (12.7)	74	232679	471203
2004-05	384329 (12.2)	77.1	113923 (3.6)	22.9	132292 (4.2)	26.6	365960 (11.6)	73.4	245918	498252
2005-06	439761 (12.3)	87	66362 (1.9)	13.1	140638 (3.9)	27.8	365485 (10.2)	72.3	260052	505738
2006-07	514609 (12.0)	88.2	68778 (1.6)	11.8	169860 (4.0)	29.1	413527 (9.6)	70.9	289375	583387
2007-08	594433 (11.9)	83.4	118238 (2.4)	16.6	205082 (4.1)	28.8	507589 (10.2)	71.2	328123	712671
2008-09	793798 (14.4)	89.8	90158 (1.6)	10.2	275235 (4.9)	31.1	608721 (10.8)	68.9	410338	883956
2009-10	911809 (14.4)	89	112678 (1.7)	11	303391 (4.7)	29.6	721096 (11.2)	70.4	500226	1024487
2010-11	1040723 (13.4)	86.9	156605 (2.0)	13.1	314232 (4.9)	26.2	726491 (10.5)	60.7	540370	1197328
2011-12(RE)	1161940 (12.7)	88.1	156780 (1.8)	11.9	346201 (4.6)	26.3	815740 (9.9)	61.9	583510	1318720
2012-13(BE)	1286109 (12.8)	86.3	204816 (2.0)	13.7	420513 (5.2)	28.2	865596 (9.7)	58.1	649598	1490925
CAGR	14.6		9.5		14.4		11.8		11.5	13.8

Source: Government of India, Economic Survey of (different years)

: Indian Public Finance Statistics

Note: 1. The last three rows in respect of columns 7 and 9 do not add to 100.

2. Figures in parentheses are per cent to GDP

TE: Total Expenditure

PE: Plan Expenditure

NPE: Non-Plan Expenditure

NRPE: Non-Plan Revenue Expenditure

It is imperative that the fiscal consolidation measures will have to be implemented by the government with all seriousness. The growing revenue deficit and fiscal deficit, if not regulated, will have adverse consequences on investment, growth and employment. It may be relevant to quote report of the Kelkar Committee, which states that – “the process of fiscal consolidation will no doubt cause some short term pain which should be equitably shared. With determined policy action and astute political statesmanship, the pain of voluntary fiscal correction now will forestall the pain of externally enforced involuntary fiscal correction later” (p.4).

Table-6 Trends in Subsidies, Defense Expenditure and Interest Payments

(Rs in Crore)

Year	Food Subsidy	Fertilizer Subsidy	Petroleum Subsidy	Defense Expenditure	Interest Payments	IP/ RR	IP/ RE
1	2	3	4	5	6	7	8
2000-01	12060 (0.6)	13800 (0.7)	-	49622 (2.4)	99314 (4.7)	51.6	35.7
2001-02	17499 (0.8)	12595 (0.6)	-	54266 (2.4)	107460 (4.7)	53.4	35.6
2002-03	24176 (1.0)	11015 (0.4)	5225 (0.2)	55662 (2.3)	117804 (4.8)	51.0	34.8
2003-04	25181 (0.9)	11847 (0.4)	6351 (0.2)	60066 (2.2)	124088 (4.5)	47.0	34.3
2004-05	25798 (0.8)	15879 (0.5)	2956 (0.1)	75856 (2.3)	126934 (3.9)	41.5	33.0
2005-06	23077 (0.6)	18460 (0.5)	2683 (0.1)	80549 (2.2)	132630 (3.6)	38.2	30.2
2006-07	24014 (0.6)	26222 (0.6)	2699 (0.1)	85510 (2.0)	150272 (3.5)	37.2	29.2
2007-08	31328 (0.6)	32490 (0.7)	2820 (0.1)	91681 (1.8)	171030 (3.4)	31.6	28.8
2008-09	43751 (0.8)	76603 (1.4)	2852 (0.1)	114223 (2.0)	192204 (3.4)	35.6	24.2
2009-10	58443 (0.9)	61264 (0.9)	14951 (0.2)	141781 (2.2)	213093 (3.3)	37.2	23.4
2010-11	63844 (0.8)	62301 (0.8)	38371 (0.5)	154117 (2.0)	234022 (3.1)	29.7	22.5
2011-12(RE)	72823 (0.8)	67199 (0.8)	68481 (0.8)	170937 (1.9)	275618 (3.1)	35.9	23.7
2012-13(BE)	75000 (0.7)	60974 (0.6)	43580 (-)	193407 (-)	319759 (3.1)	34.2	24.9
CAGR	15.2	19.7	32.9	12.5	9.8		

Source: Government of India; Union Budget-An Assessment (of different years)

Note: Figures in parentheses are per cent to GDP

RR: Revenue Receipts

RE: Revenue Expenditure

IP: Interest Payments

To sum up, it may be said that the fiscal consolidation strategy followed by the Centre has been largely revenue-led. It needs to be mentioned that, it is the marginal improvement in direct taxes which have contributed to improved tax revenues, besides the growth in indirect taxes, especially in the recent years. Among the direct taxes, the corporation tax has contributed a larger share followed by the personal income tax. Of the three indirect taxes, excise duty has contributed a larger share followed by customs and service tax. As borne out from the analysis, the fiscal consolidation strategy has failed to achieve any reduction in revenue expenditure and non-plan expenditure. The revenue expenditure has registered a higher growth rate than the capital expenditure and the share of non-plan expenditure in the total expenditure has been higher than the plan expenditure. There is no moderation in the growth of revenue expenditure and non-plan revenue expenditure. Hence, there is an urgent need to effect cut in petroleum and fertilizer subsidies on the lines of the success achieved by the Union government in respect of reduction in interest burden in the recent years. With the 12th Plan's focus being on faster, sustainable, and more inclusive growth, the government has to accord utmost priority to its fiscal management, so that growth does not suffer for want of resources. There is scope to raise the Country's Tax-GDP as well as Non-Tax-GDP ratios in the near future. Further, the expenditure-compression measures are to be effected in such a way that the plan expenditure and capital expenditure do not suffer in the process.

Notes

1. Revenue Deficit is the difference between revenue receipts and revenue expenditure.
2. Gross Fiscal Deficit is a aggregate disbursements (net of debt repayments) less revenue receipts, non-debt capital receipts and recovery of loans and advances.
3. Gross Primary Deficit is fiscal deficit less interest payments
4. All the 28 States have enacted FRL, but at different points of time. The first State to enact FRL in the country happened to be Karnataka in September,2002, latest and the last one being Sikkim in September,2010.

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