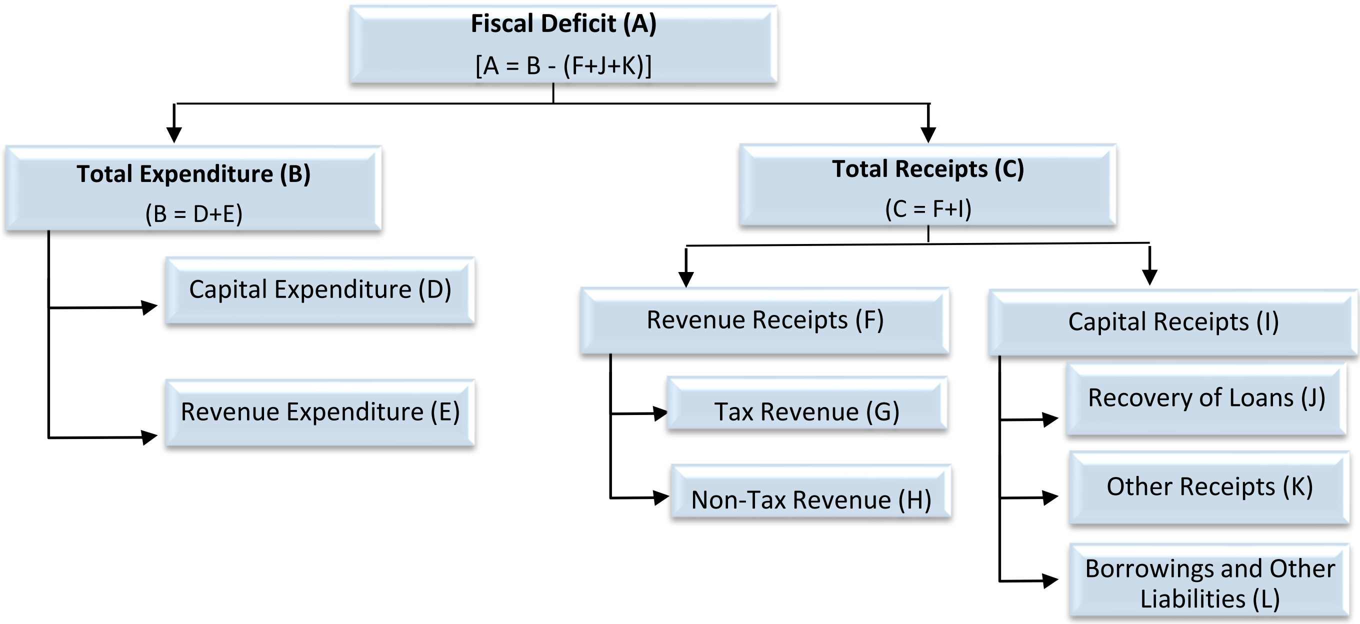
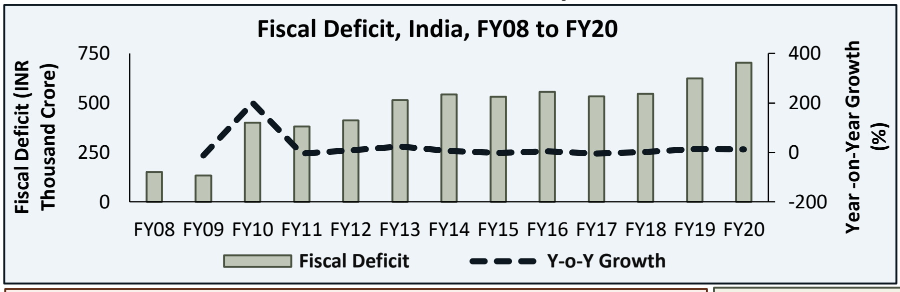
India's Fiscal Deficit – What, Why and How?

- The difference between the **Total Expenditure** and **Total Receipts** of the government in a financial year is termed as **Fiscal Deficit (FD)**.
- The rise in the fiscal deficit is either caused by the lower collection of revenue or higher level of government expenditure or the occurrence of both the incidents simultaneously.
- However, the growing Fiscal Deficit always does not come up with negative scenario. For example, if government invests huge amount in the infrastructure sector then it might trigger the spending of a few fiscal years but after the completion of those projects the connectivity of the nation will not only be developed but it will emerge more economic opportunities. Moreover, all the short and long term operations will also broaden the chances of profitability.

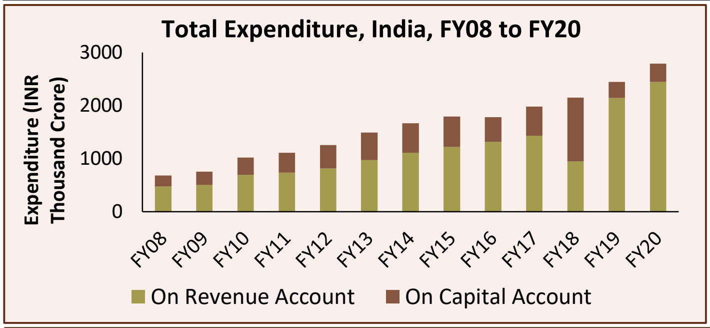
Breakdown of Fiscal Deficit

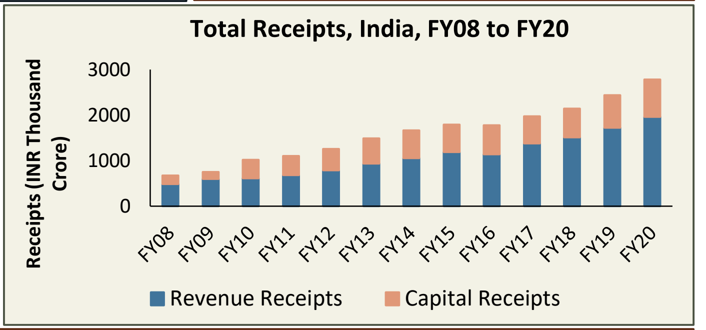


Performance of Fiscal Deficit and its Components over the Years



- Every year, during the announcement of Union Budget in India, an amount of fiscal deficit is also estimated which is known as ***Budget Estimated Fiscal Deficit***.
- Between FY08 to FY20, the **Budget Estimated Fiscal Deficit** in India has increased at a CAGR of **13.69%**.



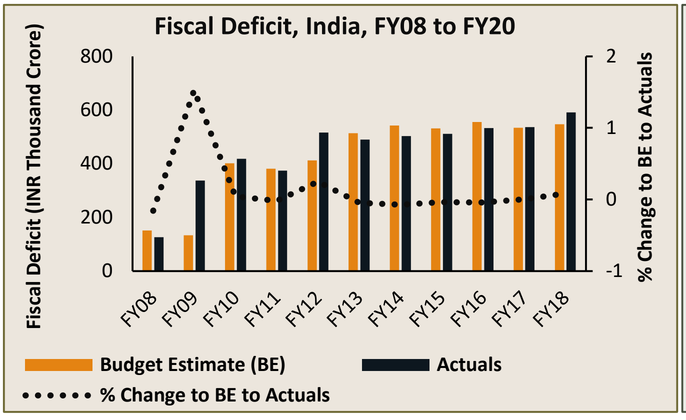


- The growing values of fiscal deficit implies a situation where the rate of **Expenditure** is greater than the **Receipts**.
- *Revenue Receipts* and *Capital Receipts*, the two components of the **Total Receipts** have grown at CAGR of **12.33%** and **12.8%** respectively between FY08 to FY20.
- The CAGR of the *Revenue Account* and the *Capital Account* from the **Total Expenditure** has been **14.63%** and **4.27%** respectively between FY08 to FY20.
- The Year on Year (Y-o-Y) growth rate of **Total Receipts** which touched the value of **35.95%** in FY10 declined to **14.09%** in FY20. Falling growth of both the Revenue and Capital Receipts are reason behind this.

Comparison of Fiscal Deficit between the Budget Estimated and Actual Values

- The **Budget Estimated (BE)** values are budget allocation announced at the beginning of each year, whereas the **Actuals** or are the audited amount of expenditure and receipts in a financial year. Hence Budget Estimation provides an idea or target of transactions whereas the Actuals show the exact Expenditure or Receipt or Deficit values of a financial year.
- Due to the audit and detailed analysis, the disclosure of the Actual values take longer time than the budgetary values.

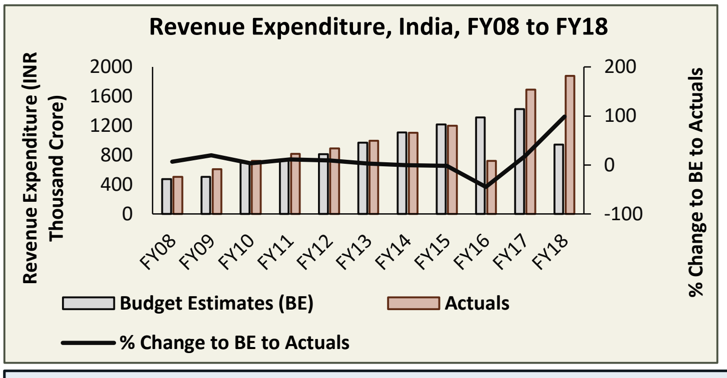
How much the Actual and Budgetary values of multiple indicators associated with "Fiscal Deficit" have been different between FY08 to FY18?



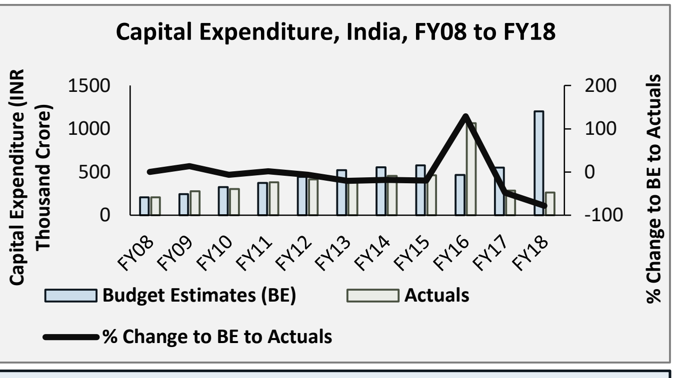
Fiscal Deficit, India, FY08 to FY20

- In most of the cases, the ***Actual Values of Fiscal Deficit*** are found to be unequal with the ***Budget Estimated Values.***
- After analysing the FD figures between FY08 and FY18, it has been found that the ***Actuals*** had gradually surpassed the budget estimated target.
- Between FY08 and FY18, the Budget Estimated FD and Actual FD have risen at CAGR of **13.73%** and **16.63%** respectively. Hence, the growth of Actuals has been maximum than the pre-decided targets.
- The surpassing amount of the Actuals was maximum in FY09, when the value was greater by INR **203.71** Thousand Crore than the Budget Estimation.

Total Expenditure



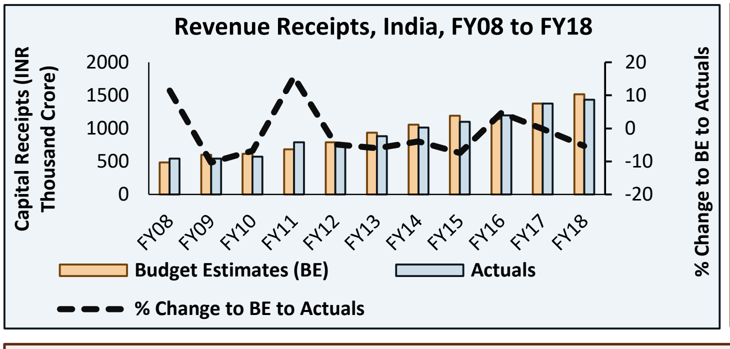
Revenue Expenditure, India, FY08 to FY18



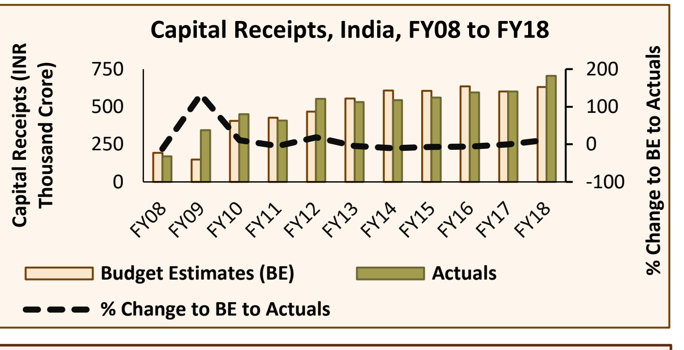
Capital Expenditure, India, FY08 to FY18

- Expenditure on the economy by the government is crucial.
- Between FY08 to FY18, the Budget estimated and Actual values of revenue expenditure have increased at the CAGR of **7.11%** and **13.98%** respectively. However, in case of Actual capital expenditure the CAGR was **2.52%**, whereas, the CAGR of budget estimated amount was **19.34%** between FY08 to FY18.

Total Receipts



Revenue Receipts, India, FY08 to FY18



Capital Receipts, India, FY08 to FY18

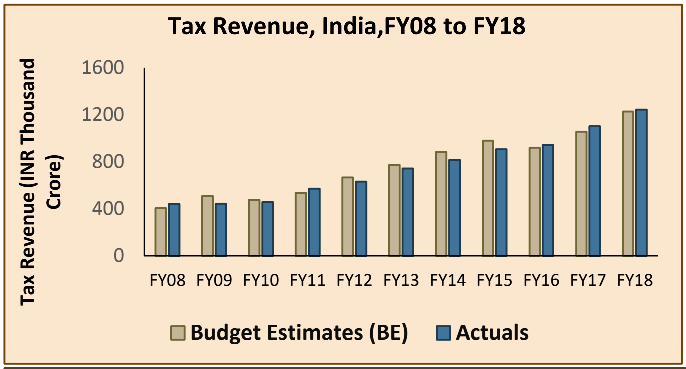
- In case of earning, the greater value of the actuals than the budget estimated ones are definitely good.
- The Actual values of Revenue Receipts and the Capital Receipts both have increased at the CAGR of **10.23%** and **15.26%** respectively between FY08 and FY18.
- The growth pattern of the Capital Receipts has increased in the recent years whereas the Revenue Receipts has declined.

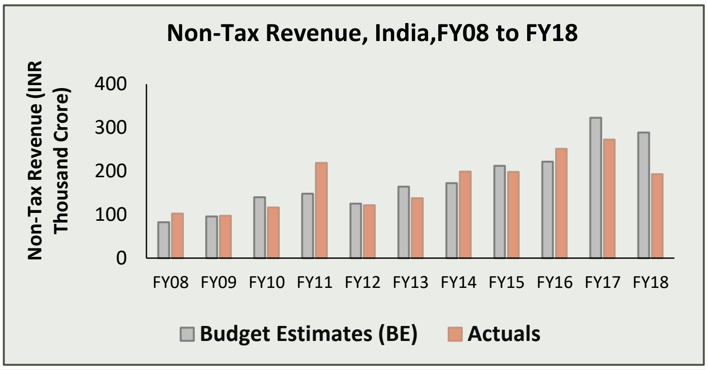
Types of Receipts/Earnings

- India is considered as one of the exceptional performers of global economy. However, according to the latest released data by the government, India is growing at its slowest pace in last five years. In FY18, the economy had grown by **6.8%** and in the Q2 FY20 it expanded by just **4.5%.**
- The current economic slowdown requires government intervention which might increase the fiscal deficit.
- Given the current level of expenditure, the government can only have a healthy fiscal condition with greater rate of earnings.
- Improved tax management system, effecting recovery of all types of loans etc. can become useful for maintaining a healthy fiscal balance in the economy.

Performance of the "Earning" section for maintaining the Fiscal Balance

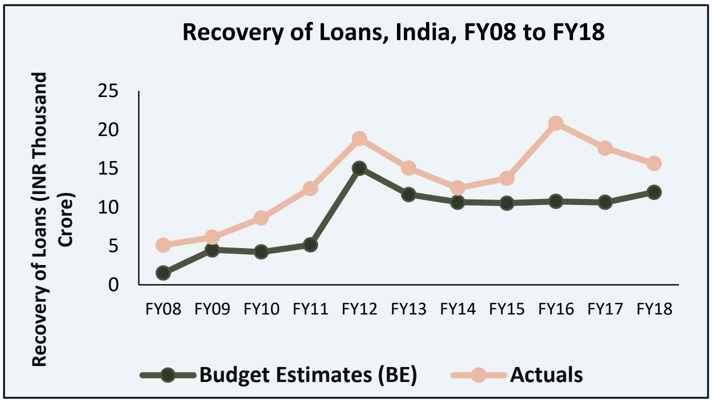
Revenue Receipts

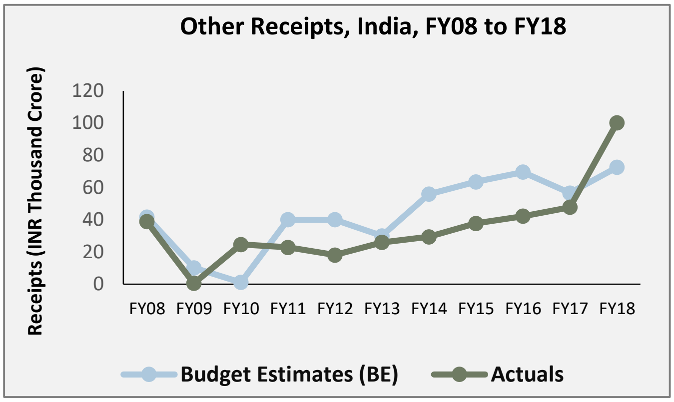




- Between FY08 and FY18, the Actual values of the Tax Revenue and Non-Tax Revenue have grown at the CAGR of **10.95**% and **6.54%** respectively.
- In both the cases, the growth has been lower than the budget estimated target.
- The greater tax collection helps the country to finance the required services like health, education, infrastructural development for road and electricity and other public goods. Lower rate of tax collection deteriorates the national development.
- The Non-Tax Revenue comes from the different types of social and economic services such as from the sectors like power, railways and many more. In recent years, the actual amount of Non – Tax Revenue has been quite lower than the budget estimated values.

Capital Receipts





- Rise in the repayment from the **"Recovery of Loan"** section can be extremely useful for increasing the total receivables of the economy. The growing amount of bad loans had affected the Indian economy severely in the last few years. As an outcome, the budget estimated target of loan recovery grew at CAGR of **23.04%** whereas, the actual collection from the loan recovery rose only at the CAGR of **11.85%** between FY08 to FY18.
- Proper repayment of the loans not only reduces the stressful situation of the financial sector but also increases the ease of doing further business in the country.
- However, after the launch of Insolvency and Bankruptcy Code (IBC) in 2016, the situations started to change slowly.
- The Actual values of **"Other Receipts"** which includes different types of non-debt receipts of the government (e.g. payment to government by sailing some assets) have increased at the CAGR of **9.94%** between FY08 to FY18.

The Way Ahead

- As mentioned previously, the emerging growth concerns of the economy require government's involvement.
- Stagnated growth in the Automobile, Agriculture, Real estate an many other industrial sectors have made them depending on the financial aid received from the government.
- The recently launched or ongoing plans related to the launch of new polices, reforms, initiatives to encourage the domestic market might also broaden the fiscal deficit in the coming years.

Initiatives for controlling the Fiscal Deficit

Simplification of existing tax laws and regulation for encouraging the tax payers.

Effective implementation of Insolvency and Bankruptcy Code (IBC) for reviving significant amount from the Non Performing Assets (NPAs).

Launch of suitable reforms for boosting the credit growth and increasing the investments

Launch and execution of required reforms in the domestic industries for spurring the production.

Serious effort on improving the product development for raising the consumer demand.

More concentration on the initiative like **"Make in India"** for making India an export hub for essential items and increasing import substitution

Developing the trade related infrastructure

Source: Reserve Bank of India, LSI Research