Syllabus subtopic: Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment.

Prelims and Mains focus: about the problems faced by the govt. in GST collections and its impact on the fiscal deficit

News: The budgeted fiscal deficit for 2019-20 stands at Rs. 7.04 trillion. However, the fiscal deficit for the period April-November is higher than this and stands at Rs. 8.08 trillion.

Why has the fiscal deficit crossed Rs. 8 trillion?

The fiscal deficit of Rs. 8.08 trillion for April-November is nearly 15% more than the budgeted fiscal deficit for the year, with data for four months yet to be available. Fiscal deficit basically has two entries: the total expenditure of the government and its total earnings. The total expenditure during the first eight months of the fiscal is Rs. 18.20 trillion. This is a little over 65% of the expenditure that the government plans to make during the year. Hence, things are all right on the expenditure front. The problems are on the earnings front, in particular the tax revenues that the government had hoped to earn during this fiscal.

What’s wrong with the tax revenue growth?

The gross tax revenue collected by the government during the first eight months of the fiscal was Rs. 11.74 trillion, around 0.8% higher than during the same period last year. Hence, tax collections have been largely flat this year. The interesting thing is that the gross tax revenue needs to grow 18.3% from last year’s collections for the government to earn what it has projected in the budget. Finance ministry bureaucrats were not expecting the economy and tax collections to slow down as much as they have. The economy grew by a little over 7% in the first half of this fiscal. The growth in tax collections hasn’t matched that.

How do things look for the remaining part of this fiscal?
The gross tax revenue that the government had hoped to earn this fiscal is Rs. 24.61 trillion. It has barely earned around 48% of this in the first eight months of the fiscal. It is highly unlikely for the government to earn the remaining 52% between December 2019 and March 2020. This means there is a large hole in its budget for the current fiscal.

Can disinvestment solve this problem?

The disinvestment of public sector enterprises (PSEs) was supposed to bring in Rs. 1.05 trillion this fiscal. Until November, only Rs. 18,099 crore or 17% of the projected amount had been earned. Media reports seem to suggest major disinvestments that the government has planned won’t go through this year. That basically leaves the government with two ways of trimming the fiscal deficit: cutting down on expenditure or not showing it. Reducing expenditure when government spending is driving growth would be a bad idea.

What does it mean not to show expenditure?

Over the years, the government hasn’t paid the food subsidy dues of the Food Corporation of India (FCI) on time. It can try this trick this time as well. Given that the government works on cash accounting, when it decides not to pay for an expenditure it doesn’t show up in the books of the government. Of course, FCI has to borrow this money to keep functioning. Banks lend to FCI mainly because they believe they are lending to the government.

Note: to read more about the Food Corporation of India click on the following link

https://www.thehindubusinessline.com/economy/agri-business/with-stocks-piling-up-fci-is-in-deep-trouble/article29268321.ece