Dr Manohar Goel (December 2022). Public Expenditure and Fiscal Deficit in Indian Economy

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Public Expenditure and Fiscal Deficit in Indian Economy

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Public expenditure is a very important aspect of the budget as it plays an important role in determining the size of the revenue deficit and fiscal deficit and sheds light on the nature of the government's policies. On the basis of public expenditure it can be known that the reason for increase in fiscal deficit is revenue expenditure or capital expenditure. The severity of the fiscal deficit is greater when the increase in the deficit is the result of a revenue deficit. An increase in the fiscal deficit will necessarily be worse when the increase is due to an increase in the revenue deficit. And revenue expenditure is not like expenditure related to upgradation of social sector or improvement in quality of life like education, health. The difference between total government income and total government expenditure in a fiscal year is called the revenue deficit, while the sum of the revenue deficit of a fiscal year and the payment of interest and other liabilities on loans taken by the government is called the fiscal deficit. And in simple words, the difference between the total income and expenditure of the government is called fiscal deficit. This shows how much borrowing the government will need to operate. Borrowings are not included in calculating total revenue. Fiscal deficit is usually due to shortfall in revenue or excessive increase in capital expenditure.

Purpose and Method-

Through this article, the fiscal deficit in India is evaluated and its various causes, effects and possibilities are studied. Under which various data obtained from Ministry of Finance of Government of India and information obtained from Reserve Bank of India Bulletin, Economic Review are being used. Of course, secondary data is used in the present article. After the implementation of the Fiscal Responsibility and Budget Management Act 2003, there has been a decline in revenue and fiscal deficit of the Center and the States. The fiscal deficit of the Center increased from 5.9 percent of the GDP in 2002-03 to 3.4 percent in 2006-07. The Fiscal Responsibility and Budget Management Act, 2003 set a target of reducing the fiscal deficit to 3 percent by 2021.

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Table - 1, Status of different types of ghats in different years-

	2013&14	2014&15	2015&16
Revenue deficit	&3-1	&2-9	&2-8
Fiscal deficit	&4-4	&4-1	&3-9
Effective revenue deficit	&2-0	&1-0	&2-0
Primary deficit	&1-1	&0-8	&0-7

Source Economic Review- 2015-16

Table - 2, Expenditure of Central Government

Central Government Expenditure (in crores of Rupees)			
Itemwise expenditure	2013&14	2014&15	2015&16
Non-Plan Expenditure 1Payment of interest 2Defence Expenditure 3 Subsidies 4 Pension Plan Expenditure Total expenditure Revenue Expenditure Capital Expenditure	11149021 380066 124800 245431 74076 453327 1559447 1371772 187675	1213224 411354 222370 266692 81705 467934 1681158 1488780 192378	1312200 456245 246727 243811 88521 465277 1777477 1536047 241430

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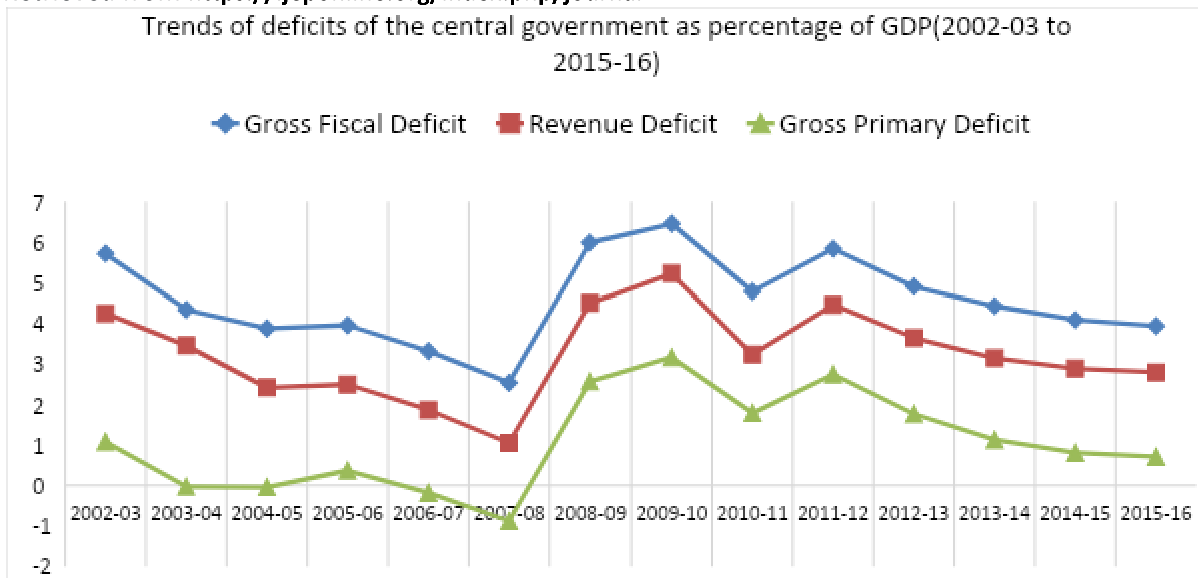

Source: Fiscal Indicators of the Central Government, (As % of GDP), Handbook of Statistics on Indian Economy 2014-15, Reserve Bank of India.

India's Fiscal Deficit Status at Global Level-

Despite adverse global conditions and lack of proper monsoon, the economy achieved a robust growth rate of 7.2 percent in 2014-15 and 7.6 percent in 2015-16, thus becoming the fastest growing economy in the world. . According to purchasing power parity, India's contribution to global growth increased from an average rate of 8.3 percent in the period 2001 to 2007 to 14.4 percent in 2014. Fiscal deficit in April-February 2016-17 was 113.4 percent of the budgetary estimate of full-year deficit as compared to last year. Between April 2017 and February 2018, the Centre's tax revenue and disinvestment revenue did not increase as much as total expenditure was projected. In such a situation, the fiscal deficit in FY 2018 may be 20 percent higher than the revised target despite non-tax revenue remaining low. Total expenditure during April-February was 90 per cent of the revised estimate, which was 87 per cent in the same period last year. Capital expenditure has reached 109 percent of the target, which was 77 percent of the target last year. In the revised estimate for the financial year 2017-18, the government has raised the disinvestment target to Rs 1 lakh crore, which was Rs 72,500 crore in the budget estimate. Over 5.29 lakh crore rupees were transferred as share of central taxes to the states during 11 months of the current financial year. This is Rs 66,039 crore more than in 2016-17. The total expenditure of the government in

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this period is more than 19.99 lakh crore rupees. This is 90.14 percent of the revised estimate for 2017-18.

Due to increase in fiscal deficit -

Fiscal deficit is usually due to shortfall in revenue or excessive increase in capital expenditure.

● Higher import of crude oil leads to increase in government expenditure, thereby increasing fiscal deficit.

● Excessive import of gold also increases the amount of fiscal deficit.

● Higher amount of government borrowing leads to higher interest payments, which increases expenditure.

● Subsidy given by the government on food, fertilizers, export items etc. also increases the expenditure of the government.

Effects of increase in fiscal deficit

● Country's credit rating is lowered by credit rating agencies due to fiscal deficit. Due to which the investor demands more interest from the government in exchange for buying government securities.

● Government securities are purchased by the Reserve Bank in case of unsaleability, which requires the Reserve Bank to print more notes, which increases inflation.

● The process of reducing the fiscal deficit by the Reserve Bank by printing more notes is called deficit monetization.

● Bad credit rating of the country also reduces the amount of foreign investment coming in.

● Having a large fiscal deficit puts the government in a debt trap, because the government has to borrow to meet the fiscal deficit, which increases the government's fiscal deficit by spending more money on interest payments.

● Non-availability of credit to the private sector due to government borrowing from banks may affect industrial development.

● A reasonable level of fiscal deficit is considered by some to be a positive economic phenomenon, as a fiscal deficit means that the government is spending more on welfare schemes, which will promote growth and increase demand.

● This will lead to growth of the economy as the increase in demand will lead to an increase in production, which will also increase employment opportunities.

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Measures to reduce fiscal deficit

There are two ways to reduce revenue deficit-

1. To increase revenue receipts.
2. To reduce revenue expenditure

Conclusion-

At the present time many economies in the world are shrouded in uncertainty, India has emerged with potential among some of the larger economies. But with these possibilities comes a great concern. Certainly there is a lack of fiscal discipline at the economic level in India. Many government departments and organizations are suffering from financial indiscipline, while in order to become an economic power, the environment of financial discipline in the country must be there. A major consequence of increased fiscal indiscipline is fiscal deficit. An increasing fiscal deficit affects the economy of any country, as it increases interest rates as well as the rate of inflation (inflation). That is why economists in the Indian economy insist on keeping the fiscal deficit at a minimum. According to him, instead of borrowing more, the government should start the process of reducing or selling government shares in public enterprises and attract local and foreign investors. Apart from these, the government should adopt a more disciplined spending habit keeping in mind the targets of inflation and high growth rate while keeping its expenditure under control while improving tax administration and capital market. Fiscal deficit is an indicator of the economic condition of the country. The increasing size of the fiscal deficit indicates the poor economic condition of the country. Fiscal deficit shows the difference between total income and total expenditure of the government. Every nation should make every possible effort to eliminate the fiscal deficit. The best solution for this is for the government to eliminate its revenue deficit. Fiscal deficit will automatically end when revenue deficit ends.

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- Be aware 2002: Rs 37,829.31 per year for the year 2002.

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