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Why and how we Need to Tackle Fiscal Deficit of India?

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ABSTRACT

The inflation is going up and adversely affecting budget to everyone and the every day, all concerned are worried about the fiscal deficit of India as existing now. Most of the people in our country feel this is the right time to control the fiscal deficit in case the country's actual development (not better growth rate) is expected and achieved so far despite of we have the many Economist sitting on the senior most chair includes Prime Minister and President too. Our government of India expected last year almost 9% growths, but in reality it has attained only 7.5%% growth till now. There was no improvement in condition of below poverty level people, employment generation, rural areas growth and it is fact that it has not inspire of improved growth rate whatsoever steps has taken previously remain un satisfactory for the growth . In real term, we don't care for better growth rate unless it improves the condition of BPL, APL or for the same categories to te majority of the people in our country. Huge investment, infrastructure development, support services initiative Government action plan, project – welfare activities – subsidies etc no actively support to achieve the target growth as decided by the GOI. Under the circumstances it has become imperative to control fiscal deficit surely. Many people of the country want to know and to have asked what Fiscal Deficit is. ? And why it creates problem for the economy of the country? How it can be tackle?

Keywords: Growth rate, GDP, Keynesian and Ricardian concept, Fiscal and budgetary deficit

Meaning of fiscal deficit

Fiscal deficit, budgetary deficit, current account deficit meaning of these generally used in economic terms, under these process, a budget deficit occurs when an entity (often a government) spends more money than it takes in. The opposite is a budget surplus.

The size of a governmental budget deficit is often an important political issue as well as one of economic policy. Fiscal conservatives denounce deficit spending and advocate balanced budgets. Keynesians argue that under some circumstances, deficit spending is justified. "Starve-the-beast" strategies usually lead to high budget deficits.

An accumulated deficit over several years (or centuries) is referred to as the government debt. Often, a certain part of spending is dedicated to paying off debt with certain maturity, which can be refinanced by issuing new government bonds. That is, a fiscal deficit leads to an increase in an entity's debt to others. A deficit is a flow. And a debt is a stock. Debt is essentially an accumulated flow of deficits. Thus, any deficit must, ultimately, be repaid, either through taxation, while the Ricardian state that the equivalence hypothesis states that this means a public deficit is exactly the same as a tax rise. Now the existence of a deficit has in some cases led to the existence of a capital market and been a great benefit to economic activity and accordingly.

A formula to calculate debt is as hereunder-

Debt = RBt-1 + (r-g) Gt – Tt.
(R= real interest rate)
.Bt-1= Debt of last year.
r = Interest Rate.
g= growth rate.
Gt= Government Spending.
Tt = Tax Revenue.

Thus, Fiscal deficit is an economic phenomenon, where the government's total expenditure surpasses the revenue generated. It is the difference between the government's total receipts (excluding borrowing) and total expenditure. Fiscal deficit gives the signal to the government about the total borrowing requirements from all sources during the specified period. The primary component of fiscal deficit includes revenue deficit and capital expenditure. The capital expenditure is the fund used by an establishment to produce physical assets like property, equipments or industrial buildings. A capital expenditure is made by the establishment to consistently maintain the operational activities to further growth of the economy.

In India, to maintain the capital revenue and capital expenditure, the fiscal deficit is generally financed by obtaining funds from Reserve Bank of India, regarded as deficit financing. To meet out the gap between said terms for the balance in a finance form called the deficit it's denoted in fiscal terminology so called as fiscal deficit. To further balance the required revenue according to the expenditure budget annually in an fiscal term to keep it the balance, the required fiscal deficit is also financed by obtaining funds from the money market (primarily from banks) than other sources too.

According to the view of renowned economist John Maynard Keynes, fiscal deficits facilitate nations to escape from economic recession. From another point of view, it is believed that government needs to avoid deficits to maintain a balanced budget policy.

According to Keynesian economic theories, running a fiscal deficit and increasing government debt can initially stimulate economic activity only when a country's output (GDP) is below its potential output. But when an economy is running near or at its potential level of output, fiscal deficits can cause high inflation. At that point fiscal deficit must be controlled.

In order to relate high fiscal deficit to inflation, some economists believe that the portion of fiscal deficit, which is financed by obtaining funds from the Reserve Bank of India, directs to rise in the money stock and a higher money stock eventually heads towards inflation in India actually this has happened now.

A rise in general price level is called inflation, India calculates inflation on two price indices: wholesale price index (WPI) at macro level and consumer price index (CPI) is used for micro level. Every economy calculates its inflation for efficient financial administration as the multi- dimensional effects of inflation makes it necessary.

To calibrating the fiscal deficit in current situation, expenditure reforms have to be a long term nature to overcome the structural rigidities must be realized and deep discussion. In an emerging economy with a lot of unmet minimum needs of the masses that require focus on equity issues and macroeconomic needs that required prudential limits on deficits and debts, calibrating fiscal policies should entail an optimization of outcome from public expenditure and for this the component of fiscal reforms and the fiscal responsibility and the budget management legislations is public expenditure management urgently need for the study. .

We recommend that the government should not delay disinvestment process. Luckily the central government has taken up dis investment in right earnest. As soon as this action is taken fiscal deficit would come down. The Fiscal deficit can be reduced by bringing up revenues or by lowering expenditure. The ensuing budget can be tough. The finance minister may withdraw some of the concession given last year in direct and indirect taxes, subsidies curtailment the non developmental expenditure, non revenue expenses, excessive borrowing, election expenses, extravagances, module introduce return on investment, rising crude oil prices trends to alter in long term, no excessive or cut throat selling or buying volatility trends in the market, value the investors.

Action to boost our economy prospects by promoting investment, capital formation, increased agriculture output and productivity through government investment, fiscal consolidation, education and skill development to harness demographic dividend, ensure flow of foreign investment in asset creation and focus on „inclusive growth through improved health facilities, education and financial inclusion are the another major issues to curve the inflation and fiscal deficit too.

The economic condition in India is really very critical. Besides fiscal deficit, the flight of Dollar based investments from India has caused the Indian Rupee to plummet. This will add increase the inflation being caused by fiscal deficit further. If the UN imposes oil embargo on Iran, the cost of crude will add additional burden to India's oil exports by at least another 10%.The situation can only be corrected if the government of India makes a serious effort to rein in on the circulation of black money by aggressively prosecuting the tax dodgers, stiff punishment for people accepting bribes and demonetization of 500 and 1000 rupee currencies. India is at a cross road where it requires a strong leader with vision to pull the country out of this rot. Unfortunately both Congress and BJP prove to be corrupt and are willing to sell Indian resources for personal gain. India needs active participation of educated youth after all tomorrow belongs to them and to understand the required needs for the nation.

Thanks to the Government is going into the fiscal consolidation mode next year, which also marks the beginning of the 12th Five-Year Plan (2012-17), fiscal consolidation will be on top of the government's list of items as it is likely to play a significant role in controlling inflation. The Union Budget for 2011-12 placed the fiscal deficit for the year at 4.6% of GDP, lower than the rolling target announced previously. But, so far managed to garner only Rs 1,145 crore via stake sale in the Power Finance Corporation (PFC) and the recent decision of 5% stake sale in ONGC if implemented in this fiscal, it could bring an additional Rs 12,000 crore to the government, which in other way is also less than the estimated target. So, the rising fiscal deficit is another serious threat to the Indian government and will continue to be the important aspect of the annual Budget. Sources (through the recently news paper report study)

Overall, the fiscal deficit in the first half of current fiscal reached 68% of the Budgeted Estimates (BE), which pegged the deficit at 4.6% of GDP. Given the expected moderation in growth of tax revenues, low prospects that government would meet its disinvestment target, and the additional expenditure proposed under the two Supplementary Demands for Grants, and the compensations to be provided to the OMCs for the under-recoveries, the fiscal deficit for the current fiscal is likely to reach 5.6% of GDP as expected.

Further, as per the key recommendations of the Thirteen Finance Commission (TFC), fiscal deficit should drop to 4.2% in 2012-13 and to 3% of the GDP in 2013-14. The target for FY'12 has already exceeded by almost 1.1%, and on the whole, it will be a challenging task for the finance ministry to bring down the deficit in-line with the TFC's suggestions in FY'13. Therefore, the budget needs to provide more meaningful measures for responsible fiscal management to make sure that the government is able to achieve and reduce its fiscal deficit target, improve macro-economic management as per the Fiscal Responsibility and Budget Management Act 2003. Further, with slowing economy and interest rates at its peak, fiscal consolidation is the only alternative available to the government to spur growth, but on the other hand, its success depends on how it is designed and implemented.

Fiscal deficit reduction has an impact over the agricultural sector and social sector. Government's investments in these sectors may have to be reduced be reduced, or alternatively new source of revenue generation must have to be sought through large disinvestments.

As state by the Ex Finance Minister that India will not be able to sustain high fiscal deficit in the long run, but he has not given any timeframe for withdrawing the stimulus measures that inflated the deficit. Prime Minister Manmohan Singh shared expressed his government's intent to wind down stimulus measures next year. But would it be wise to exit the stimulus now and then? A numbers of the economist and stated in many times and many places that high fiscal deficit was not sustainable in the long run not given the solid solution or it has not implemented so far to control the same- fiscal deficit versus inflation in economy.

Reserve Bank Deputy Governor HR Khan on Monday said fiscal deficit target of 4.6 per cent of GDP could be breached in 2011-12, raising implications for domestic inflation. Earlier, India's fiscal deficit was projected to be 6.8 per cent of GDP this fiscal, consequent to duty sops given last year to the industry to insulate it from the effects of the global economic crisis. This figure must be reduced now to 2%. During the ensuing budget surely FM would withdraw concessions granted in duties in a phase wise and in income tax. RBI is expected to take stringent measure by promoting dear money policy shortly to contained inflation, but inflation cannot be controlled alone by monetary policy unless backed by availability of commodities and reasonable cost.

In its pre-budget memorandum in every year by year, Confederation of Indian Industry (CII), FICCI, Assocham, PHD CCI etc stressed on the importance of reducing the fiscal deficit less than the 4 per cent (of GDP) over the next fiscal versus the current level of as it was seen in the previous year 6.8 per cent. Keeping in view of this, it advised the Ministry of Finance to aim at maintaining and further accelerating the recovery process, along with focusing on correcting the fiscal deficit which is at an undesirable level. Now the question is how to reduce Fiscal Deficit? The question is still pending since then?

Our recommendations include rationalization of expenditure, augmentation in revenue, disinvestment of public sector undertaking, enhancing the efficiency of funds spent on various flagship programs like NREGA among others. But on the revenue front, CII suggested a system through which Rs 50,000 crore from Rs 2 lakh crore, held up in various disputes and litigations for a long time, could be unlocked by resolving one quarter of the existing disputes. CII has also suggestive measures such as facilitating negotiations, out of court settlement, establishing fast trials and Court to achieve this.As per literatures, besides this, Rs 40,000 crore can be raised through disinvestment. And the revenues from both these measures, along with that from higher tax collection and through 3G telecom auction Fiscal deficit could be expected to be reduced easily .According to CII, this can materialize a saving of 0.8 percentage point in fiscal deficit. We largely agree with the recommendation of Business chambers- CII.

CII's recommendations on indirect taxes include continuation of 10pc rate of peak customs duty, abolition of customs duty on inputs such as non-coking coal, petroleum coke, scrap of non-ferrous metals, Ferro-nickel etc, and continuation of the general rate of excise duties at 8 per cent level. On direct taxes, CII has asked for reduction in MAT rate along with demanding extension of sunset clause under section 10 A and 10 B beyond Mar 31, 2011 for next 5 years as IT/ITEs sector are key contributors to foreign exchange earnings and many companies are in the process of setting up undertaking in these areas.

The finance minister who has spearheaded recent economic reforms has announced new targets to cut the budget deficit to 3 per cent of the economy by 2017 from a predicted 5.3 per cent in the current year. On Monday unveiled the 3 per cent goal – which is identical to the euro zone's targeted maximum deficit for national budgets – just after a cabinet reshuffle left him in charge at the finance ministry to push ahead with reforms.

As per his statement - We think that we have a do-able fiscal consolidation plan," he said, admitting that the intended deficit for the 2012-13 fiscal years would exceed the original target of 5.3 per cent of gross domestic product. The confidence of governed official is based on the budget meeting target estimation of disinvestment 30,000 crore and the xpecte drevenue from spectrum auction is likely to be around 40,000 crores. Besides this, high an dhuge saving on the Plan expenditure front, where a numbers of departments and other ministries have not been able to utilized allocation for social and infrastructure sector till date. A second auction the Airways will remaining unsold block is likely to be held before the end of this fiscal and will hope them to meet the budget target. A ministerial official said "We will do all that is required to be done to achieve the plan. . . There is no option."

The Indian Finance Minister, Honorable Mr. P. Chidambaram said all the main poverty-relief programmes would be "fully protected", but would not be drawn on whether the government planned further cuts to controversial diesel and cooking gas subsidies.

The finance minister rejected the suggestion that the Congress-led coalition would have to call a general election before the scheduled time in the first half of 2014 and would therefore struggle to impose fiscal discipline. The plan sees the budget deficit falling steadily to 4.8 per cent of GDP next year, 4.2 per cent in 2014-15, 3.6 per cent in 2015-16 and 3 per cent in 2016-17. Economists and government officials say the plan will be hard to implement, given that some predict this year's deficit is already heading towards 6 per cent of GDP or more – a figure described by him as "totally unacceptable" because of the grave consequences it would have for the Indian economy.

But Finance minster did not outline how India would achieve the targets, but reiterated plans to privatize industrial companies, improve tax collection and move to a more effective goods and services tax. Speaking a day ahead of the Reserve Bank of India's quarterly policy review, he said he hoped the central bank would take note of the fiscal plan. Business leaders are hoping for a cut in interest rates to stimulate faltering economic growth, but the RBI remains wary of high inflation. India's current account deficit, the finance minister said, was projected to fall slightly to $70.3bn or 3.7 per cent of GDP in the current year, and was expected to be "fully financed" by foreign direct investment, foreign portfolio investment and external commercial borrowings. And thus, the pre-budget memorandum also follow the mentions measures, such as the need for increase in depreciation rates on plant and machinery to 25 per cent and to extend the scope of investment--linked-tax-incentive, which was offered to select sectors during Union Budget session included the entire manufacturing sector.