Addressing fiscal deficit

What is the issue?

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India’s fiscal deficit is rising and rate cuts can revive the economy.

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What is the status of India’s fiscal deficit?

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- It is measured as a percentage of GDP, this statistic represents the total borrowing that the Government has to resort to meet its annual expenditure.
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- The 14th Finance Commission has stipulated a limit of 3 per cent separately for the Centre and States and 6 per cent for the economy as a whole.
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- India’s fiscal deficit has consolidated from 3.9 per cent in FY 15 to 3.5 per cent FY16 and FY17.
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- But in FY18 the Centre and States may end up seriously breaching the limit of 6 per cent under the Fiscal Responsibility and Budget Management (FRBM) Act.
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What are the impacts of fiscal deficits?

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- An out of control fiscal deficit might reduce the sovereign credit rating of the country.
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- This is bound to adversely affect the interests of both the Government as well as Indian business.
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- It will make difficult to raise funds abroad and attract investments to India.
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- It will crowd out private investment and possibly lead to the return of inflation in the economy.
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What are the reasons for growing fiscal deficit?

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- **UDAY-** Ujwal DISCOM Assurance Yojana, a financial and revival package for State-owned electricity distribution companies, to help them out of the financial mess which they were facing.
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- For implementing this scheme, State governments had to borrow money from the market.
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- **Farm loan waiver -** A farm loan waiver is targeted subsidy to farmers that transfers liabilities from private books to that of the State.
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- Recently states such as UP (Rs.36,000 crore), Maharashtra (Rs.30,000 crore), Karnataka (Rs.8,165 crore) and Punjab (Rs.10,000 crore) announced their farm loan waivers.
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- If more States are pressurised to implement similar schemes the total cost to the exchequer, estimates the Economic Survey (FY 17), would be about Rs.2.7 lakh crore (about 1.8 per cent of the current GDP).
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What can be done?

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- Instead of subsides same expenditure on building irrigation facilities, roads, warehouses and other infrastructure would help farmers earn higher incomes on a much more durable basis.
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- Reduction in GST rates would be easier to implement, this measure would put more money into the hands of the people.
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- Private firms would bring into use their excess capacities, and ultimately

incur the much needed capital for increasing production and generating employment.

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Source: Business Line

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