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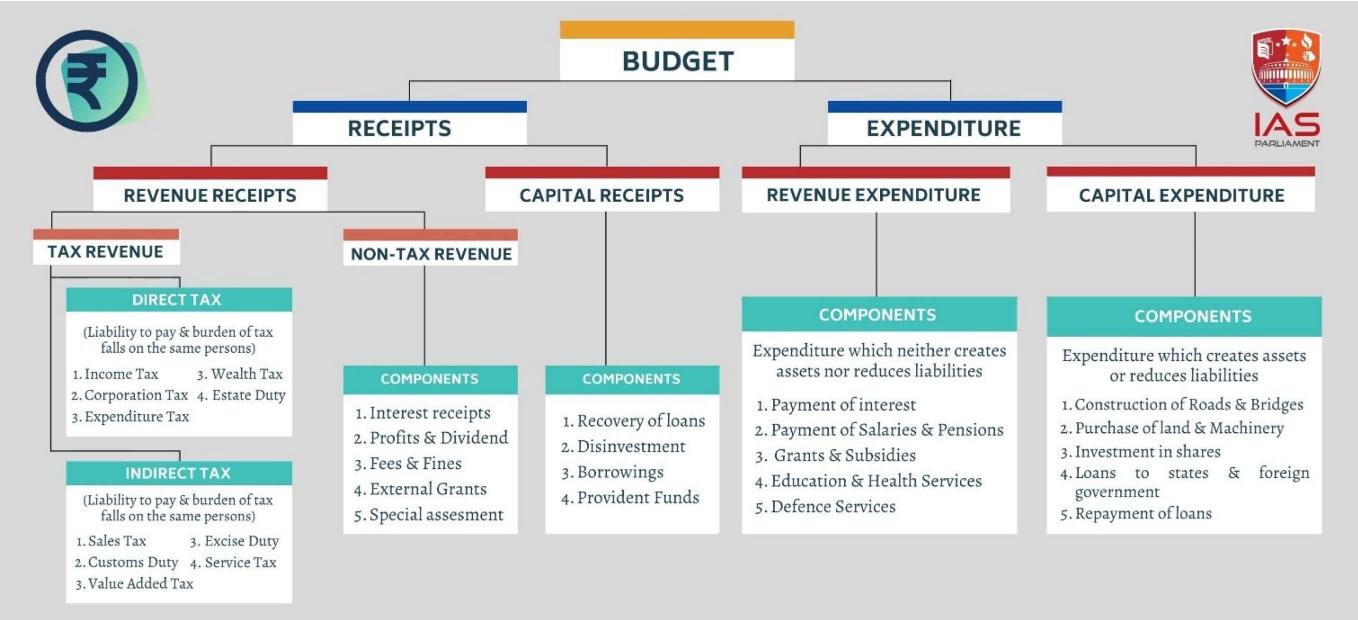
Zero Revenue Deficit

Why in news?

In the post pandemic fiscal strategy, the "golden rule" of targeting zero revenue deficit is gaining attention as a powerful mantra of fiscal discipline.

Related Terms	
Fiscal deficit	• It is defined as excess of total budget expenditure over total budget receipts excluding borrowings during a fiscal year. - *Fiscal deficit = Total expenditure – Total receipts excluding borrowings*
Primary Deficit	• It is defined as fiscal deficit of current year minus interest payments on previous borrowings. - *Primary deficit = Fiscal deficit-Interest payments*
Revenue deficit	• It is excess of total revenue expenditure of the government over its total revenue receipts. - *Revenue deficit = Total revenue expenditure – Total revenue receipts*
Zero revenue deficit	• It is a fiscal strategy that aims to *balance revenue receipts and revenue expenditure.* • There is no requirement for borrowing to clear interest payment pending. • It urges governments to *judiciously utilize borrowings* primarily for capital investments.



Why there is a need to target Zero Revenue Deficit?

- **Focus on fiscal space-** The primary deficit excludes past interest payment obligations, allowing to focus on the discretionary fiscal space accessible for shaping expenditure patterns.
- **Judicious fiscal management** - Focussing on primary deficit could stimulate government to exercise heightened caution regarding the available fiscal space before making expenditure decisions.
- It is helpful particularly during the period of economic uncertainty.
- **Capital formation**- Removal of Plan and non-Plan distinction alongside the revenue and capital demarcation constitutes a noteworthy evolution in India's budgetary landscape.
- This paradigm shift acknowledges that certain revenue expenditures contribute to capital formation.
- **Effective revenue deficit-** It is the difference between revenue deficit and grants for creation of capital assets.
- The concept of effective revenue deficit has been suggested by the *Rangarajan Committee on Public Expenditure*.
- It is aimed to deduct the money used out of borrowing to finance capital expenditure thus creating space for increased capital spending.
- **Growth without lag-** A mindless transition to capex, ignoring revenue expenditure, can be detrimental.
- **Budget credibility-** Efficiency of public expenditure in social infrastructure will help the lower income quintiles access public education and public health in India.

Fiscal marksmanship is known as the discrepancies between budgeted figures (Budget Estimates) and actual expenditure.

- **Ideal concept of deficit**- Public Sector Borrowing Requirement (PSBR) emerges as a comprehensive measure of the authentic macroeconomic gap.

- It accounts for the resource gap of the general government encompassing all tiers and public sector deficits.

In the 2018 amendment to the Fiscal Responsibility and Budget Management (FRBM) Rules 2004, the "golden rule" of zero revenue deficit was eliminated.

What are the challenges in achieving zero revenue deficit?

- **Lack of feasibility-** It affects human capital formation and the economic growth process.
- **Revenue expenditure compression**- When revenues are increasingly uncertain, the fiscal consolidation path towards zero revenue deficit might occur through this method.
- **Humanitarian crisis-** If it is attained through compression in revenue spending in social sector, it can trigger a humanitarian crisis amidst widening inequalities.
- **Volatile**- State's fiscal space is affected when revenue reduction compression is followed in inter-governmental fiscal transfers from the Centre.
- **Issues with contingent liabilities-** A contingent liability is defined as a liability which may arise depending on the outcome of a specific event.
- The recent announcement that the contingent liabilities will be considered within the net borrowing ceiling limit affects the State's fiscal space.
- **Affects cooperative federalism-** Fiscal rules have been tied to energy transition in which both will move together against COP27 commitments.
- It will affect the states extra borrowing powers of 0.5% within the 3.5% fiscal deficit to GDP ratio.
- **High ratio of interest payments**- A heightened ratio of interest payments in comparison to revenue receipts poses a threat to long-term fiscal sustainability.
- **16th finance commission**- It prompts inquiry whether the commission will consider articulating thresholds for fiscal risk ratios instead of adhering to a blanket fiscal rule advocating zero revenue deficit.

What lies ahead?

- In the ever-evolving landscape shaped by the aftermath of the pandemic, the imperative for a judicious fiscal path resonates with heightened significance.
- Rethinking of fiscal rules, especially going for zero revenue deficit should be placed within the complex frameworks of Indian public finance

References

1. Business Line- Why pursue zero revenue deficit goal
2. Investopedia- About revenue deficit