

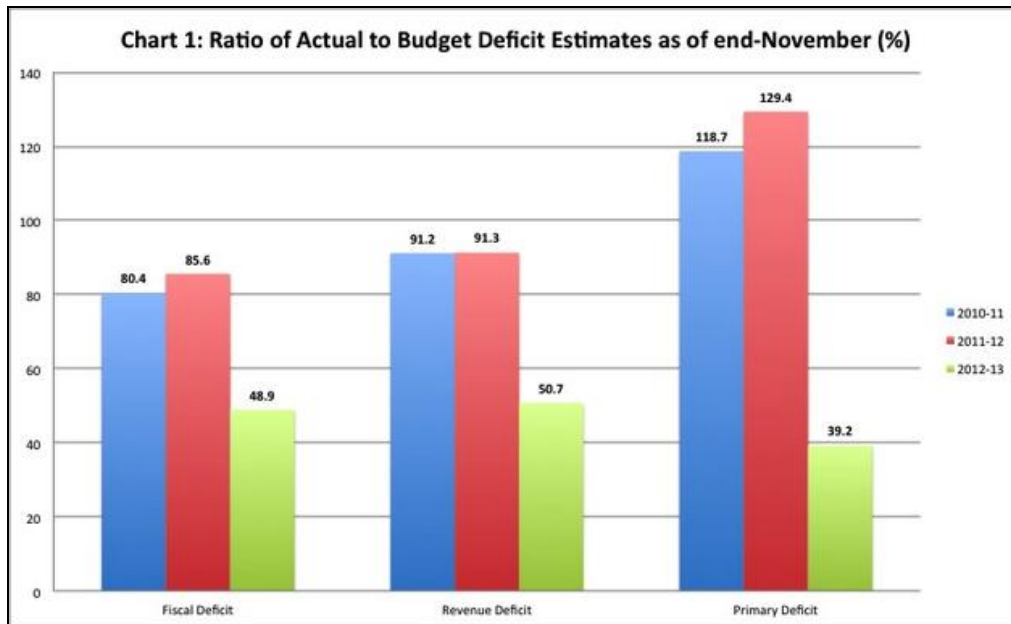
Polishing the Nation's Silver

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If rhetoric is evidence, the UPA government is committed to reining in the fiscal deficit on the central budget at all costs. The issue being considered here is not whether focusing on deficit reduction is a good idea at a time when growth is slowing and many areas of capital and social sector spending remain underfunded. The idea is wrong because when the emphasis is not about mobilising extra resources to finance expenditures, deficit reduction efforts zero in on spending. The resulting austerity is hardly defensible in the current conjuncture.

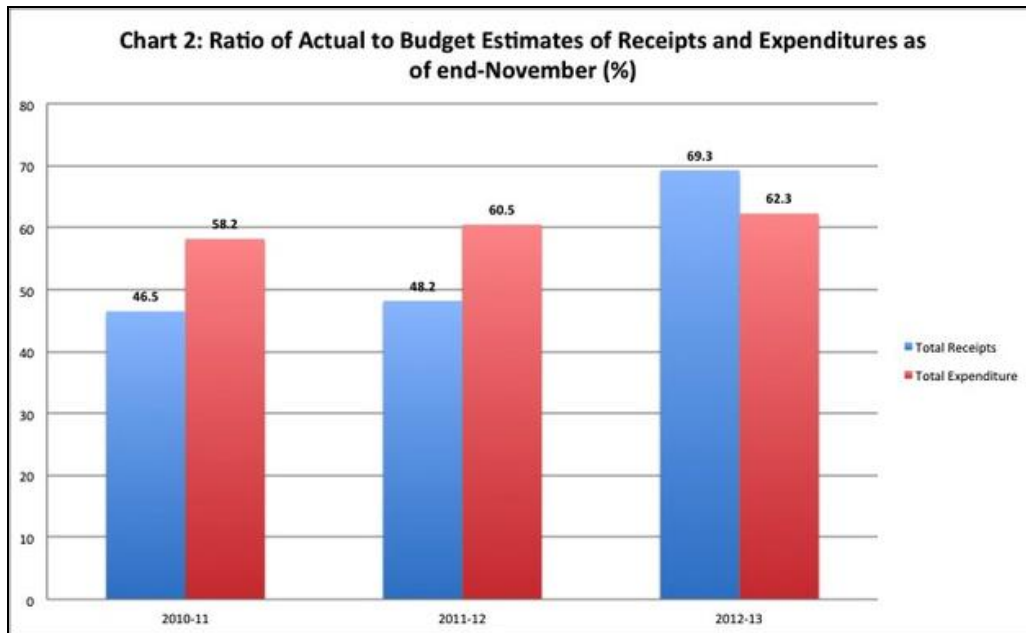
But the concern here is different. It is on whether the government is indeed serious about its deficit reduction agenda, and if so how is that to come about. The government has admitted that it is slipping relative to its deficit reduction targets-but only marginally. The recently revised fiscal deficit target places it at 5.3 per cent of GDP in 2012-13, as compared with the budget estimate of 5.1 per cent. In addition, the target for the final year of the XIIth Plan (2016-17) has been set at an ambitious 3 per cent. This too, however, is a retreat on the government's previous claims. The government had in the past set the 3 per cent target for 2007-08, and then extended that deadline by a year because of the global financial crisis. We are a long way from there in time and nowhere near the government's ambition.

In fact, the evidence seems to be the government, which has been proclaiming the need for sharp deficit reduction since the early 1990s, is not really committed to that goal as using the slogan to achieve other ends. Consider the evidence on fiscal developments at the Centre for the period April to November 2012 released by the Controller General of Accounts. That shows (Chart 1), that the fiscal deficit over these eight months of fiscal 2012-13 is already at 80.4 per cent of the budget estimate. In two-thirds of the year, four-fifths of the absolute fiscal deficit target has already been consumed. Add to this the fact that GDP growth over the year is now likely to be much less than predicted at the time of the budget, and the fiscal deficit is as of now on a trajectory that would take it much beyond the revised 5.3 per cent target. What is more, the fact that the revenue deficit in the first 8 months of the fiscal had amounted to 91.2 per cent of the budget estimate and the primary deficit (or the excess of expenditures excluding interest payments over revenues) was at 118.7 per cent suggests that it was the excess of non-interest expenditures over revenues that explains the runaway increase in the deficit.

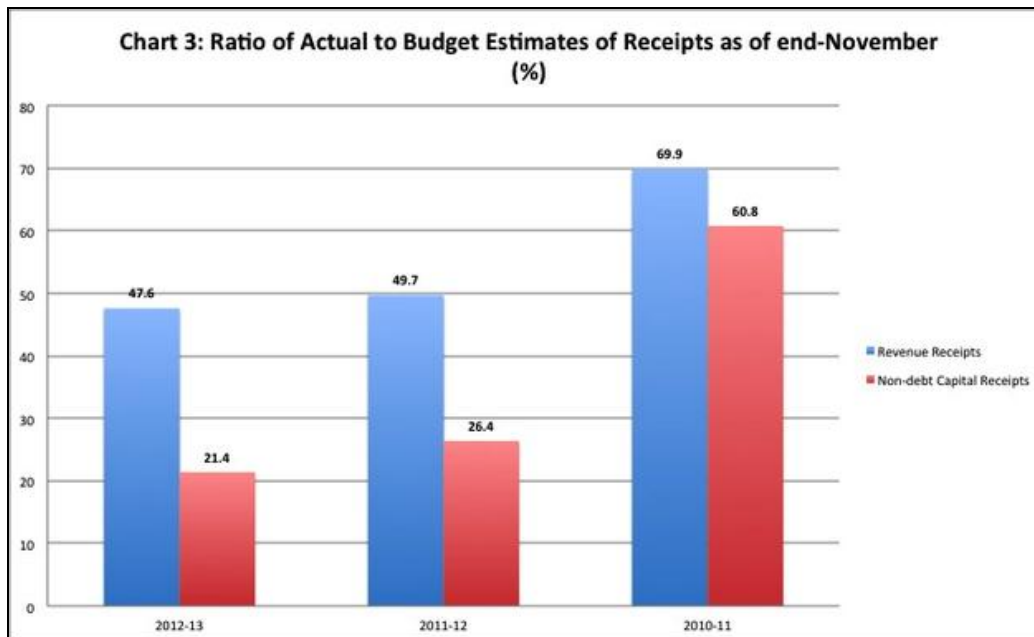


The government can take temporary comfort from the fact that the high ratio of the actual deficit during the first 8 months to the target for this fiscal year as a whole is not atypical. As Chart 1 shows this was true of the previous year 2011-12 as well. But go back one more year to 2010-11 and the situation is completely different, with the ratio of the actual first-eight-months deficit to the projected deficit for the fiscal year amounting to just 48.9 per cent in the case of the fiscal deficit, 50.7 per cent in the case of the revenue deficit and 39.2 per cent in the case of the primary deficit. Hence, matters could have been different this year as they have been in the past. Not surprisingly, the fiscal deficit in 2010-11 was at a lower 4.6 per cent of GDP, as compared with 5.9 per cent in 2011-12 and a projected 5.3 per cent in 2012-13, which is likely to be exceeded.

What explains this tendency for the deficit to overshoot the target over this and the previous year. As Chart 2 indicates, the problem lies not in expenditures, which in the first eight months of 2012-13 were only 58.2 per cent of their targeted levels, and in 2011-12 at 60.5 per cent. In fact, in the ostensibly better performing year 2010-11, expenditure during the April to November months was at 62.3 per cent of the projection for the fiscal as whole. That is, expenditure during the first two-thirds of the year was less than two-thirds of the whole. Thus, the problem seems to lie on the receipts side, with total receipts during the first 8 months placed at 46.5 per cent and 48.2 per cent of the total in 2012-13 and 2011-12. As compared with this the figure in 2010-11 was 69.3 per cent.



To summarise, the government’s ‘fiscal failure’ stems from its inability to realise an adequate share of the receipts it claims in the budget it will garner (Chart 3). Receipts (excluding borrowing) are of two types: revenues receipts (in the form of tax and non-tax revenues) and non-debt capital receipts. It is true that in both 2012-13 and 2011-12 the revenue receipts were only 47.6 and 49.7 per cent respectively over the first 8 months or two-thirds of the fiscal year. That figure was at 69.9 per cent in 2010-11. So a revenue shortfall was one reason why the deficit tended to overshoot target. That could be both because the projections in the budget were too optimistic and because of poor collection, especially the former.



However, the shortfall is even greater in the case of non-debt capital receipts, which would include receipts from activities such as sale of spectrum, disinvestment or

privatisation. Non-debt capital receipts during the first eight months of 2012-13 and 2011-12 were at a low of 21.4 and 26.4 per cent respectively of the projected receipts for the fiscal as a whole. In 2010-11 as much as 60.8 per cent of such projected receipts had already been garnered by November.

In sum, what the government considers its failure on the fiscal front in terms of “slippages” relative to target are not because of unexpected expenditures such as increased subsidies or compensation for “under-recoveries” by the oil companies, but because the government’s strategy of avoiding the taxation route to garner additional revenues and relying more on non-debt capital receipts to reduce its deficit or borrowing requirement is not working. But there are no signs of change here. Taxation is seen as disincentivising private investment, as the GAAR episode amply illustrates.

To illustrate, this year the government is still far short of its hugely enhanced target of mobilising Rs. 30,000 crore from Miscellaneous Capital Receipts through disinvestment or privatisation. Nor has its initial effort to use the opportunity provided by the cancellation by the Supreme Court of 2G spectrum allocated at ridiculously low prices, to garner additional revenues by reselling them at much higher prices, been successful. So, if the government is indeed serious about its deficit reduction target, it would attempt a fire sale of state assets over the coming two months. Already much of the nation’s silver is being polished for sale. The government may even heed the reported recommendation of the Kelkar Committee on fiscal consolidation to combine stake sales in public sector enterprises with efforts to ‘unlock the value of surplus land with them’. But even this may not be adequate to achieve deficit reduction targets. However, the deficit reduction agenda would have served to further the UPA’s larger privatisation goals.

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