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DEFICIT

Reining in fiscal deficit without raising taxes

With about three weeks to go before the Union Budget 2018-19, there are hopes and apprehensions about what is in store for the economy and industry.

The Budget will be presented at a time when economic growth has moderated. As per the Advance Estimates, GDP growth is estimated to slow to 6.5% in 2017-18 from 7.1% in the previous year. The secular decline in gross fixed capital formation from a high of 34% of GDP in 2011-12 to 26% in 2017-18 is another matter of concern. Hence, driving up the economy by stimulating investment and growth assumes special significance.

However, maintaining fiscal prudence is also important. With global rating agencies attaching high premium to the fiscal numbers, a conservative fiscal deficit metric helps attract foreign investment.

Besides, with rising global oil and commodity prices fuelling inflationary expectations, a healthy fiscal balance becomes necessary. But, in the first eight months of FY18, the fiscal deficit has touched 112% of the full-year target, raising concerns about whether the government can meet the goal of 3.2% of GDP this fiscal.

The Budget has to perform a balancing act between maintaining fiscal prudence and providing a growth stimulus. This would imply addressing the issue of fiscal deficit without raising taxes. What are the available options?

With tax revenues yet to stabilise following the implementation of GST, it is important to consider other options to augment revenue. The success of the disinvestment programme this year is an example. The latest figures show that the government has garnered ₹52,378 croreas against the target of ₹72,500 crore for the year. It is crucial that the government takes steps to meet the target through strategic sale of PSUs. It could also contemplate privatising dormant or idle assets of major PSUs. This would not only result in efficient use of resources but also generate revenue for the government.

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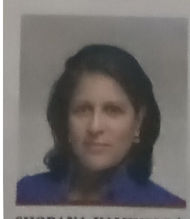
Further, the government should undertake a census of land and other assets locked up in central and state PSUs that have turned economically unviable and cannot be revived. The same should be monetised or used for affordable housing and other infrastructure projects in urban areas.

Rationalising expenditure

It is also important to rationalise expenditure, for which the government should continue with the Aadhaar-enabled direct benefit transfer for food and fertilizers. For fertilizers, it should push for direct benefit transfer for all fertilizers so that the subsidy is delivered directly to farmers. India could also consider setting up an independent fiscal council for strengthening the fiscal responsibility framework, as suggested by the IMF.

Given the macro-economic compulsions, some slippage of the fiscal target is understandable. A flexible fiscal policy would help address dynamic business situations that may need greater public expenditure to spur demand and growth. But, the government must ensure that the overrun is kept to a minimum and fiscal prudence is not compromised.



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