A silent fiscal crisis?

DR RATHIN ROY

DIRECTOR and CEO

NATIONAL INSTITUTE OF PUBLIC FINANCE AND POLICY

Business as usual?

- This year’s budget speech was the first I have seen that, in my memory, has no paragraphs on the fiscal situation which, along with the tax proposals, is at the core of any budget.
- The macro-fiscal numbers presented with the budget documents suggest “business as usual”. (**Table**)

	2014-15	2018-19 BE	2018-19 RE	2019-20 BE
Total Expenditure (% GDP)	13.34	13.00	13.04	13.20
Fiscal Deficit (% GDP)	4.1	3.3	3.4	3.3
Revenue Receipts/GDP	8.83	9.18	9.18	9.30
Tax-GDP Ratio	7.25	7.88	7.88	7.81

Business as usual?

- Total expenditure as percent of GDP continues to shrink from 13.34 percent in 2014-15 to 13.2 percent in 2019-20.
- Revenue receipts increase by only 0.35 percent of GDP in the same period.
- Collectively, this has allowed government to secure a fiscal deficit-GDP ratio of 3.4 percent in the 2018-19 (RE) compared with 4.1 percent in 2014-15.
- Thus fiscal consolidation has been secured by consistently reducing the size of the central government and modestly increasing the revenue-GDP ratio.

Business as usual?

- This was looking good until I read Table 1, chapter 2, of the Economic Survey (ES).
- The provisional accounts for 2018-19, has presented data that is very different from those in the revised estimates (2018-19 PA in Table).

	2014-15	2018-19 BE	2018-19 RE	2018-19 PA*	2019-20 BE
Total Expenditure (% GDP)	13.34	13.00	13.04	12.20	13.20
Fiscal Deficit (% GDP)	4.1	3.3	3.4	3.4	3.3
Revenue Receipts/GDP	8.83	9.18	9.18	8.20	9.30
Tax-GDP Ratio	7.25	7.88	7.88	6.90	7.81

* CGA data

The silent fiscal crisis

- The revenue-GDP ratio is 8.2 percent, a full percentage point **lower** than reported in the revised estimates! (Rs. 1, 70, 000 crores)
- But the ES pegs the fiscal deficit at 3.4 percent, the same as in the revised estimates.
- How is this done given the stunning shortfall in the tax-GDP ratio?
- The total expenditure-GDP ratio reported in the ES is 0.85 percent of GDP **lower** than the 2018-19 (RE).
- The remaining 0.15 percent is secured by assuming a slightly higher GDP growth rate than that used in the 2018-19 (RE).

The silent fiscal crisis

- This is most certainly not business as usual.
- The central government would have shrunk by 1.1 percent of GDP since 2014-15.
- The ability of government to shrink the expenditures by 0.85 percent of GDP in 2019-20 (as opposed to increase it by 0.15 percent relative to RE 2018-19) would severely strain attempts to maintain fiscal discipline.
- Our revenue performance is dismal compared to previous years.
- For the 2019-20 (BE) to be credible, revenue receipts would need to rise by a whopping 1.1 percent of GDP, where the budget allows for just a 0.12 percent increase.

The silent fiscal crisis

- The budget numbers severely underestimate the magnitude of the unstated fiscal crisis that we went through in 2018-19,
- Which cannot be conceivably be fully reversed in 2019-20.
- At the heart of the crisis is a shortfall in tax revenues which, as the ES makes clear, is mainly due to a shortfall in GST revenues (but also personal income tax revenues), compared to the numbers presented in the RE.

The GST dilemma

- On the revenue side, the share of GST will decline from the projected 23 percent in budget 2018-19 to 19 percent in budget 2019-20.
- This reflects reality: the GST is not revenue neutral, and the political bargain to get the states on board with GST involved a generous compensation for their shortfalls.
- This means that the centre has had to bear the entire brunt of the deficit in GST collections.
- This has been a costly price in loss of fiscal space that the centre has had to pay to implement GST.
- The Finance Minister’s speech proposes important simplifying reforms.

Less fiscal space for states

- Central sector schemes share increases from 10 to 13 percent of total expenditure in FY 2019-20.
- This will be achieved by reducing the share of subsidies, finance commission transfers and the states' share of central taxes.
- The first is laudable, the second not alarming- such transfers taper off in the final year of the Finance Commission award.
- The third continues an undesirable policy of raising revenues through non-shareable cesses, a predictable, if misplaced, response to the grave fiscal constraint the central government is facing.

On-budget Off-budget

NAME OF THE SCHEME	2018-19 ACTUALS	2019-20 (BE)
PRADHAN MANTRI SWASTHYA SURAKSHA YOJANA	---	5000.00 (0.02)
PRADHAN MANTRI AWAS YOJANA (PMAY) - URBAN	20000.00 (0.11)	20000.00 (0.09)
REVITALISING INFRASTRUCTURE AND SYSTEMS IN HIGHER EDUCATION (RISE)	---	5000.00 (0.02)
PRADHAN MANTRI KRISHI SINCHAI YOJANA (AIBP & OTHER PROJECTS)	5493.40 (0.03)	4882.00 (0.02)
SWACHH BHARAT MISSION (RURAL)	8698.20 (0.05)	5000.00 (0.02)
JAL JEEVAN MISSION	---	6300.00 (0.03)

On-budget Off-budget

NAME OF THE SCHEME	2018-19 ACTUALS	2019-20 (BE)
KISAN URJA SANRAKSHAN EVAM UTTHAN MAHABHIYAN (KUSUM)(SOLAR POWER)	---	822.00 (0.004)
DEEN DAYAL UPADHYAYA GRAM JYOTI YOJANA/ SAUBHAGYA	13827.00 (0.07)	9000.00 (0.04)
POWER SYSTEM DEVELOPMENT FUND PROJECTS	5504.70 (0.11)	
PRADHAN MANTRI AWAS YOJANA (PMAY) - RURAL	10668.80 (0.06)	---
INLAND WATERWAYS AUTHORITY OF INDIA (IWAI) PROJECTS	---	1000.00 (0.005)
GRAND TOTAL	**64192.10 (0.34)**	**57004.00 (0.27)**

On-budget Off-budget

Page 7 of Medium Term Fiscal Policy cum Fiscal Policy Strategy Statement

6. A mechanism for budgeting for EBRs (fully serviced bonds) has been operationalized. EBRs are those financial liabilities that are raised by public sector undertakings for which repayment of entire principal and interest is done from the Union Government Budget. EBRs have been budgeted at 0.7 per cent of GDP in 2019-20. The target is to reduce the accretions to the EBR stock to zero in five years' time. **Central Government Debt for RE 2018-19 does not include EBRs**. In March, 2019, outstanding liabilities on account of EBRs stood at `88,454.10 crore which is **0.5 per cent of GDP**.

88,454.10 = 9167.00 + 15095.00 + 64192.10

On-budget Off-budget

Page 48 of the Receipts Budget, in addition to "1 (i) STATEMENT OF LIABILITIES OF THE CENTRAL GOVERNMENT", the NOTE says:

In addition to above, Govt. liabilities on account of Extra Budgetary Resources (Govt. fully serviced Bonds), at the end of FY 2018-19 were `88,454.10 crore, which was about 0.47 percent of GDP. In FY 2019-20, additional liabilities on this account are estimated to `57,004 crore, which is about 0.27 percent of GDP.

A silent fiscal crisis

- Shrinking central government without intent
- Shortfall in tax revenues - wishful thinking about revenue neutral GST
- Overoptimistic income tax expectations
- Hidden expenditure cuts
- Squeezing fiscal space of states
- On-budget off-budget manoeuvres…
- And Paragraph 103 **(ask me in discussion)**

= A silent fiscal crisis