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EFFECTS OF ECONOMIC REFORM ON FISCAL STABILITY IN INDIA

M. Chandran * Dr. M. Maria John Kennedy **

Introduction

Government deficits are the root cause of all major problems as far as Indian economy is concerned. In financial management of India since independence to the present, many efforts have been made and found successful in overcoming deficits through government policy parameters. One of them is the Financial Responsibility and Budget Management FRBM Act. Measures are being taken to reduce the fiscal deficit to less than 3% through Financial Responsibility and Budget Management Act 2004. Yet there are economic difficulties in implementing it during the present circumstances in India. The shortage of monetary policy classifiers in India will affect economic growth and this research paper tries to explain the contradiction by arguing that high deficits will have the greatest impact on economic growth but as high spending will create demand in the country according to Keynes's theory and contribute to the country's growth. This paper tries to prove the same as exactly what is happening.

The study of central government finance assumes its importance from various grounds.

1) It enables to forecast the ability of the central government that raises expenditure.

2) It helps to assess the varied expenses of the central government.

3) It lime lights the economic strength and weakness of the central government in its fiscal front.

In financial management from yester years 1990's to the present, efforts were made in solving the problems of deficit and had been succeeded most of the times. The financial responsibility and budget management act, which took measures to reduce fiscal deficit less than 3%, is under control within 4%.It will certainly boost the economic growth of nation. At the same time fiscal deficit is like obesity and the weight of the human body is on the scale requires no urgency in dealing this. Martin Feldstein 2004 pointed out that high level of fiscal deficit relative to GDP tend not only because sharp increase in the debt-GDP ratio, but also affects savings, growth and as a result economic growth.

* Research Scholar, Department of Economics, Arul Anandar College, Karumathur, Madurai, Tamil Nadu - 625 514

** Research Supervisor, Associate professor (Rtd), Department of Economics, Arul Anandar College, Karumathur - 625 514

Fiscal deficit should be reduced in each successive year until revenue deficit, and government disserving is eliminated. In this phase, fiscal deficit could be stabilised at 6 percent of GDP. The debt-GDP ratio would eventually stabilise at 56 percent. In this process,the ratio of interest payments to revenue receipts will fall, enabling aprogressively larger amount of primary revenue expenditure to beincurred on the social sectors.

Fiscal variables:

1. Revenue deficit (RD): Combined revenue deficit of Centre and state governments. Revenue deficit is the difference between revenue receipts and revenue expenditure.

2. Effective fiscal deficit (EFD): It is the new term coined for this paper. It is the amount that remained after netting out revenue deficit part from the fiscal deficit. This is the amount actually used for capital investment by the government.

3. Primary deficit (PD) : It refers to difference between fiscal deficit of the current year and interest payments on the previous borrowings. Primary Deficit = Fiscal Deficit - Interest Payments

Positive aspects of deficits:

a) Makes government to spend on public services.

b) Focus on infrastructure yielding long term return.

c) Other areas that can stimulate economic growth.

d) Encourages government the use of undeveloped, unemployment and jobless resources which raises earning.

Negative aspects of deficits:

Repayment of debt crisis: High fiscal deficit which may lead to inflation and devaluation of currency may enforce the generation in debt burden by putting a huge pressure on their normal lively hood.

Critical inflationary pressure: Deflation during critical pressurized situation forced the government for huge money supply may devaluate the currency norms and standards and create a huge economic blow.

Balance of payments: Compensation through foreign sources may force the inner yielding process due to the availability of the exchange reserves may be the same with in the country. These may force the country who is ready to pay. This may again merged in this debt crisis is an unable to balance their country.

The structure of this paper is as follows , a brief review of available literature data and methodological part is elaborated the result obtained will be discussed and last concludes with some policy suggestion. Hence, this paper tries to analyse the trend and growth rate of fiscal deficit in India over the last 10 years starting from 2013 - 2014 to 2022 - 2023.

Objectives of the Study

- ¢ To analyse the trend and growth of fiscal deficit in India from 2013-14 to 2022-23.
- ¢ To offer suggestions in reducing deficit ratio in the Indian financial structure.

Methodology

The fiscal performance of a central government refers to the collective result of overall financial prudence, the economy of expenditure consistent with efficiency and resource mobilization effort including tax resources of the Central Government. Thus, the analysis of the fiscal performance of the Central Government is the analysis of its resource mobilization through its Fiscal deficit. The present study confines itself to analyze certain limited aspects of deficits. This study has been carried out with the help of secondary data only. The relevant data needed for the analysis have been compiled from the various issues of the Reserve Bank of India Bulletin, the RBI Annual Reports, India Development Report, and Economic Survey and some previous research studies.

Table No. 1 : Trend Analysis for Fiscal Deficit of the Central Government during the Period (2013 - 14 to 2022 - 23)

(Rs in Crore)

Year	Fiscal deficit	Index Number	AGR
2013-14	502858	100.00	-
2014-15	510725	101.56	1.54
2015-16	532791	104.32	4.14
2016-17	535618	100.53	0.53
2017-18	591062	110.35	9.38
2018-19	649418	109.87	8.99
2019-20	933651	143.77	30.44
2020 -21	1818291	194.75	48.65
2021-22	1584521	87.14	-14.75
2022-23	1755319	110.78	9.73

During the period from 2013-14 to 2022 -2023, the share of the quantum of fiscal deficit was Rs.502858 crore 2013-14 and the index number has been 100. In 2022-23, the share of fiscal deficit has increased to Rs.1755319crore with an annual growth rate of 1.54 percent. This growth rate has reached up to 9.73 percent in the year 2022-23. But in the subsequent periods, the annual growth rate of fiscal deficit increased (9.73) and the quantum of fiscal deficit has increased. The highest annual growth rate of fiscal deficit has registered was with 48.65percent in 2020-21 and the lowest annual growth rate has registered was with -14.75percent in the year 2021 -22.

Table No . 2 : Trend Analysis for Primary Deficit of the Central Government during the Period (2013 - 14 to 2022 - 23)

(Rs in Crore)

Year	Primary deficit	Index Number	AGR
2013-14	128604	100.00	-
2014-15	108281	84.20	-18.77
2015-16	91132	84.16	-18.82
2016-17	54904	60.25	-65.98
2017-18	62110	113.12	11.60
2018-19	66770	107.50	6.98
2019-20	321581	481.62	79.24
2020 -21	1138422	354.01	71.75
2021-22	779022	68.43	-46.13
2022-23	814668	104.58	4.38

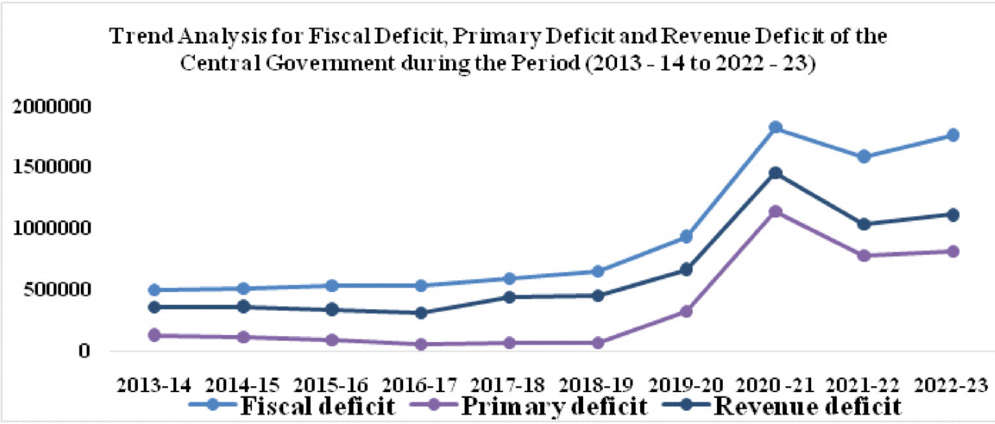
During the period from 2013-14 to 2022 - 2023, the share of the quantum of primary deficit was Rs.128604 crore in 2013-14 and the index number has been 100. In 2022-23, the share of fiscal deficit has increased to Rs.814668crore with an annual growth rate of -18.77 percent. This growth rate has reached up to 4.38 percent in the year 2022-23. But in the subsequent periods, the annual growth rate of primary deficit increased (4.38) and the quantum of primary deficit has also increased. The highest annual growth rate of primary deficit has registered was with 79.24percent in 2019-20 and the lowest annual growth rate has registered was with -65.98 percent in the year 2016 -17.

Table No. 3 : Trend Analysis for Revenue Deficit of the Central Government during the Period (2013 - 14 to 2022 - 23)

(Rs in Crore)

Year	Revenue deficit	Index Number	AGR
2013-14	357048	100.00	-
2014-15	365519	102.37	2.32
2015-16	342736	93.77	-6.65
2016-17	316381	92.31	-8.33
2017-18	443600	140.21	28.68
2018-19	454483	102.45	2.39
2019-20	666545	146.66	31.82
2020 -21	1449599	217.48	54.02
2021-22	1031021	71.12	-40.60
2022-23	1110546	107.71	7.16

During the period from 2013-14 to 2022 - 2023, the share of the quantum of revenue deficit was Rs.357048crore 2013-14 and the index number has been 100. In 2022-23, the share of revenue deficit has increased to Rs.1110546crore with an annual growth rate of 2.32 percent. This growth rate has reached up to 7.16 percent in the year 2022-23. But in the subsequent periods, the annual growth rate of revenue deficit increased (7.16) and the quantum of revenue deficit has increased. The highest annual growth rate of revenue deficit has registered was with 54.02 percent in 2020-21 and the lowest annual growth rate has registered was with -40.60percent in the year 2021 -22.



Suggestions

F Efforts can be made to eliminate the surplus money due to investment in new resources. Hence the invested amount may not return immediately after its withdrawal for utilizations.

F Needs and expectations of the economy can be limited as per the deficit finance

F Control on the price of goods, precisely in wage-good, and their unbiased dispersal through formal or informal curbing will go a long way in reducing the inflationary impact on low-income groups of people and on the cost structure of the economy.

F Revenue can be hiked by emphasizing direct taxes, curtailing tax evasions, broadening the tax base, and with sale and restructuring of shares of the public sector.

F Printing new items of currency for debt payment like treasury bills and bonds, have the risk of devaluing the country's currency so, it can be crucially monitored by the government facing deficits.

The suggestions above pinpointed that deficits is the most effective for economic growth and development with lots of pitfalls which can be cautiously and curiously handled, which can help to face the trend and trajectory of deficit of any country.

Conclusion

Deficit financing has played a significant role as a resource mobilization process in public finance in recent years. It refers to the medium of financing over income by printing currency or borrowing from the Reserve Bank.The researcher in his analysis found that the trend analysis of the fiscal deficit of central government data in the initial year i.e, 2014-2015 shows that the aggregate was 1.54 which finally came to 9.73 during 2022- 2023. The trend analysis of the primary deficit of central government data in the initial year i.e, 2014-2015 shows that the aggregate of -18.77 and finally outcome at 4.38 during 2022- 2023.The trend analysis of the revenue deficit of central government data for the initial year i.e, 2014-2015 shows that the aggregates were 2.32 which finally resulted at 7.16 during 2022- 2023. Deficit financing is not a never ever ending process as per the above cited data. Hence the calculated values show that the fiscal deficit is increasing in the preceding years and may result in economic growth that it will help India to manage costs with increasing revenues over a period of time.

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