Concerns with Estimating Fiscal Deficit

What is the issue?

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- Union government tend to look at public sector borrowing as being a part of the Government debt.
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- Government need to take measures to address this issue.
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What is the status of fiscal deficit in India?

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- The difference between total revenue and total expenditure of the government is termed as fiscal deficit (or) the fiscal deficit is sum of all borrowings of the Centre.
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- It is an indication of the total borrowings needed by the government, which includes market borrowings as well as other flows such as small savings, State provident funds, other deposits and drawdown of cash balances.
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- The last component helps in keeping the fiscal deficit within the range that is targeted.
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- In India the deficit ratio has become firm over the years with all the rating agencies and multilateral institutions focusing on this number.
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What are the concerns with estimating fiscal deficit?

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- The fiscal deficit number is probably one of the most intriguing variables in economics.

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- This is so because there is an overemphasis on this number, it draws more attention than necessary, and the quality of the deficit is missed.
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- International rating agencies and Indian government normally tend to look at public sector borrowing as being a part of the Government debt and they include in the fiscal deficit.
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- However, they miss the detail on the asset side as the Government and the PSEs own large assets whose monetary value far exceeds the size of the debt.
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- If the government can take in the profits of the PSEs as part of its non-tax revenues, then the debt should also reside with the government.
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How government uses fiscal deficit as a tool in budget?

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- As budgets are all about tracking actual revenue and expenditure, the first line of defence in maintaining the deficit ratio is to simply defer expenditure so that it gets rolled over.
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- This way the deficit ratio can be geared towards what is desired through the rollover technique.
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- This is a common method followed to ensure that the final number is digestible.
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- Another approach used to balance the budget while targeting higher expenditures is to re-engineer the borrowing numbers to outside the Budget.
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- By which the task of borrowing is passed on to PSEs instead and included in the Budget discourse.
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What measures needs to be taken?

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- Government must understand the fact that commercial entities which are

answerable to their shareholders cannot be treated as the Government even in case majority ownership resides with it.
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- The Government’s support for PSU enterprises comes from the Budget through allocations, which is already accounted for and hence the same cannot be double-counted.
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- A way out of this conundrum is to shift the borrowing to the PSEs from the Budget and it should be taken as part of their commercial decisions.
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- This will keep fiscal deficit well under control while the development programmes are still on as they are financed commercially by the PSE.
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- The cost of borrowing will be higher here, albeit marginally, as they are considered to be as good as the Central government and have such implicit backing.
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Source: Business Line

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