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Wiping out revenue deficit: Just a dream?

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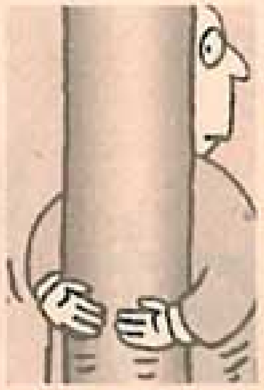

UNDER the Fiscal Responsibility Act, the government has vowed to completely eliminate revenue deficit in five years. The present level being Rs 77,000 crore (2000-01), this would require a reduction of about Rs 15,000 crore per annum. This is an uphill task, specially when seen against the backdrop of an increase by about Rs 9000 crore per annum during the last five years. However, it may be pertinent to look at the trends during the current year i.e., 2000-01 to get an idea of whether or not, the government is gearing up to face the test.

On the expenditure side, actual payments towards subsidies are expected to exceed the Budget allocation by about Rs 4000 crore (a major portion of this is on food subsidy). In regard to interest payments, slippage is likely to be about Rs 2000 crore. Add to these, other expenses covered by supplementary budget, i.e., Rs 2200 crore, the overall deviation from the target will be about Rs 8200 crore.

On the revenue side, recently, the finance minister (FM) hinted at a shortfall of about Rs 5000 crore in proceeds of disinvestment in PSUs (actual shortfall may be even more as the government has so far disinvested only in Modern Food Limited which fetched a paltry about Rs 100 crore). The shortfall in tax revenue is expected to be about Rs 7000 crore.

All put together, i.e., revenue shortfall of about Rs 12,000 crore and excess expenditure of Rs 8,200 crore, will lead to the actual revenue deficit exceeding the Budget estimate by a whopping about Rs 20,200 crore. To the extent, assumed proceeds from disinvestment (Rs 5000 crore) are not realised, the slippage will be higher.

Clearly, the government did not deliver in the past. And, it is unlikely to deliver during the current year. What about the future?

On his birthday, the prime minister announced Antodaya scheme under which the government proposes to supply 25 kg of foodgrains to the poorest of the poor at a special price of Rs 2 per kg wheat and Rs 3 per kg rice. Its implementation will cost the exchequer about Rs 2000 crore by way of additional food subsidy.

Let us consider urea which accounts for about one-third of the total subsidies paid from the Union budget. In this context, the Expenditure Reforms Commission (ERC) has recommended adoption of group-wise concession scheme in place of the existing unit-wise retention price scheme (RPS). As a result, it has estimated a saving of about Rs 2000 crore in 2001-02. The government is reportedly keen to implement this scheme.

A close look at relevant computations, however, reveals that these savings are primarily the result of using assumed import parity price (IMPP) of feedstock, viz., naphtha, fuel oil/LSHS. If, concession rates are re-worked using realistic price levels, then, much of the projected savings will disappear.

The ERC has recommended an increase in the price of urea by 7 per cent per annum beginning 2001-02. But, the government has not made any attempt to build a political consensus on this. And the expected savings from this route may not materialise.

On wages and salaries, the government has not kept its promise of downsizing which it used as a handle for securing a hefty hike in pay packet of its employees. Far from that, their strength has increased by about 110 thousand.

Another important area relates to budgetary support for re-capitalising weak banks. So far, the government has been fairly liberal in providing this. During current year, for instance, it doled out Rs 3500 crore.

The Act requires FM to monitor inflows and outflows under various heads on a quarterly basis, identify deviations from targets and initiate corrective actions. But, all this will be of little use as long as the government takes a casual attitude towards the need for pruning expenditure under major heads.

Under the Act, the government has also proposed a ban on borrowings from the RBI but this ban will be enforced only three years from now. Until then, it will be under no pressure to act tough. Far from huge reduction contemplated under the Act, the revenue deficit will continue to rise.

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