# The Path of Fiscal Management – Indian Union Budget 2019

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**Abstract**

*India is one of the fastest growing economies of the world. India is a federal republic means it has the existence of state governments as well as a Union Government. By the nature of the organization of the country, the Union Government is powerful than the state governments. It was always an interesting event to watch the Union Finance Minister placing the budget on the floor of the Parliament on the last day of February every year. This paper attempts to analyze the fiscal management in the Union Budget of India for the year 2019-20 which was presented on 1st February 2019.*

**Keywords: Union Budget, Fiscal Management, Path of Growth, GDP, Economy Reforms**

## Introduction

Government budget announcement would be the most awaited event by many parties/people in a country because it defines the financial road map of the country for the preceding year. The governing body of the country, to meet its objectives of reaching economic stability and growth execute numerous policies. Fiscal management implementations involve humongous fund utilization in different sectors such as defense, administration, and development, and welfare. The annual budget is the formal announcement by the government on the fund allocations and the tax policy changes, as it is the source of government income. A budget is an influential instrument which offers legitimate power to the government to control the fiscal resources of the country. The Indian Ministry of Finance, the budget division of the Department of Economic Affairs and the NITI Ayog are the authorized body to prepare the budget by coordinating all the government ministries under a government. Date of the budget speech is one of the most awaiting political events in the country, as it will illustrate the government income and expenditure for the preceding year.

## Review of Literature

Saqib and Yasmin analyzed the impact of fiscal policy on the economy of Italy. For this purpose, they had taken the data from 1993 to 2003 and applied the ECM model. Their results were showing that there is a long-run association between fiscal policy and economy development. This study also suggested that the Government should focus on fiscal management for better improvement [1].

Hussain observed the impact of fiscal policy on the economy of the UK. For this purpose, they had taken the data from 1995 to 2005 and applied the VAR. Their results were showing that there is a long-run association between fiscal policy and economy development. This study also suggested that the Government should focus on fiscal management for better improvement [2].

Marlow viewed the impact of fiscal policy on the economy of the USA. For this purpose, they had taken the data from 1995 to 2005 and applied the OLS model.

Their results were showing that there is a short-run association between fiscal policy and economy development. This study also suggested that the Government should focus on fiscal management for better improvement [3].

Ram examined the impact of fiscal policy on the economy of China. This purpose, they had taken the data from 1993 to 2003 and applied the Granger causality model. Their results were showing that there is a long-run association between fiscal policy and economy development. This study also suggested that the Government should focus on fiscal management for better improvement [4].

## Objective of the Study

- To examine the growth path of fiscal management an Indian Union Budget 2019.

## Research Methodology

The source of data used for the study is secondary, derived from the sources like journals, publications, newspapers, websites which briefly explain the union budget.

## Fiscal Management

The government has revised the fiscal deficit target for 2018-19 or FY19 to 3.4 percent of GDP from the Budget Estimate of 3.3 percent. For 2019-20 or FY20, Finance Minister Piyush Goyal has retained the fiscal deficit at 3.4 percent of GDP, thus delaying the fiscal consolidation path to 3 percent of GDP.

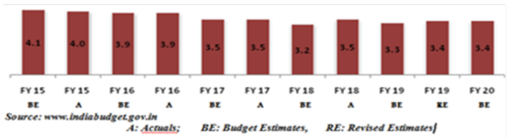
The Budget numbers for FY20 did not take into account revised GDP figures, "We have new GDP numbers. According to that, GDP for 2019-20 is about Rs 225 trillion, as against Rs 220 trillion which we have assumed in our papers. If you take their numbers, our fiscal deficit is 3.1 percent for the next year. So the path remains as it is said" Subhash Garg, Economic Affairs Secretary.

FY19 is the second consecutive year that the government has missed its fiscal deficit target. Goyal attributed the slippage to the income-support package for the farm sector announced in the interim Budget for FY20 on Friday. "We would have maintained the fiscal deficit and taken steps to consolidate the fiscal deficit. However, considering the need for income support to farmers we have provided Rs 20,000 crore in FY19 (Revised Estimates) and Rs 75,000 crore in FY20 (Budget Estimates)".

With a possible eye on the general elections barely months away, the FM also announced a direct transfer of Rs 6,000 per year to small and marginal farmers. In absolute terms, the fiscal deficit for FY19 was revised to Rs 6.34 trillion from Rs 6.24 trillion, providing for extra space of Rs 10,122 crore. The fiscal deficit for FY20 has been pegged at Rs 7.04 trillion.

Experts said it was commendable the government managed to check the upward revision of the fiscal deficit target by only this much despite an Rs 1-trillion shortfall in the goods and services tax (GST) collection. The higher fiscal deficit will be financed through even higher net market borrowings. Garg at the post-Budget press conference said the Centre's net borrowings for the current fiscal year would be an additional Rs 32,500 crore.

**Figure 1: Fiscal Deficit (As Percentage of GDP)**




"The revised fiscal deficit is as per the market's expectations. The markets were expecting a slippage on the larger side, given the huge expenditure commitments this year. Hence the slippage is within reasonable limits," said Soumya Kanti Ghosh, chief economic advisor, State Bank of India.

This is not the first time that the government has slipped on the fiscal path. For 2017-18 of FY18 also, the fiscal deficit was revised to 3.5 percent of GDP, compared to a BE of 3.2 percent. The reason was the extraneous circumstances arising due to the implementation of the GST.

"The change in the fiscal deficit is not a significant one. Whether it will convert into a fiscal stimulus triggering consumption growth needs to be seen," said Richa Gupta, senior economist, Deloitte India. According to the interim Budget documents for FY20, the government will aim for a fiscal deficit of 3 percent of GDP in 2020-21 (FY21). This is a steep road map. Earlier, it was supposed to be 3.1 percent in FY20 and then 3 percent in FY21.

For FY19, the total revenue (Revised Estimates) is now pegged at Rs 18.23 trillion, versus a Budget Estimates of Rs 18.18 trillion. Total expenditure has been revised to Rs 24.57 trillion, from a Budget target of Rs 24.42 trillion. For FY20, total revenue has been budgeted at Rs 20.8 trillion, with gross borrowing pegged at Rs 7.04 trillion. The overall budget size is estimated at Rs 27.84 trillion; an increase of 13.3 percent from the FY19 revised number.

The Budget Revised Estimates for expenditure in 2018-19 was Rs 24.57 lakh crore (Net of GST compensation transfers to the States) as against the Budget Estimates of Rs 24.42 lakh crore. Continuing Government's path of fiscal reduction and consolidation, the Finance Minister projected a Fiscal Deficit of 3.4 percent of GDP for the year 2018-19. The Revised Fiscal Deficit estimates for 2017-18 were put at Rs 6.34 lakh crore at 3.4 percent of GDP. He also proposed acceptance of recommendations of the Fiscal Reform and Budget Management Committee to bring down Central Government's Debt to GDP ratio to 40 percent. Table 1 shows a detailed analysis of the statement of affairs of the Government of India for the upcoming year in comparison to the previous years.

**Table Detail of Fiscal Indicators (as per Union Budget 2018-19)**

| Particulars | Revised Estimates | Budget Estimates | (Projections) | |
|---|---|---|---|---|
| | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
| Fiscal Deficit | 3.4 | 3.4 | 3.0 | 3.0 |
| Revenue Deficit | 2.2 | 2.2 | 1.7 | 1.5 |
| Primary Deficit | 0.2 | 0.2 | 0.0 | 0.0 |
| Gross Tax Revenue | 11.9 | 12.1 | 12.1 | 12.2 |
| Non-Tax Revenue | 1.3 | 1.3 | 1.3 | 1.3 |
| Central Gov. debt | 48.9 | 47.3 | 45.4 | 43.4 |

**Source:** www.india budget.gov.in

Figures in the Parenthesis show percentage on Gross Domestic Product Absolute figures are in crores of Indian Rupees

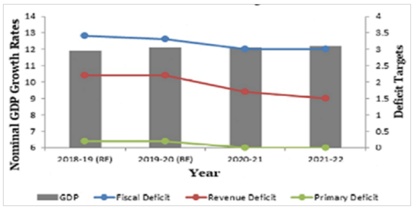
The above table provides the estimates of fiscal performance against specified fiscal indicators during RE 2018-19 and BE 2019-20 and projections for 2020- 21 and 2021-22. The above table indicates that the fiscal deficit shall be 3.4 percent in both RE 2018-19 and BE 2019-20. The FRBM targets for the year were 3.3 percent in 2018-19 to be brought down to 3.1 percent in 2019-20. The Gross Tax Revenue as a percent of GDP is expected to increase to 12.1 percent of GDP in 2019- 20 and stabilise at that level in 2020-21 before climbing up to a level of 12.2 percent of GDP.

Central government debt, reduced by cash balance, shows a declining trend. The Central Government Debt, which was estimated at 48.8 percent as a percentage of GDP for 2018-19 has been revised upwards to 48.9 percent. It is expected that Central Government liabilities will come down to 47.3 percent of GDP in 2019-20. The declining path of central government debt is expected to continue with debt reaching 45.4 percent of GDP and 43.4 percent of GDP in 2020-21 and 2021-22 respectively. The main reason for the decline in debt is the sharp reduction in fiscal deficit projected in the medium term and is in line with the overall objective of bringing central government debt within 40 percent as per the FRBM Act. Fiscal deficit in 2019-20 is budgeted to be 3.4 percent of GDP and is projected to adhere to the FRBM Act's targeted value of 3 percent in 2020-21, and continuing at that level in 2021-22.

Non-Tax Revenue as a percentage of GDP has also been included as an indicator in the MTFP statement. Biggest contributors to Non-tax Revenue of the Government are interested in receipt on loans and dividend receipts. NTR has budgeted as Rs 2,45,089 crore in 2018-19. RE 2018-19 is slightly higher at Rs 2,45,276 crore. Both work out to be 1.3 percent of GDP.

Primary Deficit is another indicator which has been included in the Medium-term fiscal policy statement from 2019-20. Primary deficit refers to the deficit left after subtracting interest payments from the fiscal deficit. In BE 2018-19, the primary deficit was calculated to be Rs.48,481 crore which is 0.3 percent of GDP. Primary deficit in RE 2018-19 is expected to be Rs 46,828 crore which works out to be 0.2 percent of the GDP. The reduction of the primary deficit is a positive sign as it shows reduced usage of borrowed funds to pay for existing liabilities.

**Figure 2: Medium-Term Prospects about Revenue Receipt**




**Source:** www.indiabudget.gov.in

The Gross Tax Revenue is anticipated to grow at the rate of 11.9 percent in 2020-21 and 13.4 percent in 2021-22. With these increases in the gross tax revenues, it is anticipated that the GTR-GDP ratio will show a minor increase from 12.1 percent to 12.2 percent between 2020-21 and 2021-22. Whereas direct taxes are expected to show a growth rate of 14.9 percent and 15.3 percent, the growth rate in indirect taxes are expected to be slightly muted at 8.4 and 11.1 percent in the years 2020-21 and 2021-22 respectively. Among the indirect taxes, the growth rates of GST are expected to remain roughly at the rate of growth of the economy.

Direct taxes have shown high buoyancy in the last few years and have been consistently growing at a higher growth rate than that of the nominal GDP. This has led to an increase in direct tax collections. It has gone up from 5.7 percent of GDP in 2010-11 to 6 percent of GDP in 2017-18. This buoyancy is expected to continue and the direct tax- GDP ratio is expected to reach 6.9 percent of GDP in 2021-22. Indirect taxes have also grown from 4.5 percent of GDP in 2010-11 to 5.4 percent in 2017-18.

**Fiscal Outlook for Re 2018-19**

There has been a slight decrease in Gross Tax Revenue estimates for 2018-19 to the tune of about Rs 23,067 crore mainly on account of lesser than an anticipated collection of GST. Indirect tax was budgeted at Rs 11,16,000 crore for 2018-19. This estimate has been revised to Rs 10,42,833 crore which is a decrease of Rs 73,167 crore from BE level. Direct tax estimate has been calculated to be Rs 12,00,000 crore in RE, which is an increase of Rs 50,000 over its budgeted amount of Rs 11,50,000 crore. This will help in mitigating the anticipated shortfall in GST to some extent. Non-Tax Revenue Receipts is estimated to remain at more or less at the budgeted level and is estimated to be Rs 2,45,276 crore in RE 2018-19.

In capital receipts, Non-Debt capital receipts were budgeted at Rs 92,199 crore in 2018-19. Revised estimates for non-debt capital receipts have been kept at Rs 93,155 crore. Total Net Borrowing has been revised to Rs 6,34,398 crore in RE 2018-19 which reflects an increase of Rs 10,122 crore over BE 2018-19 (Rs 6,24,276 crore).

In RE 2018-19, total expenditure has been estimated at Rs 24,57,235 crore which reflects an increase of Rs 15,022 crore from BE 2018-19 (Rs 24,42,213 crore). Revenue expenditure in RE 2018-19 is Rs 21,40,612 crore compared to Rs 21,41,772 crore in BE 2018-19, implying a slight reduction of Rs 1,160 crore. Capital expenditure, on the other hand, shows an increase of Rs 16,182 crore in RE 2018-19 over BE 2018-19. RE 2018-19 for capital expenditure is Rs 3,16,623 crore compared to Rs.3,00,441 crore in BE 2018-19.

The fiscal deficit target set out at the beginning of the year has been readjusted upwards by 0.1 percent of GDP as a consequence of structural reforms which have been discussed in earlier paragraphs. The fiscal deficit in RE has therefore been pegged at 3.4 percent of GDP. Accrual of the full benefit of GST reforms and revenues is expected to take some more time and therefore the stabilisation phase is expected to continue in 2019-20 too. Further, the full fiscal impact of the income support scheme for farmers will also be felt in FY 2019-20. Therefore fiscal deficit is estimated to remain at 3.4 percent of GDP in 2019-20 too.

## Conclusion

The Ministry of Finance thus plays a crucial role in development planning in India. In monitors the fiscal position, which is responsible for the entire fiscal administration of the country. The Finance Ministry has so far maintained that it is confident of meeting the fiscal deficit target. The fiscal deficit for the financial year would be 3.4 percent of gross domestic product (GDP), slightly higher than the targeted 3.3 percent. The fiscal deficit and GDP growth numbers have the chances of the government potentially breaching its March-end 2019 deficit target of 3.3 percent. The fiscal deficit could rise to nearly 3.5 percent of GDP by year-end unless the Centre cuts its planned expenditure or the tax collections and non-tax revenues rise sharply. While giving a vision for fiscal consolidation, "We have maintained the glide path towards our target of 3 percent of fiscal deficit to be achieved by 2020-21". The Government should give more attention to the Debt consolidation along with completion of the fiscal deficit consolidation programme. It was analysed and found that the FRBM fiscal deficit target for 2018-19 was 3.3 percent of GDP, which was to be brought down to 3.1 percent in 2019-20. But according to the 2018-19 Revised Estimates (RE) presented in the interim budget, the fiscal deficit for 2018-19 will be 3.4 percent of GDP. The target for 2019-20 has also been pegged at 3.4 percent of GDP. So finally to conclude this study, the current NDA government has failed to achieve the targeted fiscal consolidation.

## Limitations and Scope of Further Research

This study confined to fiscal management an Indian Union Budget 2019. Besides that, it is focused on the growth path of fiscal management only, other management's specified in the union budget is not considered in this study, and it is taken as the main limitation of the study. The path of growth of other management's specified in the union budget can be done.

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