Fiscal discipline: No wide balls please Mr FM

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The revised estimate of fiscal deficit for 2014-15 is likely to be around Rs 5,20,000 crore (4.1% of the GDP). The finance minister will have to make an all-out effort to bring it down to at least 3.8% of the GDP in 2015-16 to signal the Union government's firm resolve to achieve a credible process of fiscal consolidation. However, the need for pump-priming to provide growth stimulus is more important than exercising pure fiscal control at any cost.

In this context, the FM should also provide strong incentives for personal and corporate savings in order to bridge the resource gap arising on account of high fiscal deficit in the short term.

Moreover, he should augment the supply of resources for private sector investment in the long run. Significant positive impact of these measures on non-agricultural GDP growth will more than offset the immediate revenue loss.

The revised estimate of gross tax revenue is likely to show an overall revenue shortfall of around Rs 1,00,000 crore. However, lower subsidies due to oil price bonanza, additional revenue from divestment programme coupled with spectrum and coal-block auctions and the inability to fully utilize budgetary provisions for capital expenditures by various departments are the main factors that would help the FM to meet the fiscal deficit target of 4.1% for FY 2014-15. But the FM should now ensure that a bold and growth-oriented budget restores tax buoyancy and allows him to set an aggressive divestment target for 2015-16.

Let us hope that the FM takes strong action to prune nonessential and inefficient public expenditure and demonstrates strong political will to reduce subsidies to less than 1.5% of GDP. This will create enough scope for setting up an ambitious target for capital expenditure and still achieve fiscal consolidation.

REVENUE TRENDS

*(in '000 Crores)

Year	Amount*		As % of GDP	
	Fiscal deficit	Revenue deficit	Fiscal deficit	Revenue deficit
2007-08	126.9	52.6	2.5	1.1
2008-09	337.0	253.5	6.0	4.5
2009-10	418.5	339.0	6.5	5.2
2010-11	381.4	276.5	4.9	3.5
2011-12	516.0	394.3	5.8	4.4
2012-13	490.6	365.9	4.8	3.6
2013-14	508.2	360.3	4.5	3.2
2014-15 (est)	531.2	378.3	4.1	2.9