Lower plan expenditure helps government compress budget gap

A sharp fall in plan expenditure has helped pull India's fiscal deficit for last financial year below the government's estimate, but the cut in spending on productive activities has left an impact on the economy.

The deficit, or the shortfall in the government's revenue to meet expenses, narrowed to 4.5% of gross domestic product in the year ended on March 31, compared with 4.9% initially estimated in the 2013-14 budget and the revised 4.6% given out with the interim budget for 2014-15 in February.

Plan expenditure, which is associated with productive expenditure, fell to Rs 4.53 lakh crore, according to provisional data released on Friday, from Rs 4.76 lakh crore envisaged in the estimates presented with the interim budget. This implies a reduction of more than Rs 1 lakh crore in plan spending budgeted for 2013-14.

The nation's economic growth remained below 5% for the second straight year, as GDP expanded just 4.7% in 2013-14, better than the previous year's 4.5% growth, but below the most recent government estimate of 4.9%, data showed Friday.

Sluggish manufacturing sector growth dented tax mobilisation with tax receipts coming in lower at Rs 8.16 lakh crore compared with the downwardly revised estimate of Rs 8.36 lakh crore. Non-tax revenue, largely in the form of dividends from public sector units, provided some help - at Rs 1.99 lakh crore, it exceeded the February budget estimate of Rs 1.93 lakh crore.

Private analysts have called for a more sustainable plan to cut the budget gap, even as they cited curtailment of plan expenditure as the main factor that helped keep the deficit down in spite of the lower-than-targeted tax revenues.

"Sustainability of the intended consolidation is more important, which would gain credibility through the enunciation of the underlying policy orientation in terms of revenue augmentation measures through tax reforms and disinvestment plans and improvement in the quality of expenditure with a phased reduction in subsidies," said Aditi Nayar, senior economist at ICRA Ltd.

Former Finance Minister P Chidambaram had pegged fiscal deficit for 2014-15 at 4.1% of GDP in the interim budget, in line with the fiscal consolidation plan unveiled in 2012-13 after he took charge of the finance ministry.

The Confederation of Indian Industry said a road map for adhering to the fiscal deficit target should be drawn up and announced in the Budget, expected to be presented in July.

"Fiscal consolidation is an important constituent of the reform agenda and imperative to maintain India's image as a stable investment destination," CII Director-General Chandrajit Banerjee said. "Hence, it would be important for the government to spell out a strategy for the revival of growth while maintaining fiscal prudence."

(Economic Times)