India's Revenue Deficit: A Challenge Ahead

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1. Introduction

A developing country like India needs revenue surplus for the capital investment at the same time to pursue the economic development through demand expansion it needs expenditure especially in the social sectors such as health, education etc,. The recent global economic crisis also compels India to induce the expenditure for sustainability of the growth that it has achieved recently. This also needs enormous expenditure. On the other hand, current expenditure over current revenue of an economy makes revenue deficit. Revenue deficit means excess of revenue expenditure over the revenue receipts and revenue surplus means excess of revenue receipts over revenue expenditure. Revenue deficit denotes the difference between revenue receipts and revenue expenditure (RBI 2007).

2. Revenue Deficit and Its Importance in India

India’s Thirteenth Finance Commission’s one of the recommendation is that revenue deficit of the Centre needs to be progressively reduced and eliminated, followed by emergence of a revenue surplus by 2014-15 and a long term and permanent target for the Central Government should be to maintain, at the minimum, a zero revenue deficit. In the light of the above recommendation this paper aims to analyze India’s revenue deficit, revenue receipts and revenue expenditure with the help of India’s various budget documents from 2001-02 to 2010-11.

India has been trying to reduce the fiscal deficit ever since reforms were initiated in 1991, but without much success. It has become necessary to ask why. Strong medicine can suppress a symptom, but a lasting cure is possible only if the root cause is treated. The political economy of

India’s revenue deficit lies at this root and must therefore be understood (Ashima Goyal 1999). Hence, analyzing revenue deficit is imperative at this hour, because revenue deficit drives and induces fiscal deficit and other deficits. A closer look at the different measures of deficit would reveal perhaps a more worrisome trend in that the fiscal deficits are being driven more and more by deficits in the revenue account of the budget. Thus revenue deficit of the Central Government which accounted for about 40 per cent of the fiscal deficit in the budgets in 1991-92 is now about 68 per cent. These trends simply show that the government is increasingly borrowing to finance non-asset creating expenditure from where no returns are expected (JBIC 2001). The revenue deficit indicating that government consumption is being financed by borrowing and also grows the fiscal deficit.

Till the middle of the 1970’s, current receipts exceeded current expenditure resulting in surplus in the current account, this was known as revenue surplus. For instance, the revenue surplus was Rs.59 crores in 1950-51 and it rose to Rs.160 crores in 1970-71 (Ruddar Datt and KPM Sundaram 2009). A deficit on the revenue account is relatively recent in the history of Indian public finance. In fact, the combined balance on revenue account of the Centre and States was in surplus even into the eighties (Balakrishnan P and B.Ramasamy 2000). Fiscal Responsibility and Budget Management Act (FRBMA) had fixed the zero revenue deficit target in 2008-09 where as India’s Finance Ministry requested to postponement of that target by one more year that is 2009-10. But it is not achieved even in the 2011-12 budget. Originally, the FRBMA mandated that the revenue deficit should be eliminated and fiscal deficit contained at 3 per cent of GDP by March 2008. In 2004, the target was shifted to March 2009 by an amendment. The global downturn and subdued domestic demand, envisaged a revenue deficit of 4.83 per cent of GDP in 2009-10 budget (Thirteenth Finance Commission 2009). Economic survey 2010-11 confidently pointed out that with continuance of high growth in corporate income tax and a higher than budgeted outcome in personal income tax in the current year, the prospects of revenue led medium- consolidation appears bright (Economic Survey 2010-11).

3. Analysis and Discussions

3.1 Revenue Receipts

Table No: 1. India- Revenue Receipts (from 2001-02 to 2010-11) in Rupees Crores							
Sl.No.	Year	Tax Revenue Receipts(Net to the Centre)	% to the Total	Non-Tax Revenue Receipts(Net to the Centre)	% to the Total	Total Tax Revenue Receipts(Net to the Centre)	% of the change
1	2001-02	133532	66.33	67774	33.67	201306	
2	2002-03	158544	68.68	72290	31.32	230834	14.67
3	2003-04	186982	70.88	76831	29.12	263813	14.29
4	2004-05	224798	73.47	81193	26.53	305991	15.99
5	2005-06	270264	77.87	76813	22.13	347077	13.43
6	2006-07	351182	80.85	83205	19.15	434387	25.16
7	2007-08	439547	81.12	102317	18.88	541864	24.74
8	2008-09	443319	82.06	96940	17.94	540259	-0.30
9	2009-10	456536	79.70	116275	20.30	572811	6.03
10	2010-11	534094	78.29	148118	21.71	682212	19.10
Decade Total		3198798		921756		4120554	
Decade Mean		319879.8	77.63	92175.6	22.37	412055.4	
Decade % of Change		299.97		118.55		238.89	

Source: Government of India, Various Budget Documents.

Tax revenue receipts consist of taxes on income and expenditure, taxes on property and capital transactions and taxes on commodities and services. The first two types are direct taxes and the third are known as indirect taxes. Tax revenue of the Central Government of India has shown a sharp rising in the last ten years. It was Rs.133532 crores in 2001-02 jumped to Rs. 534094 crores in 2010-11. The increase was 299.97 per cent. In 2001-02, in the total revenue receipts, tax revenue collections were 66.33% and in 2008-09 those were 82.06%, a many fold increase and constitute major portion in the revenue receipts. Non-tax revenue receipts include receipts from fiscal services, interest receipts, dividends and profits of Government enterprises, general services, etc. Non-tax receipts were 33.67% in 2001-02 in the total revenue receipts, the amount were Rs.67774 crores. Those compositions were declined to17.94% in 2008-09 and those were 21.71% in 2010-11. The non-tax revenue receipts were Rs.96940 crores in 2008-09 and Rs.148118 crores in 2010-11. There were 118.55% of increases in the last ten years.

The total revenue receipts were Rs.201306 crores in 2001-02 and those rose to Rs.682212 crores in 2010-11. The increases were 238.89 per cent. This shows a huge increase in the total revenue collections in the volume of the amount as well as in percentage also. This reveals that in total revenue collection tax revenue were the major contributors.

Plan revenue expenditure include plan expenditure on agriculture, rural development, irrigation, energy, industry and minerals, transport, communications, science and technology and environment and social sectors and Central assistance for plans of the State and Union Territories.

3.2 Revenue Expenditure

Table No: 2. India- Revenue Expenditure (from 2001-02 to 2010-11) in Rupees Crores							
Sl.No	Year	Plan Revenue Expenditure	% to the Total	Non-Plan Expenditure	% to the Total	Total Revenue Expenditure	% of Change
1	2001-02	61657	20.45	239811	79.55	301468	
2	2002-03	71569	21.13	267144	78.87	338713	12.35
3	2003-04	78638	21.72	283436	78.28	362074	6.90
4	2004-05	87494	22.77	296835	77.23	384329	6.15
5	2005-06	111858	25.46	327518	74.54	439376	14.32
6	2006-07	142418	27.67	372191	72.33	514609	17.12
7	2007-08	173572	29.15	421798	70.85	595370	15.69
8	2008-09	234774	36.24	412975	63.76	647749	8.80
9	2009-10	253884	27.84	657925	72.16	911809	40.77
10	2010-11	315125	32.87	643599	67.13	958724	5.15
Decade Total		1530989		3923232		5454221	
Decade Mean		153098.9	28.07	392323.2	71.93	545422.1	
Decade % of Change		411.09		168.38		218.02	

Source: Government of India, Various Budget Documents.

Plan revenue expenditure were only 20.45% (Rs.61657 crores) of the total revenue expenditure in 2001-02, but those were increasing and touched 36.24% (Rs.234774 crores) in 2008-09. That declined to 27.84% (Rs.253884 crores) in 2009-10 and again increased to 32.87% (Rs.315125 crores) in 2010-11. The total plan revenue expenditure during the last decade were Rs.1530989 corers and in percentage that were 28.07.

Non- plan revenue expenditure is met out by the revenue receipts, both tax revenue and non-tax revenue. The non-plan revenue expenditure are interest payments, defence revenue expenditure, subsidies, debt relief to farmers, postal deficit, police, pension and general services, social services (health, education, etc.,), economic services (agriculture, industry, power, transport, communications, etc.,) and grants to State and Union Territories.

Non-plan expenditure is the major revenue expenditure. Those were 79.55% (Rs.239811 crores) in the total revenue expenditure in 2001-02 and those were on the declining path till 2008-09. In 2008-09, those were 63.76% (Rs.412975 crores) of total revenue expenditure. Then increased to 72.16% (Rs.657925 crores) in 2009-10 and again declined to 67.13% (Rs.643599 crores) in 2010-11. The total non-plan expenditure for that decade were Rs.3933233 crores and those were 71.93% of total revenue expenditure.

3.3 Revenue Deficit

Table No: 3. India- Revenue Deficit(from 2001-02 to 2010-11)

Sl.No	Year	Revenue Deficit	% of the change
1	2001-02	4.4	
2	2002-03	4.4	0.00
3	2003-04	3.57	-18.86
4	2004-05	2.42	-32.21
5	2005-06	2.5	3.31
6	2006-07	1.87	-25.20
7	2007-08	1.05	-43.85
8	2008-09	4.54	332.38
9	2009-10	5.18	14.10
10	2010-11	3.43	-33.78
Decade Average		3.336	

Source: Government of India, Various Budget Documents.

During the last decade (from 2001-02 to 2010-11) revenue deficit never touched zero. That's average was 3.33 during that period. Revenue deficit was very high in 2009-10 i.e., 5.18, and very low in 2007-08 i.e., 1.05 in 2007-08. This indicates that the Government has to take needy measures to curtail revenue deficit.

Statistical Results
Y= 8.369+ (-2.750)X1+ (-8.267)X2+5.858X3+5.90X4   (1.459) (.000) (.000) (.000) (.000)   T= 5.737 -5.595 -3.015 4.980 1.343   F= 9.969   R=0.943 R square= 0.889 Adjusted R square = 0.799   Where Y is revenue deficit,   X1 is tax revenue,   X2 is non-tax revenue,   X3 is plan revenue expenditure and   X4 is non-plan revenue expenditure.

Multiple regression equation shows that one unit change in tax revenue made 2.750 units negative change in revenue deficit where as one unit change in non-tax revenue made 8.267 units negative change in the revenue deficit. On the other hand, one unit change in plan expenditure caused 5.858 units change and one unit change in non-plan expenditure caused 5.90 units change in revenue deficit. R and R square and Adjusted R square were high and standard errors were very low. ‘F’ test result was statistically significant. Regarding‘t’-test results, except the result of non-plan expenditure all other results were statistically significant. From this analysis we can observe that non-tax revenue’s effect was more and in the expenditure aspect plan expenditure result was notable.

4. Concluding Remarks

To attain the zero revenue deficit or revenue surplus, the Government of India has to increase the non-tax revenue and decrease the non-plan expenditure because non-tax revenue were least and non-plan expenditure were high. Even though, revenue deficit arise after 1980's in India, its effect is worrisome. As D.C.Rangarajan and D.Subbarao pointed that what is even more worrisome in our situation is that we have not just fiscal deficits, but we have fiscal deficit together with revenue deficit. With this means is that governments both at the Centre and in the States, are using a significant portion of the borrowed funds not for the capital investment that will yield future incomes but for current consumption.\

For sustainable growth and sound public finance we need either revenue surplus or zero revenue deficit. The Thirteenth Finance Commission recommendations have to elaborate the ways and means to achieve these goals and its mission is not just giving recommendations and setting targets. India, Centre and States should adhere and take necessary measures to attain these goals and recommendations whole heartily.

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