

Trends in India's Fiscal Deficit and Public Debt - A time-series analysis from 1991 to 2020

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Abstract -This study wants to examine the linkage between the fiscal deficits and public debt of India. And the study also presents the trends of fiscal deficits or public debt over the study period of 1991 to 2020. India's economic history underwent a major change in 1991 when structural changes were implemented in reaction to a serious balance of payments problem. Since then, India's growth, stability, and macroeconomic balance have all been significantly shaped by fiscal policy. This study examines the evolution of India's fiscal condition in connection to significant policy changes, international economic events, and domestic issues by examining fiscal deficit and debt statistics spanning three decades. The results indicate that while fiscal consolidation policies and laws like the Fiscal Responsibility and Budget Management (FRBM) Act have helped lower deficit levels in some periods, events like the 2008 global financial crisis and the slowdown in the economy before the COVID-19 pandemic have caused deficits to widen and debt loads to increase. The report emphasizes that in order to guarantee long-term macroeconomic stability and growth, consistent fiscal restraint, efficient debt management, and balanced spending plans are necessary.

Keywords: FRBM (fiscal responsibility and budget management act), COVID-19, Fiscal Deficits, Public Debt, Balance of Payment.

INTRODUCTION

Since the early 1990s, when there were significant economic liberalization and reforms, India's fiscal situation has changed significantly. Two important measures of a nation's macroeconomic health are its fiscal deficit and public debt, which show how well government spending, income collection, and borrowing requirements are balanced. A recurring element of government budgets in India is the fiscal deficit, which is impacted by structural changes, subsidies, economic slowdowns, and developmental spending. A significant balance of payments problem

that required structural reforms and budgetary reduction made 1991 a turning point for India. Since then, domestic goals, international economic conditions, and policy decisions have all influenced the trajectory of budget deficits and governmental debt. Efforts to eliminate fiscal imbalance were made in the late 1990s and early 2000s with the passage of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003. Nonetheless, times of heavy spending, like the 2008 global financial crisis and the stimulus plans that followed, resulted in fresh fiscal strains. The developments in India's public debt and fiscal deficit from 1991 to 2020 show a complicated interaction between the country's economic expansion, income collection, and spending requirements. Even though the economy expanded at a comparatively rapid rate for the most of this time, growing subsidies, infrastructure spending, and welfare obligations resulted in ongoing fiscal imbalances. The public debt-to-GDP ratio increased in the following years, particularly after slower growth and increasing spending requirements, and the fiscal deficit frequently surpassed the FRBM targets. Therefore, a study of public debt and fiscal deficits from 1991 to 2020 offers important information on India's macroeconomic stability, the success of fiscal reforms, and the difficulties in striking a balance between sustainability and growth. This time frame reveals both the risks that continue to influence India's economic trajectory and the advancements made in fiscal management.

Meaning and definition Fiscal Deficits

For the purpose of analysing the fiscal circumstances of governments, the terms fiscal deficit, revenue deficit, and primary deficit are commonly employed. A budget deficit shows the nation's overall financial situation, but it doesn't show the government's net liabilities. In the same manner, the revenue deficit

exclusively affects the budget's revenue side. Therefore, among these deficit concepts, fiscal deficit is the one that is employed the most and is given more weight in analysis to show the government's financial standing in an economy. Since the fiscal deficit does not include non-debt capital receipts, it provides a clear view of the government's liabilities. The total revenue received by the government during a fiscal year is subtracted from the total expenses incurred during the same period to determine the fiscal deficit. It can be expressed mathematically as follows:

Total Expenditure minus Total Revenue (excluding borrowings) equals the fiscal deficit.
 All economies have a fiscal deficit, but surpluses are thought to be uncommon. It's not always the case that a large budget imbalance is detrimental to the economy. If the money is utilized to build roads, railroads, airports, etc., that is beneficial. After a while, these aid in the government's revenue generation.

Meaning and definition of Public Debt

According to Article 292 of the Constitution, public debt in India is the entire amount owed by the Union Government and secured by the Consolidated Fund of India (CFI). The total amount borrowed by the government to close the shortfall between its revenue and expenditures is known as the public debt. Officially, this debt is divided into two primary parts: Internal Debt: Funds that the government has borrowed from domestic lenders. The government's borrowing of funds from foreign countries and international financial organizations is known as external debt. Internal debt is separated into marketable and non-marketable securities and represents the highest amount of India's governmental debt. Securities that can be sold: These debt instruments, which are offered for sale at auction, consist of: Government Securities (G-Secs) with dates: These bonds are long-term, with maturities of at least a year. Treasury Bills (T-Bills) are short-term debt instruments designed to cover short-term cash shortages. They have maturities of 91, 182, or 364 days.

OBJECTIVES OF STUDY

1. To identify the trend of fiscal deficits and public debt over the period of 1991 to 2020.
2. To calculate the short term and long-term relation between fiscal deficit and public debt over the period of 1991 to 2020.

METHODOLOGY

The time series analysis of the variables of public debt and fiscal deficit is included in the study. Data for the trend study was collected between 1991 and 2020. The Indian economy began to liberalize in 1991. To simplify the analysis, the study periods have been separated into two groups: the first covers the years 1991 through the FRBM Act 2002–2003, and the second covers the years after the FRBM Act until 2020. Secondary data in the form of GDP percentages from various sources forms the basis of the analysis.

TREND ANALYSIS OF FISCAL DEFICITS AND PUBLIC DEBT

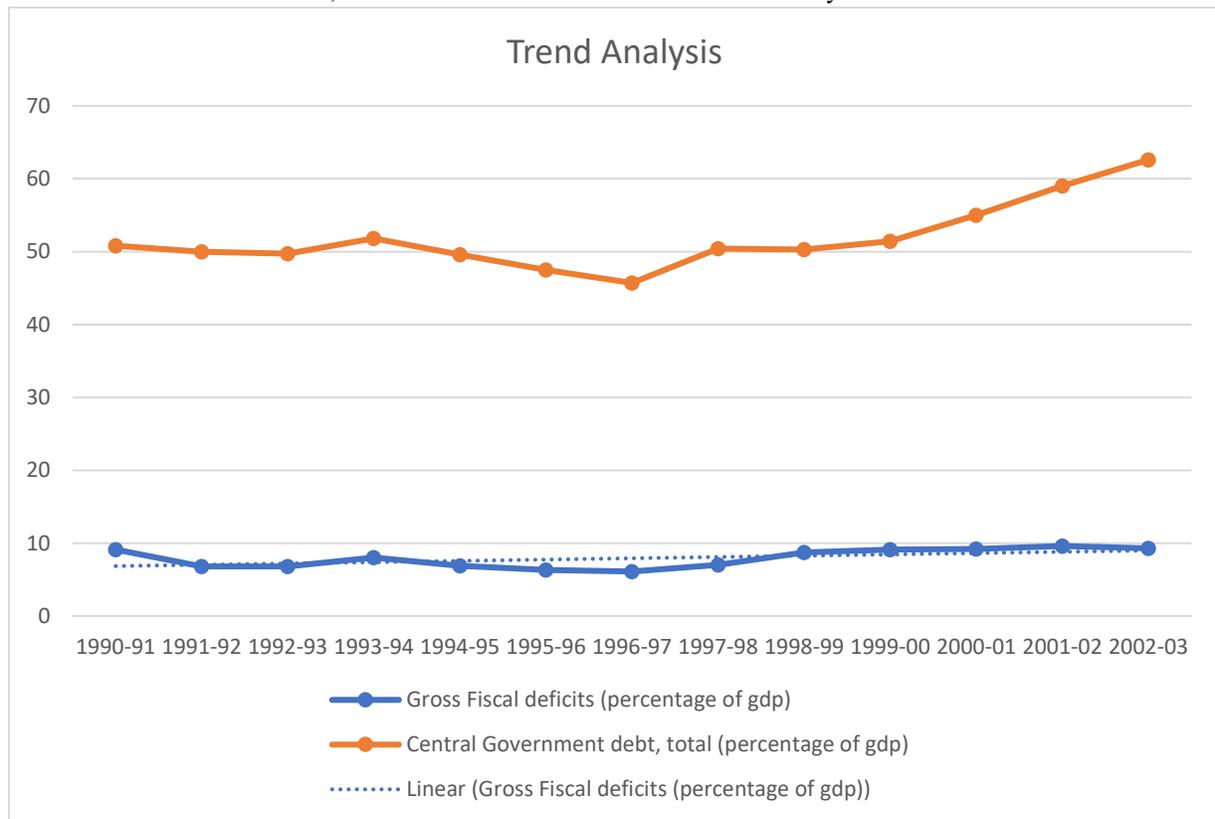
Analysing trends entails determining whether a variable is rising, falling, or staying constant over time. It aids in comprehending the size, pattern, and direction of change across time. Applying this concept to fiscal deficits and public debt entails analysing how they have changed over time, such as from 1991 to 2020, to determine whether they are: Rising, Falling, Fluctuating, or Stabilizing. Fiscal deficit of the government is the difference between total expenditure and total revenue excluding borrowings of government, in trend analysis the study tries to know whether fiscal deficit is increasing, decreasing or fluctuating during the study periods. For the trend analysis of existing variables, the whole time periods have been divided into two groups- first post liberalisation era from 1991 to till 2002-03 and second post FRBM act era to till 2020.

Table 1. Trend analysis of gross fiscal deficits and central government debt

YEAR	Gross Fiscal deficits (percentage of gdp)	Central Government debt, total (percentage of gdp)
1990-91	9.1	50.8

1991-92	6.8	50
1992-93	6.8	49.7
1993-94	8.0	51.8
1994-95	6.9	49.6
1995-96	6.3	47.5
1996-97	6.1	45.7
1997-98	7.0	50.4
1998-99	8.7	50.3
1999-00	9.1	51.4
2000-01	9.2	55
2001-02	9.6	59
2002-03	9.3	62.6

Sources: - World bank database, Handbook of Statistics on the Indian Economy



Source: Author's Compilation based on Table 1.

The Indian economy was in poor shape by 1990–91 due to a large debt load (50.8%) of GDP, growing interest rates, and deficits (Gross Fiscal Deficits 9.1% of GDP). Since oil and petroleum products accounted for a sizable amount of India's imports, the country has historically experienced a current account deficit. The Gulf War, which caused oil prices to rise, credit lines to dry up, and investors to pull out of the market, made the already precarious economic situation even worse. The nation's foreign exchange reserves were barely enough to cover imports for next three weeks due to

their substantial depletion. In order to prevent default on its external debts, India had to secure emergency loans from the IMF. Prime Minister Narasimha Rao's government responded to the crisis by embarking on a road of economic liberalization, which included dismantling the quota and license system, encouraging the private sector, and opening the economy to foreign trade and investment. To align with these developments, fiscal policy was refocused. For the first time, the nation started a disinvestment program, and the government decided to overhaul both direct

and indirect taxes in order to increase revenue. Along with these changes, the government also reduced non-capital spending, such as subsidies, and reformed the tax code. Short-term revenue neutrality and medium- and long-term improvements in the tax system's revenue productivity were the goals of the revisions. The overall objective was to raise the share of domestic consumption taxes, lower the part of trade taxes in total tax income, and increase the proportion of direct taxes by turning domestic excises into a value-added tax (VAT). Direct tax revenue grew by 26% of total revenue receipts in 2000-01, and it now accounts for 20% of total revenue, up from 15% in 1991-1992. The indirect tax share begins to decrease as the direct tax share of overall tax revenue rises. The government attempted to maintain deficits during the post-reform eras by reducing spending and raising revenue. However, the government was unable to reduce debt in the post-reform eras, and the GDP percentage of debt increased throughout this time, reaching 62.6% of GDP in 2002–03. Both the variables are showing fluctuating trend during the whole period.

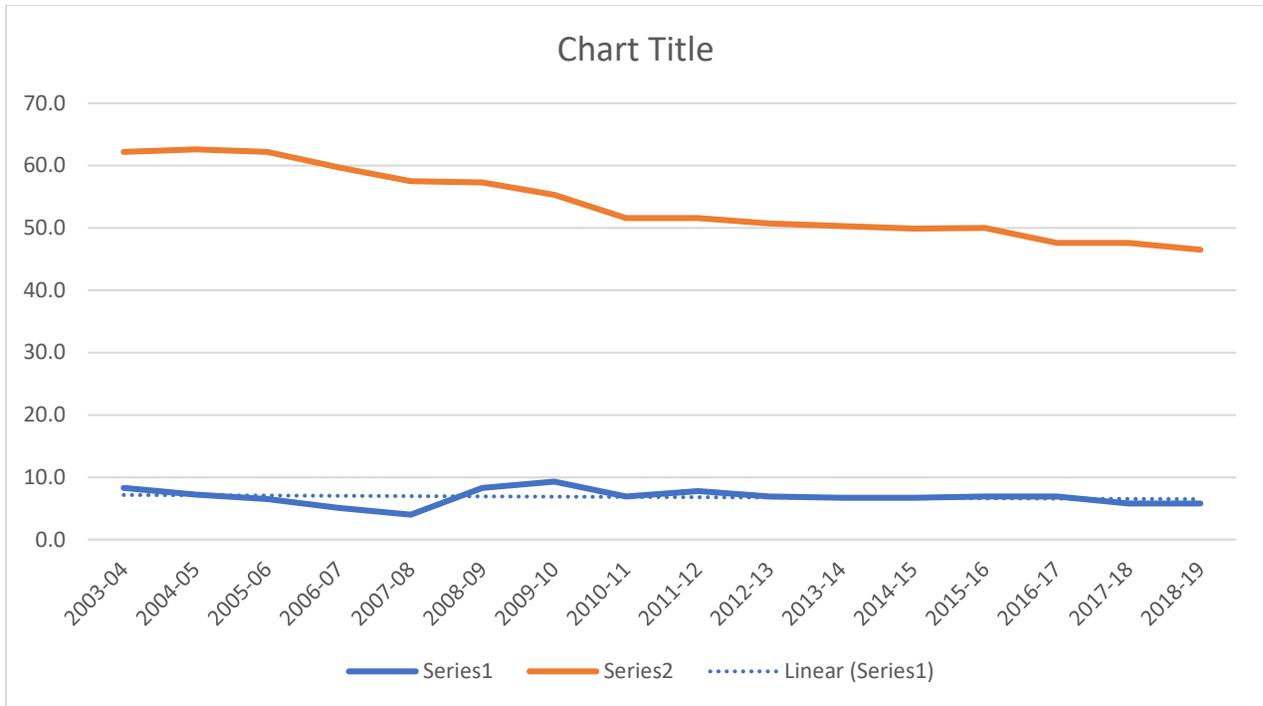
Trend of fiscal deficits and public debt during Post FRBM act era to till 2020.

Fiscal Responsibility and Budget Management (FRBM) bill introduced in Parliament in December 2000 in order to restore fiscal discipline. The bill was referred to the Parliamentary Standing Committee on Finance, which suggested some changes in the original draft. So, On July 5, 2004, the Fiscal Responsibility and Budget Management (FRBM) Act, 2003, became operative. In accordance with a progressive deficit reduction roadmap, the FRBM Act established a medium-term goal for balancing current revenues and expenditures and set an overall fiscal deficit ceiling of 3% of GDP. By mandating that the government present to Parliament annually reports on its economic evaluations, taxes and expenditure plan, and three-year rolling targets for revenue and fiscal balance, the FRBM Act improved budgetary transparency. Quarterly progress reports were to be sent to Parliament as well. Starting on April 1, 2000, the Act sought to lower the gross fiscal deficit by 0.5% of GDP every fiscal year. The efforts made caused the budget deficit as a percentage of GDP to begin to decrease.

Table 2. Trend analysis of gross fiscal deficits and central government debt

Year	Gross fiscal deficits (% of GDP)	Central government debt, total (% of GDP)
2003-04	8.3	62.2
2004-05	7.2	62.6
2005-06	6.5	62.2
2006-07	5.1	59.7
2007-08	4.0	57.5
2008-09	8.3	57.3
2009-10	9.3	55.3
2010-11	6.9	51.6
2011-12	7.8	51.6
2012-13	6.9	50.7
2013-14	6.7	50.3
2014-15	6.7	49.9
2015-16	6.9	50
2016-17	6.9	47.6
2017-18	5.8	47.6

Sources – World bank database and Handbook Statistics on Indian Economy by RBI.



Source: Author’s Compilation based on Table 2.

The trajectory of India's public debt and fiscal deficits during the post-FRBM act periods is displayed in Table 2. According to the table, the budget deficit decreased between 2002–03 and 2007–08, but it has since stopped dropping and is now exhibiting an erratic pattern. However, for the entire period, the central government's public debt has been steadily increasing for a few years until eventually falling. A higher proportion of public debt to GDP suggests that the government is borrowing more money from the market and leaving relatively little for the private sector. Crowding-out effects are a clear expression of this scenario and are the primary cause of the nation's slower economic growth. Because of this government tries to maintain the fiscal discipline and reduce the percentage of fiscal deficits in country. The fiscal consolidation goals of lowering the interest expense percentage of revenue expenditures were successful; interest expenditures as a percentage of revenue expenditures decreased from 34% in 2003–04 to 29% in 2007–08 and then to 22% in 2010–11. The increase in other revenue expenditures during the subprime crisis is also responsible for the significant decline in 2010–11. The Central government had already planned to implement several expansionary programs between 2007 and 2009 that would increase demand,

such as the rural farm loan waiver program, the expansion of social security programs under the National Rural Employment Guarantee Act (NREGA), and the implementation of updated salaries and compensation for central public servants in accordance with the Sixth Pay Commission's recommendations. The 2008 general elections also helped to some extent to increase demand.

CONCLUSION

First used in 1991, the term "fiscal deficit" in India was defined as the total of the revenue deficit, capital expenditures, less loan and other receipt recovery. Since then, the fiscal deficit has been a highly monitored indicator of the Indian economy's health. Through the balance of payments crisis in 1991, the post-economic liberalization and high growth period, the introduction of the FRBM Act in 2003, the country's adjustment to the global financial crisis in 2008, and the most recent post-crisis adjustments to return to a path of fiscal consolidation, this study traced the major changes in India's fiscal policy since 1990-91. The Gulf War caused the balance of payments to become unstable, which prompted the implementation of new economic policies. The years

1991 to 1992 saw a significant budget deficit and its monetization spill over to the external sector. The private sector contributed to capital receipts through disinvestment and shared the burden of long-term development after 1991. Up until 1996–1997, this and tax measures kept the fiscal deficit under control. The FRBM Act was established by the government in 2003 to uphold national fiscal responsibility. This act established the framework for lowering both the public debt to GDP ratio and government fiscal deficits. Although this act has had a significant impact, fiscal discipline was once again disrupted during the financial crisis, and the fiscal deficit as a proportion of GDP grew. So overall the study concludes that during the study periods the fiscal deficits has been unstable and fluctuating. But public debt percentage has declined year by year after 2003-04.

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