

Fiscal deficit likely to touch 7% in FY21 against 3.5% budget estimate

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"The impact of the lockdown on economic activity shows up starkly in the trends in the central government revenue collection during the first three months of fiscal 2020-21," the agency said in a report.

India's fiscal deficit is expected to touch 7 per cent of GDP in 2020-21 fiscal as against budget estimate of 3.5 per cent, with revenue collections being hit amid disruptions in economic activities due to lockdowns, according to Brickwork Ratings.

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As per data released by the Controller General of Accounts (CGA), the central government's revenue in Q1 (April-June) of the current fiscal year is much lower than collections for the corresponding period last year. Revenue from income taxes (personal income tax and corporate income taxes) was lower by 30.5 per cent, and the GST by almost 34 per cent during the period.

On the other hand, there is a sharp increase in expenditure (by 13.1 per cent) due to additional spending incurred to save lives and livelihoods and to provide stimulus under the 'Aatmanirbhar Bharat' programme. "This has resulted in the fiscal deficit widening to 83.2 per cent of the budgeted target in the first quarter itself," the agency said.

Brickwork Ratings expects the economy to gradually pick up from the third quarter of this fiscal. "Given early signs of resumption in business activity, we expect revenue collections to reach pre-Covid levels towards the end of the third quarter, hoping that festive season demand induces consumption and spending.

"However, if the current situation prolongs further, the government may face acute burden of fund shortage to fulfil the budgeted expenditure even after considering the announced higher borrowing of Rs 12 lakh crore," it said.

This, it said, could cause a huge cut in capital expenditure as well as centrally sponsored schemes, except MNREGA and the National Health Mission. The government has already increased the allocation of Rs 40,000 crore to the MNREGA scheme in the Aatmanirbar scheme, and the funds are expected to be utilised fully in the current year.

"Given the expected shortfall in revenue, the fiscal deficit of the central government could reach approximately 7 per cent of the GDP in 2020-21, assuming the nominal GDP at last year's level," it said. Borrowings may further increase if the contraction in the economy is more severe than early estimates.

As states too have been allowed additional borrowings amounting to 2 per cent of the GDP, the consolidated fiscal deficit could reach 12 per cent of the GDP. Among the major economies, only the United States has a higher deficit than this, it added.