New seven per cent fiscal deficit forecast shows India's economic sinkhole is getting deeper

The situation could be exacerbated by the fact that states have been allowed to borrow more to make up for the shortfall in GST revenue.

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NEW DELHI: Given the bleak revenue collection scenario amid Covid-19 induced economic disruption and higher expenses to boot, the Central government's fiscal deficit is set to widen to 7% in the current financial year, says a new report. This is double the government's target for FY21.

The situation could be exacerbated by the fact that states have been allowed to borrow more to make up for the shortfall in GST revenue.

The consolidated fiscal deficit of the Centre and states "could reach 12% of the GDP", warns the report by Brickwork Ratings.

Fiscal deficit is the difference between the government's total income and total expenditure.

The government is facing a double whammy. On the one hand, the nationwide lockdown imposed to arrest the spread of the coronavirus has badly hit revenue collection.

On the other, expenditure shot up, taking deficit to record levels of over Rs 6.62 lakh crore in the April-June quarter, which was 83.2% of the target for the whole financial year.

Fiscal deficit had already reached a seven-year high at 4.6% of the GDP in 2019-20. Going forward, the numbers don't look promising, as GST shortfall is expected at Rs 3 lakh crore while borrowing could be higher than expected.

"Our baseline estimate is that the fiscal deficit will surge to Rs 13 lakh crore in FY2021 from the budgeted level of Rs 8 lakh crore," says Aditi Nayar, principal economist at ICRA.

The latest report by the International Monetary Fund pegs India's fiscal deficit at 7.4% of the GDP in 2020.

Earlier this month, India Ratings had forecast the fiscal deficit of the Centre and state governments will be 12.1%. Emkay Global Financial Services pegs fiscal deficit to rise to over 6.8% of the GDP. 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.

WHAT THE REPORT SAYS

- Govt may face fund shortage to fulfil the budgeted expenditure.
- This could cause a huge cut in capital expenditure as well as centrally sponsored schemes.