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Fiscal deficit rises to 115% of target in 8 months of FY20

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The fiscal deficit of the Union government rose to 114.8 per cent of the target in the first eight months of the fiscal year, the data released by the Controller General of Accounts showed. The gap between the government's revenue and spending stood at ₹8.07 trillion at the end of November — ₹1 trillion (13 per cent) more than the full-year target.

A persistent contraction in gross tax revenue, with expenditure growing consistently, has put pressure on government finances, resulting in a larger deficit well before the end of the fiscal year.

While the corporation tax collection contracted 1 per cent in April–November on the revenue side, budgetary capital spending on roads took the worst hit on the expenditure side. Income support to farmers and food subsidy bills have taken a graver hit in terms of revenue expenditure.

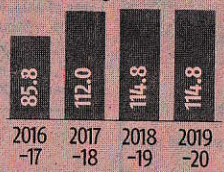
Non-tax revenue, especially in the form of dividend from public enterprises (including public sector banks), lower devolution to states owing to higher devolution in previous year, probable revenues from telecom company dues, and a slice of cash from the legacy service tax and excise disputes scheme, could help the government restrict fiscal slippage. The situation was similar last year, with a 15 per cent overture in the first eight months of FY19. In FY17, fiscal deficit stood at a comfortable 86 per cent of the target.

THE FISCAL BLUEPRINT

Fiscal deficit targeted for FY20 (BE)	₹7.04 trillion
Fiscal deficit in Apr-Nov (provisional)	₹8.07 trillion
Nominal GDP assumed in Union Budget	₹210-211 trillion
Fiscal deficit targeted	3.3% of GDP
Nominal GDP assumed in National Infrastructure Pipeline	₹205.3 trillion
Probable fiscal deficit at lower GDP	3.43% of GDP

FISCAL DEFICIT ZOOMS AHEAD

■ Fiscal deficit (Apr-Nov) (as % of target)



Source: Controller General of Accounts, National Infrastructure Pipeline, Ministry of Finance

The government would need to prune spending or depend upon funds to remain unspent with ministries to save on the expenditure side, and retain fiscal deficit to the budgeted ₹7.04 trillion.

This target was projected to be 3.3 per cent of India's GDP, assuming that the GDP would grow 11 per cent in FY20, to nearly ₹210-211 trillion. However, after taking into account the nominal GDP estimate assumed in the National Infrastructure Pipeline (NIP), which the government released on Tuesday, fiscal deficit would touch 3.45 per cent of GDP, even if it is restricted to the budgeted ₹7.04 trillion.

The report assumes that India's nominal GDP would be ₹205.3 trillion in FY20, growing at 8 per cent, substantially lower than the Budget expectation. Experts said capital spending has taken a bigger hit from subdued revenues, and asserted that the probability of deficit being higher than targeted has only risen.

Aditi Nayar, principal economist at ICRA, said concerns on the extent of fiscal slippage still persist.

"Given the likely shortfall in tax collections and lack of clarity on revenue from telecom license holders and disinvestment, expenditure cuts may have to be undertaken to prevent fiscal deficit from rising too sharply," she said.

While gross tax revenue contracted 2.6 per cent in November, revenue spending rose 7 per cent. As a result, productive capital spending contracted 12 per cent. ICRA said that this is a "discomfiting trend". In April-November, gross tax revenue grew by a paltry 0.8 per cent.