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UNION GOVERNMENT’S FISCAL DEFICIT TARGET GOES FOR A TOSS

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Public Finance, Taxation & Black Money incl. Government Budgeting

Finance Minister Piyush Goyal said that the government would be missing its fiscal deficit target for 2018-19 and 2019-20, a fact that economists flagged as a matter of concern.

“The estimate of incomes and expenditure, which I am presenting today, pegs the fiscal deficit of year 2019-20 at 3.4% of GDP,” Mr. Goyal said in his Interim Budget speech. “We would have maintained fiscal deficit at 3.3% for year 2018-19 and taken further steps to consolidate fiscal deficit in year 2019-20. However, considering the need for income support to farmers, we have provided Rs. 20,000 crore in 2018-19 RE and Rs. 75,000 crore in 2019-20 BE,” he said. As per revised estimates for 2018-19 the fiscal deficit is 3.4% The government had set a fiscal deficit target of 3.3% for 2018-19 and 3.1% for 2019-20.

Mr. Goyal said if the farmers’ scheme allocation was to be excluded, the fiscal deficit would have been “less than 3.3% for 2018-19 and less than 3.1% for year 2019-20.”

Terming the Interim Budget as an exercise that ‘prioritised populism over fiscal prudence’, Angel Broking said the fiscal slippage could have an impact on the Reserve Bank of India’s decisions on interest rates.

‘RBI may not cut rates’

“There are two things playing out for the banking sector from the Union Budget,” Jaikishan Parmar, senior equity research analyst – BFSI, Angel Broking said. “On the one hand, the higher fiscal deficit target set at 3.4% for 2018-19 and at 3.4% for 2019-20 will mean that the RBI may not be too keen to cut rates in the immediate future,” he said. “However, on the positive side, the commitment of the Finance Minister in his budget speech to increase allocation for recapitalisation to beyond Rs. 2.60 trillion, if required, will go down well with the banks,” he added. The government’s total budgeted expenditure rose from Rs. 24,57,235 crore in 2018-19 (RE) to Rs. 27,84,200 crore in 2019-20, a rise of Rs. 3,26,965 crore or approximately 13.30%. Capital expenditure for 2019-20 (BE) is estimated at Rs. 3,36,292 crore, 6.21% higher than the revised estimates of the previous year.

“It is on the low side because relative to GDP it has fallen compared to last year. Now, it’s about just 1.6% of GDP. When the government is planning a lot of infrastructure expansion but the capital expenditure is actually falling, it can either be financed through extra budgetary resources or the numbers will have to be revised,” he said. Economists also expressed concern over the disinvestment target being retained at Rs. 80,000 crore for 2018-19 and increased to Rs. 90,000 crore for 2019-20. So far, the government had raised about Rs. 36,000 crore.

“The disinvestment target is still being maintained while it looks increasingly difficult to achieve,” Ranen Banerjee, partner and leader, public finance and economics, PwC India, said.

“The actual deficit numbers will depend on the realised GST collections over the next two months and the government’s ability to meet disinvestment target over a time line of one month left for action before election code kicks in.”

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