

BUDGET 2019: OVERESTIMATING REVENUE FLOWS PUSHING INDIA'S BUDGET GAP WIDER

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

By Vrishti Beniwal

India's budgets show the government's been fixing unrealistic revenue targets, and in the process setting itself up for falling short of fiscal deficit goals.

While the government has estimated Rs 19.8 lakh crore (\$280 billion) as revenue receipts for the year starting April, history shows it's missed income targets in each of the past five fiscal years. The risk of trailing behind goals is a [budget deficit](#) that could be wider than the 3.4 per cent it estimates for both the current financial year ending March as well as the next.

Overestimating the income it expects to receive from taxes, asset sales and other sources means increasing the need to borrow more to offset the revenue shortfall or a spending cut. India is set to miss its [budget](#) deficit targets for a second straight year, seen as credit negative by ratings companies.

While receipts in the 12 months through March 2018 were 4.7 per cent lower than initially projected, the government is already lagging behind on its revenue collections target in the current financial year. It budgeted Rs 17.3 lakh crore, but has mustered only Rs 10.8 lakh crore, or 63 per cent of the target, in first nine months of the year.

The government is betting it will get a bump from asset sales and national sales tax in the final months of the fiscal year to help meet its goals. But economists are skeptical.

"Meeting revenue targets will be a long call," said N.R. Bhanumurthy, an economist at New Delhi-based National Institute of Public Finance and Policy. "Overestimation happens, but to what extent it's there that's more important."

Any significant shortfall in revenue will have to be offset by a cut in expenditure as well, he said. But that's unlikely to happen given the additional spending pressures ahead of elections that must be held by May.

The government has allocated \$2.8 billion as a cash handout to farmers in the current fiscal year. Past trends show governments slash expenditure to meet fiscal deficit goals when actual revenue fall short of the estimate.

Views expressed here are the author's own, and not economicstimes.com's

By Vrishti Beniwal

India's budgets show the government's been fixing unrealistic revenue targets, and in the process setting itself up for falling short of fiscal deficit goals.

While the government has estimated Rs 19.8 lakh crore (\$280 billion) as revenue receipts for the year starting April, history shows it's missed income targets in each of the past five fiscal

years. The risk of trailing behind goals is a [budget deficit](#) that could be wider than the 3.4 per cent it estimates for both the current financial year ending March as well as the next.

Overestimating the income it expects to receive from taxes, asset sales and other sources means increasing the need to borrow more to offset the revenue shortfall or a spending cut. India is set to miss its [budget](#) deficit targets for a second straight year, seen as credit negative by ratings companies.

While receipts in the 12 months through March 2018 were 4.7 per cent lower than initially projected, the government is already lagging behind on its revenue collections target in the current financial year. It budgeted Rs 17.3 lakh crore, but has mustered only Rs 10.8 lakh crore, or 63 per cent of the target, in first nine months of the year.

The government is betting it will get a bump from asset sales and national sales tax in the final months of the fiscal year to help meet its goals. But economists are skeptical.

“Meeting revenue targets will be a long call,” said N.R. Bhanumurthy, an economist at New Delhi-based National Institute of Public Finance and Policy. “Overestimation happens, but to what extent it’s there that’s more important.”

Any significant shortfall in revenue will have to be offset by a cut in expenditure as well, he said. But that’s unlikely to happen given the additional spending pressures ahead of elections that must be held by May.

The government has allocated \$2.8 billion as a cash handout to farmers in the current fiscal year. Past trends show governments slash expenditure to meet fiscal deficit goals when actual revenue fall short of the estimate.

Views expressed here are the author's own, and not [economictimes.com's](#)

END

Downloaded from [crackIAS.com](#)

© **Zuccess App** by [crackIAS.com](#)