

FISCAL DEFICIT FOR FY21 PEGGED AT 3.5%; FY20 TARGET EASED TO 3.8%

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

New Delhi: The government has budgeted the [fiscal deficit](#) at 3.5% of gross domestic product for FY21 against an upward revised 3.8% for the current fiscal, invoking the escape clause under the fiscal responsibility law that allows a deviation of up to 0.5% of GDP.

The budget has also stated that the amount of extra budgetary resources (EBR) borrowings for the current fiscal would be Rs 1.72 lakh crore while the figure stands at Rs 1.86 lakh crore for FY21.

These figures are not accounted for in the fiscal deficit calculations. If EBR borrowings are added to the picture, the actual fiscal deficit is likely to be 4.5-5% of GDP or more, economists said.

“The governments of the day do not show it because they may not want to take such a hit to their balance sheets,” said N R Bhanumurthy, professor at the [National Institute of Public Finance and Policy](#). “But it creates a kind of uncertainty in the market.”

The documents mention that EBR borrowings have been undertaken by the [Food Corporation of India](#) and the department of fertilisers and for various schemes including the Pradhan Mantri Swasthya Suraksha Yojana, Pradhan Mantri Awas Yojana (PMAY), Swachh Bharat Mission, and the [Jal Jeevan Mission](#).

The [revenue deficit](#) is pegged at 2.7% of GDP in FY21, higher than 2.4% in the current year on muted tax collections.

In absolute terms, the fiscal deficit is seen at Rs 7.96 lakh crore in FY21 against Rs 7.67 lakh crore in the current year. The fiscal deficit will be funded through Rs 5.36 lakh crore from market borrowings and Rs 2.4 lakh crore from small savings.

CONSOLIDATION ROADMAP

This fiscal consolidation road map has been reset.

The medium-term fiscal policy strategy, which is released along with the budget, has projected the fiscal deficit at 3.3% in FY22 and 3.1% in FY23. This pushes back the achievement of 3% fiscal deficit to FY24. As per the FRBM Act, 2003, the government was supposed to rein in the fiscal deficit to 3% by FY22.

Breaching the fiscal deficit target to varying extents is acceptable as long as additional funds are used purely for capital expenditure and not to fund revenue expenses, said DK Srivastava, chief policy advisor at EY as he batted for more transparency.

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