Rising Fiscal Deficit

Why in news?

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The government's fiscal deficit touched 114.8% of the full-year estimates at the end of November.

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What is the current fiscal scenario?

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- Fiscal deficit is the difference between total revenue and total expenditure of the government.
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- It is an indication of the total borrowings needed by the government.
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- The government had budgeted fiscal deficit of Rs 6.24 lakh crore, or 3.3% of the GDP, for FY19.
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- Fiscal deficit for April-November stood at Rs 7.16 lakh crore, or 114.8% of the target.
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- It is slightly more than the 112% recorded in the same period last fiscal.
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What is the possible cause?

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- Total expenditure up to November was 66.1% of the budget estimate of Rs 24.42 lakh crore.
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- It thus suggests that the subdued tax receipts largely contributed toward

inflating the deficit.
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- Total receipts stood at Rs 8.9 lakh crore, or 49.3% of BE, against 54.2% for the same period last fiscal.
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- Net tax receipts were only 49.4% of estimates compared with 57% last year.
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- Disinvestment proceeds and GST revenues were not as expected.
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- [But the provisional settlement of Integrated GST and residual GST compensation cess (after disbursal to states) could provide some help in augmenting cash flows in coming months.]
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How does the future look?

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- **Fiscal** - The deficit could widen the gap between the target set for FY19 and the final tally.
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- There are several risks to meeting the budgeted targets for revenues and expenditures.
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- A predominant concern arises from a possible shortfall in indirect tax collections.
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- **Revenue** - A positive feature in the revenue front is the optimism seen in non-tax revenue.
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- It has surged more than 31%, putting the government comfortably on track to meet the budget estimate for a 3.9% increase.
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- However, non-tax revenue is budgeted to account for just over a seventh of total revenue.
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- So it could only contribute a small part in addressing the shortfalls in tax receipts.
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- Besides, seven public sector enterprises have been cleared for share sales as part of the disinvestment programme.
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- But even these are likely to only partly help meet the budgeted non-debt

capital receipts.
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- **Expenditure** - Some of the government's expenditure plans committed to recently are not conducive for handling the deficit situation.
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- These may include public sector bank recapitalisation, increase in the quantum of incentives for the export of onions to reverse the slide in prices and the like.
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- Also the general elections are approaching, wherein expenditure needs a cautious handling.
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- The onus is on the government to avoid further fiscal slippage as it could hurt the economy by crowding out vital private investment.
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Source: Economic Times, The Hindu

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