Slippage in Fiscal Targets

Why in news?

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- The government has breached its annual fiscal deficit target in just 8 months of the fiscal year.
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What is the current status?

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- Fiscal deficit is the difference between the government expenditure and revenue.
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- Fiscal deficit target is fixed at 3.2% of the gross domestic product (GDP).
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- Accordingly the Budget Estimate (BE) was Rs 5.5 lakh crore target for the current fiscal year.
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- However, fiscal deficit for April-November 2017 has reached Rs 6.12 lakh crore.
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- This means that the fiscal target for the current year has already reached 112% of the Budget Estimate.
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- This is the highest deviation from the Budget Estimates (BE) for the first eight months since the 2008 global financial crisis.
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What are the causes?

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- The main causes for the widening deficit are

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i. drop in RBI’s profits
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ii. lower GST collections and non-tax revenues
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iii. higher expenditure
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- The Centre is facing a considerable tax revenue shortfall, and shortfall due to low indirect tax revenue is expected to occupy a larger portion.
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- Notably, GST collections were also far below the government target.
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- Further, irrespective of the planned disinvestment revenue, the shortfall in the non-tax revenues is considerably worrying.
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- The only positive for the government is that the direct tax collections are optimistic with the target.
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What are the implications?

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- **Fiscal** - The government needs to have a net fiscal surplus in the next four months if it has to meet its fiscal target, which is a difficult ask.
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- Significantly, the government plans to borrow Rs 50,000 crore additionally, which will only add to the problem.
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- Notably, for the same period, the ‘Revenue Deficit’ stood at 152% of the total target.
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- This indicates that even the quality of the fiscal deficit is poor as much of the money is not going into asset creation.
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- **Policy challenges** - For the deficit target to be met, capital outlay and net lending would have to contract for the rest of the fiscal year.
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- This would have negative implications for investment as well as overall economic activity.
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- This could further potentially affect the tax revenues.
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Source: Business Standard

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