

Business Standard

Fiscal deficit at 135% of BE on higher capex; spending in Nov rises 250%

This is despite a reasonable pick-up in tax revenues during the month as economic activity gradually reverts to normalcy amid the pandemic

Dilasha Seth | New Delhi December 31, 2020 Last Updated at 23:36 IST



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The gap between the Centre's revenue and expenditure touched Rs 10.7 trillion between April and November sharp uptick in capital spending in November to boost the economy led to further widening of the Centre's fiscal deficit to 135 per cent of the full year's Budget Estimates (BE) in the first eight months of 2020-21.

This is despite a reasonable pick-up in tax revenues during the month as economic activity gradually reverts to normalcy amid the pandemic.

The gap between the Centre's revenue and expenditure touched Rs 10.7 trillion between April and November. This is 33 per cent higher than the corresponding period last year and 35.1 per cent higher than the Budget estimates for the current fiscal year, government data showed.

During the same period last year, fiscal deficit was 114.8 per cent of the Budget target. Fiscal deficit had breached the Budget target in July itself as there was a lockdown in the first quarter.

Earlier this month, Finance minister Nirmala Sitharaman outlined the government's resolve to increase spending to support the economy without worrying about the fiscal deficit target. Meanwhile, economists estimate the gap to widen to anywhere between 7 per cent and 9 per cent of GDP against 3.5 per cent estimated earlier by the government.

“In an encouraging sign, despite the revenue shortfalls, there has been an increase in the capital expenditure undertaken by the government,” said Madan Sabnavis, chief economist, CARE Ratings. He estimates the fiscal deficit to widen to 9 per cent of GDP in 2020-21. “The financial position of the central government would continue to be strained for the remainder of the fiscal year 2020-21,” he added.

Fiscal deficit arises when government spending exceeds its revenues. While the government is facing revenue shortfall, it's being required to retain spending to infuse demand.

Capital expenditure grew by 248.5 per cent in November on a year-on-year basis compared to 129.4 per cent growth in October, in line with the government's commitment. Revenue expenditure grew by 32 per cent in November, while it had declined by 1.3 per cent last month.

In the April to November period, capex grew by 13 per cent compared to a 2 per cent decline seen up to October.