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FY21 fiscal deficit seen at 7.8% of GDP: CARE Ratings

Niti Kiran January 13, 2021

A combined effect of lower revenues and higher expenditure is likely to push the fiscal deficit to 7.8 per cent of GDP during FY21, projects CARE Ratings, keeping with the first advance estimate of GDP for FY21 and expectations on the finances of the government. However, this could widen to 8.4 per cent of GDP on adding the amount borrowed for GST compensation to the states. The rating agency had earlier estimated the fiscal deficit at around 9-9.5 per cent of GDP during FY21 based on assumptions on nominal GDP growth and various combinations of revenue loss and increase in expenditure.

The funding of the deficit is primarily going to be via market borrowing, National Small Savings Funds (NSSF), short term borrowings and drawdown of cash balances.

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	FY20(RE)	FY21(BE)	FY21(Proj)
Total revenues	15.1	16.4	14.2
Non tax revenues	3.5	3.9	3.4
Non-debt receipts	0.8	2.3	1.3
Total revenue (net)	19.3	22.5	18.8
Total expenditure	27	30.4	34
Fiscal deficit	7.7	8	15.3
Nominal GDP (1st AE)	204.4	224.9	194.8
GFD/GDP	3.8	3.5	7.8
If borrowing of ₹1.1 Lakh cr for GST shortfall is added separately			
Fiscal deficit			16.4
Nominal GDP (1st AE)			194.8
GFD/GDP			8.4

Source: CARE Ratings; In ₹ lakh crore
AE: advance estimates

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The current fiscal has been challenging for the central government which has faced twin issues of revenue loss and

need to incur higher expenditure due to the pandemic and the induced lockdowns. Before the outbreak of the pandemic, it had budgeted a fiscal deficit at 3.5 per cent of GDP for FY21 that turned awry after the economy was hit by the unprecedented health crisis.

"The finances of the government during April-November'20 have been severely strained with the fiscal deficit at 135 per cent of the budget estimate. It did announce a series of counter-cyclical measures to support the economy but the finances remained constrained on the revenue front owing to which they had to resort to borrowings: announced an increase in its gross market borrowings programme by Rs 4.2 lakh crore, taking the total gross borrowings to Rs 12 lakh crore during the year. Additionally, as part of the GST compensation shortfall faced by the states, the Central Government planned to borrow Rs 1.1 lakh crore under a special window and transfer the same to the states," the report said.

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Budget 2021-22 will be important from the view of the fiscal deficit target (as this affects market borrowings and hence liquidity management) and any medium-term framework of fiscal consolidation.

"The revised FY21 budgetary numbers will serve as the basis for fixing the targets for the coming year. The revised numbers for FY21 will hinge on: how much the nation-wide lockdown has weighed on the revenues of the Government, whether the apparent recovery seen in the latter half of the fiscal could materially off-set the loss of revenue in the first half, reorientation of expenditure towards relief, health, capital expenditure in FY21 and cost savings in non-priority departments," it added.

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