

MARKET STATS
As on 02/03/2015

SENSEX
29459.14

97.64
(0.33%)

NIFTY
8956.75

54.90
(0.62%)

GOLD (MCX)
26801.00

242.00
(0.91%)

USD
62.24

0.02
(0.02%)

GBP/INR
95.97

0.10
(0.1%)

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Budget 2015: Higher fiscal deficit, rating agencies frown at fine-print

By: PTI (<http://www.financialexpress.com/author/pti/>) | Mumbai | March 1, 2015 2:13 pm

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The government has managed a 25.5 per cent increase in capital expenditure to Rs 2,414 billion because of the headroom created from savings in oil subsidies and hike in excise duties on petrol and diesel. PTI

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Rating agencies have not red-flagged the Budget stretching fiscal deficit target by 0.3 percentage points to 3.9 per cent in FY16, but cautioned that higher borrowings should be used for capacity-building in the economy.

“This is a deviation from the earlier announced fiscal consolidation roadmap. We believe a higher fiscal deficit as such is not harmful, so long as the borrowed money is used for expanding the productive capacity of the economy,” India Ratings said in a statement.

It, however, said that the fine-print in the Budget does not support this.

“The quality of fiscal deficit measured by the ratio of revenue deficit to the fiscal deficit under FY15 revised estimate is 70.7 per cent while the FY16 budget estimate is 71 per cent,” it said.

It can be noted that a majority of the major international rating agencies have warned the country about the high fiscal deficit in the past. In the run-up to the Budget, S&P and Moody’s even had said the high fiscal deficit was among the factors which “constrains” the country’s rating.

In the Budget announced yesterday, Finance Minister Arun Jaitley had said the government would achieve the 4.1 per cent fiscal deficit target in FY15, but increased the FY16 target to 3.9 per cent as against 3.6 per cent set earlier, as part of the fiscal consolidation roadmap.

He had also put off the 3 per cent target by a year to FY18, saying “rushing into” a pre-set timetable for fiscal consolidation will not be conducive for growth.

Accordingly, the fiscal deficit targets are 4.1 per cent for FY15, 3.9 per cent for FY16, 3.3 per cent for FY17 and 3 per cent for FY18, each year missing 30 bps.

Stressing that the economy needs public expenditure, Jaitley plans to utilise the additional legroom for capital expenditure.

“The total additional public investment over and above the revenue estimates is planned to be Rs 1.25 trillion out of which Rs 70,000 crore would be capital expenditure from budgetary outlays,” he said.

Another domestic agency Care Ratings termed the fiscal targets as “pragmatic” given the need to grow faster and stressed that the glide path to the medium term target of 3 per cent has been maintained.

The Budget is pro-growth and the government seems to be keen to expedite the growth story with public investment, it said.

“The creditable part of this exercise is that it has been accomplished by being pragmatic with the level of fiscal deficit which will be at 3.9 per cent for the year even though the glide path to 3 per cent is still on the agenda,” its managing director DR Dogra said.



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He however, pointed out that in his calculations, Jaitley has pegged an ambitious divestment target of Rs 69,500 crore, even though the previous fiscal's target of Rs 43,425 crore is expected to fall short by 49 per cent.

“Hence, it remains to be seen if the optimistic target is realised in FY16,” it said.

Domestic rating agency Crisil said the 3.9 per cent fiscal deficit target is realistic, but warned of slippage because of a possible trouble in achieving the divestment target.

In such a scenario, and if the government does not introduce expenditure cuts, the deficit can go up to 4.2 per cent, it said.

The government has managed a 25.5 per cent increase in capital expenditure to Rs 2,414 billion because of the headroom created from savings in oil subsidies and hike in excise duties on petrol and diesel.

“As a share of GDP, capital expenditure will increase from 1.5 per cent in 2014-15 to 1.7 per cent in 2015-16,” it said.

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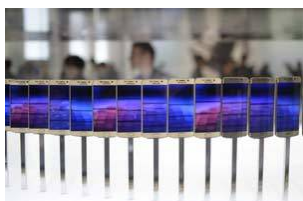
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