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Tax collections will beat target, fiscal deficit will stay at 3.3% of GDP: Govt

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A DAY after announcing steps to contain the current account deficit (CAD), Finance Minister Arun Jaitley said the government will meet the fiscal deficit target of 3.3 per cent of gross domestic product (GDP) for the current fiscal year. This, he said, would be possible as direct tax collections are expected to remain above estimates, and the government hopes to cross the disinvestment target of Rs 80,000 crore.

Jaitley, who spoke to reporters after Prime Minister Narendra Modi held an economic review meeting with all Departments of the Finance Ministry Saturday, said the government would push ahead with its planned capital expenditure without any reduction. The government also expects to exceed the GDP growth target of 7.5 per cent in the current fiscal

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year, he said.

"The Prime Minister has expressed satisfaction with regard to the broad parameters in relation to the economy and the macroeconomic data which is emerging so far for this year... The government is confident and will strictly maintain the 3.3 per cent fiscal deficit target for the year," Jaitley said. He said income-tax collections had been robust with an expanding base, and collections would exceed budgetary targets. Goods and Services Tax (GST) collections were stabilising, he said.

"The CBDT (Central Board of Direct Taxes) is very clear that this year they will be able to collect in excess of the budgeted target... We are confident that between direct and indirect tax collections, the government will comfortably meet the target if not surpass it," Jaitley said.

The government had projected in the Budget a direct tax collection of Rs 11.5 lakh crore for the 2018-19 fiscal. "And on the basis of all these analyses, we are optimistic about our growth rate, our tax collection and certainly as far as fiscal deficit is concerned we will strictly meet the 3.3 per cent target," Jaitley said.

The Departments of Economic Affairs, Revenue, Expenditure, Banking and Disinvestment made detailed presentations at Saturday's meeting.

In the backdrop of the deteriorating macroeconomic situation, with a sharp slide in the currency and foreign exchange reserves, the government is signalling to the market that it would be able to manage the crucial twin deficits (fiscal deficit and CAD). India's CAD jumped to 2.4 per cent of GDP in the first quarter of 2018-19 from 1.9 per cent in the precious fiscal year. A sharp depreciation in the rupee and a spike in the price of crude oil has led to a rise in the CAD, resulting in capital outflows.

To contain the CAD and the fall in the rupee, the government Friday eased overseas borrowing norms for manufacturing companies, removed restrictions on foreign portfolio investor (FPI) investment in corporate bonds, and provided tax benefits on the issuance of masala bonds. But market players said these measures may not be enough to contain the CAD.

"The capital account measures announced yesterday are unlikely to result in any significant shift in fund flows in the immediate future. These measures are better suited when the sentiment in the global market is positive towards emerging markets, and in general when it is relatively easy for emerging market corporates to raise money abroad. For example, the demand for masala bonds from offshore investors is generally driven by the stability of the rupee. In an environment where the rupee is under pressure, a foreign investor would not be too willing to increase its portfolio of rupee denominated assets (unlikely to bet further on the rupee)," HDFC Bank Chief Economist Abheek Barua said in a note Saturday.