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Fiscal deficit expected to remain high

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By Tias Chakraborty

India is likely to take some more time to reduce its fiscal deficit due to the present volatility of the market. Industry body FICCI has revealed in a report that the figure is expected to remain over 5% against the budgetary estimate of 4.6%. The body has also said that increased spending and slippages in revenue have been some of the key factors in maintaining the deficit above 5%. FICCI specified that the fiscal deficit figures are likely to be around 5.05-5.12% of the GDP.

The industry body has also warned that the figure could be higher if the government does not stick to the expenditure target set during the annual budget. According to FICCI estimates, the nominal GDP growth is likely to go up to 15.5%, which is around 1.5% more than the budgetary expectations. The average inflation is also pegged around 8% and therefore the real GDP growth rate would be around 7.5%. This, in turn, is likely to lower the fiscal deficit to GDP ratio.

The GDP has shown threateningly low growth rates over the last two quarters. While the government found the data disappointing, the industrial sector has some serious concern about the effectiveness of the strict monetary stance adopted by the Reserve Bank of India (RBI) in recent months.

Impact on industry
According to Amit Mantry, director of Excell Ferro Pvt Ltd, an established iron products

manufacturer in Cuttack, "The growth rate was expected to dwindle in spite of the government's assurances. Anyone who knew the condition of the Indian market could have predicted that a major slowdown was in the pipeline. Present measures by RBI also seem to be a futile exercise that does not seem to take into consideration the welfare of the small-scale sector. In stead of taking measures that would enhance the supply in the system, the apex bank has resorted to the mopping of liquidity from the system. This has completely devastated sentiments of the industrial sector and its impact on the GDP was only due to be exposed. I expect that the industrial growth and the GDP growth rate will fall further if the government does not come up with a new and more manufacturing-friendly strategy to tame inflation rates."

The MSME sector, which includes several players in the export-import sector, cried foul at the increasing of interest rates by RBI. The revision of the central bank's key policy rates has directly impacted margins in double digit percentage figures for several players in this sector.

Bringing in foreign capital is another important way to fight the fiscal deficit issue but the foreign trade policy of the country has also deterred some players from entering the market. In this regard, the opening up of the multi-brand retail sector has caused the maximum buzz. Raj Sharma, co-founder and president of Majestic MRSS, an established international market research firm, explains, "More inflow of FDI is the basis of consumption facilitators driving more consumption. If Walmart/Starbucks/Wendy can freely operate in India, the unemployment rate will go down significantly because these are Fortune 500 companies that employ in a massive manner. The market capitalisation of Dominoes franchisee in India is more than Dominoes itself globally."

It is therefore important for the government to keep in mind the issues of the small-scale sector as well as the fiscal deficit figures before formulating further policies to combat inflation as well as facilitate foreign trade.