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Fiscal deficit up Rs.214bn in 1H as pandemic hurts

- Govt. demonstrates discipline in recurrent expenditure despite heavy fiscal stimulus
- Deficit largely contained by scaling down public investments
- Parliament passed Vote-on-Account last week for Rs.950bn for Aug-Dec period
- FinMin fails to provide deficit as a share of economy as estimating GDP becomes difficult

Sri Lanka's budget deficit for the first six months of 2020 expanded by Rs.214 billion in comparison to the same period in 2019 as the pandemic put a heavy damper on tax incomes as curfews imposed for nearly two months took a heavy toll on incomes of businesses and individuals.

The Finance Ministry data recorded a budget deficit of Rs.735.7 billion for the six months compared to Rs.521.7 billion recorded in the corresponding period last year.

However, the deficit as a share of the estimated gross domestic product (GDP) wasn't available for the period as the Ministry appears to have temporarily halted the practice with estimating GDP becoming a challenge as the Census and Statistics Department reported a contraction in the economy for the first quarter.

The estimates for the economy in 2020—an year where most part ravaged by the coronavirus—were largely developed on expectations of at least a brief upside movement in the economy during the first three months, but the unexpected contraction made orecasting a tough task for statisticians and economists.

Sri Lanka's economy slipped by 1.6 percent in the first quarter on industry and agricultural activities contracting by 7.8 percent and 5.6 percent respectively, while the services sector recorded a growth of 3.1 percent. Further, taxes-less subsidies on products contracted by 10.8 percent during the quarter.

It is expected that the fiscal deficit for 2020 could reach 8 percent or more as a share of the GDP.

Sri Lanka's economy was on a solid path to recovery, incentivised by both fiscal and monetary stimuli before the pandemic struck, forcing factory closure and depriving the country of most economically active two months—March and April.

The mostly dormant economic activities during April and May and the nascent growth in June led to lower tax revenue for the government.

The tax revenue for the first six months was Rs.580.8 billion compared to Rs.811.6 billion. The non-tax revenues however, rose briefly to Rs.82.5 billion from Rs.76.4 billion in the same period last year.

The total government revenue for the period was Rs.665.5 billion, compared to Rs.888.6 billion last year.

Meanwhile, the government appears to have kept a closer tab on its recurrent expenditure for the period as such expenses only rose to Rs.1, 237.4 billion during the six months compared to Rs.1,120.3 billion in the corresponding period last year.

This is quite a task amid a pandemic when the government had to provide handouts as a stipend for large swaths of the population whose livelihoods came to an abrupt halt for nearly two months.

Last week the parliament passed a Vote-on-Account authorising the government to spend a further Rs.949.7 billion consisting of Rs.613.45 billion for recurrent spending and Rs.336.3 billion for capital spending for the five months from August to December. The budget for 2021 is scheduled to be presented in parliament in November.

During the first six months, the government had significantly cut down on its public expenditure as it had to prioritize recurrent expenditure during the pandemic while keeping the deficit from blowing out. As a result the capital expenditure for the first six months came in at Rs.163.7 billion, compared to Rs.290 billion in the same period last year.

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All in all, the total government expenditure was Rs.1, 401.2 billion, down from Rs.1, 410.3 billion in the comparable period in 2019— a notable handling of expenses in a challenging time.