Government of India Finances

GoI's fiscal deficit rises by 19.2% YoY to Rs. 5.9 trillion in H1 FY2019, stands at 95.3% of budget estimate for FY2019

OCTOBER 2018

Contact:
Aditi Nayar
+91 124 4545 385
aditin@icraindia.com

Medha Sinha
+91 124 4545 399
medha.sinha@icraindia.com

HIGHLIGHTS

- ***The fiscal deficit of the Government of India (GoI) recorded a year-on-year (YoY) rise of 19.2% to Rs. 5.9 trillion in H1 FY2019, which was equivalent to a considerable 95.3% of the FY2019 budget estimates (BE), marking a deterioration relative to the situation in H1 FY2018 (84.3% of the FY2018 provisional accounts or Prov.).***
- ***Revenue receipts rose by 11.0% in H1 FY2019, falling short of the 13.8% expansion in revenue expenditure, and marginally trailing the 11.1% growth in capital expenditure.***
- ***The GoI's gross tax revenues rose by 8.6% in H1 FY2019 to Rs. 9.1 trillion, lower than the 18.3% growth included in FY2019 BE. Direct tax collections rose by 16.9% in H1 FY2019, nearly in line with the budgeted growth of 17.4%, whereas indirect tax collections recorded a YoY contraction of 2.8% in H1 FY2019, in sharp contrast to the 21.3% expansion included in FY2019 BE.***
- ***The GoI's non-tax revenues expanded by 34.8% in H1 FY2019 to Rs. 1.1 trillion, higher than the 27.3% growth included in FY2019 BE. Nevertheless, the amount of dividend from nationalised banks and financial institutions and non-financial PSUs to the GoI would need to rise considerably in FY2019 to meet the target for dividends and profits, which may prove challenging.***
- ***Disinvestment proceeds from the sale of the GoI's equity holdings stood at a limited Rs. 99.5 billion or 12.4% of the FY2019 BE in H1 FY2019, enhancing concerns over the achievement of the full year target.***
- ***Revenue expenditure rose by 13.8% to Rs. 11.4 trillion in H1 FY2019, which was equivalent to 53.3% of FY2019 BE. Capital outlay increased by a healthy 20.3% to Rs. 1.5 trillion in H1 FY2019 and stood at 54.7% of FY2019 BE, led by sectors such as defence, roads and railways.***
- ***Whether a fiscal slippage emerges relative to budgeted level for FY2019 would depend on the extent to which a host of revenue and expenditure risks crystallise. Such risks include the likelihood of meeting the targets for the Goods and Services Tax (GST), dividends and profits, and disinvestment, and the adequacy of outlays for revised minimum support prices (MSPs), the National Health Protection Scheme, fuel and other subsidies, and bank recapitalisation.***

APRIL-SEPTEMBER FY2019 FISCAL BALANCES

Revenue Trends in H1 FY2019: Provisional data released by the Controller General of Accounts (CGA) indicates that the GoI's revenue receipts rose by 11.0% in YoY terms to Rs. 6.9 trillion in H1 FY2019 from Rs. 6.2 trillion in H1 FY2018. However, the pace of growth of revenue receipts was lower than the 20.2% expansion included in FY2019 BE. Moreover, revenue receipts during H1 FY2019 stood at 40.1% of FY2019 BE, lower than the same in H1 FY2018 (43.4% of FY2018 Prov.). Net tax revenues rose by a modest 7.5% to Rs. 5.8 trillion (39.4% of FY2019 BE), while non-tax revenues expanded by a considerable 34.8% to Rs. 1.1 trillion (44.5% of FY2019 BE) in H1 FY2019.

Tax Revenue: Net of refunds (gross of devolution to States), the GoI's tax revenues rose by 8.6% in H1 FY2019 to Rs. 9.1 trillion (refer Exhibit 1 and 2), considerably lower than the 18.3% growth included in FY2019 BE. The net tax revenues (net of devolution to States) expanded by a lower 7.5%, with an 11.4% YoY rise in taxes devolved to the states in H1 FY2019.

Direct tax collections rose by a healthy 16.9% in H1 FY2019, nearly in line with the growth of 17.4% included in FY2019 BE. Income tax collections recorded a lower-than-budgeted growth (+16.5% vs. +29.6%) to Rs. 2.0 trillion in H1 FY2019. In contrast, inflows from corporate tax expanded by 17.2% to Rs. 2.4 trillion in H1 FY2019, higher than the budgeted growth of 8.7%. Notably, income tax and corporate tax collections during H1 FY2019 stood at 37.0% and 39.2%, respectively, of the BE for the full year (+41.1% and +36.4%, respectively, of FY2018 Prov. in H1 FY2018).

Indirect taxes (customs duty, excise duty, service tax, Central GST or CGST, Integrated GST or IGST and Union Territory Goods and Services Tax or UTGST) recorded a discomfiting YoY de-growth of 2.8% to Rs. 4.1 trillion in H1 FY2019, in sharp contrast to the 21.3% expansion included in FY2019 BE. Indirect taxes accounted for 40.0% of the FY2019 BE, lower than the same in H1 FY2018 (49.9% of FY2018 Prov.).

Customs duty, excise duty and service tax aggregated to Rs. 1.7 trillion in H1 FY2019, equivalent to 45.6% of the BE. The GoI cut excise duty on petrol and diesel by Rs. 1.5/litre each in October 2018, with a revenue implication of Rs. 105.0 billion, which would dampen indirect tax revenues in H2 FY2019.

The combined CGST and IGST collections in H1 FY2019 stood at Rs. 2.4 trillion or 37.0% of the FY2019 BE. The GoI had indicated in the Lok Sabha that the reduction in GST rates recommended by the GST Council in its 28th meeting in July 2018, would have a revenue implication of about Rs. 100.0 billion. ***Nevertheless, the benefits of the e-way bill and formalisation of the economy after the transition to the GST, as well as the seasonal uptrend in consumption toward the later part of the year, particularly during the festive season, should help to minimise the gap between the FY2019 BE and the actual collections for CGST and IGST.*** In addition, inflows from GST compensation cess amounted to Rs. 469.4 billion in H1 FY2019 and accounted for 52.2% of the FY2019 BE.

Exhibit 1: Trends in Tax Revenue Receipts in FY2018 and H1 FY2019

	FY2018 Prov.	FY2019 BE		H1 FY2019 (Prov.)		
	Rs. billion	Rs. billion	Growth#	Rs. billion	% of BE	Growth#
Gross Tax Revenues^	**19,191.8**	**22,712.4**	**18.3%**	**9,058.0**	**39.9%**	**8.6%**
Direct Taxes	9,794.1	11,500	17.4%	4,393.5	38.2%	16.9%
Corporation Tax	*5,712.0*	*6,210.0*	*8.7%*	*2,437.4*	*39.2%*	*17.2%*
Income Tax	*4,082.1*	*5,290.0*	*29.6%*	*1,956.0*	*37.0%*	*16.5%*
Indirect Taxes	8,504.3	10,312.4	21.3%	4,126.9	40.0%	-2.8%
Central GST (CGST)	*2,032.5*	*6,039*	*NA*	*2,149.5*	*35.6%*	*NA*
Union Territory GST (UTGST)	*15.7*	*52*	*NA*	*8.1*	*15.4%*	*NA*
IGST	*1,688.1*	*500*	*NA*	*271.9*	*54.4%*	*NA*
Customs Duty	*1,369.3*	*1,125.0*	*-17.8%*	*644.6*	*57.3%*	*-26.0%*
Excise Duty	*2,586.4*	*2,596.0*	*0.4%*	*1,005.9*	*38.7%*	*-22.6%*
Service Tax	*812.3*	*0.0*	*NA*	*47.1*	*NA*	*NA*
GST Compensation Cess	626.0	900	NA	469.4	52.2%	NA

^ Net of Refunds, Gross of States' share in Central Taxes; # As compared to the corresponding period of FY2018 Prov.
Source: GoI Budget Documents; CGA, Ministry of Finance, GoI; ICRA research

Non-Tax Revenue and Disinvestment Proceeds: The GoI's non-tax revenues expanded by 34.8% to Rs. 1.1 trillion in H1 FY2019, higher than the 27.3% growth included in FY2019 BE. Moreover, the inflows during H1 FY2019 were equivalent to 44.5% of the BE for FY2019, higher than the level in H1 FY2018 (42.0% of FY2018 Prov.).

Within non-tax revenues, interest receipts of the GoI stood at Rs. 58.4 billion during April-September 2018, which was equivalent to 38.5% of FY2019 BE. Moreover, the inflows from economic services stood at Rs. 453.2 billion (50.6% of FY2019 BE), while dividends and profits amounted to 447.0 billion (41.6% of FY2019 BE). The GoI has budgeted for Rs. 1.1 trillion as dividends and profits from non-financial and financial PSUs, as well as the surplus from the Reserve Bank of India (RBI) for FY2019. In August 2018, the RBI's Central Board approved the transfer of surplus of Rs. 500.0 billion to the GoI for the year ending June 30, 2018. However, the RBI's Annual Report indicated that the GoI would receive Rs. 400.0 billion as surplus from the RBI in FY2019, as the Central Bank had already transferred Rs. 100.0 billion as interim dividend to GoI in March 2018, which was included in the provisional data for FY2018. ***This suggests that the amount of dividend from nationalised banks and financial institutions and non-financial PSUs to the GoI would need to rise considerably to Rs. 673.1 billion in FY2019 to meet the target, from an estimated Rs. 507.1 billion in FY2018 Prov., which may prove challenging.***

The GoI budgeted Rs. 486.6 billion for Other Communication Services in FY2019 BE. ***However, it is estimated to accrue lower at Rs. 340-360 billion on account of continued heightened competitive intensity leading to pressures on regular streams such as spectrum usage charges and license fees, and some impact of the elongation of payment period for deferred spectrum payments. No spectrum auctions are anticipated in the current year.***

Disinvestment proceeds from the sale of the GoI's equity holdings stood at a limited Rs. 99.5 billion or 12.4% of the BE for FY2019 in H1 FY2019, following the sale of its stake in MIDHANI, RITES etc. as well as the proceeds from the FFO of BHARAT 22 ETF. ***Notwithstanding potential buybacks by some PSUs, concerns remain over the likelihood of achievement of the full year target of disinvestment of Rs. 800.0 billion, through the market route.***

Exhibit 2: Trends in Quarterly Tax Collections (Net of Refunds, Gross of States)

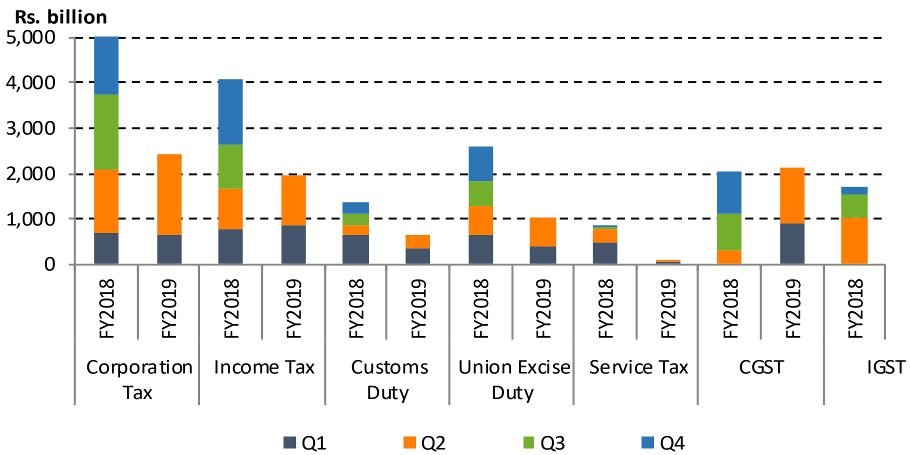
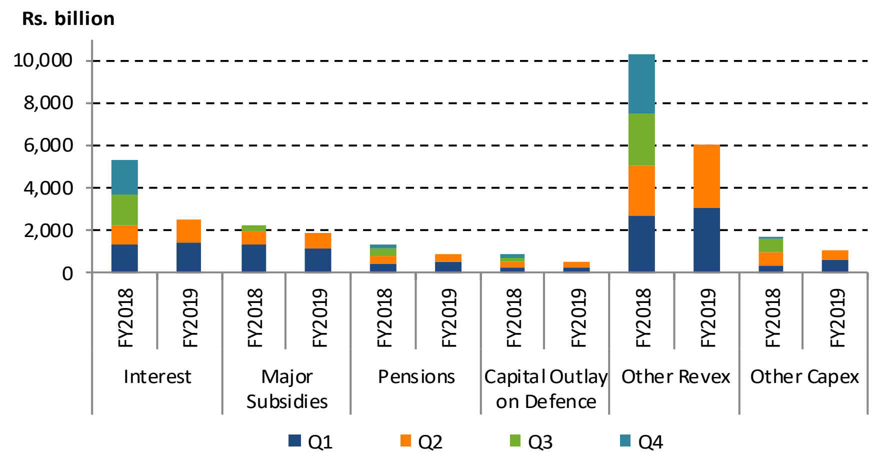


Exhibit 3: Trends in Quarterly Expenditure (ICRA's estimates)



Source: CGA, Ministry of Finance, GoI; ICRA research

<u>**Expenditure Trends for H1 FY2019:**</u> In H1 FY2019, the GoI's revenue spending expanded by 13.8% to Rs. 11.4 trillion (53.3% of FY2019 BE), and its capital expenditure and net lending rose by 11.3% to Rs. 1.5 trillion (53.8% of FY2019 BE).

The GoI's revenue expenditure growth of 13.8% in H1 FY2019 was similar to the 14.0% growth budgeted for FY2019. Total outlay for major subsidies expanded by a muted 1.2% to Rs. 1.88 trillion in H1 FY2019 (71.2% of FY2019 BE) from Rs. 1.86 trillion in H1 FY2018 (97.3% of FY2018 Prov.; refer Exhibit 3). The subsidy outlay for the Ministry of Petroleum and Natural Gas, Department of Fertilisers and Department of Food and Public Distribution stood at 89.6%, 52.7% and 76.2% of FY2019 BE, respectively. Moreover, the growth of interest expenditure in H1 FY2019 stood at 13.1%, lower than the level included in FY2019 BE (19.8%).

The Cabinet Committee on Economic Affairs (CCEA) has announced the creation of a buffer stock for absorbing a part of the excess supply of sugar in the market. This is likely to cost an additional Rs. 12 billion to the GoI. Furthermore, in September 2018, the GoI approved an umbrella scheme, PM-AASHA, to ensure that farmers receive fair remunerative prices for their produce. This includes the Price Support Scheme (PSS), Price Deficiency Payment Scheme (PDPS), and Pilot of Private Procurement & Stockist Scheme (PPPS), which include measures to compensate farmers in the event of the market prices of certain crops declining below their MSP. The expenditure outlay of this programme has been placed at Rs. 455.5 billion by the GoI, although the overall fiscal impact of these measures would depend on the scale and efficacy of these programs.

The budgetary allocation for petroleum subsidies is placed at Rs. 249 billion for FY2019 (including Rs. 32 billion for LPG connection under Ujjwala). With the rise in crude oil prices and the depreciation of the INR, the gross under-recoveries of the oil marketing companies for the ongoing fiscal are estimated to exceed the budgetary allocation for fuel subsidies, exerting pressure on the overall fiscal deficit target.

Moreover, the weakening in the INR since FY2019, as well as higher gas costs, are likely to increase the cost of production of urea, adversely impacting the GoI's outlay towards urea subsidy. Accordingly, as against the budgeted amount of Rs. 450 billion, ICRA estimates a higher requirement for urea subsidy of around Rs. 575.0 billion. ***Overall, the outlays required for revised MSPs, fuel and fertiliser subsidies, as well as the NHPS, may exceed the budgeted amounts.***

The pace of growth of capital expenditure and gross lending (11.1% in H1 FY2019) was somewhat lower than the 13.7% rise targeted in the BE for FY2019. Capital outlay increased sharply to Rs. 1.5 trillion in H1 FY2019 (Rs. 1.3 trillion in H1 FY2018) and was equivalent to 54.7% of FY2019 BE, led by sectors such as defence, roads and railways. In contrast, gross lending posted a YoY contraction of 47.1% in April-September FY2019, and stood at 48.4% of the BE for FY2019.

The GoI had budgeted for an amount of Rs. 650.0 billion for PSB recapitalisation, to be provided through bonds in FY2019. In H1 FY2019, it approved LIC's acquisition of 51% stake in IDBI Bank subsequent to which LIC has infused Rs 21.0 billion in IDBI bank till now. In addition, it has infused Rs. 144.15 billion till now in 7 PSBs, as opposed to the earlier trend of infusion towards the end of each fiscal, which highlights the extent of stress in the capitalisation ratios of some of the PSBs. ***ICRA believes that the PSBs would require capital of Rs 1.2-1.8 trillion during FY2019, if the banks are to meet regulatory capital ratios, including capital conservation buffers. Accordingly, the GoI may have to upsize the budgeted capital infusion, if the PSBs are not able to raise capital from alternate sources, which poses a fiscal risk.***

Fiscal Balances in H1 FY2019: The GoI's fiscal deficit printed at Rs. 5.9 trillion in H1 FY2019, 19.2% higher than H1 FY2018 (Rs. 5.0 trillion; refer Exhibit 4). In addition, the GoI's revenue and fiscal deficits in H1 FY2019 stood at 108.0% and 95.3% of the BE for FY2019, respectively, higher than the prints of 85.5% and 84.3% of FY2018 Prov., respectively, in H1 FY2018 (refer Exhibits 5 and 6). ***Whether a fiscal slippage emerges relative to budgeted level for FY2019 would depend on the extent to which a host of revenue and expenditure risks crystallise. Such risks include the likelihood of meeting the targets for GST, dividends and profits, and disinvestment, and the adequacy of outlays for revised MSPs, the NHPS, fuel and other subsidies, and bank recapitalisation.***

Notwithstanding the continued fiscal concerns, the high likelihood of a continuation of open market operations in the remainder of Q3 FY2019 and higher dependence on the NSSF for funding the fiscal deficit, would ease concerns on the supply of bonds and thereby cap yields for Government of India securities (G-sec). To what extent geopolitical risks keep sentiments on edge, and whether an increase in Saudi crude oil production offsets the feared decline related to US sanctions on Iran, would

continue to imbue volatility in both the USD-INR cross rate and G-sec yields. At present, ICRA expects the 10-year G-sec yield to trade between 7.8-8.2% in the remainder of Q3 FY2019.

Exhibit 4: Trends in Revenues and Expenditure of the GoI

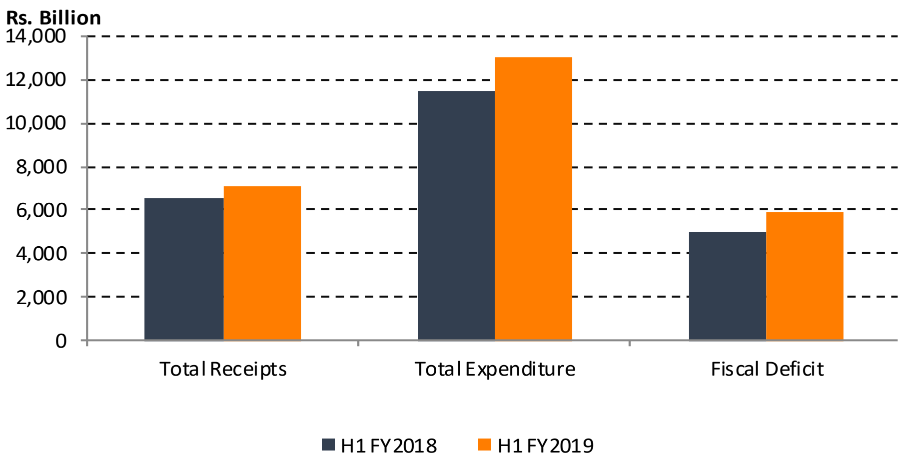
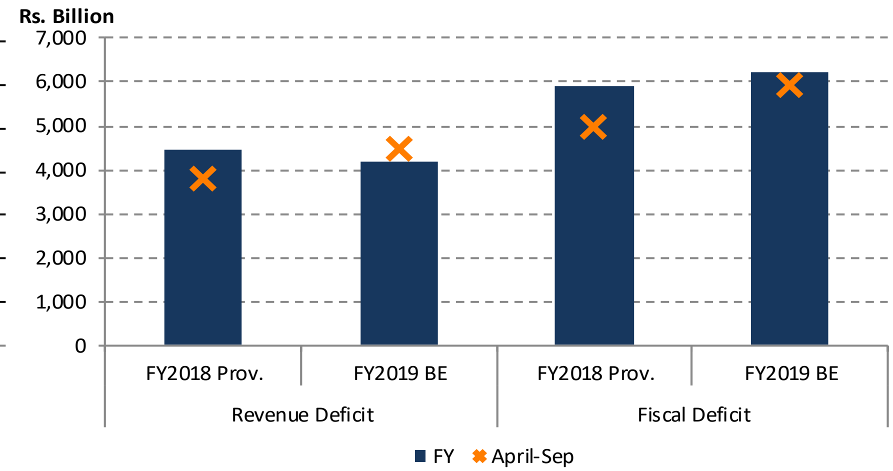


Exhibit 5: Revenue and Fiscal Deficits



Source: CGA, Ministry of Finance, GoI; ICRA research

Exhibit 6: Trends in Tax Revenue Receipts in FY2018 and H1 FY2019

	FY2018 Prov.	FY2019 BE		H1 FY2019 (Prov.)		
	Rs. billion	Rs. billion	Growth#	Rs. billion	% of BE	Growth#
Revenue Receipts	14,351.9	17,257.4	20.2%	6,917.5	40.1%	11.0%
*Tax Revenues^*	12,426.6	14,806.5	19.2%	5,827.8	39.4%	7.5%
Non-Tax Revenues	1,925.2	2,450.9	27.3%	1,089.7	44.5%	34.8%
Revenue Expenditure	18,789.6	21,422.8	14.0%	11,415.9	53.3%	13.8%
Revenue Deficit	**4,437.8**	**4,165.45**	**-6.1%**	**4,498.3**	**108.0%**	**18.5%**
Capital Receipts	1,002.0	800.0	-20.2%	99.5	12.4%	-49.7%
Capital Expenditure, Net Lending	2,480.8	2,877.3	16.0%	1,548.4	53.8%	11.3%
Fiscal Deficit	**5,916.6**	**6,242.8**	**5.5%**	**5,947.3**	**95.3%**	**19.2%**

^ Net of Refunds, Net of States' share in Central Taxes; # As compared to the corresponding period of FY2018 Prov.
Source: GoI Budget Documents; CGA, Ministry of Finance, GoI; ICRA research

Business Contacts

Mr. L. Shivakumar
E-mail: shivakumar@icraindia.com
Tel: +91 22 6114 3406 / +91 98210 86490

Mr. Jayanta Chatterjee
E-mail: jayantac@icraindia.com
Tel: +91 80 4332 6401/ +91 98450 22459

Media and Public Relations

Ms. Naznin Prodhani
E-mail: communications@icraindia.com
Tel: +91 124 4545 860

Branches

Registered Office:

1105, Kailash Building, 11th Floor,
26, Kasturba Gandhi Marg,
New Delhi - 110 001
Tel: + 91 11 2335 7940-45

Corporate Office:

Building No.8, 2nd Floor,
Tower A, DLF Cyber City Phase II,
Gurgaon- 122 002
Tel: +91 124 4545300

Ahmedabad

907 & 908, Sakar – II,
Ellisbridge, Opp. Town Hall,
Ahmedabad - 380 006
Tel: +91 79 4027 1500/01

Bengaluru 1

'The Millenia', Tower- B,
Unit No. 1004, 10th Floor,1 & 2 Murphy Road,
Bengaluru - 560 008
Tel: +91 80 4332 6400

Bengaluru 2

2nd Floor, Vayudooth Chamber,
15-16, Trinity Circle, M.G. Road,
Bengaluru - 560 001
Tel: +91 80 4922 5500

Chennai

5th Floor, Karumuttu Centre,
634, Anna Salai, Nandanam
Chennai - 600 035
Tel: +91 44 4596 4300

Hyderabad 1

No. 7-1-58, 301, 3rd Floor, 'CONCOURSE',
Above SBI-HPS Branch,
Ameerpet,
Hyderabad - 500 016
Tel: +91 40 4920 0200

Hyderabad 2

4A, 4th Floor, SHOBHAN,
6-3-927, A&B Somajiguda,
Raj Bhavan Road,
Hyderabad – 500082
Tel: +91 40 40676500

Kolkata

A-10 & 11, 3rd Floor, FMC Fortuna 234/3A,
A.J.C. Bose Road,
Kolkata -700 020
Tel: +91 33 7150 1100/01

Mumbai

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi,
Mumbai - 400 025
Tel: +91 22 6169 3300

Pune

5A, 5th Floor, Symphony, S. No. 210
CTS 3202 Range Hills Road, Shivajinagar,
Pune - 411 020
Tel: +91 20 2556 1194

Email: info@icraindia.com
Helpdesk: 124 3341580
Website: www.icra.in/ www.icraresearch.in