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GOVERNMENT OF INDIA FINANCES

GoI's fiscal deficit rose by 21.7% to Rs. 10.4 trillion in April-February FY2020; expenditure would need to be curtailed below the FY2020 RE by Rs. 1.1-1.2 trillion to prevent a fiscal slippage in absolute terms

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HIGHLIGHTS

- *The fiscal deficit of the Government of India (GoI) rose by a sharp 21.7% to Rs. 10.4 trillion in April-February FY2020 or 11M FY2020 from Rs. 8.5 trillion in 11M FY2019. Moreover, the GoI's fiscal deficit in 11M FY2020 stood at a significant 135.2% of the Revised Estimate (RE) for FY2020, although this is similar to the level of 131.1% of the FY2019 Actuals recorded in 11M FY2019.*

- *Revenue receipts, revenue expenditure, and capital expenditure and net lending increased by 8.9%, 12.8%, and 11.7%, respectively, in 11M FY2020, each trailing the revised growth targets for the full year (19.1%, 17.0%, and 14.7%, respectively).*

- *The GoI's gross tax revenues would need to expand by a sharp 25.0% in March 2020, to meet the FY2020 RE, which appears exceedingly unlikely given the adverse impact of the Covid-19 outbreak and the ensuing lockdown, on production and consumption. In ICRA's view, the gross and net tax collections of the GoI are likely to undershoot the FY2020 RE of Rs. 21.6 trillion and Rs. 15.0 trillion, respectively, by Rs. 1.2-1.3 trillion in FY2020.*

- *The GoI's revenue expenditure would need to more than double on a YoY basis in March 2020 to meet the FY2020 RE of Rs. 23.5 trillion. Accordingly, further saving in expenditure relative to the FY2020 RE appears likely. Moreover, ICRA expects a write back of food subsidy (offset by transfer of funds from the NSSF to FCI) in March 2020, in line with trend in FY2019. This would restrain the GoI's revenue expenditure in March 2020.*

- *While the fiscal deficit stood at a considerable 135.2% of the FY2020 RE in 11M FY2020, factors such as the aforementioned write back in food subsidy, a decline in the central tax devolution to the state governments in March 2020 (to ~Rs. 953.0 billion based on the GoI's FY2020 RE, from Rs. 1.6 trillion in March 2019), enhancement of duties on petrol and diesel in mid-March 2020, the typical accumulation of direct tax collections in the year-ending month, and the receipt of AGR dues from some telecom companies would help to restrain the size of the fiscal deficit for the full year.*

- *Given the lower-than-expected net tax revenues and disinvestment proceeds, offset by the AGR dues from some telecom companies, ICRA estimates that the total expenditure of the GoI would need to be curtailed below the FY2020 RE by Rs. 1.1-1.2 trillion, for the fiscal deficit to remain in line with the revised target Rs. 7.7 trillion for FY2020 (3.8% of GDP, based on our nominal GDP growth estimate of 6.8% for that year).*

- *The meaningfulness of the revenue and expenditure growth assumptions made in the Union and various state budgets for FY2021, has drastically reduced following the rapid escalation of the current crisis. The loss of economic activity is expected to dampen tax collections in Q1 FY2021, which would constrain the cash flows of the Central and state governments. Additionally, expenditure may rise sharply in H1 FY2021, especially if additional stimulus programmes are provided to dull the impact of the ongoing crisis on livelihoods and economic activity, resulting in a frontloading of borrowings. In line with this, the indicative calendar of market borrowings by the state governments for Q1 FY2021 has pegged the total market borrowing of 23 states at Rs. 1,272 billion, a substantial 56% higher than the actual SDL issuance of Rs. 815 billion in Q1 FY2020. Moreover, the GoI's market borrowing programme has pegged the gross G-sec issuance during H1 FY2021 at Rs. 4.9 trillion, 10.4% higher than the actual issuance of Rs. 4.4 trillion in H1 FY2020.*

Revenue Trends in April-February FY2020: Provisional data released by the Controller General of Accounts (CGA) indicates that the GoI's revenue receipts rose by 8.9% in YoY terms to Rs. 13.8 trillion in 11M FY2020 from Rs. 12.7 trillion in 11M FY2019. However, the pace of growth of revenue receipts sharply trailed the 19.1% expansion included in FY2020 RE (relative to the data for FY2019 Actuals). Further, revenue receipts during 11M FY2020 stood at 74.5% of FY2020 RE, lower than the same in 11M FY2019 (81.5% of FY2019 Actuals). The GoI's non-tax revenues expanded by a sharp 53.2% to Rs. 2.6 trillion in 11M FY2020 (76.2% of FY2020 RE) from Rs. 1.7 trillion (72.9% of FY2019 Actuals) in 11M FY2019, which supported the growth in revenue receipts, even as the net tax revenues recorded a modest 1.9% growth to Rs. 11.1 trillion (74.1% of FY2020 RE) from Rs. 10.9 trillion (83.0% of FY2019 Actuals), respectively.

Tax Revenue: Net of refunds (gross of devolution to States), the GoI's tax revenues were forecast to grow by a modest 4.0% in FY2020 RE relative to FY2019 Actuals. However, they declined by 0.8% to Rs. 16.8 trillion in 11M FY2020 (refer Exhibit 1) from Rs. 16.9 trillion in 11M FY2019. Moreover, the taxes devolved to the states contracted by 6.0% to Rs. 5.6 trillion in that period from Rs. 6.0 trillion in 11M FY2019. As a result, the net tax revenues (net of devolution to States) expanded by a mild 1.9% in 11M FY2020.

The two major direct taxes recorded a 3.5% decline in 11M FY2020, in contrast to the 2.9% growth target included in FY2020 RE. This is reflected by the trend for both corporate tax collections (-12.0% vs. -8.0%) as well as income tax (+7.7% vs. +18.3%). Notably, income tax and corporate tax collections during 11M FY2020 stood at 69.4% and 68.6%, respectively, of the RE for the full year (76.2% and 71.6%, respectively, of FY2019 Actuals in 11M FY2019). ***The GoI's income tax collections would need to increase by a considerable 52.1% in March FY2020 in order to reach the FY2020 RE level, which seems unlikely. While the corporate tax collections would need to rise by a muted 2.0% in March FY2020, this still seems optimistic following the cut in rates, as well as the economic disruption caused by the spread of Covid-19 in March 2020.***

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 mild rise of 1.8% to Rs. 7.7 trillion in 11M FY2020, lower than the 5.5% growth included in the FY2020 RE (relative to FY2019 Actuals). Indirect taxes accounted for 86.0% of the FY2020 RE, lower than the same in 11M FY2019 (89.1% of FY2019 Actuals). Notably, the combined CGST and IGST collections grew by 5.2% to Rs. 4.6 trillion in 11M FY2020 (89.6% of the FY2020 RE) from Rs. 4.4 trillion in 11M FY2019 (90.0% of FY2019 Actuals), similar to the 5.7% growth forecasted in FY2020 RE. However, the combined revenue from customs, excise and service tax contracted by 3.1% to Rs. 3.1 trillion in 11M FY2020 (82.0% of FY2020 RE) from Rs. 3.2 trillion in 11M FY2019 (88.7% of FY2019 Actuals). The 3.1% contraction recorded during 11M FY2020 is in sharp contrast to the 4.9% growth included in FY2020 RE (relative to FY2019 Actuals). The GoI raised the special additional excise duty and road and infrastructure cess on petrol and diesel by a total of Rs. 3/litre, which would support the excise duty collections to some extent in March 2020, although fuel consumption appears set to contract as a result of social distancing and the lockdown. In our assessment, the indirect tax collections would need to grow by a considerable 35.7% in March 2020, which appears unlikely, especially given the adverse impact of the restrictions related to the Coronavirus outbreak.

The inflows from GST compensation cess grew by a marginal 0.6% to Rs. 874.6 billion in 11M FY2020 from Rs. 869.1 billion in 11M FY2019, lower than the 3.4% growth envisaged in FY2020 RE (relative to FY2019 Actuals).

According to our estimates, the gross tax revenues of the GoI would need to expand by a sharp 25.0% in March 2020, to meet the FY2020 RE, which appears exceedingly unlikely given the adverse impact of the outbreak of the Coronavirus and the ensuing lockdown, on production and consumption. In ICRA's view, the gross and net tax collections of the GoI are likely to undershoot the FY2020 RE of Rs. 21.6 trillion and Rs. 15.0 trillion, respectively, by Rs. 1.2-1.3 trillion in FY2020.

Exhibit 1: Trends in Tax Revenue Receipts in FY2019 Actuals, FY2020 RE and April-February FY2020

	FY2019 Actuals	FY2020 RE		11M FY2020 (Prov.)		
	Rs. billion	Rs. Billion	Growth forecast	Rs. billion	% of RE	Growth#
Gross Tax Revenues^	**20,804.7**	**21,634.2**	**4.0%**	**16,777.9**	**77.6%**	**-0.8%**
Direct Taxes	11,365.8	11,700.0	2.9%	8,068.5	69.0%	-3.5%
Corporation Tax	6,635.7	6,105.0	-8.0%	4,185.5	68.6%	-12.0%
Income Tax	4,730.0	5,595.0	18.3%	3,883.0	69.4%	7.7%
Indirect Taxes	8,487.7	8,951.0	5.5%	7,696.2	86.0%	1.8%
Central GST (CGST)	4,575.3	5,140.0	12.3%	4,539.1	88.3%	10.3%
Union Territory GST (UTGST)	55.9	68.8	23.1%	21.8	31.7%	19.7%
IGST	289.5	0.0	-100.0%	68.3	--	-74.3%
Customs Duty	1,178.1	1,250.0	6.1%	1,049.7	84.0%	-10.0%
Excise Duty	2,319.8	2,480.1	6.9%	1,968.6	79.4%	1.9%
Service Tax	69.0	12.0	-82.6%	48.7	405.5%	-25.8%
GST Compensation Cess	950.8	983.3	3.4%	874.6	89.0%	0.6%

^ Net of Refunds, Gross of States' share in Central Taxes; # As compared to the corresponding period of FY2019 Actuals.
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 a considerable 53.2% in 11M FY2020 to Rs. 2.6 trillion (76.2% of the RE for FY2020) from Rs. 1.7 trillion in 11M FY2019 (72.9% of FY2019 Actuals). The pace of growth of non-tax revenues in 11M FY2020 was significantly higher than the revised target of 46.6% in FY2020 RE relative to FY2019 Actuals, led by the sharp increase in the receipts from dividends and profits to Rs. 1.6 trillion in 11M FY2020 (82.3% of the RE for FY2020) from Rs. 0.7 trillion in 11M FY2019 (55.3% of FY2019 Actuals), driven by the transfer of Rs. 1.76 trillion from the RBI to the GoI. In contrast, the interest receipts of the GoI contracted by 6.0% to Rs. 1.0 trillion during 11M FY2020, which was equivalent to 92.5% of FY2020 RE.

The estimated receipts from Other Communication Services were mildly revised to Rs. 0.6 trillion in FY2020 RE from the budgeted amount of Rs. 0.5 trillion. Most of the telecom operators failed to meet the Supreme Court-directed deadline January 23, 2020 to pay the AGR dues. Responding to the subsequent Supreme Court order, various telecom companies have paid around Rs. 300 billion towards AGR dues to the DoT. ***Accordingly, ICRA expects the receipts from Other Communication Services to exceed the FY2020 RE of Rs. 0.6 trillion by Rs. 250-300 billion in FY2020.***

Compared to the FY2020 RE of Rs. 650.0 billion for disinvestment proceeds, the collections stood at a low Rs. 352.4 billion in 11M FY2020 (54.2% of FY2020 RE). Subsequently, the data released by the Department of Investment and Public Asset Management indicated that the disinvestment proceeds rose to Rs. 503.0 billion in

March 2020, led by the sale of the GoI's stake in North Eastern Electric Power Corporation Ltd., Kamarajar Port Co., etc. ***Accordingly, the GoI's disinvestment proceeds appear to have undershoot the disinvestment target by Rs. 150.0 billion in FY2020.***

Exhibit 2: Fiscal trends in FY2019 Actuals, FY2020 RE and April-February FY2020

	FY2019 Actuals	FY2020 RE		11M FY2020 (Prov.)		
	Rs. billion	Rs. billion	Growth forecast	Rs. billion	% of RE	Growth#
Revenue Receipts	15,529.2	18,501.0	19.1%	13,777.8	74.5%	8.9%
Tax Revenues$	13,172.1	15,045.9	14.2%	11,146.4	74.1%	1.9%
Non-Tax Revenues	2,357.1	3,455.1	46.6%	2,631.4	76.2%	53.2%
Revenue Expenditure	20,074.0	23,496.5	17.0%	21,607.0	92.0%	12.8%
Revenue Deficit	**4,544.8**	**4,995.4**		**7,829.2**	156.7%	
Capital Receipts	947.3	650.0	-31.4%	352.4	54.2%	-37.8%
Capital Expenditure, Net Lending	2,896.6	3,323.0	14.7%	2,888.0	86.9%	11.7%
Fiscal Deficit	**6,494.2**	**7,668.5**		**10,364.9**	135.2%	

$ Net of Refunds, Net of States' share in Central Taxes; # As compared to the corresponding period of FY2019 Actuals.
Source: GoI Budget Documents; CGA, Ministry of Finance, GoI; CEIC; ICRA Research

Expenditure Trends for April-February FY2020: In April-February FY2020, the GoI's revenue spending rose by 12.8% to Rs. 21.6 trillion (92.0% of FY2020 RE), while its capital expenditure and net lending increased by 11.7% to Rs. 2.9 billion (86.9% of FY2020 RE; refer Exhibit 2).

The GoI's revenue expenditure growth of 12.8% in April-February FY2020 was lower than the 17.0% expansion included in FY2020 RE. The interest payments recorded a 2.4% growth in April-February FY2020 to Rs. 5.1 trillion (82.1% of FY2020 RE), lower than the 7.3% expansion included in FY2020 RE. Moreover, the total outlay for major subsidies increased by a marginal 0.7% to Rs. 2.7 trillion in April-February FY2020 (117.0% of FY2020 RE) from Rs. 2.6 trillion in April-February FY2019 (134.1% of FY2019 Actuals), sharply lower than the budgeted target of 15.5%. While the outlay for subsidies towards fuel (+35.5%) and fertilisers (+18.2%) recorded a sharp expansion in April-February FY2020, that for food recorded a contraction of 11.2%. The subsidy outlay for the Ministry of Petroleum and Natural Gas, Department of Fertilisers and Department of Food and Public Distribution stood at Rs. 332.8 billion, Rs. 803.2 billion and Rs. 1.5 trillion, respectively, in April-February FY2020, equivalent to 86.3%, 100.4% and a considerable 140.0% of the respective FY2020 RE (98.9%, 96.2% and 169.1%, respectively, of FY2019 Actuals in April-February FY2019).

The GoI's revenue expenditure would need to more than double on a YoY basis to Rs. 1.9 trillion in March 2020 from Rs. 0.9 trillion in March 2019 to meet the FY2020 RE of Rs. 23.5 trillion (refer Exhibit 3). Accordingly, further saving in expenditure relative to the FY2020 RE appears likely. Moreover, ICRA expects a write back of food subsidy (offset by transfer of funds from the NSSF to FCI) in March 2020, in line with trend in FY2019. This would restrain the GoI's revenue expenditure in March 2020.

Capital expenditure and net lending expanded by 11.7% in April-February FY2020, higher than the 14.7% growth forecasted in FY2020 RE. After recording a contraction of 28.6% in Q1 FY2020, the capital expenditure and net lending of the GoI had expanded by a robust 69.7% and 41.7%, respectively, in Q2 FY2020 and Q3 FY2020. Subsequently, the capital expenditure and net lending contracted by 21.7% in January-February FY2020. ***We estimate that the GoI's capital expenditure and net lending would need to expand by a substantial 39.6% on a YoY basis to Rs. 435.0 billion in March 2020 from Rs. 311.7 billion in March 2019 to meet the FY2020 RE of Rs. 3.3 trillion.***

Exhibit 3: Headroom for government expenditure growth in March 2020

	FY2020 RE	11M FY2020	Headroom in March 2020	
GoI	Rs. Billion	Rs. Billion	Rs. billion	Growth
Revenue Expenditure	23,496.5	21,607.0	1,889.4	**105.2%**
Capital expenditure, net lending	3,323.0	2,888.0	435.0	**39.6%**
Total Expenditure	26,985.5	24,653.5	2,332.0	**84.7%**

Source: GoI Budget Documents; CGA; CEIC; ICRA Research

Fiscal Balances in April-February FY2020: The GoI's fiscal deficit increased by a sharp 21.7% to Rs. 10.4 trillion in April-February FY2020 from Rs. 8.5 trillion April-February FY2019 (refer Exhibit 4 and 5). The GoI's fiscal deficit in April-February FY2020 stood at a substantial 135.2% of the RE for FY2020, although this is similar to the level of 131.1% of FY2019 Actuals in April-February FY2019.

Moreover, its revenue deficit rose by 20.5% to Rs. 7.8 trillion in April-February FY2020 from Rs. 6.5 trillion in April-February FY2020. However, the revenue deficit in April-February FY2020 stood at 156.7% of the RE for FY2020, significantly higher than the level of 142.9% of the FY2019 Actuals in the corresponding period for FY2019.

While the fiscal deficit stood at a considerable 135.2% of the FY2020 RE in 11M FY2020, factors such as the write back in food subsidy, a decline in the central tax devolution to the state governments in March 2020 (to ~Rs. 953.0 billion based on the GoI's FY2020 RE, from Rs. 1.6 trillion in March 2019), enhancement of duties on petrol and diesel in mid-March 2020, the typical accumulation of direct tax collections in the year-ending month, and the receipt of AGR dues from some telecom companies would help to restrain the size of the fiscal deficit for the full year.

Overall, we expect both receipts and expenditures to be lower than the FY2020 RE. The shortfall in net tax revenues (by an estimated Rs. 1.2-1.3 trillion) and disinvestment proceeds (by Rs. 150.0 billion) would be partly mitigated by the higher-than-budgeted collections under other communication services (by Rs. 250.0-300.0 billion) in FY2020. Taking these into account, the total expenditure incurred by the GoI in FY2020 would need to be curtailed by ~Rs. 1.1-1.2 trillion below the FY2020 RE (Rs. 27.0 trillion) for the fiscal deficit to remain in line with the revised target Rs. 7.7 trillion for FY2020 (3.8% of GDP, based on our nominal GDP growth estimate of 6.8% for that year). This seems feasible, given the substantial headroom that was available for spending, as well as the expected write back of food subsidy (offset by transfer of funds from the NSSF to FCI) that is expected to have taken place in March 2020.

The meaningfulness of the revenue and expenditure growth assumptions made in the Union and various state budgets for FY2021, has drastically reduced following the rapid escalation of the current crisis. The loss of economic activity is expected to dampen tax collections in Q1 FY2021, which would constrain the cash flows of the Central and state governments. Additionally, expenditure may rise sharply in H1 FY2021, especially if additional stimulus programmes are provided to dull the impact of the ongoing crisis on livelihoods and economic activity, resulting in a frontloading of borrowings. In line with this, the indicative calendar of market borrowings by the state governments for Q1 FY2021 has pegged the total market borrowing of 23 states at Rs. 1,272 billion, a substantial 56% higher than the actual SDL issuance of Rs. 815 billion in Q1 FY2020. Moreover, the GoI's market borrowing programme has pegged the gross G-sec issuance during H1 FY2021 at Rs. 4.9 trillion, 10.4% higher than the actual issuance of Rs. 4.4 trillion in H1 FY2020.

Exhibit 4: Trends in Revenues and Expenditure of the GoI

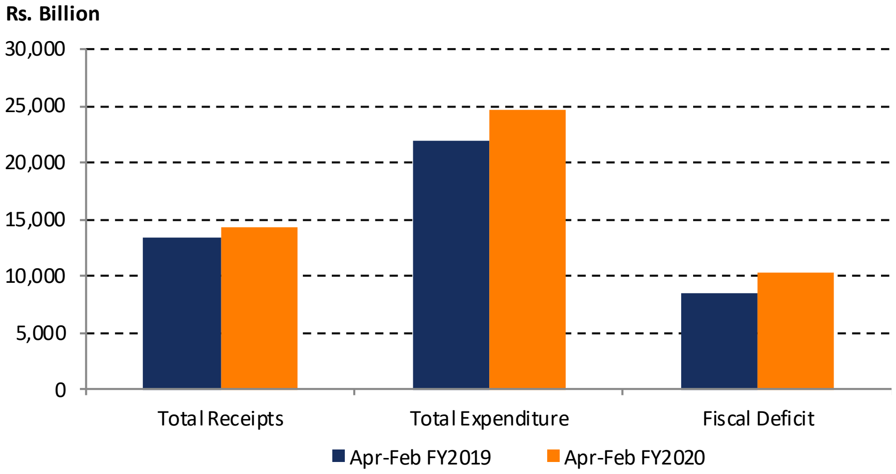
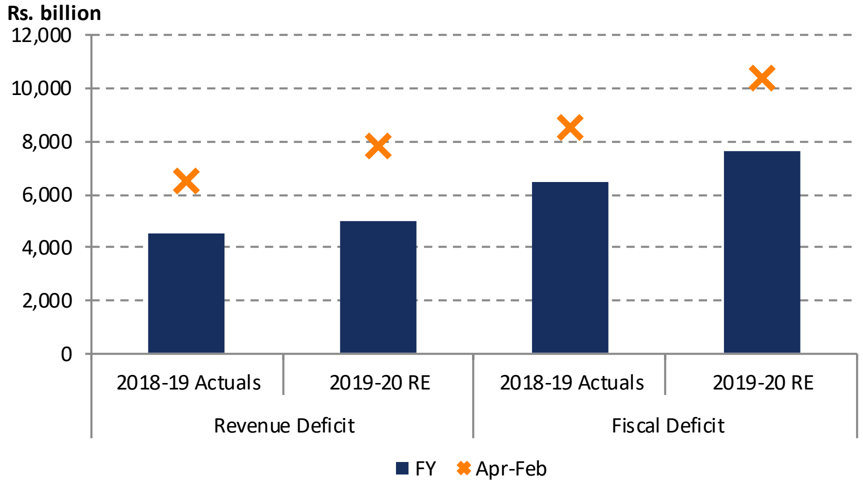


Exhibit 5: Revenue and Fiscal Deficits



Source: CGA, Ministry of Finance, GoI; CEIC; ICRA Research

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