Economy

CARE lowers Centre's fiscal deficit projection to 7.8% of GDP

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Earlier projection was 9-9.5%; after adding borrowings on for GST compensation to states, fiscal deficit seen at 8.4%

CARE Ratings has revised downwards its projection of the Centre's fiscal deficit to 7.8 per cent of GDP during FY21 against its earlier estimate of 9-9.5 per cent.

This revision comes in the wake of the release of the first advance estimate of gross domestic product (GDP) for FY21 and the credit rating agency's expectations on the finances of the Central Government.

On adding the amount borrowed for Good and Services Tax (GST) compensation to states, the fiscal deficit could widen to 8.4 per cent of GDP, the agency added.

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Before the outbreak of the Covid-19 pandemic, the Government had budgeted a fiscal deficit of 3.5 per cent of GDP for FY21.

The combined effect of lower revenues and higher expenditure is likely to push the fiscal deficit to 7.8 per cent of GDP (8.4 per cent if the ₹1.1-lakh crore amount is included), said Sushant Hede, Associate Economist.

The gross fiscal deficit computation is based on the assumptions the tax-to-GDP ratio at 10.8 per cent will be at the same level as that of the budget estimates (also, the states' share of tax revenue will be at the same level as the Budget at 32.4 per cent of the gross tax revenues); and nominal GDP will be around ₹195-lakh crore, as per the first advance estimates of the government.

The agency, in a report, said the finances of the government during April-November 2020 have been severely strained, with the fiscal deficit at 135 per cent of the budget estimate.

Hede observed that tax revenues of the government have been strained owing to the lockdown which halted economic activity during the first quarter of the fiscal.

However, with economic activity picking up from November onwards, tax collections could be bolstered during this period.

"The sustained impact of hike in excise duties is likely to have a positive impact on revenue flows. Despite the improvement, we estimate a shortfall of around ₹2.2-lakh crore in FY21," he said.

CARE Ratings said tax revenues during April-November fell by 8 per cent, led by corporate tax (-36 per cent), CGST (-25 per cent), customs (-17 per cent), income tax (-12 per cent). Excise duties have registered a growth of 48 per cent during the same period.

Non-tax revenues have fallen by 47 per cent during April-November 2020. During FY21, CARE Ratings has estimated a shortfall of ₹50,000 crore owing to lower dividends from banks.

In case the funds from the telecom spectrum auction are not received during the year, the shortfall in non-tax revenues could be around ₹1-lakh crore.

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The agency said that non-debt capital receipts, which primarily include disinvestment proceeds, could see a shortfall of around ₹1-lakh crore during the fiscal.

It emphasised that recently the government invited expression of interest (EoI) for Indian Tourism Development Corporation, Bharat Earth Movers Limited, and Concor, among others which could support revenue flows.

"Expression of interest for BPCL and Air India has already been laid out and are awaiting bids. The shortfall could be from the likely postponement of the mega IPO by LIC in the next financial year," the report said

The agency estimated that the total expenditure is likely to be higher by around ₹13.6-lakh crore during FY21. Total expenditure till November has seen a year-on-year growth of 4.7 per cent.

Based on the announcements by the Finance Minister during each of the economic stimulus packages, CARE Ratings expects the government to spend more on health, food relief measures, rural development via the MGNREGA program, fertiliser subsidies, transfer of the revenue deficit grant to the states and capital expenditure.

The agency expect savings of ₹50,000 – 60,000 crore in other departments during the year to keep the fiscal deficit under check.

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