# FY21 Fiscal to be at 7.8%-8.4% of GDP

Contact:
**Madan Sabnavis**
Chief Economist
madan.sabnavis@careratings.com
+91-22-6837 4433

**Author:**
**Sushant Hede**
Associate Economist
sushant.hede@careratings.com
+91-22-6837 4348

**Mradul Mishra (Media Contact)**
mradul.mishra@careratings.com
+91-22-6754 3573



The current fiscal has been challenging for the Central government which has faced twin issues of revenue loss and need to incur higher expenditure due to the COVID-19 pandemic and the induced lockdowns. Before the outbreak of the pandemic, the Government had budget a fiscal deficit at 3.5% of GDP for FY21. However, the calculations turned awry after the economy was hit by COVID-19. The finances of the Government during April-November'20 have been severely strained with the fiscal deficit at 135% of the budget estimate. The Government did announce a series of counter-cyclical measures to support the pandemic hit economy but the finances remained constrained on the revenue front owing to which they had to resort to borrowings. The Government announced an increase in its gross market borrowings programme by Rs 4.2 lakh crs, taking the total gross borrowings to Rs 12 lakh crs during the year. Additionally, as part of the GST compensation shortfall faced by the states, the Central Government planned to borrow Rs 1.1 lakh crs under a special window and transfer the same to the states.

CARE Ratings' had earlier estimated the fiscal deficit to increase to around 9-9.5% of GDP during FY21 based on assumptions on nominal GDP growth and various combinations of revenue loss and increase in expenditure. Pursuant to the release of the first advance estimate of GDP for FY21 and our expectations on the finances of the Central Government, we project Centre's *fiscal deficit at 7.8%* of GDP during FY21. On adding the amount borrowed for GST compensation to the states, the fiscal deficit could widen *to 8.4% of GDP.*

**Table 1: Central Government finances during April – November 2020**

| | April-Nov | | | % of Budget Estimates (April-Nov) | |
|---|---|---|---|---|---|
| **Heads** | **FY20** | **FY21** | **YoY%** | **FY20** | **FY21** |
| Total receipts | 10.1 | 8.3 | -17.9 | 49 | 37 |
| Revenue receipts | 9.8 | 8.1 | -17.3 | 50 | 40 |
| Capital receipts | 0.2 | 0.1 | -65.9 | 17 | 3 |
| Total expenditure | 18.2 | 19.1 | 4.7 | 65 | 63 |
| Revenue expenditure | 16.1 | 16.7 | 3.7 | 66 | 66 |
| Capital expenditure | 2.1 | 2.4 | 12.8 | 63 | 63 |
| Fiscal deficit | 8.1 | 10.8 | 33.1 | 115 | 135 |

Source: CGA

**CARE Ratings' estimates of fiscal deficit:**

**Table 2: CARE Ratings' estimates of fiscal deficit of the Central Government (Rs lakh crs)**

| Heads | FY20(RE) | FY21(BE) | FY21(Proj) |
|---|---|---|---|
| Tax Revenues | 15.1 | 16.4 | 14.2 |
| Non Tax revenues | 3.5 | 3.9 | 3.4 |
| Non-debt receipts | 0.8 | 2.3 | 1.3 |
| Total revenue (net) | 19.3 | 22.5 | 18.8 |
| Total Expenditure | 27.0 | 30.4 | 34.0 |
| Fiscal deficit | 7.7 | 8.0 | 15.3 |
| Nominal GDP (1st AE) | 204.4 | 224.9 | 194.8 |
| **GFD/GDP** | **3.8** | **3.5** | **7.8** |
| **If borrowings of Rs 1.1 lakh crs for GST shortfall is added separately** | | | |
| Fiscal deficit | | | 16.4 |
| Nominal GDP (1st AE) | | | 194.8 |
| **GFD/GDP** | | | **8.4** |

Source: CARE Ratings

- We have computed the gross fiscal deficit based on the following set of assumptions:
  - In case of tax revenues, we have assumed the tax to GDP ratio at 10.8%, the same level as that of the budget estimates. Also, the state's share of tax revenue has been assumed to be at the same level as the Budget at 32.4% of the gross tax revenues.
  - Nominal GDP is assumed to be around Rs 195 lakh crs as per the 1st advance estimates of the Government.
- Tax revenues of the government have been strained owing to the lockdown which halted economic activity during the first quarter of the fiscal. Tax revenues during April-November fell by 8% led by corporate tax (-36%), CGST (-25%), customs (-17%), income tax (-12%). Excise duties have registered a growth of 48% during the same period. However, with economic activities 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 Rs 2.2 lakh crs in FY21.
- Non-tax revenues have fallen by 47% during April-November'20. During FY21, we estimate a shortfall of Rs 50,000 crs 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 Rs 1 lakh crs.
- Non-debt capital receipts, which primarily include disinvestment proceeds could have a shortfall of around Rs 1 lakh crs during the fiscal. Recently the Government has invited expression of interests for Indian Tourism Development Corporation, Bharat Earth Movers Limited, Concor among others which could support revenue flows. Expression of interests 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.
- Total expenditure is likely to be higher by around Rs 3.6 lakh crs during FY21. Total expenditure till November has seen a yoy growth of 4.7%. Based on the announcements by the Finance Minister during each of the economic stimulus package, we expect the Government to spend more on health, food relief measures, rural development via the MGNREGA program, fertilizer subsidies, transfer of the revenue deficit grant to the states and capital

expenditure. We expect savings of Rs 50,000 – 60,000 crs in other departments during the year to keep the fiscal deficit under check.

- Fiscal deficit is likely to be around Rs 15.3 lakh crs which is 7.8% of GDP (as per the 1st advance estimates released by MOSPI). The funding of the deficit is primarily going to be via market borrowing, National Small Savings Funds (NSSF), ort term borrowings, drawdown of cash balances.
- In case we add the borrowing of Rs 1.1 lakh crs made by the central government under the special window for GST compensation, gross fiscal deficit is likely to widen to 8.4% of GDP.

**Conclusion**

Budget 2021-22 will be important from the view of the fiscal deficit target (as this affects market borrowings and hence liquidity management) and any medium-term framework of fiscal consolidation. The revised FY21 budgetary numbers will serve as the basis for fixing the targets for the coming year. The revised numbers for FY21 will hinge on:

- how much the nation-wide lockdown has weighed on the revenues of the Government
- whether the apparent recovery seen in the latter half of the fiscal could materially off-set the loss of revenue in the first half.
- reorientation of expenditure towards relief, health, capital expenditure in FY21
- cost savings in non-priority departments.

*A combined effect of lower revenues and higher expenditure is likely to push the fiscal deficit to 7.8% of GDP (8.4% if the Rs 1.1 lkh crore amount is included).*



**CORPORATE OFFICE:**
**CARE Ratings Limited**
**Corporate Office:** 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022; CIN: L67190MH1993PLC071691
Tel: +91-22-6754 3456 I Fax: +91-22-6754 3457 I E-mail: care@careratings.com
Website: www.careratings.com

**Follow us on** /company/CARE Ratings
/company/CARE Ratings