03 June 2019

STCI
Primary Dealer Ltd

Fiscal Update: FY19 and Apr FY20

For the period of Apr-Mar FY19, the fiscal deficit reached Rs 6.45 Lac Cr as against the revised estimate (RE) of Rs 6.34 Lac Cr. The fiscal deficit stands at 101.7% of RE, higher than 99.4% in the corresponding period last year. Revenue deficit also rose to 108.2% of the RE as compared to 102.1% seen in the same period last year. With this, the Central Government adhered to its revised fiscal deficit target of 3.4% of GDP for FY19.

For Apr FY20, the fiscal deficit reached Rs 1.57 Lac Cr as against the budgeted estimate (BE) of FY20 at Rs 7.03 Lac Cr. As a result, fiscal deficit stands at 22.3% of BE, lower than 24.3% in same period last year. In contrast, revenue deficit rose to 27.4% of BE compared to 25.5% in Apr FY19.

Table 1: Government's Fiscal Position

	In Rs Cr		As a % of RE	
	FY19 (RE) (Rs Cr)	**Apr - Mar FY19**	**Apr - Mar FY19**	**Apr - Mar FY18**
(A) Revenue Receipts (A+B)	17,29,682	15,63,170	90.4%	95.0%
i) Tax Revenue (Net)	14,84,406	13,16,951	88.7%	97.9%
ii)Non Tax Revenue	2,45,276	2,46,219	100.4%	79.6%
(B) Non Debt Capital Receipts	93,155	1,02,885	110.4%	102.5%
Total Receipts (A+B)	**18,22,837**	**16,66,055**	**91.4%**	**95.6%**
(A) Revenue Expenditure	21,41,351	20,08,463	93.8%	96.6%
(B) Capital Expenditure	3,15,884	3,02,959	95.9%	96.2%
Total Expenditure (A+B)	**24,57,235**	**23,11,422**	**94.1%**	**96.6%**
Fiscal Deficit	6,34,398	6,45,367	101.7%	99.4%
Revenue Deficit	4,11,669	4,45,293	108.2%	102.1%
Primary Deficit	46,828	62,692	133.9%	97.0%
Source: CGA				

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Revenue Side

The revenue receipts fell short of Rs 1.66 Lac Cr from the RE, standing at 90.4% in Apr-Mar FY19 compared to 95% in corresponding period last year. This shortfall was largely due to lower income tax and GST collections of Rs 4.61 Lac Cr and Rs 5.81 Lac Cr, respectively, as against the revised estimates of Rs 5.29 Lac Cr and 6.44 Lac Cr, respectively.

This shortfall was compensated to a certain extent by a rise in Non-Tax revenue component to 100.4% of RE FY19 as against 79.6% observed in the previous year. At the same time, non-debt capital receipts stood at 110.4% of RE, higher than 102.5% in same period last year. Total disinvestment receipts for FY19 overshoot the budgeted target of Rs 80,000 Cr by Rs 4,972 Cr, noting Rs 84,973 Cr disinvestment receipts for full year.

Table 2: Government Revenues (In Rs Cr)

	Apr – Mar FY19	**Apr – Mar FY18**
Gross Tax Revenue	20,80,203	19,19,009
Corporation Tax	6,63,572	5,71,202
Income Tax	4,61,654	4,08,203
CGST	4,57,535	2,03,261
IGST	28,947	1,76,688
UT GST	2,407	1,635
GST Compensation Cess	95,081	62,612
Customs	1,17,930	1,29,030
Union Excise Duties	2,30,998	2,58,636
Service Tax	6,884	81,229
Other taxes	15,195	26,513
Collections to be transferred to NCCD ***(less)***	1,798	3,517
Assignment to States ***(less)***	7,61,454	6,73,005
Net Tax Revenue	13,16,951	12,42,487

For Apr FY20, revenue receipts stood at 4.8% of BE compared to 4.1% in corresponding period last year on account of higher GST collections in the month of April. Total gross tax revenue collections went up by 6.9% as against the gross tax collections in the same period last year. At the same time, non-tax revenue stood at 8.5% of BE as against 5.4% noted in Apr FY18 as 12% of interest receipts have been collected so far as against 8% last year. Going forward, the dividend payout for FY20 and Jalan Committee report on transfer of excess reserves of RBI to government are major factors shaping the centre's receipts. Although, non-debt capital receipts currently stands higher than previous year, government's ability to continue its disinvestment activity at a robust pace will ensure that the target is met.

Revenue and Capital expenditure

The government maintained a measured pace for expenditure in FY19 in order to meet fiscal deficit target amid low revenue receipts. The total expenditure stood at 94.1% of RE as against 96.6% in same period last year. A similar pace of expenditure has been maintained across capital and revenue front, 95.9% of RE and 93.8% of RE respectively. Nonetheless, this reduction in government expenditure is reflective in the GDP numbers for FY19 where Government Final Consumption Expenditure stood at 9.2% in FY19 as against 15.0% observed in FY18.

In Apr FY20, total expenditure stood at 9.1% of BE with revenue expenditure increasing to 9.2% of BE as against 8.2% in Apr FY19. In contrast, capital expenditure declined to 9.1% compared to 15.6% in corresponding period last year.

Outlook

By taking efforts to control expenditure, the government has adhered to its revised fiscal target of 3.4% of GDP. Despite FY19 being a pre-election year, the government has remained vigilant of its expenditure activity. However, in order to ensure GST and income tax collections to meet budgeted targets, the government would need to formalize the economy and increase the tax base.

After the Interim Budget for FY20, sentiments in bond market were dented as the gross G-Sec borrowings for FY20 were pegged considerably higher at Rs 7.10 Lac Cr. At the same time, the fiscal deficit target for FY20 was set at 3.4% of GDP.

In recent Lok Sabha elections, BJP-led NDA government witnessed comprehensive victory with a resounding majority. The new formed Government is likely to present its Budget for the remaining period of nine months in first week of July. In order to stick to same numbers as pegged in Interim Budget, the government should not offer any further tax sops except those that are already penciled in, otherwise it is likely to increase the fiscal target by 30-40 bps as well as gross market borrowing. This poses a great challenge in front of new Finance Minister Nirmala Sitaraman to increase the total receipts while supporting growth of the economy.

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