Press Release

Fiscal uncertainty skips FY22, but clouds FY23

Latest govt measures to cause a fiscal slippage of 0.3-0.4% of GDP

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India's central government fiscal position for FY22 slightly improved coming in at 6.7% of the GDP, lower not only as compared to the revised estimate of 6.9% but also lower than the initial budgeted estimate of 6.8%. The gains largely accrued from higher tax & non-tax realization which more than off-set the shortfall recorded in the disinvestment target and higher than budgeted revenue expenditure. In addition, to strong windfall in revenues, the nominal GDP growth of 19.5% in FY22 as against the revised estimate of 17.2%, has provided a denominator support of 0.1% of GDP. Going forward in the current year, despite buffers from the recently concluded LIC IPO (garnering Rs 205 bn on revised valuation) along with the likelihood of higher than budgeted tax revenue collections, we now see the possibility of fiscal slippage risks, aggregating to 0.3%-0.4% of GDP from the budgeted 6.4% of GDP for FY23.

Receipts: Robust tax and non-tax revenue collection buoys overall receipts

Barring the large one-off tax revenue sharing with states in Feb-22, total receipts have been buoyed by healthy tax as well as non-tax revenue accretion in FY22. For FY22, gross tax revenue collection clocked a growth of 33.7% YoY compared to just of 0.7% seen in the corresponding period in FY21. It's not just the annualized growth that looks better (which is strongly aided by a favourable statistical base), the FY22 gross tax revenue achieved 107.6% of the full year RE. While strong momentum in tax collection is broad based, it is being powered by robust growth in collections of corporate tax, customs, and income tax. Non-tax revenue too stood at 110.9% of the RE. The key reason for robust performance under this category stems from a significantly higher than budgeted dividend from the RBI. Collection under non-tax revenue has also been boosted in Mar-22 with key telecom companies prepaying their spectrum fee, taking advantage of the current low interest rate regime. Meanwhile, non-debt capital receipts stood at just 39.2% of the RE primarily on the back of lower disinvestment receipts. The government closed FY22 with a disinvestment revenue of only Rs 135 bn. This is significantly lower vis-à-vis the downwardly revised estimate of Rs 780 bn due to deferral of LIC IPO from Mar-22 to the early part of FY23.

Higher subsidies push up revenue expenditure, capex gap narrows considerably

The total expenditure met the government's target primarily due to revenue expenditure which more than offset a marginal decline in the capital spending in FY22. On the revenue front, bulk of growth in the expenditure was driven primarily by interest payments and subsidies. After remaining muted, with disbursal of capital expenditure trailing at just 80.5% of RE during Apr-Feb FY22, government's capex increased significantly to INR 1076 bn in Mar-22 from INR 434 bn in Feb-22.

Fiscal Outlook

For FY23, we now see congregation of fiscal slippage risks despite buffers from the recently concluded LIC IPO (garnering Rs 205 bn on revised valuation) along with the likelihood of higher than budgeted tax revenue collections. The slippage risks are gaining momentum on back of the latest fiscal measures announced by the government as follows:

- **Excise duty on petrol and diesel has been reduced by Rs. 8 per litre and Rs. 6 per litre respectively** further to the cuts effected in Nov-21, bringing down the taxes to their respective pre-Covid levels. From the fiscal perspective, a cut in excise duty on petroleum products is expected to have a revenue implication of around Rs. 850 bn over the remainder of FY23 which will be entirely borne by the Central Government.
- **Fertilizer subsidy has been increased by Rs. 1.1 tn** doubling it to Rs. 2.15 tn from the budgeted level for FY23, to insulate farmers from the spike in the global prices of DAP (Di-ammonium Phosphate) and MoP (Muriate of Potash) in the last one year.
- **LPG subsidy of Rs. 200 per gas cylinder (up to 12 cylinders)** to be provided to over 90 mn beneficiaries under PM Ujjwala Yojna. This is expected to have a revenue implication of around Rs. 61 bn a year on the exchequer.
- **Custom duty on the import of certain industrial raw materials like coking coal, ferronickel and coke and food commodities like edible oil** has been cut from 2.5%/5.0% to nil.

Overall, the fiscal slippage of these measures announced by the government is estimated at around Rs. 2 tn. Apart from the aforementioned set of measures, the government had earlier decided to extend PM Garib Kalyan Anna Yojana by 6-months till Sep-22 which involves an additional outlay of Rs. 800 bn. Moreover, a likely deferment of the big-ticket BPCL divestment due to subdued interest by the bidders amidst volatile market conditions along with lower than budgeted dividend/surplus RBI dividend of Rs. 303 bn (vs. FY23 budget estimate of Rs 650-700 bn) will put pressure on government's budgeted fiscal arithmetic.

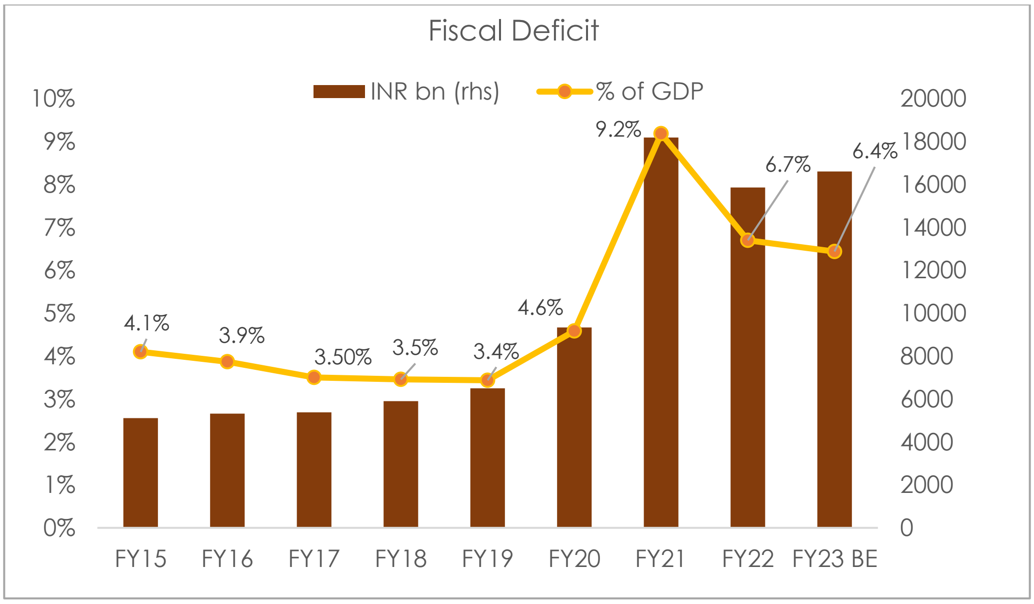
Says Suman Chowdhury, Chief Analytical Officer, Acuité Ratings & Research "We see a significant possibility of fiscal slippage in FY23, aggregating to 0.3%-0.4% of GDP from the budgeted 6.4% of GDP for FY23 as the Government has initiated fiscal measures like duty cuts to moderate the impact of high commodity prices. Importantly, these steps may not be one-off in nature and follow-up measures may be taken through additional subsidies or further rounds of tax cuts, if warranted to moderate the increased inflationary pressures. The timeframe for fiscal consolidation is clearly uncertain given the current economic realities."

Annexure

Table 1: Key fiscal variables for FY22

Fiscal Variables	% of RE	INR bn	
	FY22	Actual	Revised Estimate
Revenue Receipts	104.3	21684.3	20789.4
Net Tax	103.1	18203.8	17651.4
Non-Tax	110.9	3480.4	3137.9
Non-Debt Capital Receipts	39.2	392.1	999.8
Total Receipts	101.3	22076.3	21789.1
Revenue Expenditure	101.1	32013.73	31672.89
Capital Expenditure	98.4	5927.98	6027.11
Total Expenditure	100.6	37941.71	37700.00
Fiscal Deficit	**99.7**	**15865.37**	**15910.9**

Chart 1: Fiscal consolidation likely to take time



About Acuité Ratings & Research Limited:

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