Business and Economic Research
28th January 2019

Fiscal Deficit likely to slip to 3.5% of GDP in FY19 due to weak GST collections

Focus of FY20 spend likely to be on agriculture and rural economy

Weak GST collections to lead to fiscal slippage in FY19; FY20 deficit also contingent on improvement in GST

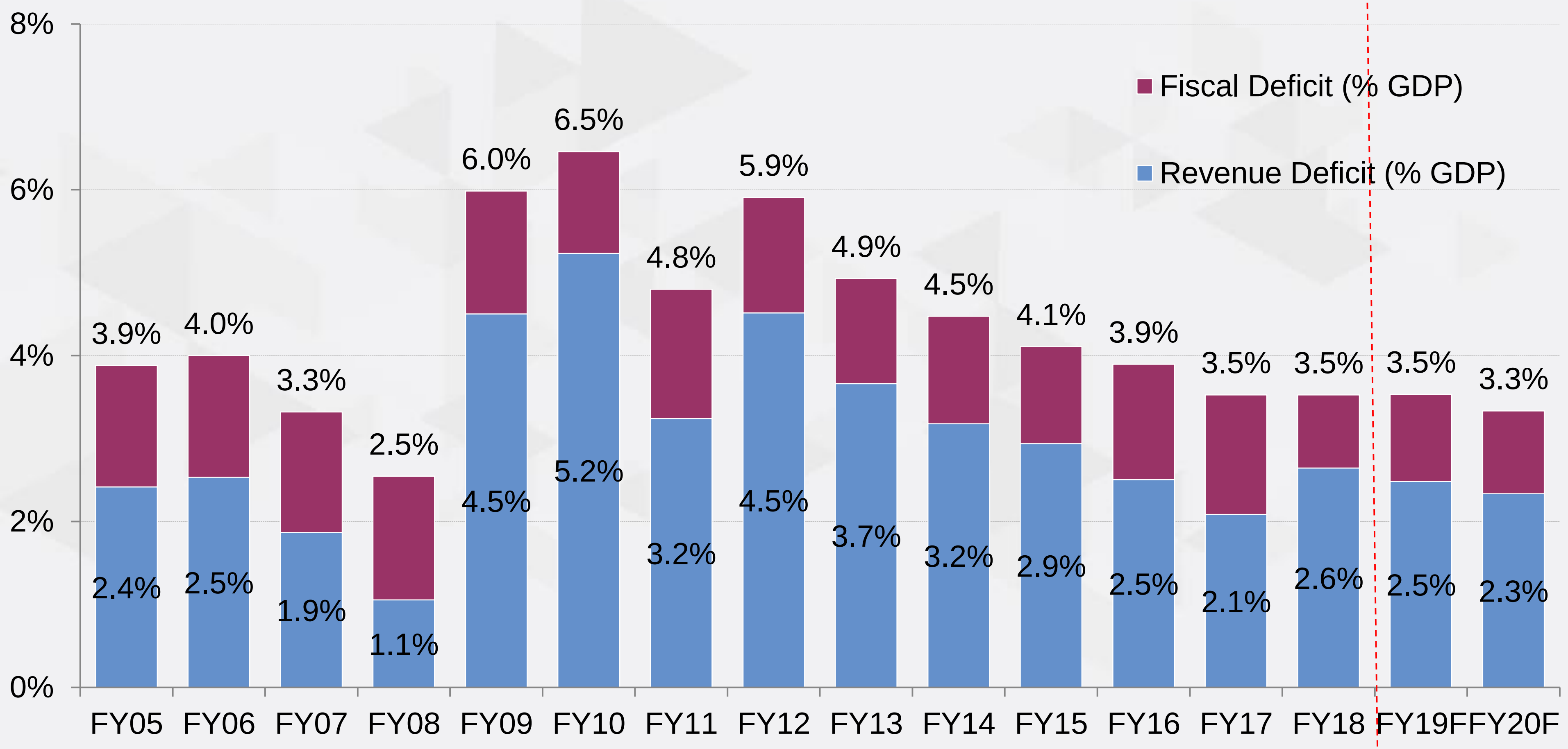
- **FY19 Gross Tax shortfall at Rs 1.5 tn over BE, Dividends to fall short by Rs 200 bn; Gross tax revenues likely to grow at 15.1% YoY in FY20 vs 10.5% in FY19 (Axis estimate)**
  - Higher corporate tax collections in FY19 likely to offset shortfall in income tax collections. In FY20, Income tax and Corporation tax is expected to grow at 20% and 17% resp.
  - Excise duty collection in FY19 lower on cut in duty on petrol and diesel while Customs duty collection to be higher on increase in duties levied. In FY20 excise expected to grow by 9% while customs duty is expected to grow by 15%
  - Central GST collections in FY19 to be lower by Rs 1.5 tn over budget target. Average monthly GST collections expected to improve to ~ Rs 1.02 tn in FY20 in comparison to ~ Rs 0.97 tn in FY19
- **Non-tax revenues collections** in FY19 likely to be higher on heavy interim dividend by RBI. In FY20, higher dividend from Public Sector Banks to offset possible fall in RBI dividend
- **Total disinvestments in FY19 likely at Rs 600 bn , lower then budgeted target by Rs 200 bn.**
  - In FY20, budgeted target for disinvestments expected to be unchanged at Rs 800 bn

Food subsidy bill might balloon in FY20 on repayments to NSSF; Small savings increasingly playing major role in financing of deficit

- **Government may cut total expenditure by ~Rs 450 bn (mostly capital expenditure) in FY19 to achieve 3.5% (of GDP) fiscal deficit**
- **Centre's expenditures assumed to grow at 11.2% in FY20 compared to 11.8% exp. in FY19**
  - Revenue expenditure to grow at 11% on increased spending on rural, health and education while Capital expenditure expected to grow at 13% on railways, roads and urban development
  - Subsidies bill to rise significantly in FY20, particularly on account of partial repayment of loans taken by FCI in FY17-18 from NSSF
- **FY20 Fiscal deficit expected at Rs 7.00 tn (3.3% of GDP); FY19 deficit at Rs 6.66 tn (3.5% of GDP) to slip above targets**
- Net market borrowing in FY19 expected to be higher than budgeted, despite Rs 750 bn cut in gross issuances because of higher expected short term borrowings at ~ Rs 900 bn vs Rs 170 bn budgeted
- **FY20 Gross G-sec supply expected at Rs 6.25 tn and net borrowings at Rs 4.45 tn** (including Rs 350 bn T-bills)

Centre might defer FRBM consolidation yet again, but marginally

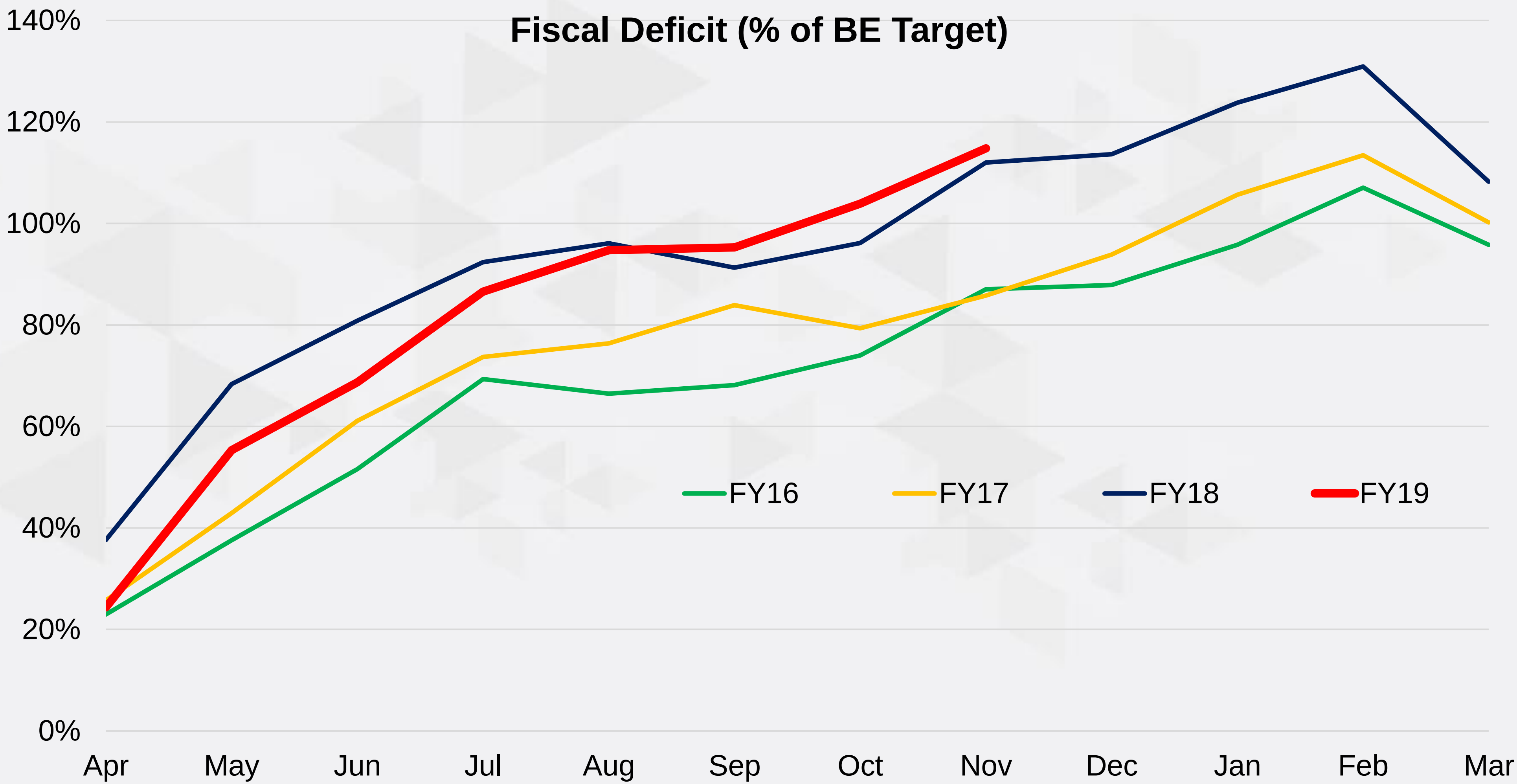
In FY19 budget, Government adopted fiscal deficit as the operational target and did away with revenue deficit and effective revenue deficit targets



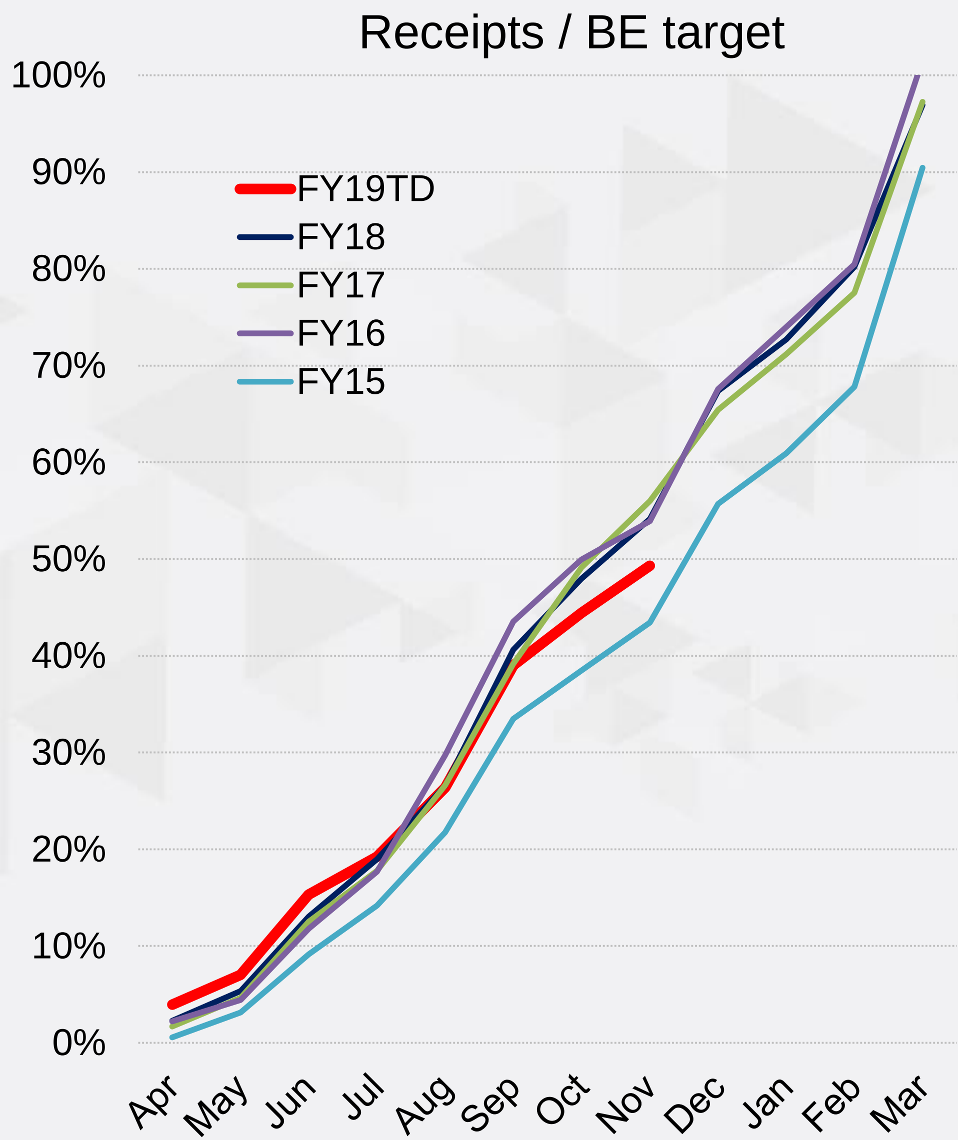
Note: FY19 and FY20: Axis Estimates

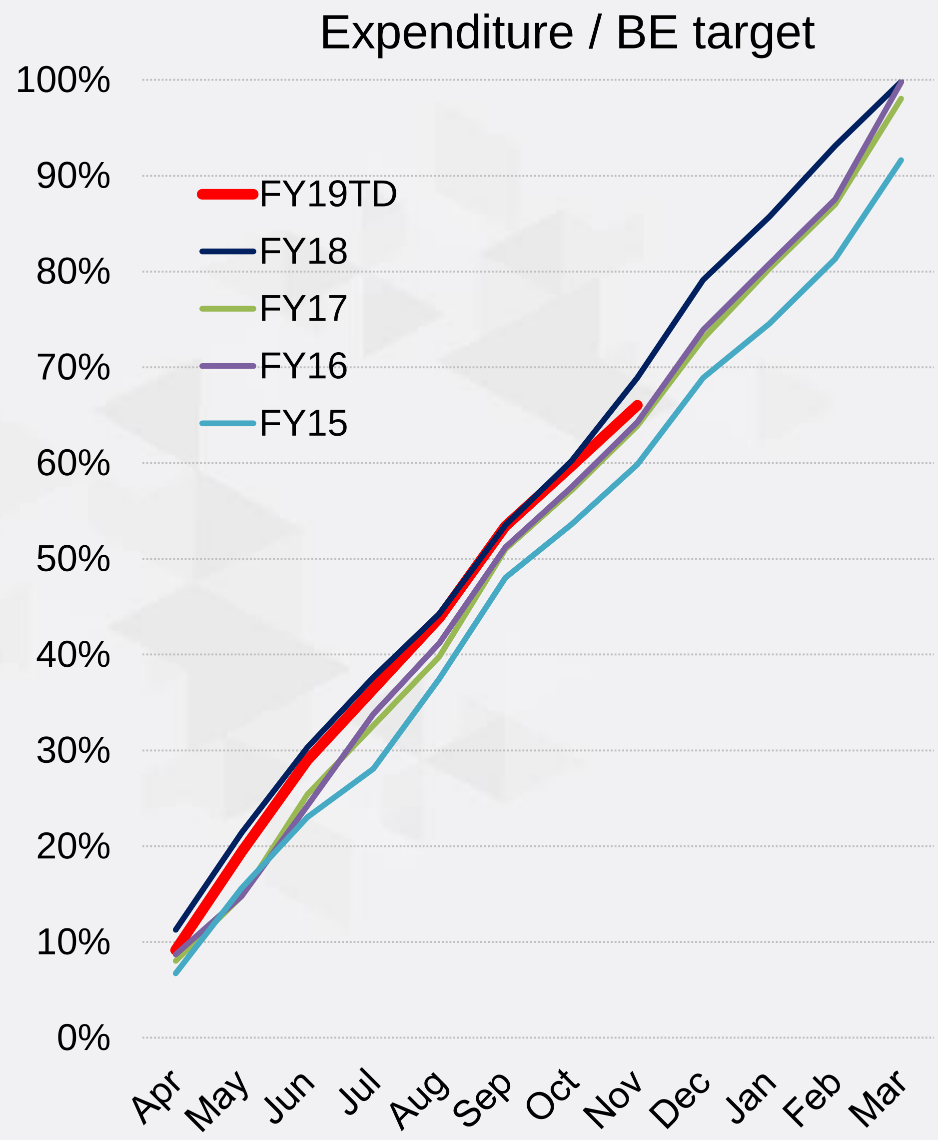
…leading to higher fiscal deficit (% of BE) till Nov; Even higher than FY18 when Centre slipped by 0.3%

Fiscal deficit (as % of BE target) until Nov is largest since FY09, where slippage of 4.5% of GDP

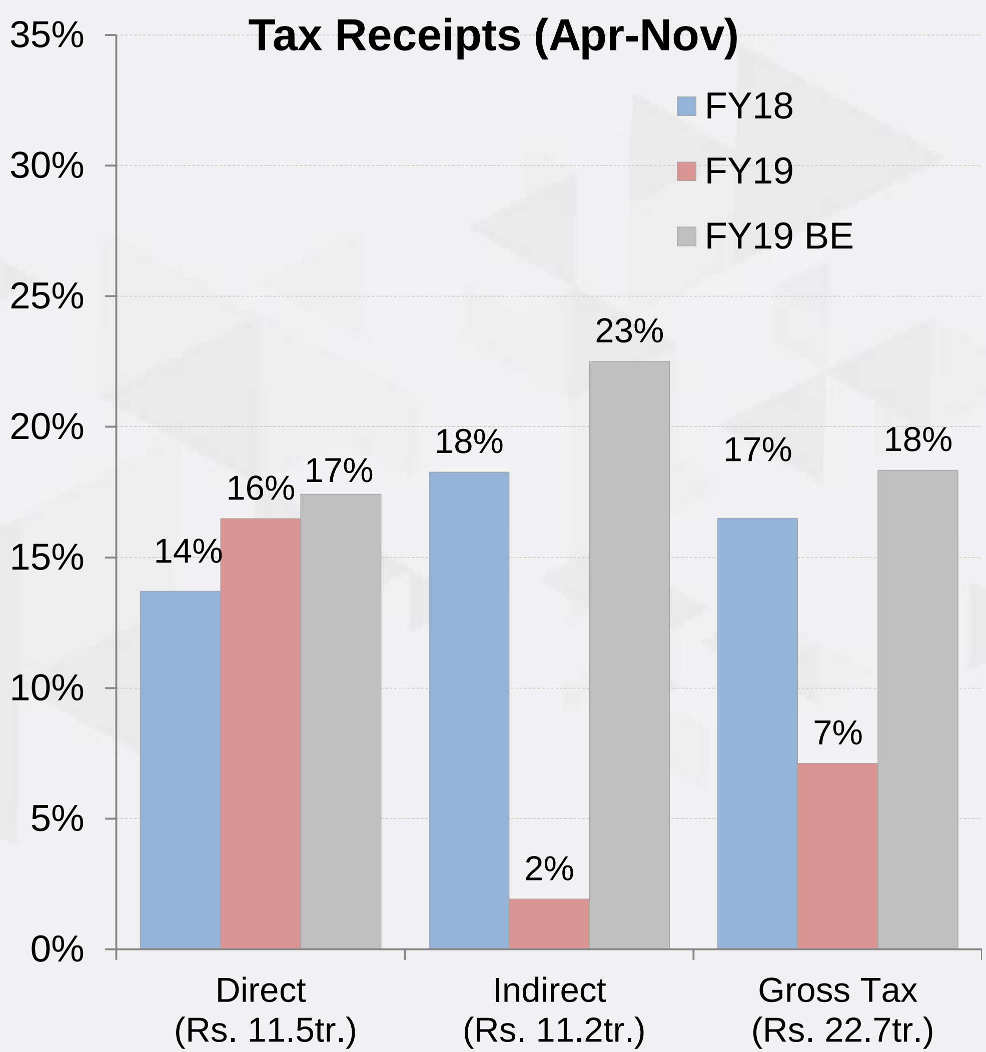


Pace of revenue collection much weaker than expenditure in FY19 as GST collections slower than budgeted...

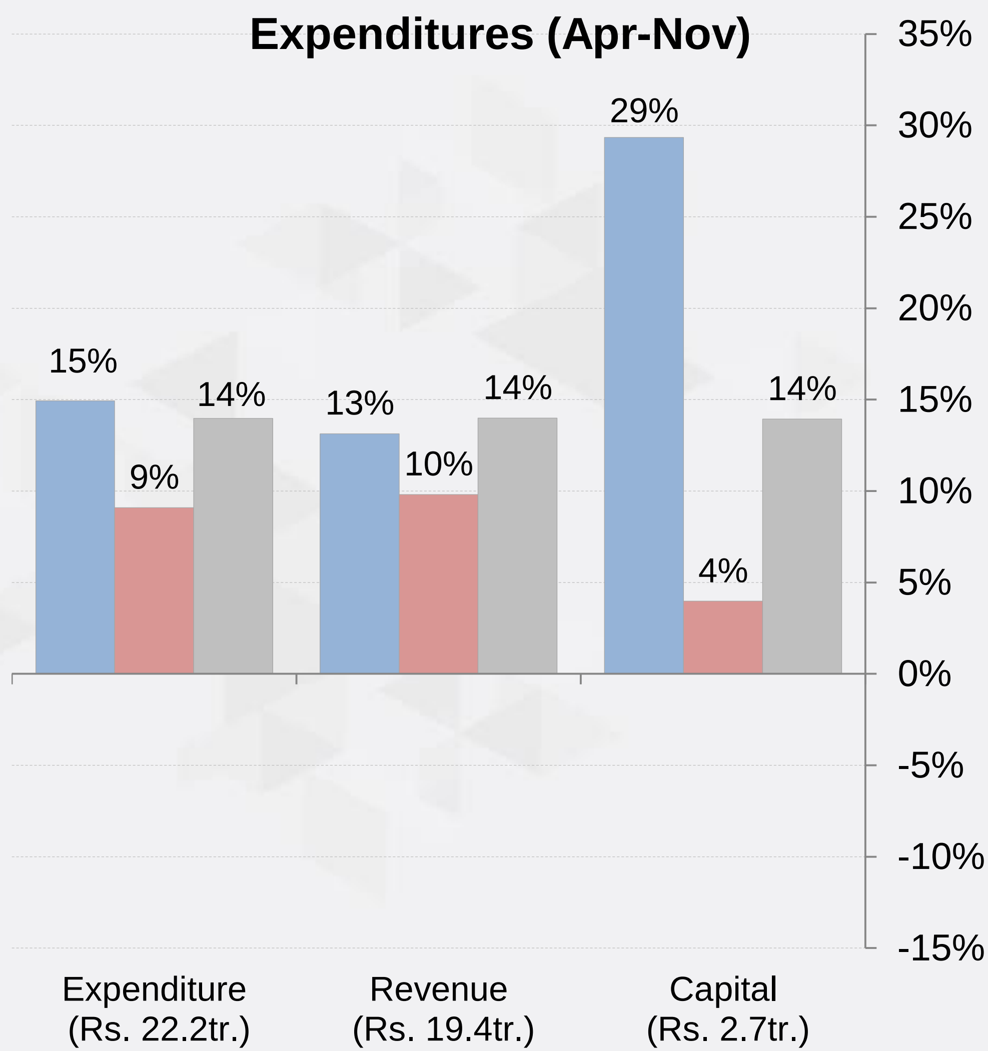




Shortfall in total receipts, largely on account of weak GST collections, require expenditure cuts to contain the fiscal deficit at 3.5% of GDP



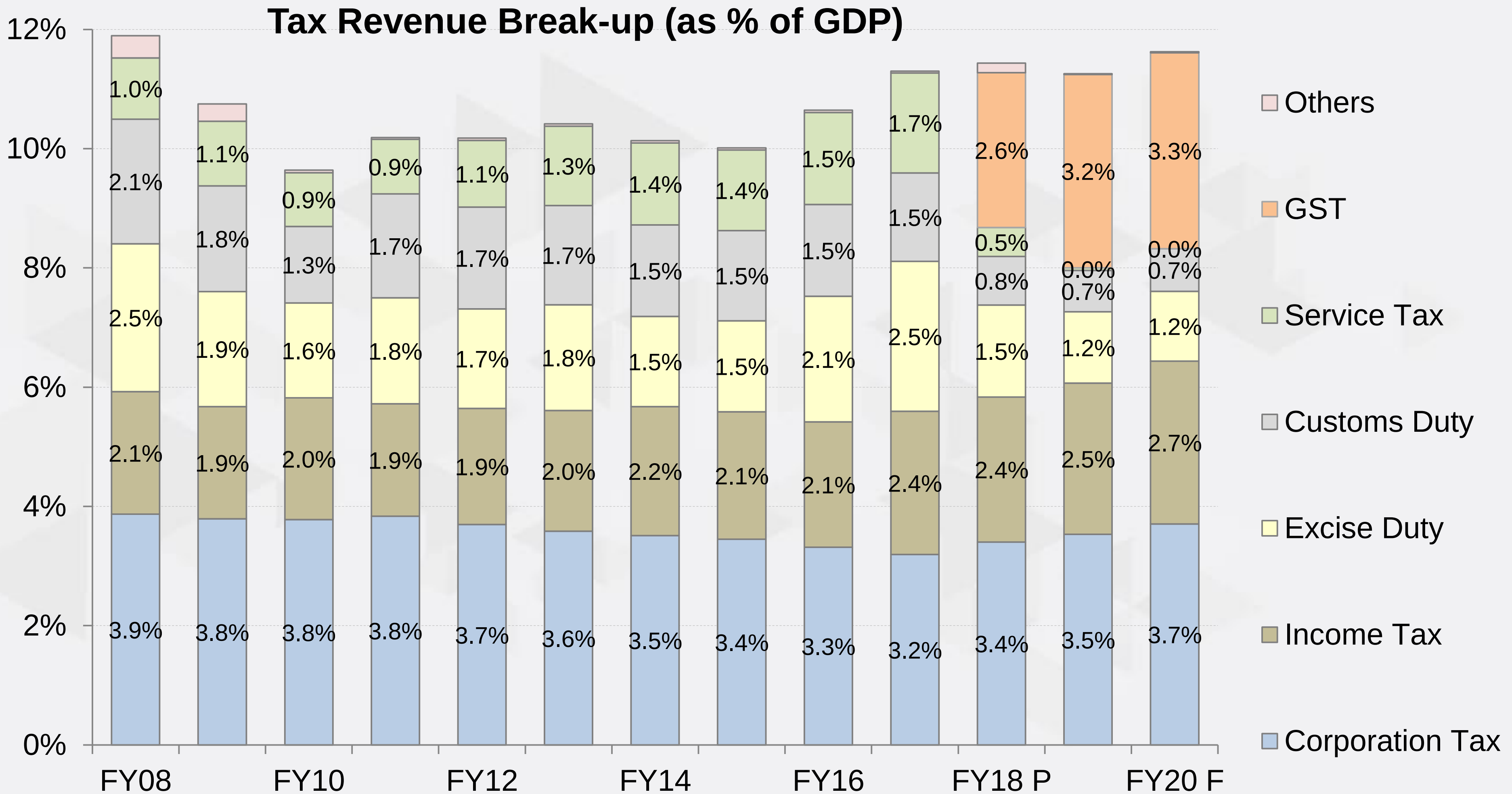
FY19 BE (in parentheses)



FY19 BE (in parentheses)

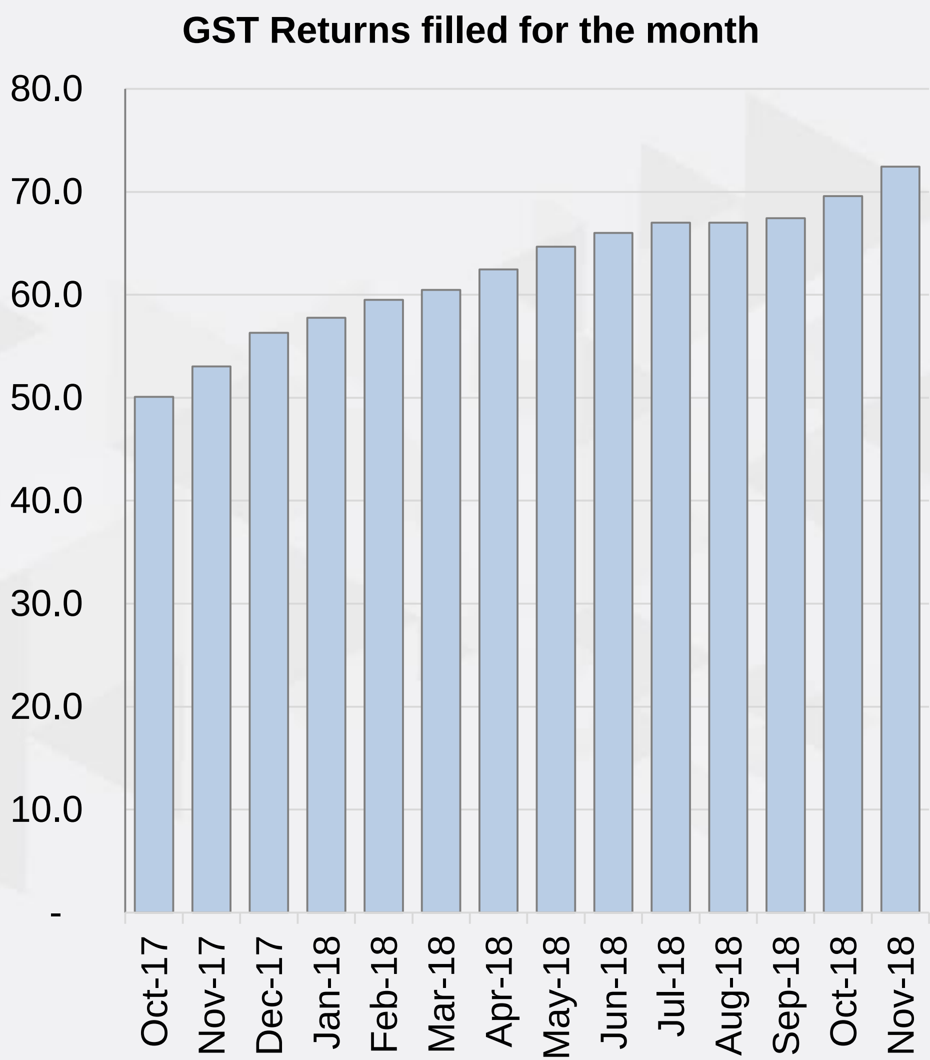
But even in FY20, achieving the fiscal deficit target will be contingent on GST collections

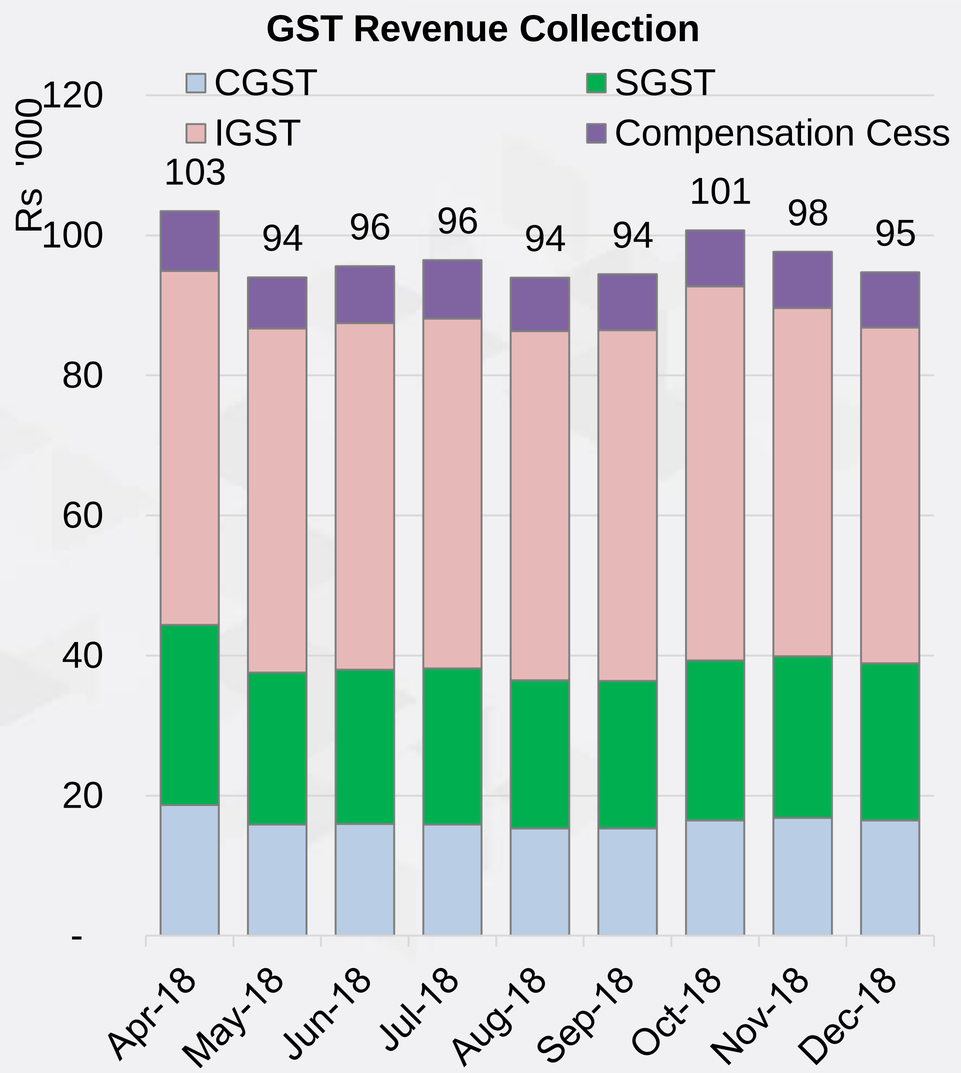
GST growth likely to be contained on higher exemptions, rate cuts



Note: FY19 and FY20: Axis Estimates

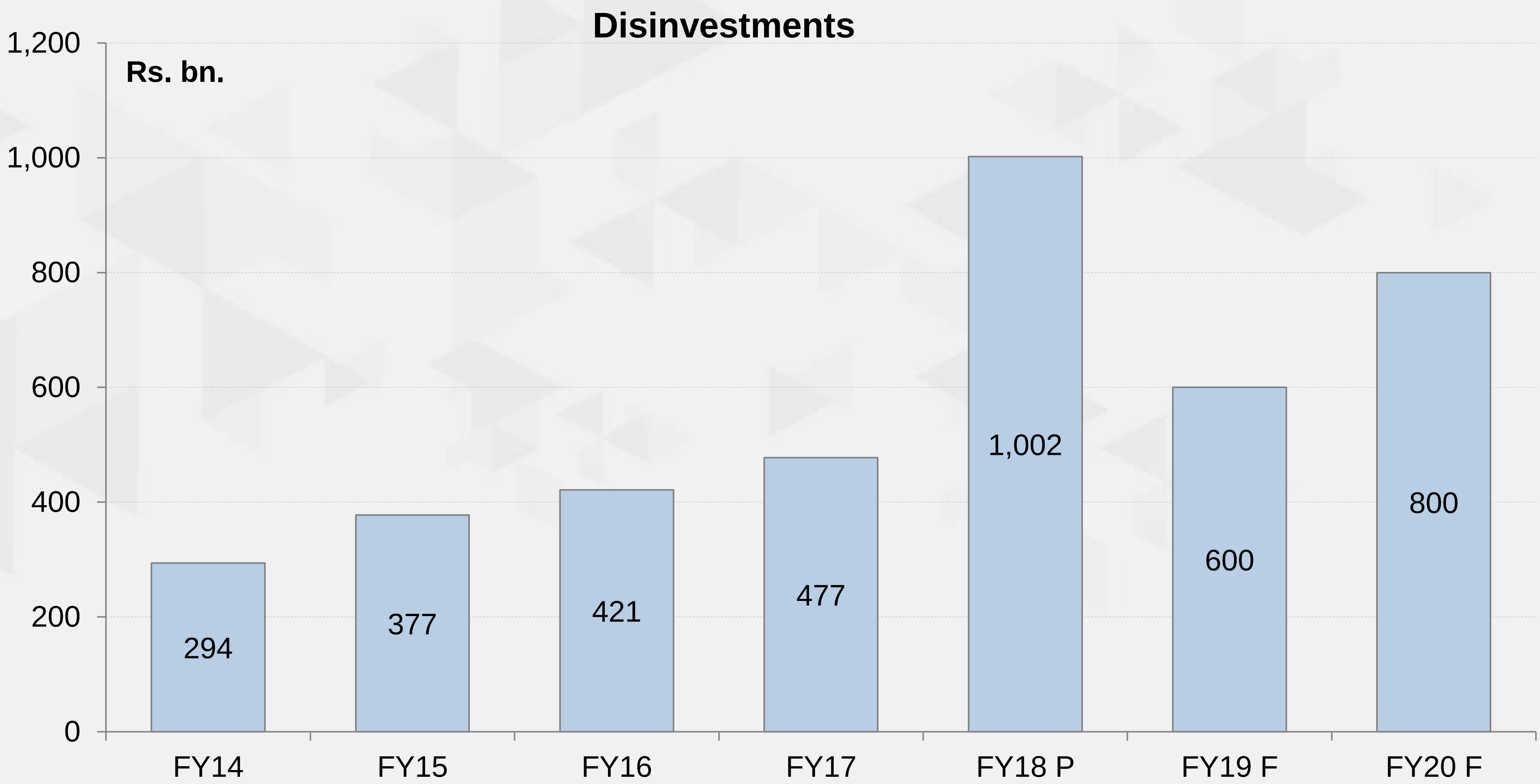
While GST filings are certainly up, GST collections have remained mostly flat





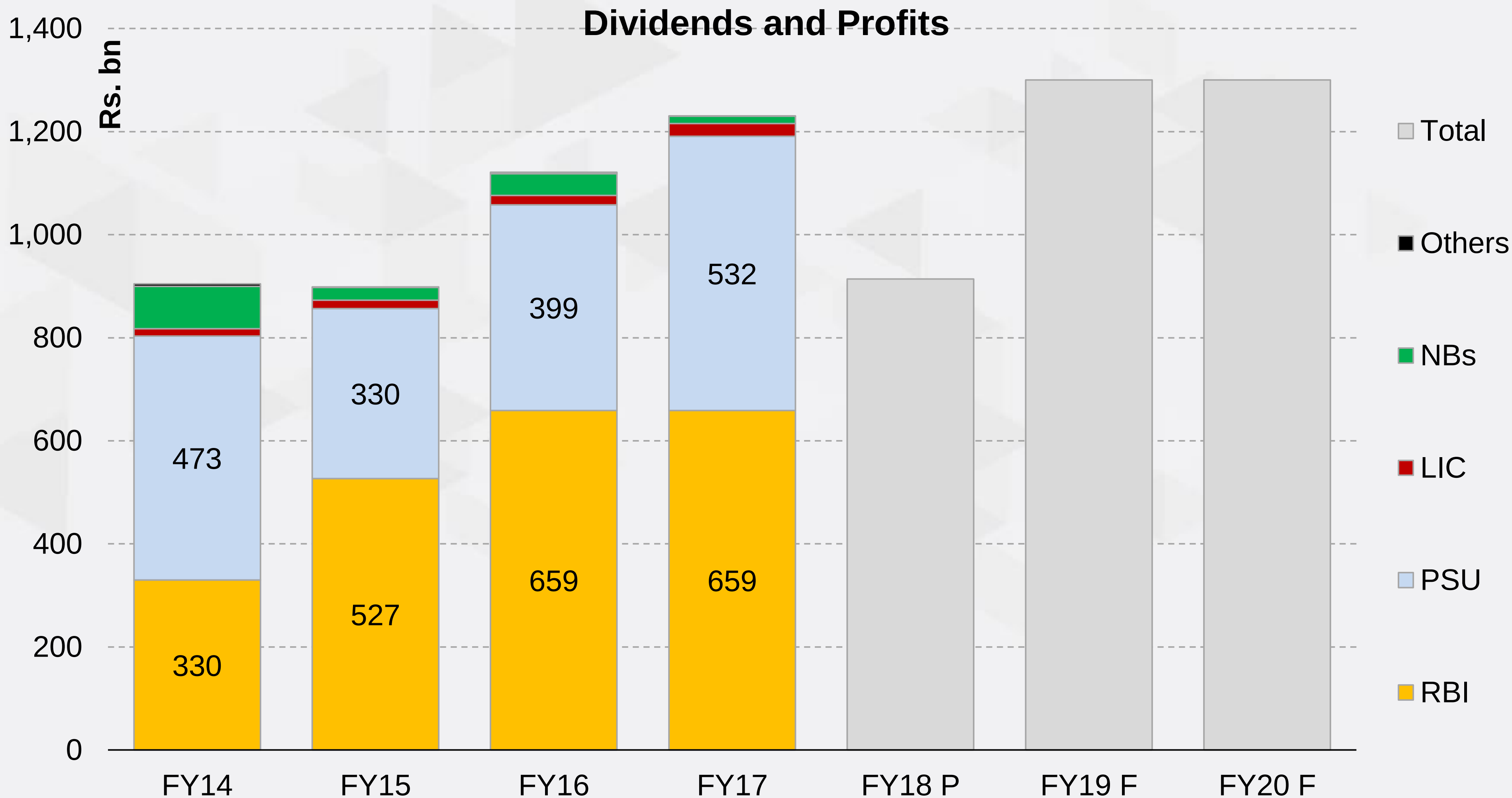
Centre is likely to miss the disinvestment target by Rs 200 bn; FY20 target expected to be at Rs 800 bn

FYTD19 Centre has done disinvestment of Rs 350 bn, additional 250 bn is expected to come from REC, PFC deal and share buybacks from PSUs



Dividend and profits may exceed budgeted target on heavy interim dividend by RBI in FY19

FY20 target flat at Rs 130 bn as possible decline in RBI dividend will be offset by the rise in PSU dividends. Any special dividend by RBI to Government from its surplus has not been taken into account



Improvement in GST collections in FY20 likely to drive tax receipts higher; Disinvestment target expected at Rs 800 bn; Capital expenditure to recover

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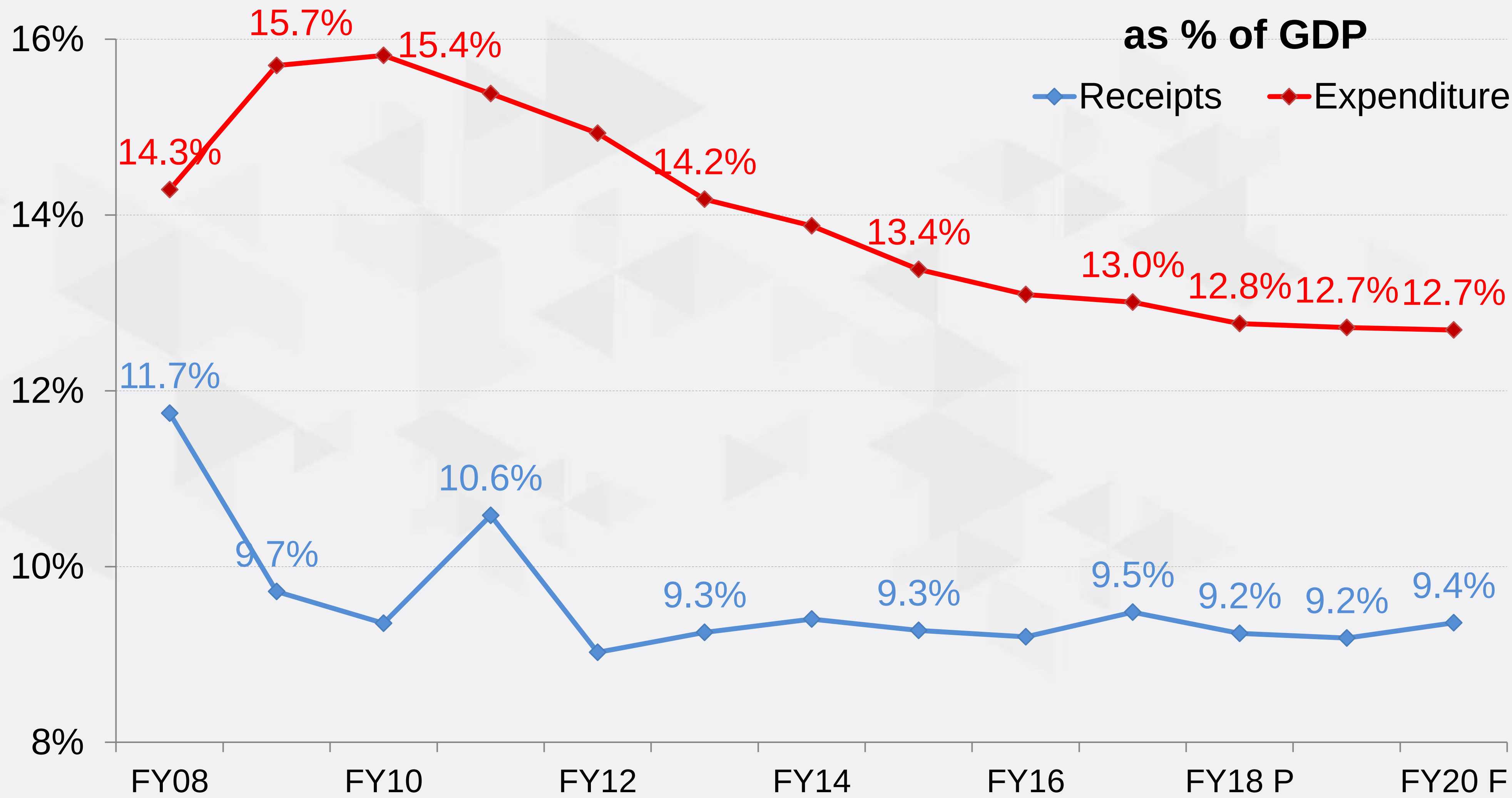
Centre is expected to cut capital expenditure in FY19 to achieve fiscal deficit of 3.5% of GDP

Rs. Tr.	FY18 P	FY19 BE	FY19 Axis	FY20 Axis	FY18 P	FY19 BE	FY19 Axis	FY20 Axis
GDP	167.8	187.2	188.4	210.0	10.5%	11.5%	12.2%	11.5%
Tax Receipts (Net)	12.43	14.81	13.91	16.14	12.8%	19.2%	11.9%	16.1%
Non-Tax Revenue	1.93	2.45	2.68	2.56	-29.4%	27.3%	39.1%	-4.4%
Disinvestments & Others	1.16	0.92	0.72	0.95	77.2%	-20.4%	-37.7%	31.6%
Total Receipts	**15.51**	**18.18**	**17.31**	**19.65**	**7.7%**	**17.2%**	**11.6%**	**13.6%**
Revenue Expenditure	18.79	21.42	21.26	23.60	11.1%	14.0%	13.2%	11.0%
Capital Expenditure	2.64	3.00	2.70	3.05	-7.3%	13.9%	2.4%	13.0%
Total Expenditure	**21.43**	**24.42**	**23.96**	**26.65**	**8.5%**	**14.0%**	**11.8%**	**11.2%**
Fiscal Deficit	5.92	6.24	6.66	7.00	3.5%	3.3%	3.5%	3.3%

Nominal GDP growth assumed to be 11.5% for FY20

Note: FY19 and FY20: Axis Estimates

Stagnant receipts over the years have forced Government to cut back on expenditure to meet fiscal deficit targets



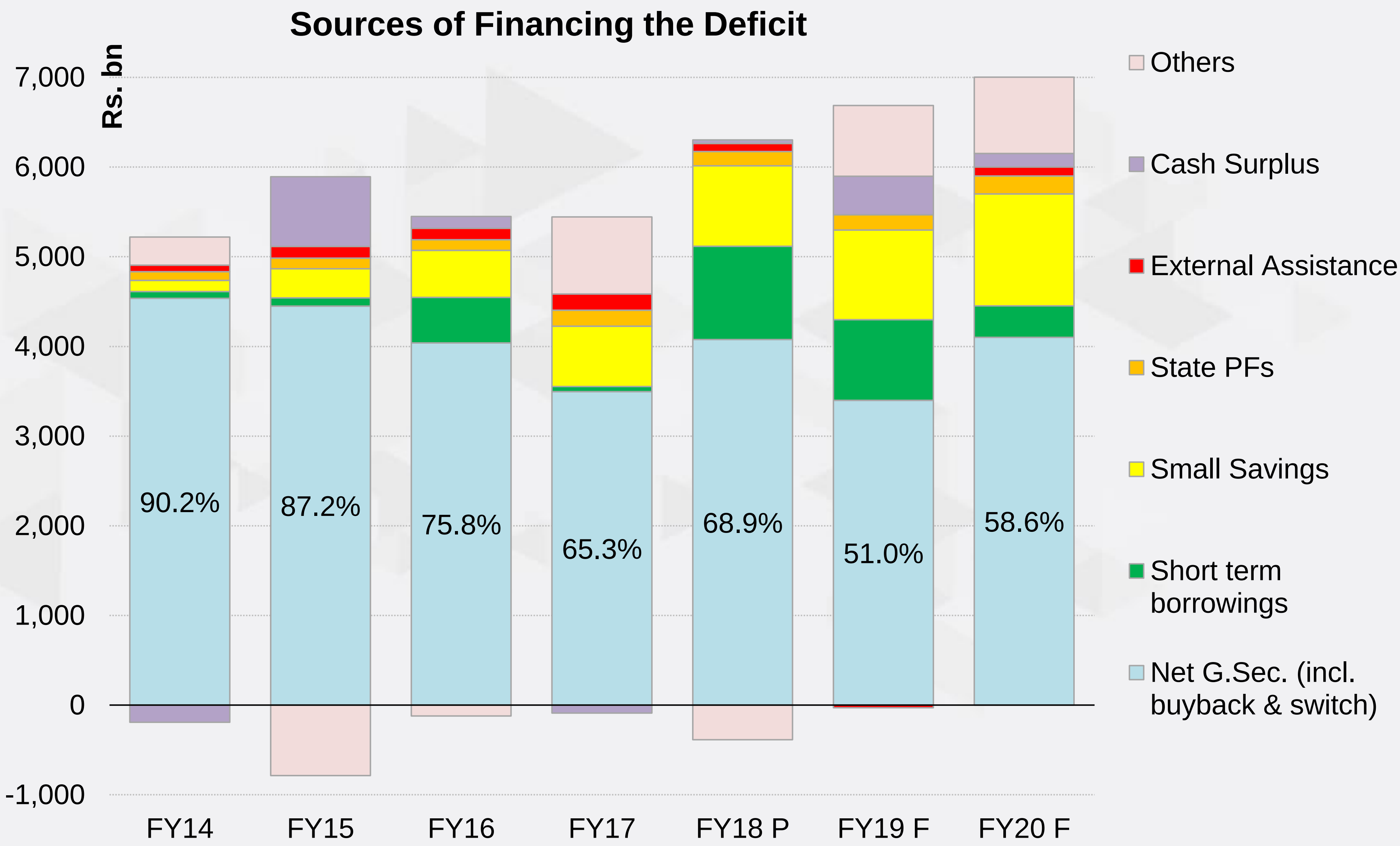
Note: FY19 and FY20: Axis Estimates

Repayment of loan taken by FCI from NSSF since FY17, will increase food subsidy expenditure in the coming years

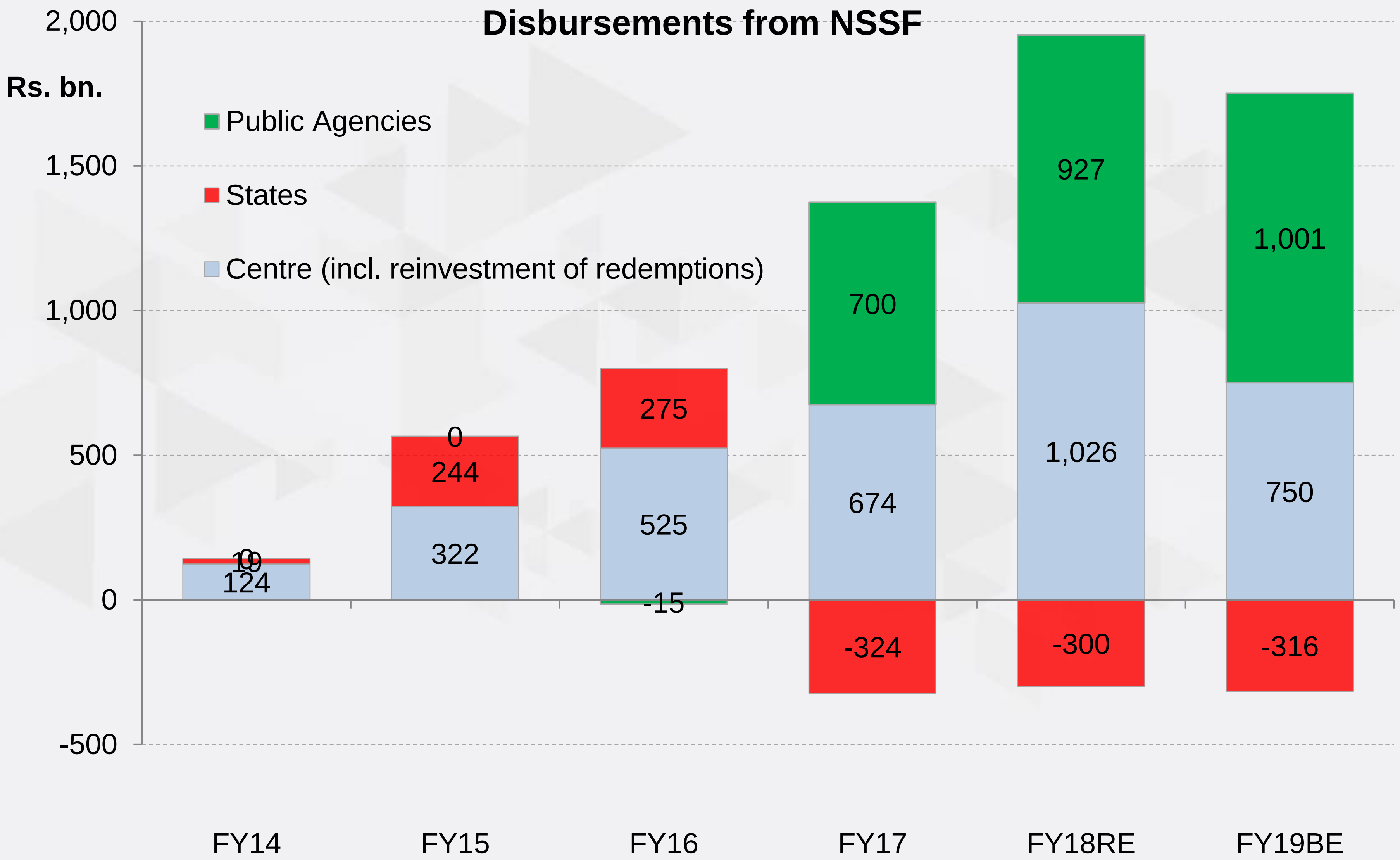
- FY19 Food Subsidy outgo likely to be lower than budget on additional borrowing of Rs 250 bn by FCI from NSSF
- FY20 Food Subsidy outgo to be higher at Rs 2 lakh crore on account of repayment of NSSF loan
- FCI has taken a loan of Rs 700 bn in FY17 and Rs 1,210 bn in FY18 from NSSF

Rs. Tr.	FY18	FY19	FY19	FY20	FY18	FY19	FY19	FY20
	P	BE	Axis	Axis	P	BE	Axis	Axis
Expenditure	**21.43**	**24.42**	**23.96**	**26.65**	**8.5%**	**14.0%**	**11.8%**	**11.2%**
Subsidies	2.64	2.93	2.71	3.18	12.5%	10.9%	2.7%	17.3%
o/w Food	1.00	1.69	1.44	2.00	-8.9%	68.8%	43.9%	38.6%
Fertilizer	0.66	0.70	0.72	0.70	0.2%	5.5%	8.5%	-2.9%
Petroleum	0.24	0.25	0.26	0.18	-11.6%	2.4%	8.0%	-31.6%
Interest	5.29	5.76	5.76	6.15	10.1%	8.8%	8.8%	6.8%
Revenue Expenditure	**18.79**	**21.42**	**21.26**	**23.60**	**11.1%**	**14.0%**	**13.2%**	**11.0%**
Capital Expenditure	**2.64**	**3.00**	**2.70**	**3.05**	**-7.3%**	**13.9%**	**2.4%**	**13.0%**

Dependence on small savings as a source of financing the deficit increasing over time

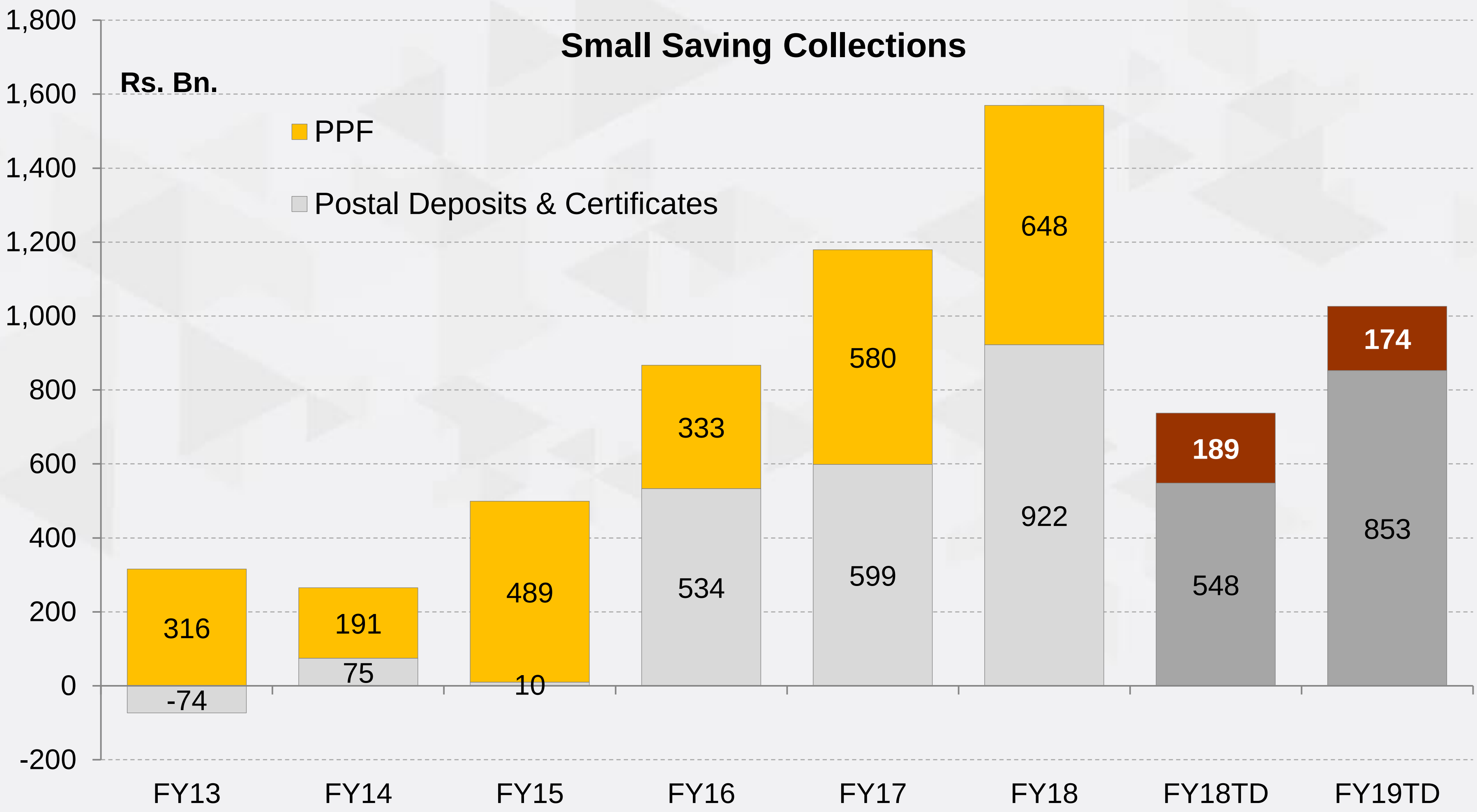


Public agencies (FCI, NHAI), Air India etc. have started borrowing heavily from NSSF since FY17, helping government to push expenditure off balance sheet



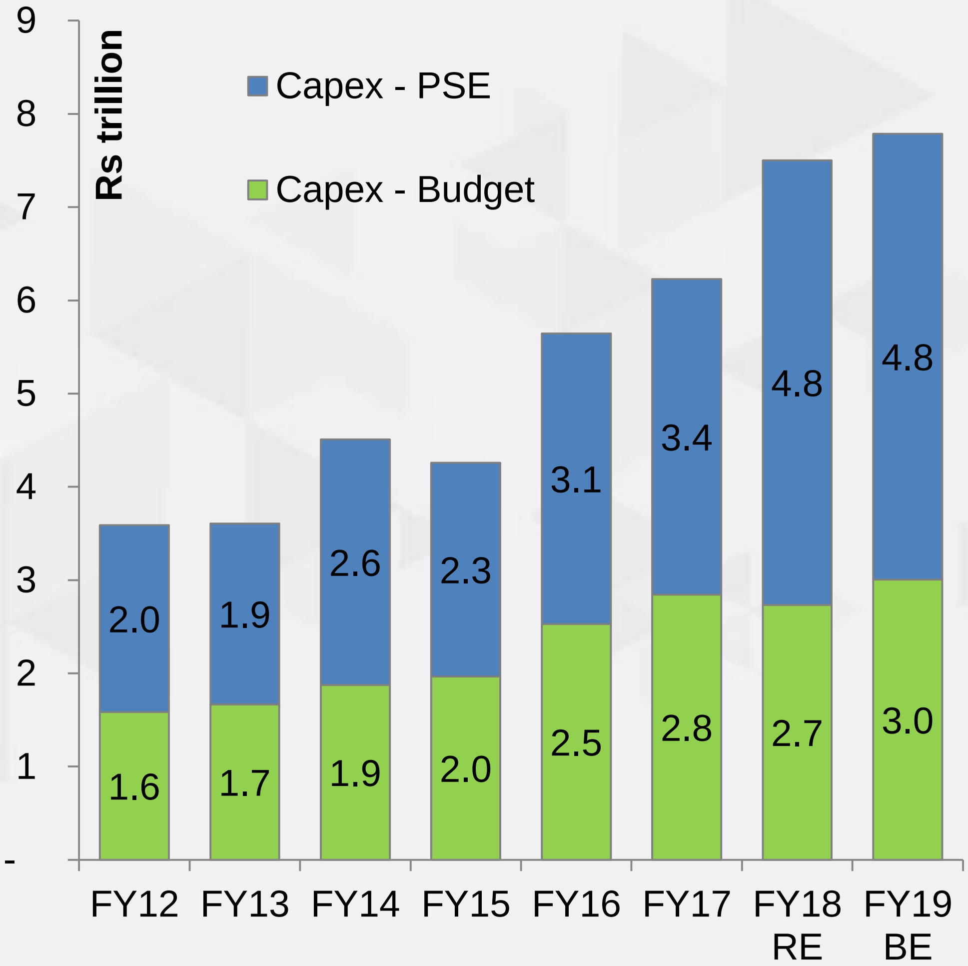
Small savings in FY19 to be higher by ~Rs 450-500 bn than budget; additional collections to be used for financing the deficit

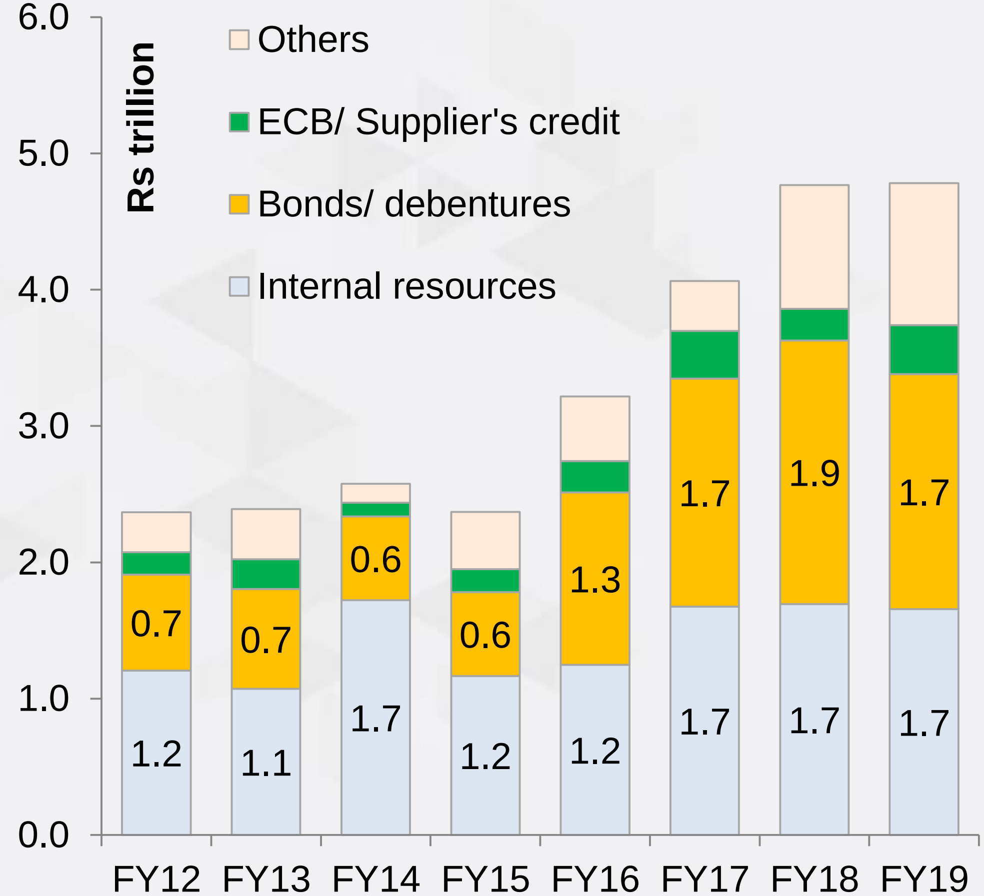
Collections over the budgeted target could also be used for providing additional loan to public agencies, particularly FCI



A greater share of capital expenditure is being done through Public Sector Undertakings

… which is being financed through higher market borrowings





FY20 gross G-sec issuance likely at Rs. 6.25 tn. on fiscal deficit target of 3.3% and buyback of Rs 25k cr

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	FY18	FY19	FY19	FY20
Rs. Tr.	P	BE	Axis	Axis
Fiscal Deficit % GDP	3.53%	3.33%	3.5%	3.3%
Fiscal deficit	**5.92**	**6.24**	**6.66**	**7.00**
Financing of Deficit				
Net Borrowings (incl. Short term)	5.12	4.07	4.30	4.45
Small Savings	0.90	0.75	1.00	1.25
State PF's	0.16	0.17	0.17	0.20
Others	-0.39	0.85	0.79	0.85
External Assistance	0.09	-0.03	-0.03	0.10
Cash Surplus	0.04	0.43	0.43	0.15
Gross G.Sec. Supply	**5.88**	**6.06**	**5.35**	**6.25**
Redemptions (-)	1.40	1.43	1.48	1.90
Net G.Sec. Supply	**4.48**	**4.62**	**3.87**	**4.35**
Buybacks (Net) (-)	0.42	0.72	0.47	0.25
Net Market Borrowings	**4.08**	**3.90**	**3.40**	**4.10**
Short term Borrowings (Net)	1.04	0.17	0.90	0.35
Net Borrowings (incl. Short term)	**5.12**	**4.07**	**4.30**	**4.45**

- Gross market borrowing in FY19 cut by Rs 750 bn from BE levels
  - The decline in gross borrowing to be covered by lower buyback by Rs 250 bn
  - And higher short term borrowing at Rs 900 bn vs Rs 170 bn in BE
  - Additional Rs 250 bn from NSSF may used for financing the deficit
- FY20 gross market borrowings expected at Rs 6.25 Tn. Total net borrowing (incl. short term) at Rs 4.45 tn
- Rs 1.9 tn redemption in FY20 based on Rs 0.47 tn buyback in FY19 of paper maturing in FY20
- Government may also further draw down cash surplus in FY19 and FY20 for financing the deficit

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