

Central Government's Fiscal Position: April – October 2020

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During the first 7 months of FY21, the finances of the central government clearly depict the coronavirus pandemic induced stress though partial improvement has been witnessed on a sequential basis.

During April – October 2020, the fiscal deficit of the central government reached 119.7% of the budgeted estimate (Rs. 7.7 lakh crore) at Rs. 9.53 lakh crore. Taking into consideration revised gross borrowing plan to Rs. 13.1 lakh crore, the fiscal deficit continues to be within the target. Total receipts have declined by 24.2%. Notably, the capital expenditure is 1.9% lower than the same period of last year and is only 48% of the budget estimate. Financing of the fiscal deficit is mainly by way of market borrowings.

Main indicators

- The **fiscal deficit** of the Central government has surpassed the budgeted number for the full year by 19.7%. In Apr-Oct'2020, the fiscal deficit was 119.7% of the budgeted number in FY21 compared with 102.4% last year. The fiscal deficit till October 2020 has been 32.3% higher than the corresponding period of last year.
 - The financing of fiscal deficit continues to be primarily met through domestic sources (96% share) mainly market borrowings.
 - Market borrowings (GSec+T-Bills) reached to Rs. 11.3 lakh crore, 215% of the budget estimate for FY21 while were 131% higher than the same period of last year.
 - The **external financing** during April-October 2020 has been nearly 6 times over last year and 855% of the budget estimate. Total receipts of the government have fallen by 32.5% during H1 compared with the corresponding period last year and are only 25% of the budget estimate.
- Revenue receipts have declined by nearly 23.8% and are only 34% of the budget estimate.
 - During Apr-Oct'2020, the government has reached only 3% of its ambitious Rs. 2.1 lakh crore worth disinvestment proceeds.
- Total Expenditure has increased marginally by 0.4% primarily on account of increase revenue expenditure and are nearly 55% of the budget estimate.
 - Revenue Expenditure accounted for 89% of the expenditure and registered a 0.7% growth (year-on-year)
 - Capital expenditure has declined by 1.9% in Apr-Oct'20 from last year. Compared with budget estimates of FY21 only 48% of the capex has been undertaken, lower than 60% of budget estimate last year.

Table 1: Snapshot of Central government accounts

Snapshot of Central Government Finances (Rs. Crores)						
Budget Estimates	FY20 (Apr-Oct)	FY21 (Apr-Oct)	% change	% of Budget Apr-Oct'20	% of Budget Apr-Oct'19	
FY21						
Total Receipts	22,45,893	9,34,460	7,08,300	-24.2	31.5%	44.9%
Revenue Receipts	20,20,926	9,07,634	6,91,903	-23.8	34.2%	46.2%
Capital Receipts	2,24,967	26,826	16,397	-38.9	7.3%	22.4%
Total Expenditure	30,42,230	16,54,905	16,61,454	0.4	54.6%	59.4%
Revenue Expenditure	26,30,221	14,53,632	14,64,099	0.7	55.7%	59.4%
Capital Expenditure	4,12,009	2,01,273	1,97,355	-1.9	47.9%	59.5%
Revenue Deficit	6,09,295	5,45,998	7,72,196	41.4	126.7%	112.5%
Fiscal Deficit	7,96,337	7,20,445	9,53,154	32.3	119.7%	102.4%

Source: CGA

Sources of Income

Table 2: Snapshot of total receipts of Central Government

Revenue Receipts (Rs. Crores)			
	FY20 (Apr-Oct)	FY21 (Apr-Oct)	% change
Tax Revenue (net)	6,83,486	8,75,591	28.1
Income Tax	2,44,394	2,03,101	-16.9
Corporate Tax	2,72,756	1,72,735	-36.7
Customs	64,459	50,519	-21.6
Excise Duties	1,13,951	1,60,639	41.0
CGST	2,84,712	2,05,380	-27.9
GST Compensation Cess	55,467	42,804	-22.8
Non-Tax Revenue	2,24,148	1,16,206	-48.2
Interest Receipts	6,685	8,138	21.7
Dividends and Profits	1,57,879	67,082	-57.5
Total Revenue Receipts	9,07,634	6,91,903	-23.8

Source: CGA

- The pandemic led economic disruption has weighed on the tax revenues of the government. In April-October 2020, tax revenue were only 35% of the budget estimate however when compared with the same period of last year these were nearly 28% higher. Barring excise duties all major heads of taxes have declined.
- Income taxes have been nearly 17% lower than a year ago.
- Corporation tax has fallen by almost 37% (year-on-year) reflective of bleak business performance.
- Revenues from custom duties have dropped by 22% in April-October 2020 on account of subdued imports.
- Revenue from excise duties has surged by 41% owing to the steep hike in excise duty on fuel products. The further opening up of economy and consumption of fuel products has also supported the growth.
- Non-tax revenue has been 48% lower than the same period of last year and are only 30% of the budget estimate.
- Dividends and profits have declined due to lower transfers from the RBI than last year and partial deterioration in the profitability of the PSUs.

Expenditure

- The key heads like agriculture, rural development and health and family welfare have recorded robust growth in revenue expenditure whereas it is lower on education, petroleum and natural gas.
 - Interest payments of the government have also increase by 15% year on year and are 47% of the budget estimate in April-October 2020.
 - Total subsidies (Table 4) were at Rs 1.85 lakh crs, 18% lower than corresponding period last year with broad based decline across major categories like food, fertilizers and petroleum.
- Capital expenditure on food & public distribution has surged considerably while that on road transport and highways has increased by 5.3%.
- Capex on defence and railways has declined when compared with the same period last year.

Table 3: Main heads of Expenditure

Main Heads of Revenue Expenditure (Rs. Crores)				Main Heads of Capital Expenditure (Rs. Crores)			
	FY20 (Apr-Oct)	FY21 (Apr-Oct)	% change		FY20 (Apr-Oct)	FY21 (Apr-Oct)	% change
Agriculture	58,826	68,840	17.0	Food & public distribution	43	11,085	25612.4
Food & Public Distribution	1,31,383	1,08,869	-17.1	Defense	71,827	60,867	-15.3
Defense	1,29,820	1,20,058	-7.5	Road Transport and Highways	45,292	47,690	5.3
Interest Payments	2,89,565	3,33,456	15.2	Railways	37,612	36,681	-2.5
Transfers to State and UTs	99,132	94,653	-4.5	Total Capital Expenditure	2,01,273	1,97,355	-1.9
Pensions (excl. defense)	40,577	40,330	-0.6				
Health and Family Welfare	35,528	43,547	22.6				
Police	59,057	55,022	-6.8				
Education (school and higher education)	51,179	35,679	-30.3				
Petroleum and Natural Gas	37,028	19,838	-46.4				
Rural Development	77,229	1,35,125	75.0				
Total Revenue Expenditure	14,53,632	14,64,099	0.7				

Source: CGA

Table 4: Major Subsidies

	Major Subsidies (Rs. Crores)			
	FY21 (BE)	FY20 (Apr-Oct)	FY21 (Apr-Oct)	% change
Food subsidy	1,15,570	1,29,788	1,05,203	-18.9
Fertilizer subsidy	23,504	20,873	12,795	-38.7
Urea Subsidy	47,805	46,222	48,011	3.9
Petroleum	40,915	29,840	19,391	-35.0
Total Major Subsidies	2,27,794	2,26,724	1,85,400	-18.2

Source: CGA

CARE Ratings' View:

Although the finances of the central government have improved sequentially, the receipts of the central government could see only gradual improvement. Taking into consideration the additional outgo towards Atmanirbhar package 3.0 announced prior to Diwali festival along with inherent stress on the receipts, **we expect the fiscal deficit of the central government to be around 9 to 9.5% of GDP during FY21.**

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