Bumpy Ride Ahead for Government Finances

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FY22: The Year Under Review

With robust tax collections helping revenue receipts overshoot the revised estimate by Rs 0.9 lakh crore, the central government finances in FY22 have been fairly comfortable despite the impact of the second and third waves of Covid-19. After hitting a high of 9.2% in the pandemic struck FY21, the fiscal deficit in FY22 has been contained at 6.7% of the GDP, lower than the revised estimate of 6.9%.

Table 1: Snapshot of Central Government Finances (Rs Lakh Crore)

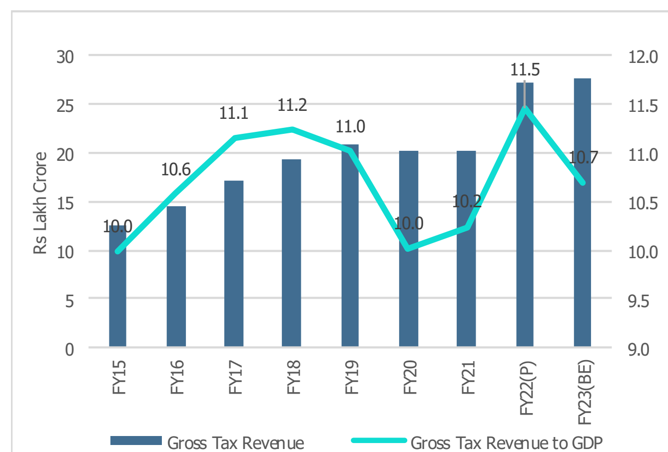
	FY21	FY22 (P)	% Change
Total Receipts	**16.92**	**22.08**	**30.5**
Revenue Receipts	16.34	21.68	32.7
Capital Receipts	0.58	0.39	-32.0
Total Expenditure	**35.10**	**37.94**	**8.1**
Revenue Expenditure	30.84	32.01	3.8
Capital Expenditure	4.26	5.93	39.3
Fiscal Deficit	**18.18**	**15.87**	**-12.7**
Fiscal Deficit/GDP	9.2	6.7	
Revenue Deficit	**14.50**	**10.33**	**-28.7**
Revenue Deficit/GDP	7.3	4.4	

Source: CGA & CMIE

Government Receipts

Supported by economic rebound, high inflation, improved corporate performance and enhanced tax compliance, gross tax revenue collections in FY22 rose to Rs 27.1 lakh crore, higher than the revised estimates by nearly Rs 1.9 lakh crore. Gross tax collections to GDP ratio witnessed a sharp uptick to 11.5 in FY22 from 10.2 in the previous year. Revenue from customs, income and corporate taxes have been strong in FY22 (refer to Table 2). The growth in excise collections was muted on account of a cut in fuel excise duty implemented in November 2021. Non-tax collections received a boost from RBI's surplus transfer of Rs 99,122 crore (higher than the budgeted amount) to the government for the nine-month accounting period ended March 31, 2021. On the capital receipts front, disinvestment proceeds for the year have been lacklustre at Rs 8,432 crore, much lower than the revised estimate of Rs 78,000 crore.

Exhibit 1: Trend in Gross Tax Revenue



Source: CEIC & CGA

Table 2: Revenue Receipts (Rs Lakh Crore)

	FY21	FY22 (P)	% Growth
Gross Tax Revenue	20.27	27.08	33.6
Income Tax	4.71	6.73	43.1
Corporate Tax	4.58	7.12	55.6
Custom Duties	1.35	1.99	47.8
Excise Duties	3.90	3.91	0.3
CGST	4.56	5.91	29.6
GST Compensation Cess	0.85	1.05	22.8
Non-Tax Revenue	2.08	3.48	67.6
Interest Receipts	0.17	0.22	29.0
Dividends and Profits	0.97	1.61	65.7
Total Revenue Receipts	16.34	21.68	32.7

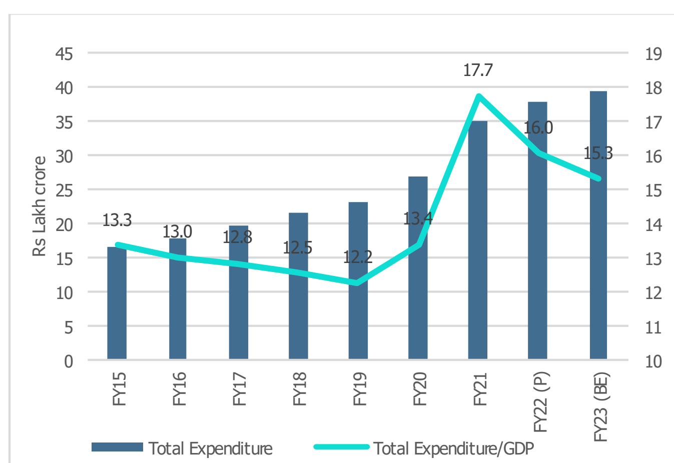
Source: CGA

Government Expenditure

At Rs 32 lakh crore, revenue expenditure was largely in line with the revised estimate, but higher by 3.8% over FY21. Outlay towards major subsidies declined by 36.9% compared with the previous year owing to a reduction in food subsidy (which constitutes a share of 65% in total major subsidies). Despite additional outgo towards PMGKAY, the food subsidy in FY22 was lower than the previous year (as the government cleared dues of FCI resulting in a spike in the food subsidy bill for FY21). Petroleum subsidy has been sharply lower by 91% on account of lower LPG subsidy. While subsidy on food and petroleum declined, fertiliser subsidy rose to Rs 1.5 lakh crore, 20% higher over FY21.

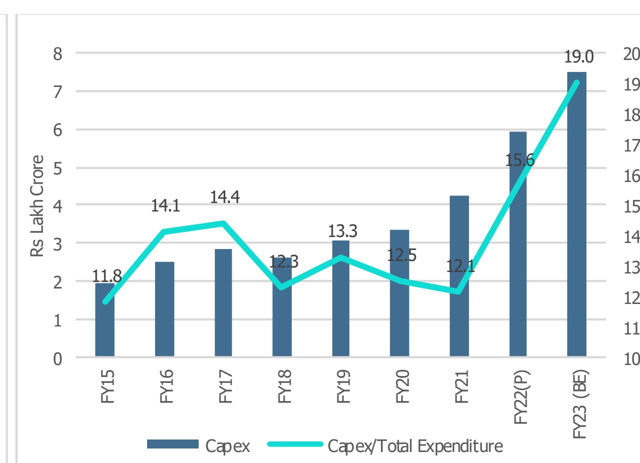
The government's expenditure during the fiscal was mainly focused on asset creation with capex to total expenditure ratio rising to 15.6 from 12.1 in the previous year. Capex has been upbeat at a record Rs 5.9 lakh crore logging a growth of 39% over the previous year.

Exhibit 2: Total Expenditure Trend



Source: CEIC & CGA

Exhibit 3: Capex Trend



Source: CEIC & CGA

FY23: A Bumpy Ride Ahead

The Indian economy is on a fragile footing, facing fresh headwinds due to spillovers from the Russia-Ukraine conflict and the ensuing high commodity prices. Against the backdrop of amplifying inflationary pressures, the government implemented a series of measures to ease domestic prices. The cut in fuel excise duty, waiver of customs duty on raw materials and intermediaries for plastic products and iron and steel are likely to result in revenue losses of nearly Rs 1.15 lakh crore. However, the revenue foregone on these accounts is expected to be offset by better tax collections aided by an upswing in economic activities and high inflation.

With the tax revenue collection for FY22 exceeding the budgeted target and given the very modest growth budgeted by the government for FY23, we can safely assume the tax revenue collection in FY23 to exceed the target. Assuming a tax buoyancy of 1.1 and accounting for revenue losses due to duty cuts announced by the government, we expect the gross tax revenue collections to exceed the budgeted target by Rs 2.4 lakh crore. After accounting for lower transfer from the RBI of Rs 30,307 crore, we estimate net revenue receipts of the Centre to overshoot the budget estimates by around Rs 1.3 lakh crore.

On the disinvestment front, the government has already garnered Rs 20,560 crore through LIC IPO and has announced a stake sale in Hindustan Zinc Limited, which will enable further disinvestment receipt of Rs 38,000 crore, bringing the total disinvestment very close to the budgeted target of Rs 65,000 crore. Hence, we believe there are chances of the government exceeding the budgeted target of disinvestment in FY23.

On the expenditure front, additional outlays would be on account of the LPG subsidy, higher fertiliser subsidy and extension of the food subsidy program up to September 2022. Factoring in the possibility of further enhancement in fertiliser subsidy, the total expenditure could exceed the budget estimate by nearly Rs 2.4 lakh crore.

Table 3: The Fiscal Slippage Matrix

Additional Net Revenue Receipts- Net Tax+Non-Tax (Rs Lakh Crore)	1.33
Total Expenditure Overshot due to Subsidy (Rs Lakh Crore)	2.36
Scenario 1: Govt Overshoots the Budgeted Disinvestment Amount by 20%	
Slippage in Fiscal Deficit (Rs Lakh Crore)	0.89
Fiscal Deficit as % of GDP	6.5
Scenario 2: Govt Achieves the Budgeted Disinvestment Amount	
Slippage in Fiscal Deficit (Rs Lakh Crore)	1.02
Fiscal Deficit as % of GDP	6.6

The central government has pegged the fiscal deficit at 6.4% of the GDP in FY23. Assuming a 13.5% growth in the nominal GDP (higher than the budgeted 11.1%) and given the possibility of additional expenditure being partially cushioned by better revenue realisations we expect the fiscal deficit to rise to 6.5-6.6% of the GDP. There could be further pressure on the government finances if the government further extends the food subsidy under PMGKY or if there are further cuts in duties.

In a nutshell, while the duty cuts and additional subsidies announced by the government will put pressure on its finances, the overall impact will be cushioned by higher tax revenue collections, the possibility of higher disinvestment revenue and higher nominal GDP growth amid a sharp rise in inflation.

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