बैंक ऑफ़ बड़ौदा
Bank of Baroda

FISCAL UPDATE

30 May 2020

FY20 fiscal deficit at 4.6% of GDP

India's FY20 fiscal deficit at 4.6% of GDP is higher than FY20RE of 3.8%. This was led by decline of 3.4% in gross tax collections. Direct taxes fell by 7.8% due to reduction in corporate tax rate. FY21 too will see a large decline in corporate tax collections on account of COVID-19. We believe Centre would like to maintain spending at FY21BE level as was the case in FY20. Thus fiscal deficit may be higher at 6.5% of GDP from earlier estimate of 6%. This will not change borrowing calendar as Centre will use other sources to raise cash.

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Tax revenues miss estimates in FY20: Centre's gross tax revenues declined by 3.4% in FY20 versus an increase of 4% projected in FY20RE. In FY19, gross tax revenues had shown an increase of 8.4%. The decline in FY20 is led by contraction of 7.8% in direct taxes. Indirect taxes increased by only 1.8%. Within direct taxes, corporate taxes declined by 16.1% (corporate tax rate reduced to 25%). Income tax collections rose by only 4% versus target of 18.3% (13.1% in FY19). Non-tax revenues too fell short of target. Disinvestment receipts remained lacklustre at Rs 503bn compared with FY20RE of Rs 650bn. With non-tax revenues higher by 38.3% on account of RBI dividend, Centre's net revenues rose by 8.3% in FY20.

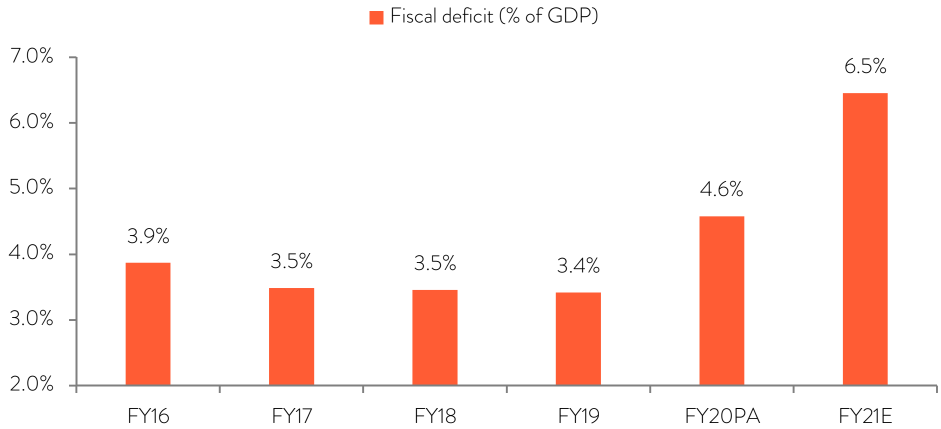
Spending momentum maintained: Total expenditure rose at a robust pace of 16% in FY20 versus 8.1% in FY19, in-line with projected in FY20RE (16.6%). Revenue expenditure increased at 17% compared with 6.8% in FY19. Capex moderated to 9.7% in FY20 from 17% in FY19. The overall increase in total expenditure was led by agriculture (79.2% increase over FY19) and petroleum and natural gas spending (32.3% increase).

FY21 deficit can be higher at 6.5%: We had projected fiscal deficit to increase to 6% of GDP in FY21 on the back of lower tax collections due to COVID-19. Centre's net tax revenues are estimated to fall by 9.7% in FY21 versus BE of an increase of 9.2%, resulting in a shortfall of ~Rs 5tn. Disinvestment receipts will also be muted at Rs 750bn compared with BE of Rs 2.1tn. Government would like to maintain its spending in FY21 at the budgeted level of Rs 30.4tn. Revenue spending is estimated at 9.3% and capex at 7.3%. Thus fiscal deficit can go to 6.5% of GDP. This will not change borrowing maths and government may look at alternate sources to finance the same.

KEY HIGHLIGHTS

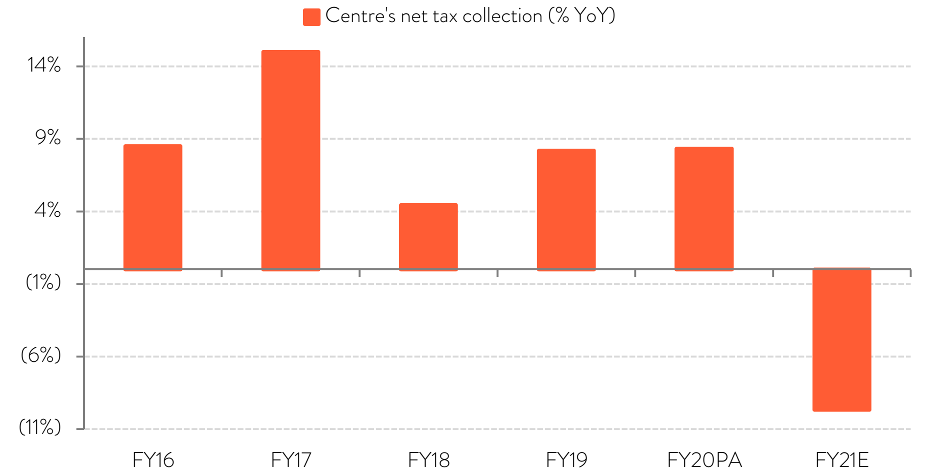
- Fiscal deficit widened in FY20 to 4.6% (of GDP), and will inch up further in FY21 to 6.5%
- Tax revenues record sharp dip in FY20, trend to continue in FY21.
- Spending growth steady in FY20, large spending cuts unlikely in FY21.

FIG 1 – FISCAL DEFICIT SHOOTS UP SHARPLY



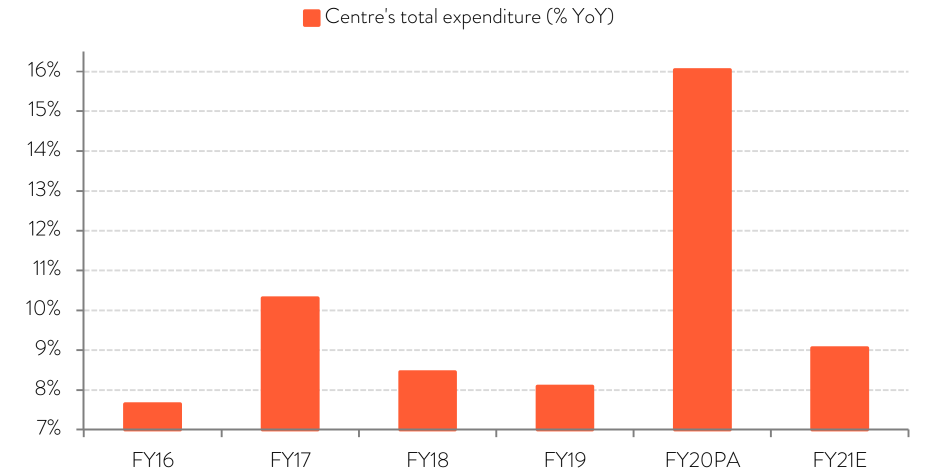
Source: CEIC, Bank of Baroda Research; PA-Provisional Account, E-Bank of Baroda estimates

FIG 2 – CENTRE'S NET TAX COLLECTIONS ON WEAK FOOTING



Source: CEIC, Bank of Baroda Research; PA-Provisional Account, E-Bank of Baroda estimates

FIG 3 – SPENDING GROWTH LIKELY TO MEET BUDGETED TARGET IN FY21



Source: CEIC, Bank of Baroda Research; PA-Provisional Account, E-Bank of Baroda estimates

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