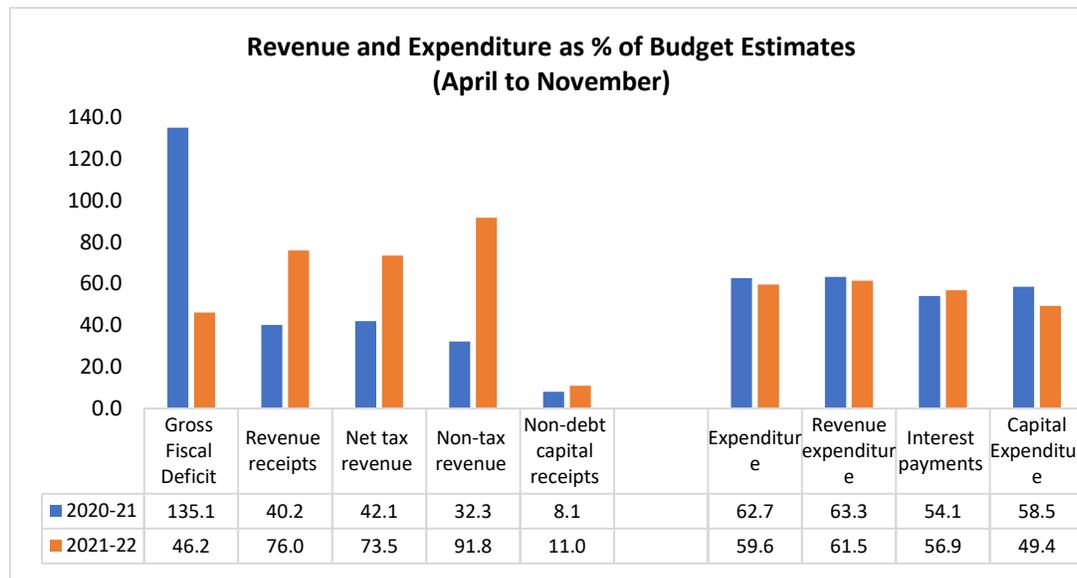


Central government’s fiscal deficit to reach 7% of GDP in FY22, against budget estimates of 6.8% of GDP

Brickwork Ratings, Bengaluru, 31 December 2021: Data on fiscal trends released by the Controller General of Accounts (CGA) on 31 December shows that the cumulative fiscal deficit up to November 2021 adds up to 46.2% of the whole year’s budget estimate and is substantially lower than 135% recorded for the same period last year. The capital expenditure has increased by 13.5% and constituted 49% of the budget estimate.

In the first eight months of FY22, the revenue deficit was just 38.8% because of the robust 76% increase in revenue receipts and substantial holding back on revenue expenditure. The tax revenue collection has been robust and was 73.5% of the budget estimates.



Source: CGA, BWR Research

Centre’s revenue collection continues to expand; may exceed budget estimates

Robust revenue growth, even after the recent reduction in the excise duty on petroleum products, provides space for the fast pacing of capital expenditures at least to cover 51% of the budgeted in the remaining four months. With better buoyancy expected in corporate income tax, personal income tax, excise duty on petroleum products and the GST, the tax revenue collection is likely to exceed the budget estimate by a significant margin for FY22.

The government is estimated to get additional revenue over the budget estimate by Rs 1.7 trillion from higher tax revenue collections and dividends from the RBI. Meanwhile, the government has presented supplementary demand for grants for an additional spending of Rs 3 trillion. This includes



an additional outlay on MGNREGA, increased fertiliser subsidy, additional food subsidy and additional export incentives, and clearing the Air India debt.

Government may fall short of the budgeted disinvestment target

There is a likelihood of the government falling short of the disinvestment proceeds. So far, the government was able to mop up Rs 9,330 crore through disinvestments as against the budgeted Rs 1.75 lakh crore. The proposed government's stake sale in Air India will be completed this fiscal year. Additionally, the government is making all efforts to complete the stake sale in LIC before the end of the fiscal year. Even so, achieving the disinvestment target set in the budget is unlikely as the divestment in Bharat Petroleum Corporation may not be completed before 31 March 2022.

Conclusion:

Given the additional burden of supplementary demand for grants, the chances of the government missing its fiscal deficit target cannot be ruled out. We expect the fiscal deficit to marginally breach the budgeted 6.8% of the GDP and reach 7% of the GDP in the current fiscal. This, however, should not be a matter of much concern, because the economy had to contend with the second wave of the pandemic. Besides, it must be noted that the Finance Minister has promised that the budget will be much more transparent this year as off-budget liabilities such as the Food Corporation of India borrowing from National Small Savings Fund will be taken in the budget itself.

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