FinMin confident of keeping FY23 fiscal deficit in check

Robust tax mop-up, savings through SNA dashboard bode well for balance sheet, say officials

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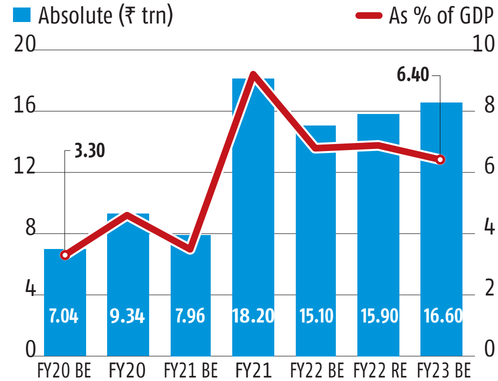
Policymakers at the Union finance ministry are confident of containing fiscal deficit in the ongoing FY23 at or close to the targeted 6.4 per cent of nominal gross domestic product (GDP), notwithstanding the greater food and fertiliser subsidy burden.

According to senior ministry officials, there are three factors behind such confidence: First, healthy direct and indirect tax collections; second, expansion in nominal or inflation-adjusted GDP; third, substantial expenditure savings expected via the Single Nodal Agency (SNA) dashboard.

"This year, we are expecting to save as much as ₹40,000-50,000 crore through the SNA dashboard," said a senior official, adding that the central government has already held back allocations worth more than ₹1 trillion, so far this year, for certain schemes. It has told states that they have equivalent amounts in their treasuries which should be spent first.

SNA is one of the new accounting mechanisms in the Public Finance Management System for the distribution of centrally sponsored schemes (CSS)-related amounts to states.

CLOSE TO TARGET



Source: indiabudget.gov.in/BE

CSS are jointly funded by the Centre and states. Through the SNA dashboard, officials can track funds starting from their release from the central treasury to ministries and then to state treasuries and departments, until they reach the vendor, contractor or implementing agency.

Under SNA, states have one bank account for one scheme and all the money for that scheme flows through that account. This means that instead of hundreds of thousands of accounts, the Centre just has to monitor around 3,000 accounts.

The Centre saved around ₹10,000 crore through SNA last fiscal year.

The official quoted above also said there will be savings through the drive that the Expenditure Department began earlier this year, telling the respective line ministries to identify inefficiencies in subsidy schemes and in flagship programmes, such as NREGA. Officials, however, are unwilling to hazard a guess about how big these savings could be.

"The fiscal deficit this year could be close to the target. Revenue collections are very robust and nominal GDP will be higher than anticipated due to inflation. Hence, in absolute terms, even if the target is exceeded, as a percentage of GDP it can be contained," said a second government official. "The fiscal deficit target for the year should be met."

The Budget Estimate for the FY23 fiscal deficit is ₹16.6 trillion. The 2022 Union Budget assumes nominal GDP at ₹258 trillion for FY23. Bank of Baroda's Chief Economist Madan Sabnavis said that nominal GDP is likely to be around ₹273-275 trillion, mainly due to high inflation.

Under such a scenario, even if the fiscal deficit in absolute terms widens by ₹1 trillion to ₹17.6 trillion, it will remain at 6.4 per cent of GDP.

The Centre's fiscal deficit for April-August FY23 came in at ₹5.4 trillion, or 32.6 per cent of the Budget Estimate (BE) of ₹16.6 trillion. Net tax revenue for the April-August FY23 period came in at ₹7 trillion, nearly 8.5 per cent higher than the amount gathered during the same period last year.

"We expect strong revenue collection growth to continue in the coming months. As a result, financing additional expenditure due to the three-month extension of the Pradhan Mantri Gareeb Kalyan Anna Yojana (PMGKAY), increased fertiliser subsidy, or any other unforeseen expenditure is unlikely to destabilise budgetary fiscal arithmetic," said Sunil Kumar Sinha, principal economist, India Ratings.

The GST collection for September soared 26 per cent to ₹1.47 trillion, on account of rising demand, higher rates, and greater tax compliance. Collections from the nationwide tax remained above the ₹1.4-trillion mark for the seventh straight month, displaying high buoyancy.

The two big expenditure items this year, on account of the geopolitical shocks caused by the war in Europe, are food and fertilizer subsidies.

On account of multiple extensions to the PMGKAY, the food subsidy burden for FY23 may rise to ₹3.32 trillion, from a budgeted target of ₹2.07 trillion, not including any savings on lower procurement costs.

Meanwhile, fertilizer subsidies may rise to ₹2.5 trillion against the budgeted ₹1.05 trillion, on account of higher natural gas and input costs.