Govt finances resilient in H1FY24

ABHIJIT LELE
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The combined finances of the Centre and states remained robust in April-September 2023 (H1FY24). The improved revenue mobilisation by the Centre and states has helped contain the gross fiscal deficit (GFD) of the combined government within seven per cent of Gross Domestic Product (GDP) in Q1 and Q2 of 2023-24, according to an RBI study.

Going forward, while tax collections are expected to remain buoyant in H2, a pick-up in expenditure by the Centre and states could result in a general government deficit of 8.2 per cent and 11.9 per cent of GDP in Q3 and Q4, respectively. The study – "Government Finances 2023-24: A Half-Yearly Review" in the December 2023 bulletin said the Centre recorded robust tax collections — both direct and indirect taxes.

This reflected a sustained recovery of the economy, enhanced tax governance and administration as well as improved profitability of the corporate sector.

Lower disinvestment receipts are likely to be offset by sharp gains in non-tax revenues, mainly attributable to higher dividends from the Reserve Bank and other financial institutions.

On the expenditure front, the capex thrust has ensured significant improvement in the quality of expenditure of the Centre.

The Centre achieved more than half of its budgeted revenue in (H1FY24) while containing its expenditure to less than half of what it had projected for the entire financial year.

This would augur well for the Centre to meet its GFD target of 5.9 per cent of GDP for 2023-24, it added.

The states too have witnessed strengthening of their fiscal parameters as is evident from their continued buoyancy in tax revenues. Notably, they have also increased their capital spending in line with the Centre's stance to front-load capex, by using both central funds linked to reforms and their own resources. However, the states grapple with several challenges in sustaining the momentum of their capital expenditure, on both the expenditure and revenue fronts.

The reversion to the old pension scheme (OPS) by a few states and reports of some other states moving in the same direction would exert a huge burden on state finances and restrict their capacity to undertake growth-enhancing capital expenditures, the study added.