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View: The government is performing a risky high-wire balancing act

By Chaitanya Kalbag, ET CONTRIBUTORS Last Updated: Feb 07, 2019, 09:25:00 AM IST

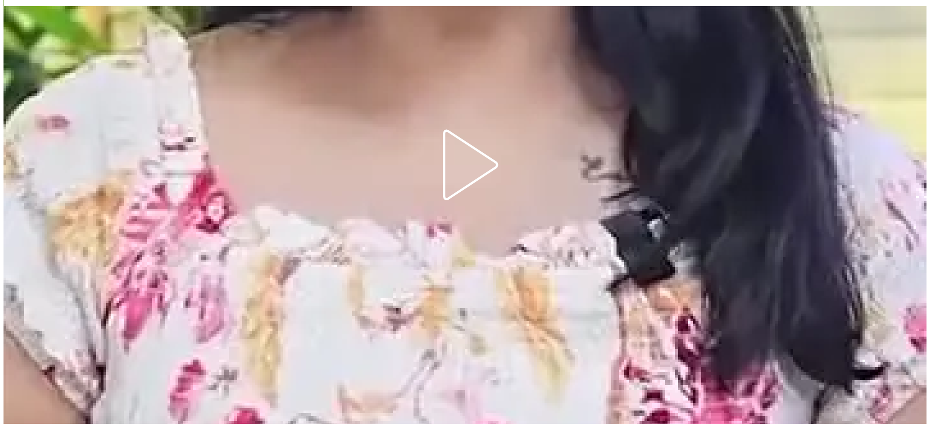
Synopsis
Govt's please-all Budget tried to appease almost everyone, thereby risking the fiscal roadmap.

A JP Morgan report notes that in order to finance its deficit, the government has also been resorting to 'off-balance-sheet' borrowings, which are rising.

Let me put it simply: the government is performing two balancing acts simultaneously. In order to get to this perilous position, it has time and again turned precedent on its head, laying it open for the next administration to also throw caution to the winds. This is not good for a country of our size. You cannot steer a super-tanker like a racing yacht, tacking and jibbing as the wind blows.

What are the two balancing tricks? First, after assuring us that the economy is booming and GDP growth since May 2014 has been the fastest since independence, the government has pulled out all the stops to appease every section of the population: the 'poor' among the upper castes, small and marginal farmers, unorganized workers, small traders, and the middle class. "We feel your pain" is the message as the elections loom. Will the voters take the bait?

Second, the precedent-breaking **Interim Budget** has under-stated the **fiscal deficit** and over-stated revenues.



Take taxes. The budget sees Goods and Services Tax collections rising 18% to Rs 7.61 trillion in 2019-20 despite expecting to fall short in 2018-19 by Rs 1.0 trillion. Remember all revenue assumptions have been made with two months of the current fiscal year still to go. Remember also that GST rates have been continually trimmed, and the exemption limit doubled to Rs 40 lakh annually for small traders.

Income tax is seen rising 17.2% to Rs 6.2 trillion in 2019-20 from Rs 5.29 trillion this year – a lower rise than this year's projected 22.8% growth from Rs 4.3 trillion in 2017-18. And this after 30 million taxpayers were removed by the latest rebate from the official claim of 68.5 million. Where is the tax buoyancy that will help the government spend more on desperately-needed infrastructure, as well as 12% more on education and 13.5% more on health in 2019-20?

What about revenues? The government's disinvestment programme is in shambles compounded by the Air-India sale fiasco. Against the 2018-19 target of Rs 80,000 crore disinvestment had fetched only Rs 35,532 crore until end-January, a 55% shortfall. Yet, the target for next year has been set at an unrealistic Rs 90,000 crore.

The fiscal deficit, now projected at 3.4% of GDP both this year and in 2019-20, is seen magically sliding to 3% by 2020-21. These figures already look like phantasmagoria. The 2019 -20 deficit is seen at Rs 7.03 trillion, although Finance Minister **Piyush Goyal** committed Rs 1.0 trillion to three populist items: cash transfers to small farmers (Rs 75,000 crore), income-tax rebates (Rs 20,000 crore) and pensions for unorganised workers (Rs 500 crore). The Centre for Monitoring Indian Economy (CMIE) notes that the April-November 2018 deficit had already hit Rs 7.17 trillion, far higher than this year's projected Rs 6.34 trillion and higher even than next year's predicted total.

CMIE calculates this year's deficit at Rs 7.6 trillion, or 4% of GDP. This could be partially helped if the **RBI** decides at a Feb.18 board meeting to transfer a huge interim dividend of between Rs 30,000 to Rs 40,000 crore to the Centre, bringing total transfers in 2018-19 to a whopping Rs 70,000-80,000 crore.

Remember also that the **Bimal Jalan** committee looking into the RBI's total reserves is mandated to submit its report by end-March, and don't be surprised if, a couple of weeks ahead of deadline, it green-signals another giant transfer to government coffers before fiscal year-end (past estimates have put the prize at up to Rs 1.0 trillion).

A JP Morgan report notes that in order to finance its deficit, the government has also been resorting to 'off-balance-sheet' borrowings, which are rising. For instance, the Food Corporation of India, which buys foodgrains at the mandated minimum support price and then sells it (at a loss) through the **public distribution system**, borrowed as much as 1% of GDP in 2018-19; this ought to have been included in the budget numbers. Budgeted food subsidies, which exclude FCI borrowings, are seen rising 7.5% to 1.84 trillion in 2019-20.

"More generally, if one were to add the Centre, and the combined deficits of the states (which have expanded sharply in recent years), off-balance-sheet borrowing (e.g. FCI) and borrowing by all central public sector enterprises, India's total public sector borrowing requirement (PSBR) remains above a hefty 8.5% of GDP in both 2017-18 and 2018-19," JP Morgan said. This PSBR estimate does not include borrowings by states' public-sector enterprises.

Little wonder Moody's described India's fiscal slippage as credit-negative. Little wonder that gross market borrowings, seen rising a hefty 26.8% to Rs 7.6

trillion in 2019-20, have spooked debt markets. The yield on the benchmark 10-year government bond surged on Friday after the budget but settled back at 7.566% on Wednesday; foreigners have dumped over Rs 222 billion in sovereign debt over the past 13 months, Bloomberg reported. Despite its vaunted growth, India is looking financially vulnerable to investors.

The RBI's credit policy, to be announced later today, will also weigh: it is expected to soften its stance but hold off on a rate cut until April. If it rushes into a U-turn, it will further hurt bonds and the rupee, which weakened 1% after the budget and has been Asia's worst-performing major currency this year.

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