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India performs fiscal deficit magic

By Kunal Kumar Kundu

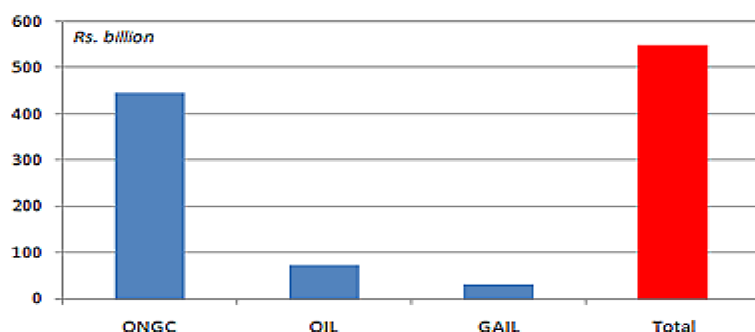
The half-yearly (April-September 2012) fiscal deficit number for India for the fiscal year running to next March, released by the Controller General of Accounts (CAG) on October 31, shows an interesting twist in the tale.

According to the data, India's cumulative deficit for the first six months actually fell as compared with the cumulative deficit of the first five months of the fiscal year (FY13). The deficit fell by 6.34 billion rupees (ie there was a surplus in September) to 3,369.04 billion rupees (about US$62 billion) from 3,375.38 billion rupees. Given the budgeted target of a fiscal deficit of 5,135.90 billion rupees for the full fiscal year, the cumulative deficit for the first six months turned out to be 65.6% of the target, a tad lower than the 65.7% recorded during the April-August '12 period.

How did the government manage the impossible of recording a surplus during September? A closer look reveals that the government has not paid any oil subsidy so far for FY13 and has thereby managed to show lower expenditure and hence a surplus for the month. This, therefore, ought to be construed as an accounting jugglery rather than any real improvement in the state of finance of the government.

But before that, a bit of background is necessary. As per the calculation of the Petroleum Planning & Analysis Cell (PPAC), total under-recovery of the subsidy by the country's three oil marketing companies (OMCs) - Indian Oil Corporation Ltd (IOCL), Bharat Petroleum Corporation Ltd (BPCL) and Hindustan Petroleum Corporation Ltd (HPCL) during FY12 was to the tune of 1,385 billion rupees.

Out of this, the government forced the upstream oil companies - Oil & Natural Gas Corporation Ltd (ONGC), Oil India Ltd (OIL) and Gas Authority of India Ltd (GAIL) - to bear close to 40% of the under-recovery during FY12, which is quite close their highest ever share of subsidy burden, the 41.5% imposed on these companies during FY11 (about 540 billion) during FY12.



Source: Internet sources

On the other hand, the government's share of under-recovery was pegged at 835 billion rupees.

(Rs. billion)

Company	Q1 FY12	Q2 FY12	Q3 FY12	Q4 FY12	Total Budgetary Support For FY12
IOCL	82	-	164	209	455
BPCL	35	-	70	92	197
HPCL	33	-	66	85	183
Total	**150**	**0**	**300**	**385**	**835**

Source: Internet sources

However, out of this, the government paid out only 450 billion rupees during FY12 and the balance of 385 billion rupees was paid out only in FY13. The problem is, during FY13, the government has made a total provision of 436 billion rupees as oil subsidy, as per the budget document. Hence, out of the total budget provision for FY13, the government used up close to 90% of the budgeted amount to pay for the previous year's subsidy. Essentially, the government resorted to borrowing from the future to mange current expenditure.

Thus, for FY13, the government is left with a budgeted oil subsidy of a mere 50 billion rupees. Hence the pressure on the government finances for the current year will be immense. The fact is, the budget for oil subsidy during FY13 itself was highly under-estimated. As per the estimate made by PPAC, the total under-recoveries during the first six months of the current financial year itself stood at 856 billion rupees - virtually double the target for the full year. However, the government is left with a mere 50 billion rupees as budgeted amount to be used for oil subsidy for FY13.

On the other hand, the politically hamstrung government continued to dilly-dally on the oil price rationalization front. It even went on to reject the Kelkar committee (instituted by the Finance Minister P Chidambaram himself) recommendation of time-bound phasing out of subsidies on grounds of social justice.

Though Chidambaram recently announced a new fiscal consolidation roadmap in which he assured that he will accept the Kelkar Committee recommendations, finer details are awaited as to what exactly are his plans. In the meanwhile, the only form of subsidy reduction that was visible was a mere 5 rupees per liter hike in diesel price in September.

While this reduced the under-recovery of diesel from 12.76 rupees liter as on August 16 to 9.84 rupees per liter as on November 1, the subsidy burden has been rising ominously, especially in case of kerosene and domestic LPG.

Product	Unit	As of 16th Aug'12 Under-recovery	As of 1st Nov'12 Under-recovery
Diesel	(Rs./Litre)	13.76	9.84
PDS Kerosene	(Rs./Litre)	28.54	31.30
Domestic LPG	(Rs./Cylinder)	231.00	478.50

Source: PPAC

In fact, the OMCs are now (as of November 1) incurring a daily under-recovery of 4.21 billion rupees on the sale of diesel, PDS kerosene and domestic liquefied petroleum gas (LPG) while it was 4.05 billion rupees per day as of August 16, before the hike in diesel price.

With the government aiming to cap the subsidy at 5.3% of gross domestic product (GDP) during FY13 (as against the budget of 5.1% of GDP - as per its fiscal consolidation roadmap), it opted for an easy way out by not paying out the subsidy rather than surprising the market by showing a surge in fiscal deficit.

(till Sep'12)

Product	Under Recovery (Rs. Billion)
Diesel	527
PDS Kerosene	143
Domestic LPG	185
Total	**856**
Share of Government	0
Share of upstream oil companies*	342
Net under recovery	**514**

** - assuming the share of upstream oil companies remain the same at 40%.*
Source: PPAC

If, on the other hand, the government had paid the subsidy due to the oil companies, the fiscal deficit would have shot up to 3,889 billion rupees (approximately 75% of the budget) during the first half of FY13, as against 68% of the budget recorded during the same period in the previous financial year.

Clearly, the issue of subsidy will be India's biggest bug-bear while the country aims to achieve some semblance of fiscal consolidation.

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