

'Payout may offer limited cushion on subsidy burden, lower revenue visibility'

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The RBI's payout to the Centre, 6.7 per cent higher than last year, is expected to provide only partial relief to government finances as rising subsidy burdens and lower revenue expectations linked to the West Asia crisis threaten to strain the FY27 fiscal arithmetic.

Economists remain divided over the extent of support the transfer will provide, with some viewing it as a useful buffer against higher expenditure pressures and others arguing that the payout may not prevent a breach of the fiscal deficit target.

BUDGET DEPENDENCE

In the FY27 Budget, the Centre had projected ₹3.16 lakh crore of non-tax revenue from 'Dividend/Surplus of Reserve Bank of India, Nationalised Banks and Financial Institutions', implying that the RBI transfer alone accounts for over 90 per cent of the BE.

However, West Asia tensions are expected to weigh on the Centre's finances through both lower revenues and higher expenditure. Economists estimate that the fertilizer subsidy bill could rise by over ₹70,000 crore,



Analysts expect the fiscal position to remain under pressure due to expectations of higher fertilizer and fuel subsidies and lower tax collections and dividends from oil marketing companies

while the recent excise duty cuts on fuel may lead to a revenue loss exceeding ₹1 lakh crore.

"This is a marginal increase in non-tax revenues which will be useful to partly neutralise some of the expected increase in food, fertilizer and petroleum subsidies in the wake of the West Asian crisis," said DK Srivastava, Chief Policy Advisor at EY India.

DK Pant, Chief Economist, India Ratings & Research, noted that the transfer would have been over ₹64,500 crore higher had the RBI maintained the contingency risk buffer at last year's level.

The higher allocation to the contingency risk buffer would strengthen the central bank's ability to intervene in financial markets, he said, adding that the surplus transfer would "reduce some

pressure on fiscal deficit".

FISCAL RISKS

However, Upasna Bhardwaj, Chief Economist at Kotak Mahindra Bank, termed the surplus transfer lower than expected, thereby "limiting the levers for the government in terms of managing the fiscal slippage risks", although she does not foresee risk of additional market borrowing for now.

Aditi Nayar, Chief Economist at ICRA, said the fiscal position is likely to remain under pressure due to expectations of higher fertilizer and fuel subsidies as well as lower tax collections and dividends from oil marketing companies. "We expect the Centre's fiscal deficit target for FY27 of 4.3 per cent of GDP to be breached by 40 bps, assuming an average crude oil price of \$95/barrel during the fiscal," she said.