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India may cut expenditure to stick to 3.3% fiscal deficit: Moody's

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Moody's Investors Service on Thursday said it expects India to stick to the estimated fiscal deficit of 3.3 per cent of GDP and even cut capital expenditure to offset any slippage from the budgeted target.

It however said any reduction in the excise duty on petroleum and diesel products in view of high crude oil prices, would exert negative pressure on India's sovereign credit profile.

Moody's had last year upped India's sovereign rating for the first time in over 13 years to 'Baa2' with a stable outlook, saying that growth prospects have improved with continued economic and institutional reforms.

Moody's expects the Government to meet its fiscal deficit target of 3.3 per cent for 2018-19, based on its commitment to gradual fiscal consolidation and budget assumptions which appear achievable, it said in a statement.

"Although Moody's sees some downside risk to budgeted revenue and expenditure targets, it expects that the Government would cut back on planned capital expenditure, as has occurred in past years, if it is needed to offset any slippage from its fiscal targets," Moody's VP and Senior Credit Officer William Foster said.

On the revenue side, Moody's sees some downside risk to the Government's assumptions on the collections from the Goods and Services Tax (GST) and petroleum products excise duty, Foster said.

The ongoing uncertainty around GST implementation and compliance, including the timely provision of input tax credit refunds and iterative changes to tax rates, could result in some potential revenue losses. However, the initial setbacks on implementation appear to be fading and, over the medium term, Moody's expects GST compliance to stabilise and revenues to become more predictable as the economy becomes more formalised, it added.