

Pledging SUUTI shares: A bit of fiscal 'relief'

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Bottom line: FY12 Center's fiscal deficit still 5.8% of GDP

- We have cut our FY12 Center's fiscal deficit forecast by 30bp, to 5.8% of GDP, after officials told the media that they would fund the budgeted Rs400bn of PSU divestment by pledging SUUTI shares. That said, we cannot say that we would recommend this kind of fiscal engineering beyond a crisis year. In any case, we still expect Delhi to overshoot its budgeted 4.6% of GDP fiscal deficit target by over Rs1000bn on higher oil subsidies. Nonetheless, today's government plan does ease pressure on gilts at the margin. Given that the government has additionally raised Rs530bn through dated paper and about Rs250bn through T-Bills, it should not have to borrow beyond an extra Rs100-200bn, assuming issuance of Rs200bn of Cash Management Bills. This should get funded by the RBI OMO of Rs400bn that we expect in January. This, in turn, backs our standing call of the 10y settling about 8.5% levels. For details, do read our 2012 India Year Ahead [here](#).

Key points: Delhi's SUUTI proposal to divest PSU stock

- Delhi plans to transfer shares and real estate owned by the Specified Undertaking of the Unit Trust of India (SUUTI) to a newly set up fund manager by January 15. A government entity, SUUTI was formed in 2003 to take over the UTI's US 64 and assured return schemes.
- The fund manager will pledge the private sector stocks – such as ITC, Axis Bank and Larsen & Toubro – it will receive, with banks to raise loans to buy government stakes in public sector undertakings (PSUs).
- This should enable Delhi to raise the Rs400bn it had budgeted from divesting PSU shares. As of this date, it has collected only Rs11bn from divestment in the Power Finance Corporation. On our part, we had assumed that the government would be able to collect only Rs200bn by way of divestment. With greater visibility of Rs400bn being raised, we have cut our FY12 Center's fiscal deficit forecast by 30bp, to a still-above-consensus 5.8% of GDP (Table 1). We forecast the Center's fiscal deficit at 6.1% in FY13.
- As it has not been able to divest PSU stock to investors, the government thus plans to raise money from banks *via* loans against shares, rather than issuing gilts to them. If market conditions improve, the fund manager will sell the PSU stock to investors and repay the bank loan. While the fiscal pre-emption from the banking system will remain the same, it will partly shift from the gilt market – which is already facing an excess supply of gilts – to the credit market, where loan demand is coming off on rising lending rates.

Next up in India: Slowing loan demand on rising rates

India: Banking data (December 16), Wednesday, 28 December 2011.

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Table 1: 5.8% of GDP FY12 Center's fiscal deficit

Item/Rsbn	FY10	FY11E	FY12BE	FY12E (US\$108/bbl)	FY13E (US\$112/bbl)	FY13E (US\$135/bbl)
1. Revenue receipts	5728	7839	7899	7678	8563	8563
Tax revenue	4565	5637	6645	6413	7298	7298
Non-tax revenue	1163	2201	1254	1265	1265	1265
2. Non-debt capital receipts	332	317	550	500	500	500
Recovery of loans	86	90	150.2	100	100	100
Other receipts	246	227	400	400	400	400
3. Total receipts (1+2)	6060	8156	8449	8178	9063	9063
4. Non-plan expenditure	7211	8216	8162	9393	11006	11365
4.1 On revenue account	6579	7267	7336	8542	10106	10465
4.1.1 of which: Interest payments	2131	2408	2679	2841	3361	3361
4.2 On capital account	632	948	826	851	900	900
5. Plan expenditure	3034	3950	4415	4120	4367	4367
5.1 On revenue account	2539	3269	3636	3439	3645	3645
5.2 On capital account	495	681	779	681	722	722
6. Total expenditure (4+5)	10245	12166	12577	13513	15373	15732
7. Gross fiscal deficit (6-3)	4185	4009	4128	5335	6310	6669
% of GDP	6.4	5.1	4.6	5.8	6.1	6.4
8. States fiscal deficit						
% of GDP	3.3	2.5	2.5	2.5	2.7	2.5
10. Combined fiscal deficit						
(% of GDP)	9.7	7.6	7.1	8.3	8.8	8.9

Source: Government of India, BofA Merrill Lynch Global Research estimates.

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Table 2: India story in numbers

	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14
Summary Data											
Nominal GDP (US\$ bn)	599.5	721.6	834.0	948.1	1,239.1	1,215.8	1,381.4	1,727.6	1,947.1	2,177.3	2647.6
GDP per capita (US\$)	568	663	759	846	1,084	1,052	1,124	1,458	1,622	1,790	2642.9
Population (millions)	1,072	1,089	1,106	1,122	1,138	1,154	1,170	1,185	1,201	1,216	1232.0
Economic Activity											
Real GDP growth (% yoy)	8.5	7.5	9.5	9.6	9.3	6.8	8.0	8.5	7.0	6.8	7.6
Agriculture (% YoY)	10.0	0.1	5.1	4.2	5.8	-0.1	0.4	6.6	3.0	3.0	2.5
Industry (% YoY)	6.0	8.4	8.5	12.9	9.2	4.0	8.3	7.8	4.6	5.7	7.2
Services (% YoY)	8.8	10.2	11.2	10.1	10.4	9.5	9.7	9.2	8.7	8.0	8.6
Domestic demand growth (% yoy)	7.4	8.5	10.5	9.7	11.1	6.2	8.3	8.2	5.1	5.7	8.9
Real investment growth (% yoy)	13.6	18.9	15.3	14.3	15.2	2.7	7.3	8.6	3.9	3.6	11.9
Real consumption growth (% yoy)	5.4	4.9	8.5	7.7	9.2	7.9	8.7	8.0	5.7	6.7	7.6
Real private consumption growth (% yoy)	5.9	5.2	8.4	8.5	9.1	7.4	7.3	8.6	6.4	6.0	8.5
Real government consumption growth (% yoy)	2.6	3.6	8.9	3.7	9.5	10.7	16.4	4.8	2.3	10.5	3.1
Real export growth (% yoy)	9.6	27.2	25.9	21.8	5.2	13.4	-5.5	17.9	4.9	6.8	7.6
Real import growth (% yoy)	13.8	22.2	32.5	22.0	10.0	22.2	-1.8	9.2	7.4	6.8	7.6
Prices											
WPI inflation (% yoy, eop)	4.8	5.3	3.9	6.8	7.7	1.5	10.2	9.8	7.2	6.7	6.5
WPI inflation (% yoy, avg)	5.5	6.5	4.4	6.5	4.8	8.1	3.6	9.6	8.8	7.2	6.5
USD-INR (eop)	43.4	43.8	44.6	43.6	40.0	50.9	45.1	44.7	55.0	51.0	45
USD-INR (avg)	46.0	44.9	44.3	45.3	40.2	45.9	47.4	45.6	50.0	51.3	45.0
REER (% yoy, + dep)	3.2	-0.8	3.1	-1.8	7.1	-9.9	-3.1	7.7			
Monetary Sector											
Reserve money (% yoy)	18.3	12.1	16.9	23.9	31.0	6.4	17.0	19.1	17.0	17.0	17.0
M3 growth (% yoy)	16.7	12.0	21.1	21.7	21.4	19.3	16.8	16.0	17.0	17.0	17.0
Non-food credit (% yoy)	18.40	28.99	28.46	27.32	22.60	17.50	16.90	21.30	17.00	17.0	17.0
RBI policy rate - Reverses repo (%)	4.5	4.75	5.5	6	6	3.5	3.5	5.75	7.50	5.50	5.50
Repo rate	6	6	6.5	7.5	7.75	5	5	6.75	8.5	6.5	6.5
CRR	4.5	5	5	6	7.5	5	5.75	6	6	6	6
1-month interbank rate -Call rate (%)	4.62	4.65	5.60	7.22	6.07	7.06	3.24	5.25	7.50	5.50	5.50
Long-term yield (%)	5.2	6.7	7.5	8.0	8.0	7.0	7.8	8.0	8.5	8.5	8.5
PLR	10.25	10.25	10.25	12.25	12.25	12.25	11.75	13	14.75	13.25	13.25
External Sector											
Current Account balance (% of GDP)	2.3	-0.3	-1.2	-1.0	-1.3	-2.4	-2.8	-2.6	-3.1	-3.0	-3.0
Current Account balance (US\$ bn)	14.1	-2.5	-9.9	-9.6	-15.7	-28.7	-38.4	-44.1	-60.0	-65.0	-80.0
Trade Balance (US\$ bn)	-14.3	-28.0	-46.1	-59.3	-88.5	-118.4	-118.4	-130.4	-149.0	-165.0	-188.1
Exports, f.o.b. (US\$ bn)	63.8	83.5	103.1	126.4	162.9	185.3	182.2	250.5	290.0	326.3	371.9
Imports, c.i.f. (US\$ bn)	78.1	111.5	149.2	185.7	251.4	303.7	300.6	380.9	439.0	491.3	560.1
Invisibles (US\$ bn)	27.80	31.23	42.00	52.22	75.73	89.92	79.99	86.2	89.0	100.0	107.0
Foreign direct investment (US\$ bn)	2.4	3.7	3.0	7.7	15.9	17.5	18.8	7.0	18.0	18.0	25.0
International reserves (US\$ bn)	113.0	141.5	151.6	199.2	309.8	251.9	279.1	304.8	323.5	331.5	345.0
Public Sector											
Consolidated Fiscal deficit (% of GDP)	-8.4	-7.4	-6.7	-5.7	-4.5	-10.0	-9.6	-7.6	-8.3	-8.8	-8.6
Central Gov. Budget Deficit (% of GDP)	-4.5	-3.9	-4.0	-3.9	-2.9	-7.4	-6.3	-5.1	-5.8	-6.1	-5.8
Central Gov. Revenues (% of GDP)	9.6	9.5	9.4	10.1	10.9	9.7	8.8	10.0	8.4	8.2	8.3
Debt Indicators											
Gross External Debt (% of GDP)	18.8	18.6	16.7	18.2	18.1	18.5	19.0	17.7	17.6	17.6	17.6
Gross Government Debt (% of GDP)	81.1	78.6	77.4	74.1	71.4	72.1	69.1	64.9	62.2	60.6	60
Savings - Investment Balance											
Savings (nominal - % of GDP)	28.2	32.4	33.5	34.6	36.9	32.2	33.7	33.7	33.7	32.7	33.7
Investment (real - % of GDP)	26.7	31.3	33.2	34.5	36.7	34.9	34.7	34.7	33.7	32.7	33.7

Source: Government of India, BofA Merrill Lynch Global Research estimates.

Link to Definitions

Macro

Click [here](#) for definitions of commonly used terms.

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