

Economics

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India Macro Flash

Fiscal Trends Unchanged – 1HFY12 Deficit at 71% of Target

- **1HFY12 Fiscal Deficit : 71% of Budget Targets; Slippages Well Priced in** — Trends in public finances remained unchanged with the 1HFY12 fiscal deficit coming in at Rs2,925bn or 71% of budget estimates of Rs4,128bn (v/s Rs1,333bn last year). This compares with an average of 50% seen in the last six years. As mentioned earlier (see [Fiscal Update – Not Looking Good: Revenues and Expenditure Both Under Pressure](#)), we expect the government to miss its deficit target due to both lower revenues and higher expenditures. Depending on the pay-out to oil companies, the headline deficit number could come in the 5.1% to 5.8% range v/s budget estimates of 4.6% of GDP.
- **Pressure Points Unchanged: Revenues Lower, Expenditures Overshooting** —
 - **Revenues:** Total revenues in 1HFY12 came in at Rs3.1trillion v/s Rs4 trillion last year, down 24.2% YoY v/s budget estimates of a 3.6% increase. In addition to the absence of the one-off telecom auctions, this is due to: (1) **Lower Tax Growth:** Due to moderating real GDP growth and duty cuts on petro products (Rs490bn), the current run rate of gross and net tax collections are 10.3% and 4.1% respectively v/s budget estimates of 18.5% and 17.9% (see pg 2). (2) **Divestments:** With Rs12bn in the kitty, market conditions make the Rs400bn divestment target difficult to meet.
 - **Expenditures:** Total expenditure in 1HFY12 stands at Rs6 trillion v/s Rs5.4 trillion, up 11.4% v/s budget estimates of 3.4%. The key worry is a higher subsidy outlay (*budget estimates of a 12.5% contraction in the subsidy bill*). Slippages could be on account of: (1) **Fuel:** Assuming average prices of US\$105/bbl for the Indian basket, the government's subsidy share could touch Rs681bn (0.7% of GDP). (2) **Food:** The recent rise in Minimum Support Prices by 15% to 38% is likely to take its toll not only on inflation but also the food subsidy bill (see pg 3).
- **Bottom Line: Maintain our View of the Deficit coming in at 5.1%-5.8% of GDP** — Given trends in revenues and expenditures, we maintain our view of a minimum slippage in the deficit to 5.1% of GDP. This could rise to 5.8% if the government does not defer the under-recoveries payment to the oil companies (see pg 3).
- **Market Impact** — The government's borrowing program has already breached initial targets by Rs530bn (see [Fiscal Update: Apr – Aug Deficit 66% of Target; 2HFY12 Borrowing Program Higher by Rs530bn](#)) and resulted in 10-year yields edging to 8.8% levels from 8.3% before the announcement of higher borrowing. Interestingly, the government has said that it is maintaining its fiscal deficit calculations and that the additional borrowing was required due to: (1) lower govt cash balances, and (2) a lower pool of small savings. Thus going forward, yields are likely to remain under pressure and could edge higher if the higher deficit results in higher borrowing v/s resorting to Open Market Operations.

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Current Fiscal Trends

APRIL-SEPT FISCAL TRENDS

Revenues down 24.2% YoY to

Rs3.1trillion, due to a 69% contraction in non-tax revenues (FY11 benefited due to 3G license fees), and net tax collections growing at just 4.1%YoY.

Expenditures were up 11.4%YoY to

Rs6trillion during the period. Similar to past trends this was due to lower growth in plan spending rather than non-plan expenditure.

Fiscal deficit during Apr-Sept widened to Rs2.9trillion vs Rs1.3trillion last year.

CUMULATIVE DEFICIT DETERIORATES TO 71% OF BUDGET ESTIMATES

With the cumulative fiscal deficit widening to 71% of budget estimates (vs. 35% during the same period last year), we are almost certain to see slippages to the 4.6% of GDP target for FY12.

We expect the deficit to come in at 5.1%-5.8% of GDP depending on the payout of fuel subsidies. A saving grace could be higher nominal GDP numbers (the budget estimate has factored in nominal GDP at 14%, but this could be closer to 16% due to higher inflation).

TAX COLLECTIONS ARE LACKLUSTRE

While gross tax collections are still in the double-digit range, up 10.3%YoY; accounting for devolvement to states and surcharges, net taxes were up just 4.1%.

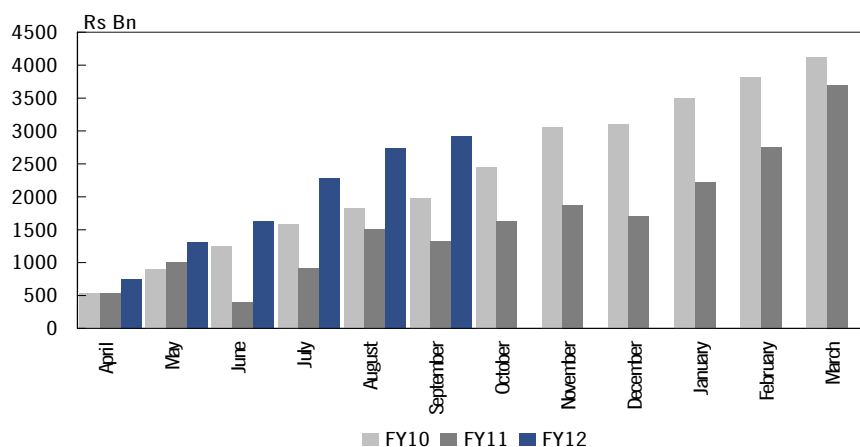
The key drag has been corporate taxes, which grew just 0.1%YoY in Sept and posted a 6% contraction during Apr-Sept. Excise duties also slipped into the red in Sept (-0.1%) but stayed in positive territory (+13.9%) on a cumulative basis.

Figure 1. Public Finances Snapshot – April-Sept FY12 (Rs Bn, %)

	Apr-SeptFY12	Apr-SeptFY11	%YoY	Budget Est	% To Total Budget	To Meet Budget
a. Revenue receipts	2,939	3,982	-26.2	7,899	37.2	4,960
Net tax revenues	2,431	2,334	4.1	6,645	36.6	4,214
Non-tax	508	1,648	-69.2	1,254	40.5	746
b. Non-debt cap receipts	128	65	96.5	550	23.2	423
c. Total receipts (a+b)	3,066	4,047	-24.2	8,449	36.3	5,383
d. Revenue expenditure	5,273	4,732	11.4	10,972	48.1	5,699
e. of which interest	1,225	1,028	19.2	2,680	45.7	1,455
f. Capital expenditure	718	648	10.7	1,606	44.7	888
g. Total expenditure (d+e)	5,991	5,380	11.4	12,577	47.6	6,586
h. Plan Expenditure	1,778	1,697	4.8	4,415	40.3	2,637
i. Non Plan Expenditure	4,213	3,683	14.4	8,162	51.6	5,237
j. Fiscal deficit (g-c)	2,925	1,333	119.5	4,128	70.8	1,204
k. Revenue deficit (d-a)	2,334	749	211.6	3,073	76.0	738
l. Primary Deficit (j-e)	1,700	305	457.7	1,448	117.3	-251

Source: CGA, Ministry of Finance

Figure 2. Cumulative Trends in the Fiscal Deficit (Rs Bn)



Source: CGA, Ministry of Finance, CIRA

Figure 3. Tax Collections – April-Sept (Rs Bn, %)

	Apr-SeptFY12	Apr-SeptFY11	%YoY	Budget Est FY12	% of Budget	Budgeted Growth Rate
Corporate Income	1,157	1232	-6.0	3,600	32.2	21.5
Customs	662	565	17.3	1,645	40.3	16.2
Excise	748	611	22.5	1,517	49.3	15.1
Service	593	521	13.9	1,636	36.3	19.2
Others	370	269	37.5	820	45.2	18.2
Others	45	47	-3.6	107	42.6	1.8
Gross Taxes	3,577	3,244	10.3	9,324	38.4	18.5
Devolvement to States	1,132	898	26.1	2,680	42.2	20.1
Surcharges	14	12	20.3			
Net Taxes	2,431	2,334	4.1	6,645	36.6	17.9

Source: CGA, Ministry of Finance

Fiscal Pressure Points – Unchanged

EXPENDITURE SLIPPAGE (1): OIL SUBSIDIES

Our oil and gas analysts estimate that if crude averages US\$100/bbl during 2H, the government's subsidy share could be Rs632bn. Crude rising to US\$105/bbl could take the share higher to Rs681bn.

Under recoveries – Sensitivities:

US\$1/bbl change in oil prices = Rs30bn

Rs1 depreciation = Rs80bn

EXPENDITURES SLIPPAGE (2): FOOD SUBSIDIES

Apart from fuel subsidies, another key area of concern could be a higher food subsidy bill.

Over the last week, the government raised Minimum Support Prices (MSPs) of key rabi (winter) crops by 15-39% (see chart). This would put pressure on food subsidies, which at R606bn for FY12, comprise over 40% of the total subsidy bill.

REVENUE PRESSURE POINTS

On the revenue front, two worries are:

1. Lower Tax Revenues: The government had factored in tax revenues rising 18% based on GDP at 9%. However, with GDP slowing to 7.6% (Citi estimate) there could be slippage.

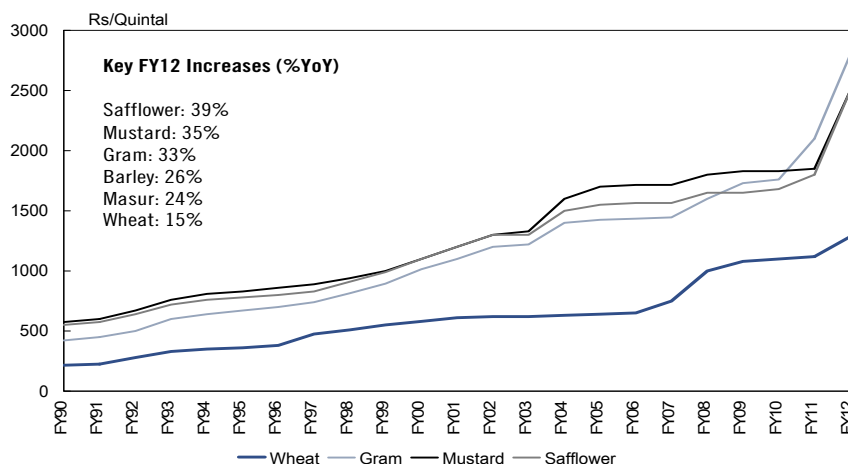
2. Divestments, which were factored in at Rs400bn for the year, has been seeing little progress in the current market environment. The only entity to have been divested this year was Power Finance Corporation, which raised Rs11.5bn.

Figure 4. Fuel Subsidy Sharing Pattern (Rs Bn)

	FY10	FY11	FY12	
			Oil at US\$100/bbl during 2H; INR avging Rs49/\$	Oil at US\$105/bbl during 2H; INR avging Rs49/\$
Gross Under-recoveries	461	782	1,169	1,249
Less: upstream sharing	144	303	468	500
% of total	31%	39%	40%	40%
Less: Govt share	260	410	632	681
% of total	56%	52%	54%	55%
Net under (over)-recoveries	56	69	69	69
Avg Crude (US\$/bbl)	70	86.6		105

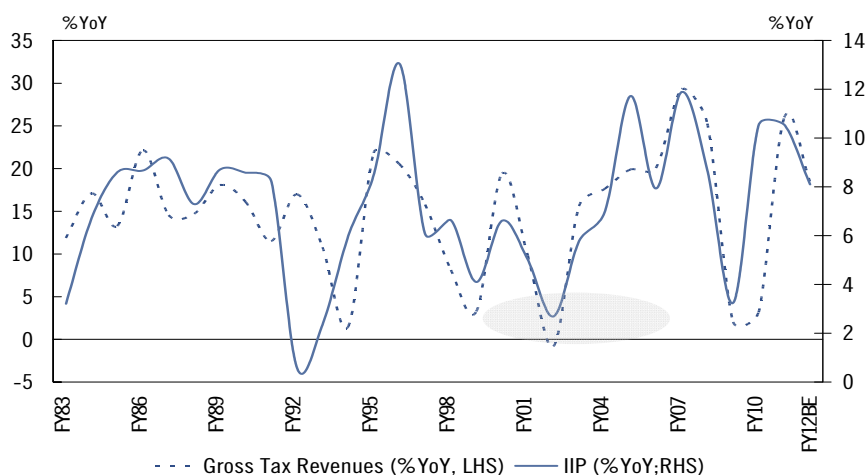
*Note: 1) Exact Gov't and upstream share is currently not known for FY12; 2) Assuming net under-recoveries for OMCs stay flat yoy and upstream share stays at ~40%. Source: Citi Investment Research and Analysis.

Figure 5. Trends in Minimum Support Prices of Key Rabi Crops (Rs/Quintal)



Source: Ministry of Agriculture, CIRA

Figure 6. Trends in IIP & Tax Revenues (%)



Source: CGA, Ministry of Finance, CIRA

Charting Trends in Public Finances

Figure 7. Trends in the Fiscal Deficit (% GDP)

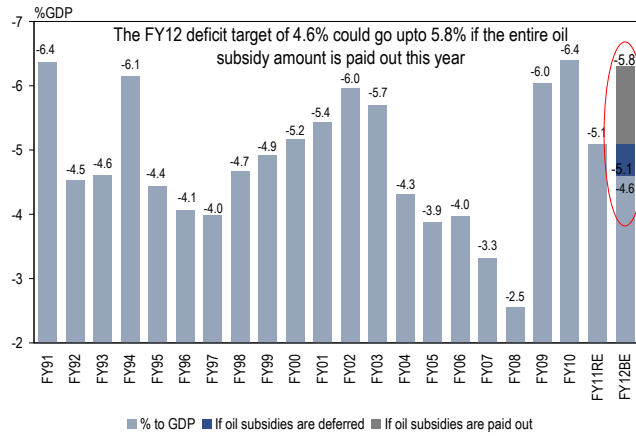


Figure 8. Financing the Deficit (Rs Bn)

	Apr-SeptFY12	FY12BE
External Financing	24	145
Domestic Financing	2,901	3,983
(a) Mkt Borrowings	2,771	3,580
(b) Securities against Small Savings	-6	242
(c) Deposit Scheme for Retiring Employees	0	0
(d) State Provident Funds	22	100
(e) Special Deposits of Non-Govt PF's	-24	0
(f) National Small Savings Fund	86	1
(g) Others	-374	-140
(h) Cash Balance	18	200
(i) Utiliz. Of Surplus Cash	164	
(j) Ways and Means	244	
TOTAL	2,925	4,128

Figure 9. Cumulative Trends in the Fiscal Deficit (Rs Bn)

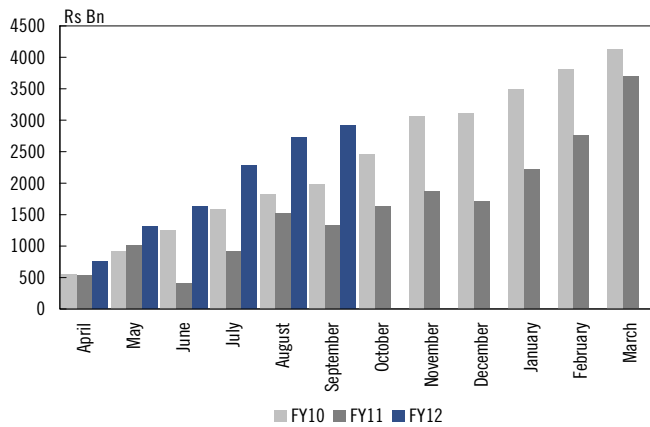


Figure 10. Cumulative Trends in the Revenue Deficit (Rs Bn)

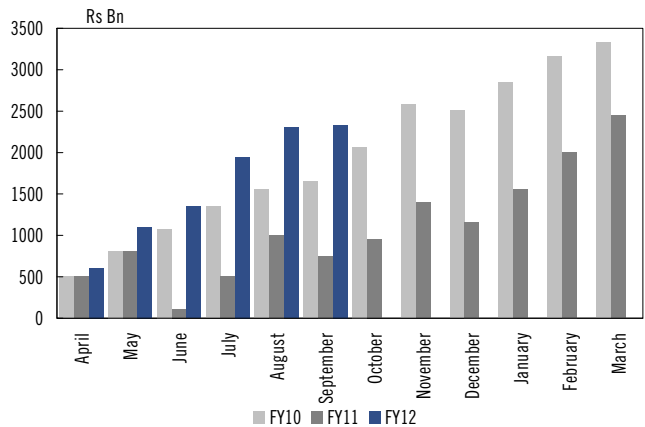


Figure 11. Trends in Rolling Tax Collections (Rs Bn)

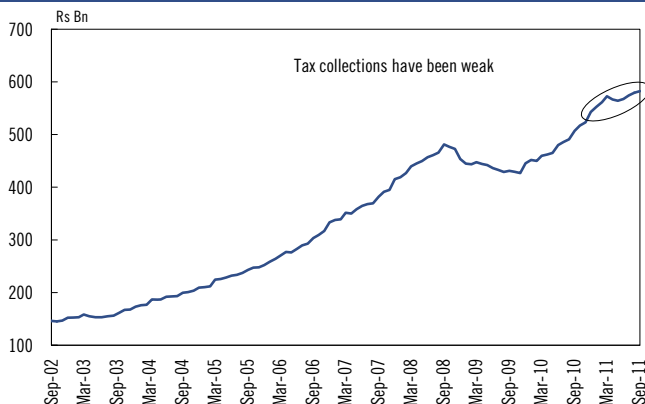
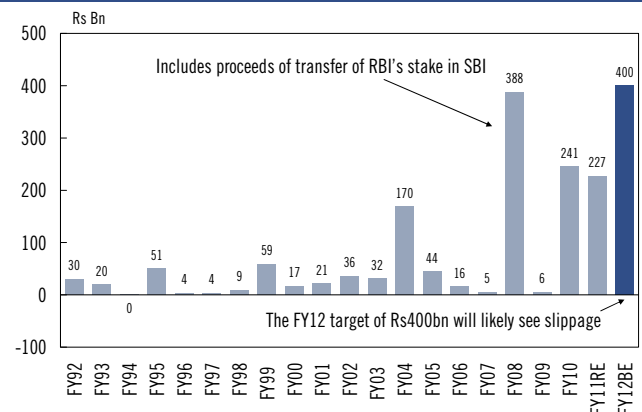


Figure 12. Annual Trends in Divestments (Rs Bn)



Source for all charts: CGA, Ministry of Finance, CIRA

Snapshot of Government Finances

Figure 13. India — Snapshot of Central Government Finances (Rs Bn, %)

	FY06	FY07	FY08	FY09	FY10	FY11RE	FY12BE	BUDGET FY12– KEY HIGHLIGHTS
a. Gross Tax Revenue	3,662	4,735	5,931	6,053	6,245	7,869	9,324	
% to GDP	9.9	11.0	11.9	10.8	9.5	10.0	10.4	Revenues
% YoY	20.1	29.3	25.3	2.0	3.2	26.0	18.5	Key Assumptions: Income Tax +16.2%, Customs +15.1%, Excise +19.2%, Corporate +21.5%, Service +18.2%
Corporation tax	1,013	1,443	1,929	2,134	2,447	2,964	3,600	
Income tax	560	751	1,026	1,060	1,224	1,416	1,645	
Excise duty	1,112	1,176	1,234	1,086	1,030	1,373	1,636	
Import duty	651	863	1,041	999	833	1,318	1,517	Apr-Sept Trends
Service tax	231	376	513	609	584	694	820	Income Tax +17.3%; Customs +22.5% Excise +13.9%, Corporate: -6% Service +37.5%
b. (-) Devolvement to States & UTs	972	1,223	1,536	1,620	1,680	2,232	2,680	
c. Net tax revenues (a-b)	2,689	3,512	4,395	4,433	4,565	5,637	6,645	
d. Non tax revenues	768	832	1,023	969	1,163	2,201	1,254	
e. Net revenue receipts (c+d)	3,471	4,344	5,419	5,403	5,728	7,838	7,899	
f. Non-debt capital receipts	122	64	439	67	332	317	550	Divestment targets unlikely to be met
Recovery of loans	106	59	51	61	86	90	150	
Divestments/Other	16	5	388	6	246	227	400	
g. TOTAL REVENUES (e+f)	3,593	4,408	5,858	5,470	6,060	8,156	8,449	Apr- Sept Revenues down 24% or 36% of budgeted targets
%YoY	-3.5	22.7	32.9	-6.6	10.8	34.6	3.6	Expenditures
h. Revenue expenditure	4,394	5,146	5,945	7,938	9,118	10,537	10,972	
Interest (1)	1,326	1,503	1,710	1,922	2,131	2,408	2,680	
Defense	482	517	543	733	907	907	952	
Subsidies	475	571	709	1,297	1,414	1,642	1,436	Food, fuel subsidies appear understated
Pensions	203	221	243	329	561	533	545	
Grants to States	305	357	358	382	459	526	663	
Admin and social services	484	553	647	927	1,107	1,252	1,060	Lower social exp could be due to absence of Farm debt waiver
Plan expenditure	1,119	1,424	1,736	2,348	2,539	3,269	3,636	
i. Capital expenditure	664	688	1,182	902	1,127	1,629	1,606	
Defense	323	338	375	410	511	608	692	
Loans	52	75	493	87	121	340	134	
Plan expenditure	288	274	315	405	495	681	779	
j. Plan expenditure	1,406	1,699	2,051	2,752	3,034	3,950	4,415	Plan exp up 4.8% during Apr-Sept
k Non Plan expenditure	3,651	4,135	5,077	6,087	7,211	8,215	8,162	Non-plan exp up 14.4% during Apr-Sept
l. TOTAL EXPENDITURE (h+i): (j+k)	5,057	5,834	7,127	8,840	10,245	12,166	12,577	Apr-Sept Expenditures up 11.4% or 47.6% of budgeted targets
% YoY	1.5	15.4	22.2	24.0	15.9	18.7	3.4	
Deficit trends								
m. Fiscal Balance (g-l)	-1,464	-1,426	-1,270	-3,370	-4,185	-4,010**	-4,128	**Actual Fisc Deficit for FY11 was Rs3.7tr or 4.7% of GDP (see below for details)
% to GDP	-4.0	-3.3	-2.5	-6.0	-6.4	-5.1	-4.6	We expect a print of 5.8% for FY12
n. Revenue Balance (e-h)	-923	-802	-526	-2,535	-3,390	-2,698	-3,073	
% to GDP	-2.5	-1.9	-1.1	-4.5	-5.2	-3.4	-3.4	
o. Primary deficit (m-1)	-138	77	441	-1,448	-2,054	-1,602	-1,448	Deficit widened to Rs2.9trillion during Apr- Sept vs. Rs1.3tn last year
% to GDP	-0.4	0.2	0.9	-2.6	-3.1	-2.0	-1.6	
Financing the deficit								
Market borrowings (Net)	953	1,104	1,318	2,336	3,984	3,554	3,430	
PPF & special deposits	60	52	39	80	161	100	100	
Small savings	0	0	-113	-13	133	178	242	
Net external assistance	75	85	93	110	110	223	145	
Others	584	140	204	418	-189	105	11	
Cash Surplus	-209	45	-271	438	-14	-150	200	
Total financing	1,464	1,426	1,270	3,370	4,185	4,010	4,128	
Memo items (% to GDP)								
Centre	-4.0	-3.3	-2.5	-6.0	-6.4	-5.1	-4.6	
State	-2.4	-1.8	-1.5	-2.6	-3.0	3.0	2.8	
Combined	-6.5	-5.4	-4.1	-8.5	-9.1	-8.1	-7.4	
Off Balance Sheet Items	-0.5	-0.9	-0.6	-1.7	-0.2	0.0	0.0	
Total Deficit	-7.0	-6.3	-4.7	-10.2	-9.3	-8.1	-7.4	
Combined liabilities	82.3	78.1	76.2	75.5	72.5	67.4		
Combined o/s guarantees	8.3	6.2	5.6	5.5				

*Includes proceeds of transfer of RBI's stake in SBI. ** Actual Deficit for FY11 was Rs3.7tr with total revenues at Rs8.3tr and total expenditures at Rs12tr.

RE: Revised Estimates; BE: Budgeted Estimates, based on the gov't's nominal GDP forecast of Rs89,809bn or 14%YoY

Source: Budget Documents, CIRA

Appendix A-1

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