FY22 BUDGET PREVIEW

20 January 2021

Reviving growth with fiscal consolidation

A counter cyclical fiscal response to contraction in GDP growth implies India's fiscal deficit will rise to 7.2% of GDP in FY21. The underlying rebound in GDP growth to 10.5% in FY22 will give room to government to reduce fiscal deficit to 5.3% of GDP in FY22 resulting in net and gross borrowing of Rs 8.5tn and Rs 11.2tn respectively. The focus of the Budget should be to revive India's private sector capex cycle. Crowding in investments through higher infrastructure spending financed by asset monetisation will be key.

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FY21 fiscal deficit at 7.2%: With a 4.2% decline in nominal GDP, Centre's net revenues are estimated to fall by 6.7% to Rs 15.7tn (8.1% of GDP) instead of BE of Rs 20.2tn (9% of GDP). On the other hand, spending is likely to increase by 13.3% in FY21 to Rs 30.4tn (15.6% of GDP). The widened gap between revenue and spending will be met by an increase in fiscal deficit to 7.2% of GDP from BE of 3.5%. Most of the fiscal deficit will be financed through bonds (77% of FD).

Reviving investment cycle, a priority: India's investment (GFCF) to GDP ratio peaked at more than 35% in FY08. It now stands at less than 25%. While government capex (% of GDP) has been stable, both corporate and household investment have been on a relative decline. Lower corporate taxes and PLI scheme to incentivise investments will create conditions for higher investments. But higher government spending is also one-way to crowd-in private investments. The same can be financed by a well-crafted asset monetisation plan wherein existing assets can be monetised. In addition, higher infra investments require a dedicated fund/ institution to fund the projects.

FY22 fiscal deficit at 5.3% of GDP: A push towards investments can go hand in hand with fiscal consolidation. India's nominal GDP growth is estimated to increase by 14% in FY22. Both direct as well as indirect taxes are likely to see a revival and are estimated to increase by 16% in FY22. Disinvestment receipts, higher dividends and 5G auctions will add to inflows. Thus the government can let the private sector take the lead and reduce fiscal deficit to 5.3% of GDP in FY22. This will amount to overall gross and net borrowing of Rs 11.2tn and Rs 8.5tn respectively. States will borrow another Rs 9tn. A fiscal consolidation glide path will go a long way in ensuring enough resources are available for private capex cycle to revive in the medium-term.

KEY HIGHLIGHTS

- Reviving private capex, infrastructure spending, and asset monetisation to be key focus areas of FY22 Budget.
- Fiscal deficit for FY21/FY22 estimated at 7.2%/5.3% of GDP.
- Gross/net borrowings in FY22 estimated at Rs 11.2tn/Rs 8.5tn.

Contents

Growth to take the lead

Investment in health, infra: a top priority

This year's Budget assumes significance given that it is being set in the backdrop of a decline in real GDP which has not been seen in the last 40 years. Government revenues are estimated to fall from the previous year. Non-tax revenues will also see a big miss.

Thus revival of the growth cycle should be the utmost priority of the Budget. For this the private sector investment cycle needs to see a rebound. Private sector corporate and household capex have been decelerating. Government capital spending has been relatively stable. Government has already reduced corporate tax rate and also introduced a PLI scheme to boost manufacturing sector. Notably, corporate tax rate for fresh investments is only 15% (ex-surcharge).

However, what is required is stepping up of investments to boost logistics infrastructure, health, education and renewables. This will crowd-in private sector investments. Government can raise resources by an aggressive asset monetisation drive which will also increase private sector participation in the economy.

Another source of financing the government's capital spending will be by setting up a dedicated fund for infra investments or a Development Financial Institution (DFI) focussing on infrastructure investments.

Fiscal slippage: FD at 7.2% of GDP in FY21 and 5.3% of GDP in FY22

With 4.6% decline in tax revenues and 15.4% decrease in non-tax revenues, government's revenues are likely to drop by 6.7% in FY21. Only capital receipts will rise led by higher long-term and short-term borrowings. We expect centre's net borrowing to have increased by Rs 10.75tn in FY21 from Rs 4.74tn in FY20.

Thus fiscal policy will be counter cyclical. We expect centre to have increased its revenue and capital spend by 13.0% and 15.2% over FY20 (PA) respectively in FY21. Fiscal deficit is estimated at 7.2% of GDP in FY21.

Going forward, we expect nominal GDP growth to bounce back to 14% in FY22. Direct tax collections will also be much better as economic activity rebounds. Indirect tax collections too will get support from improvement in GDP growth. Global growth outlook is also estimated to be better as vaccination drive against Covid-19, brings normalcy back to life. On non-tax front, asset monetisation, AGR revenues and 5G auctions will add significantly to government's kitty.

We thus believe that the government will reduce its fiscal deficit to 5.3% of GDP in FY22.

FY21 outlook

Covid-19 pandemic a severe blow to centre's revenue target

The FY21 Budget was presented when Covid-19 pandemic had not struck the world. On the basis of a nominal GDP growth of 10% in FY21, gross tax revenues were estimated to increase by 12% on revised estimates of Rs 21.6tn in FY20. Actual tax collections in FY20 were far lower at Rs 20.1tn. Thus 12% increase required to meet the budget estimates for FY21 turned into more than 20% increase required over FY20 actual collections.

According to advance estimates released by CSO, nominal GDP growth in FY21 is estimated at (-) 4.2%. Hence, the gap between budget estimates and tax collections in FY21 will widen. During Apr-Nov'20, gross tax collections are Rs 10.3tn as against Rs 11.7tn during the same period last year, a decline of 12.6%. This is in sharp contrast to meet the FY21BE of Rs 24.2tn. At the current run-rate we expect centre's tax collections to decline by 4.6% in FY21 to Rs 19.2tn from Rs 20.1tn (provisional actual) in FY20. Thus, we anticipate a sharp recovery in H2FY21.

This implies gross tax collections for FY21 are likely to undershoot the government's target by Rs 5tn (2.6% of GDP). Out of this, direct taxes will be lower by Rs 3.9tn and indirect taxes by Rs 1.1tn. Non-tax revenues too are likely to be far lower. Disinvestment receipts were estimated to be Rs 2.1tn in FY21. Revenue from 5G auction was estimated at another Rs 740bn. These revenues will be realised only in FY22.

Direct tax collections a major drag

Direct tax collections were estimated to increase to Rs 13.2tn in FY21, an increase of 12.7% over revised estimate of Rs 11.7tn in FY20. However, actual tax collections were far lower at Rs 10.4tn in FY20. During Apr-Nov'20, direct tax collections are Rs 4.2tn against Rs 5.6tn last year, a decline of 24.4%. However, the economic recovery visible in H2FY21 has led to sharp rebound in direct taxes.

Corporate tax collections during Oct-Nov'20 are 90% of last year's level compared with 60% of last year's level in H1. In case of income tax, the collections during Oct-Nov'20 are 25% higher than last year. This compares well with H1 when income tax collections were at 78% of last year's level.

Given the buoyancy seen in H2, we now expect direct tax collections to decline by only 10% to Rs 9.3tn in FY21. This implies a gap of Rs 3.9tn from FY21BE (2% of GDP). While corporate tax collections will be lower by 13.5% during the year, income tax collections are likely to fall by only 6% over last year.

Indirect tax revenues better placed

Driven by record hike in excise duty on petrol and diesel and revival in custom duty and GST collections, indirect tax collections have shown much lower contraction in FYTD21 compared with direct taxes. Indirect tax revenues at Rs 6tn (Apr-Nov'20) are only 2% lower than last year.

Within indirect tax revenues, excise collections are 48% higher than last year at Rs 1.96tn (Apr-Nov'20). This is due to excise duty hike of Rs 10/litre on petrol and on diesel by Rs 13/litre respectively. The current run-rate implies excise collection will be at Rs 3.4tn (42% higher than last year's actual).

CGST collections have also followed a similar trajectory as corporate tax collections. During H1FY21, CGST collections were 66% of last year's level. However, during Oct-Nov'20, CGST collections are 2.4% higher than last year's level. Compensation cess on sin goods has done far better at Rs 508bn (81% of last year's level during Apr-Nov'20. Given the growth in GST collections expected in H2 on the back of economic revival seen in most high frequency indicators, we expect GST collections to reach Rs 5.4tn, 10.3% lower than last year.

Customs revenues are also expected to see a revival as seen in rising imports. Custom duties during FYTD21 are at Rs 631bn or 17% lower than last year. Imports were higher by 7.6% in Dec'20 and this should show up in higher customs revenue. Overall, customs revenues are expected to be Rs 1.02tn.

Thus indirect taxes are estimated to be Rs 9.8tn during FY21 which is 3% higher than last year's actual collections of Rs 9.5tn. It will still be Rs 1.1tn (0.6% of GDP) lower than FY21BE of Rs 10.96tn.

FIG 1 – POOR TAX COLLECTIONS KEY REASON BEHIND FISCAL SLIPPAGE

(Rs bn)	FY19 YTD	FY20 YTD	Chg (%)	FY21 YTD	Chg (%)	FY21E	Chg (%)*
Tax revenue (gross)	11,647	11,741	0.8	10,261	(12.6)	19,181	(4.6)
Direct taxes	5,417	5,565	2.7	4,207	(24.4)	9,335	(10.0)
Corporate Tax	2,913	2,886	(0.9)	1,857	(35.7)	4,820	(13.5)
Income Tax	2,504	2,679	7.0	2,350	(12.3)	4,515	(6.0)
Indirect taxes	6,230	6,176	(0.9)	6,053	(2.0)	9,821	3.0#

Source: CEIC, Union Budget Documents, Bank of Baroda Research | Note: BE-Budget Estimates; PA-Provisional Actuals | YTD: Apr-Nov | *FY21E over FY20PA | #Includes taxes of UTs

FIG 2 – CGST AND CESS COLLECTIONS STRAINING HEADLINE TARGET

(Rs bn)	FY19 YTD	FY20 YTD	Chg (%)	FY21 YTD	Chg (%)	FY21E	Chg (%)**
CGST	2,973	3,284	10.5	2,452	(25.3)	4,447	(10.0)
UTGST	10	17	68.4	12	(28.0)	-	-
IGST	220	60	(72.8)	358	496.6	-	-
SGST*	3,847	3,958	2.9	4,147	4.8	-	-
Cess	626	626	0	508	(18.8)	927	(3.0)
Total GST	7,676	7,945	3.5	7,477	(5.9)	-	-

Source: CEIC, PIB, Bank of Baroda Research | Note: BE-Budget Estimates, PA-Provisional Actuals | YTD: Apr-Nov | *Computed from PIB and CGA data | **FY21E over FY20PA

Non-tax revenues too falling short

In case of non-tax revenues, the government is likely to see a much sharper decline. As against BE of Rs 3.9tn, government may receive non-tax revenue of only Rs 2.8tn. This will be on account of postponement of 5G auction and lower dividends from PSUs and RBI. In FYTD21 dividends have already fallen by 55% compared with 187% increase seen in FYTD20. Last year non-tax revenues were supported by dividend transfer from RBI (Jalan committee recommendation) Decline in dividends and profits is estimated at 27% this year.

FIG 3 – NON-TAX GOVERNMENT REVENUES TO UNDERSHOOT BE

(Rs bn)	FY19	FY20PA	FY21BE	FY21E
Dividends & Profits	1,134	1,861	1,554	1,359
Others	1,223	1,401	2,296	1,400
Non-Tax Revenues	2,357	3,262	3,850	2,759

Source: Union Budget Documents, Bank of Baroda Research | Note: E-Bank of Baroda Estimates; BE-Budget Estimates; PA-Provisional Actuals

Higher market borrowings to push capital receipts up

The government had budgeted for capital receipts of Rs 10.2tn in FY20. Out of this, net borrowing was budgeted at Rs 5.45 (~53%). Gross borrowings were pegged at Rs 7.8tn. In the wake of Covid-19 pandemic, gross borrowing target has been increased to Rs 13.1tn, an increase of Rs 5.3tn (2.7% of GDP). The increase was in two phases. First, in May'20 and then later in Oct'20. This pushed up net borrowing target also higher to Rs 10.75tn, which is ~73% of the total capital receipts, now estimated at Rs 14.7tn.

On the other hand, disinvestment receipts which were budgeted at Rs 2.1tn are estimated to fall short of the target and come in at Rs 600bn. The gap will be met by jump in short-term borrowings and dip into small savings fund. Thus the increase in capital receipts to Rs 14.7tn, Rs 4.5tn higher than FY21BE will ensure the gap in centre's net tax collections is met.

FIG 4 – CAPITAL RECEIPTS TO SORE HIGH

(Rs bn)	FY19	FY20PA	FY21BE	FY21E
Internal Debt Market Borrowing	4,227	4,740	5,449	10,749
Disinvestment	947	503	2,100	600
Others	2,448	4,800	2,664	3,386
Total capital receipts	**7,622**	**10,043**	**10,213**	**14,735**

Source: Union Budget Documents, Bank of Baroda Research | Note: E-Bank of Baroda Estimates; BE-Budget Estimates; PA-Provisional Actuals

Expenditure growth to pick up in H2

During FYTD21, expenditure has increased by 4.7%. However, while capital expenditure has jumped sharply by 12.8%, revenue expenditure has been relatively muted at 3.7%. During this period, Centre's net revenue has fallen by 17.3%. Hence, the spending has been financed by a steep 33.1% increase in fiscal deficit.

Capex spending in-line with estimates, revenue spending to gather pace in Q4

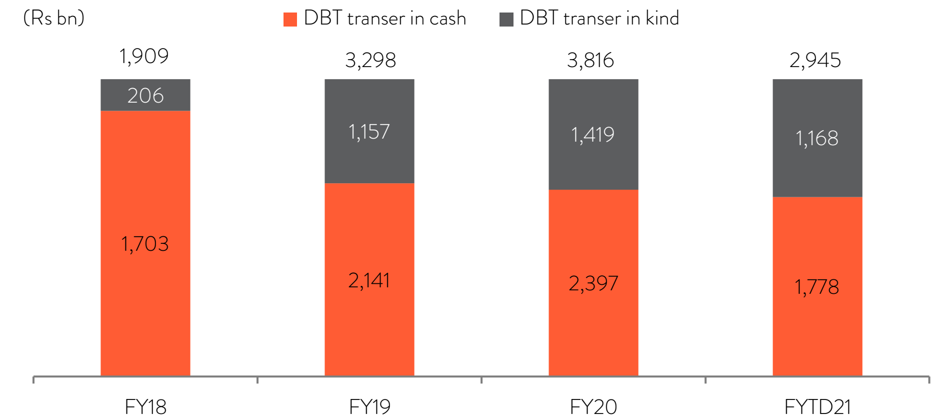
During FYTD21, capital spending has increased by 12.8%. The increase is led by Ministry of Rural Development (75.6% increase in FYTD21 compared with 1.2% decline in the same period of previous year), Ministry of Civil Aviation (48.1% increase versus 68.5% decline), Ministry of Communication (47.4% versus 11.7%) and Ministry of Road, transport and Highways (14.5% increase versus 3% decline). We expect capital spending by centre to increase by 15.2% to Rs 3.9tn from Rs 3.4tn in FY20PA.

During FY21, the centre's revenue expenditure is expected to increase by 13% led by higher DBT transfers, health expenditure, food and fertiliser subsidy. A part of the food subsidy will be financed through FCI. In FY18 too, FCI's borrowing rose to Rs 2.1tn from Rs 1bn in FY17. This was on the back of implementation of Food Security Act. Thus, for implementing the food program under Atmanirbhar Bharat, similar jump in FCI's borrowings may be visible. This is also indicative from the monthly data wherein budgetary support for subsidies is lower than last year at Rs 2.03tn (FYTD21) compared with Rs 2.35tn in FYTD20.

Centre's revenue expenditure so far (Apr-Nov'20) has increased by only 3.7% as government imposed ceiling to curtail discretionary expenditure. Barring a few, most government departments saw a sharp dip in their expenditures. Ministry of MSME (-47%), Ministry of Commerce and Industry (-44.1%) and Ministry of Petroleum (-38.4%) noted the sharpest decline. On the other hand, Ministry of Finance (+16.5%), agriculture (+10%) and health (16.6%) saw an increase. However, in Q4, expenditure growth is likely to be higher as the government restored the quarterly and monthly expenditure limit for Q4.

In addition, the government is also expected to continue expenditure on various DBT schemes to support growth amidst disruptions due to Covid-19 pandemic. In FYTD21 (Apr-Nov'20), a total of Rs 2.95tn has been spent on DBT compared with Rs 3.82tn in FY20. Of this, Rs 1.78tn was cash transfer while the rest was in-kind transfer. Within cash, MNREGA at Rs 502bn and PM-Awaas Yojna Gramin (PMAYG) at Rs 308bn received the maximum allocation so far. Government has also sought an additional grant of Rs 400bn for MNGREGA scheme, over and above budgeted expenditure of Rs 615bn. In case of in-kind transfer, fertiliser subsidy at Rs 647bn and PDS at Rs 507bn were the biggest beneficiaries. Further, PDS scheme has also received additional grant of Rs 100bn above the BE of Rs 1,156bn. Health expenditure is also likely to see a boost as the government undertakes mass vaccination. For this, the government has made an additional allocation of Rs 106bn through the first supplementary demand grant.

FIG 5 – EXPENDITURE ON DBT ON THE RISE



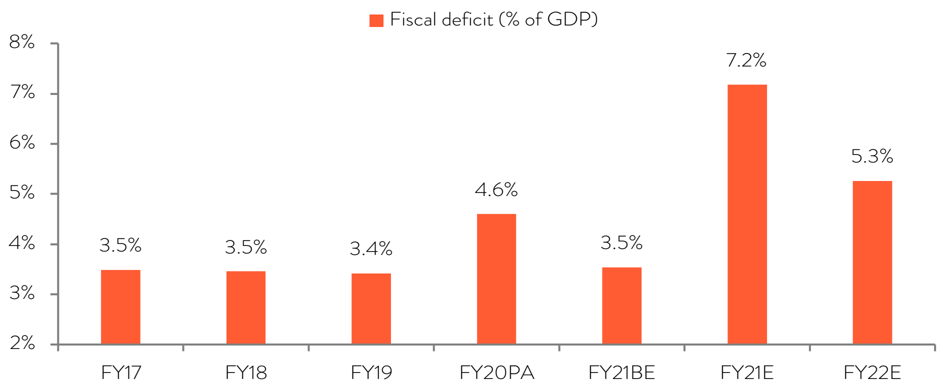
Source: DBT bharat, Bank of Baroda Research

As a result of this, we estimate revenue expenditure to pick up sharply in Q4FY21. For FY21, we expect revenue expenditure to increase by 13% in FY21 to Rs 26.6tn as against BE of Rs 26.3tn. Thus the overall expenditure will be maintained at Rs 30.4tn which is in-line with FY21BE.

Fiscal deficit pegged at 7.2% in FY21E

We expect fiscal deficit to increase significantly to 7.2% of GDP in FY21 from BE of 3.5% (4.6% in FY20PA). Of this 3.7% gap, 2.3% gap will be on account of shortfall in centre's net revenue, and 0.8% will be due to miss in disinvestment target. The remaining 0.6% gap can be explained by contraction in nominal GDP versus a budgeted increase of 10%.

FIG 6 – FISCAL DEFICIT TO SIGNIFICANTLY BREACH TARGET IN FY21E



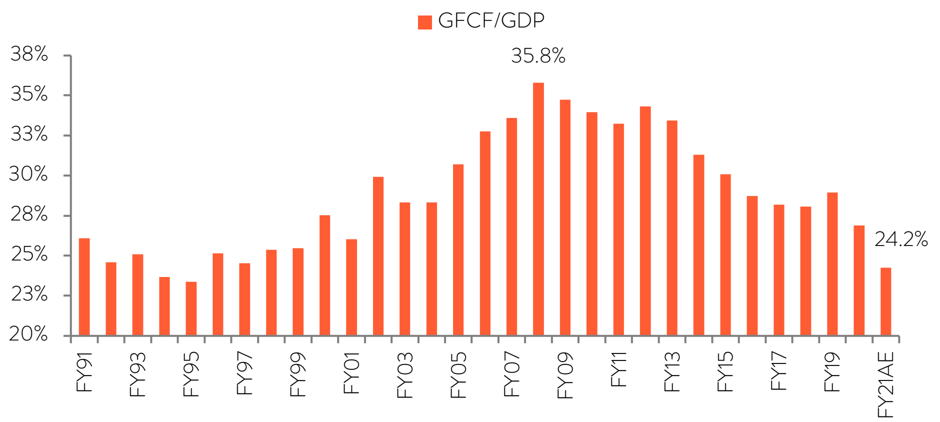
Source: Union Budget Documents, Bank of Baroda Research | Note: E-Bank of Baroda Estimates; PA-Provisional Actual; BE-Budget Estimate

FY22 outlook

Investment and growth revival – key focus areas

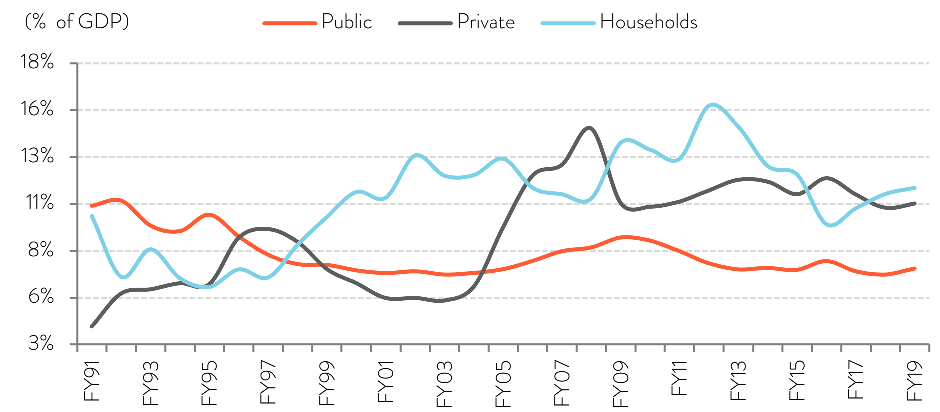
The Budget's key focus area has to be investments since investment to GDP ratio has fallen from a high of 35.8% in FY08 to less than 25% in FY21. Thus one of the focus areas of the Budget will be to revive investments—most importantly private investments. Private investments—household real estate and corporate investments—have been decelerating over the years. Government investments have been broadly stable.

FIG 7 – INVESTMENT DEMAND REMAINS MUTED



Source: CEIC, Bank of Baroda Research | Note: AE-Advance Estimate

FIG 8 – BIFURCATION OF INVESTMENT DEMAND



Source: CEIC, Bank of Baroda Research

The government has already taken a few steps to revive corporate capex cycle such as reduction in corporate taxes to 25% for existing companies and to 15% (ex-surcharge) for new investments compared with 35% and 25% earlier. In addition, the government has announced a PLI scheme to drive manufacturing growth higher. Even so, there are areas which require renewed focus such as infrastructure, housing, health, education and digitisation which can provide next leg of growth.

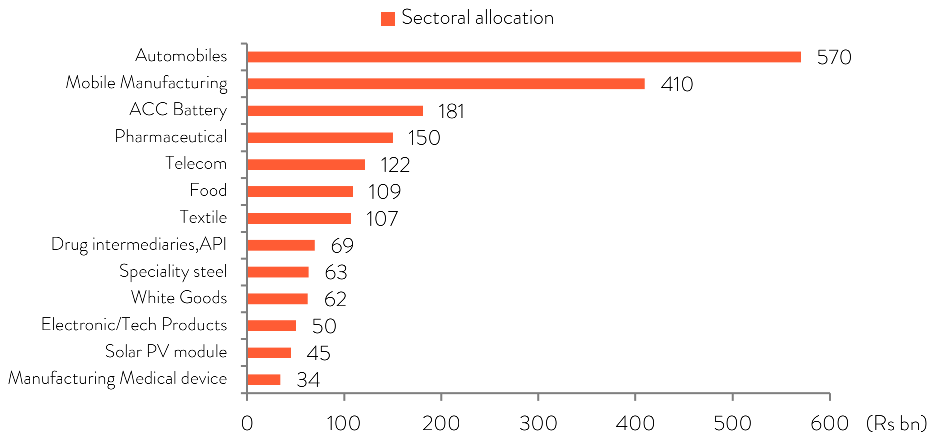
Production linked Incentive

With the objective to boost domestic manufacturing sector, support exports and attract investment in manufacturing sector in the country, Government of India has announced a Production-linked incentive for a period of 5 years with the total outlay of Rs 1.97tn. Maximum allocation has been given to auto sector followed by mobile phones and manufacturing of batteries.

The scheme provides 4-6% incentive to 13 sectors. The incentivization scheme in turn will help reduce the dependence on imports, boost exports and thus help capture growing demand for manufacturing goods—domestic and international.

Our research shows that the current PLI scheme is likely to result in incremental sales of Rs 38.9tn over a five year period with 0.2-0.8% addition to GVA in each year.

FIG 9 – SECTORAL ALLOCATION OF PLI



Source: Meity, Bank of Baroda Research

FIG 10 – ADDITION TO GVA

Years	Total PLI amount (all sectors)	PLI (%)	Incremental Sales (Rs bn)	Rise in GVA* (Rs bn)	Addition to GVA (%)
FY21	148.6	6	2,476	470	0.2
FY22	492.5	6	8,208	1,560	0.7
FY23	492.5	5	9,850	1,872	0.8
FY24	492.5	5	9,850	1,872	0.7
FY25	343.9	4	8,599	1,634	0.5
	1,970	**-**	**38,983**	**-**	**2.2**

Source: Meity, Bank of Baroda Research | *Note: Based on historical ratio of GVA to output ration in manufacturing sector adjusted for PLI incentive

Focus on Infra and Housing

At a time when investment demand has fallen by 14.5% YoY in FY21 –highest decline since FY53, the budget should focus on capital spending to boost the economy. While a national infra pipeline (NIP) is in place, a financing institution will go a long way in ensuring pushing infra growth.

Investment under National Infrastructure Pipeline (NIP) was estimated at Rs 111tn for 5 years (till FY25). The NIP was launched with 6,835 projects, and is now expanded to more than 7,300 projects. A Development Finance Institution (DFI) would act as a catalyst to fund projects

Another sector that requires a much needed boost is real estate sector. One of the ways to incentivise house purchases is increasing the limit for deduction under section 80C of Income Tax Act for principal repayment on home loans (currently Rs 0.15mn). Apart from this, investment in Real estate Investment Trust (REITs), which is a way of providing liquidity to real estate sector, can be allowed deduction for deduction under Section 80C. Centre can also nudge states to lower stamp duty rates.

For agriculture sector, a credit guarantee scheme with enhanced limits can be looked at. As of now, farmers get subvention for loans upto Rs 0.3mn for prompt repayment. Credit guarantee for farmers will ensure higher inflow of investments for mechanisation and irrigation and thus boost farm productivity even further.

Asset monetisation to hold key importance

Following a lull in FY21 due to Covid-19 pandemic, government will focus heavily on asset monetisation in FY22 to raise revenues. We expect government's disinvestment receipts to increase to Rs 2.5tn in FY22 from Rs 600bn in FY21. This will be met by asset monetisation of CPSEs, land and buildings

Pending strategic sales of Air India and BPCL are likely to get materialised. Mega IPO of LIC is also due. Other than this, cabinet has also approved strategic sales in 25 PSUs, which include Concor India, Pawan Hans, Scooters India, Bharat Earth Movers Ltd (BEML), Central Electricity Corporation, Cement Corporation and some steel plants of SAIL.

Asset monetisation will not only generate resources for financing capital spending next year but will also increase private participation in the economy.

Higher FDI limit in insurance

Government may announce further relaxations in FDI limits for the insurance sector from 49% currently to 74%. Foreign investment limit in insurance intermediaries was raised to 100% in Feb'20 from 49% earlier. Apart from ushering in more investments to spur growth, this move will also boost government's disinvestment receipts as the government may be able to sell its stake in general insurance companies.

Increased allocation for health

Health expenditure is expected to assume a special importance in this year's Budget due to the Covid-19 pandemic. Government has embarked on the "world's biggest vaccination drive" to inoculate 1.3bn people. In the first phase, government aims to vaccinate around 300mn frontline workers such as medical professionals within the next 6 months. The total cost for this is estimated to be Rs 120bn to be distributed over FY21 and FY22. We expect health spending to increase by 22% and 20% in FY21 and FY22. To finance the cost of vaccination, reports suggest that the government is considering levying a Covid-19 cess or surcharge.

The cost for vaccinating the entire 1.3bn population is Rs 600bn (assuming government contracted rate). However, cost of vaccination in the private market is likely to be higher implying much higher expenditure on healthcare by government and individuals in FY22.

Tax dispute settlement schemes

The two tax dispute settlement schemes announced by the government, 'Sabka Vishwas' and 'Vivaad se Vishwas', have so far garnered Rs 1.12tn in FYTD21. Within this, Rs 395bn has been under the Sabka Vishwas scheme for settling tax dues under service tax and central excise. The remaining Rs 720bn has been collected under Vivaad se Vishwas scheme for businesses to settle direct tax disputes. As per FY21BE, total tax disputes stand at Rs 9.6tn, with Rs 8.1tn under direct taxes and Rs 1.5tn under indirect taxes. The disputed amount had risen substantially in the last budget led by direct taxes. Amount disputed went up from Rs 6.2tn in FY20 to Rs 8.1tn in FY21. Amount under indirect taxes remained almost steady implying implementation of the resolution schemes hold the key in generating additional revenues.

This opens up an opportunity for the government to clear the earlier disputes which will also generate additional revenues in FY22.

FIG 11 – TAX UNDER DISPUTE

(Rs bn)	FY16	FY17	FY18	FY19	FY20	FY21
Direct tax	**4,105**	**4,978**	**5,777**	**6,104**	**6,235**	**8,026**
Corporate tax	1,508	2,209	2,919	3,066	3,992	4,056
Income tax	2,597	2,769	2,858	3,038	2,244	3,971
Indirect tax	**928**	**1,171**	**1,055**	**1,285**	**1,538**	**1,540**
Total	**5,033**	**6,150**	**6,832**	**7,389**	**7,773**	**9,566**

Source: Union budget documents, Bank of Baroda research

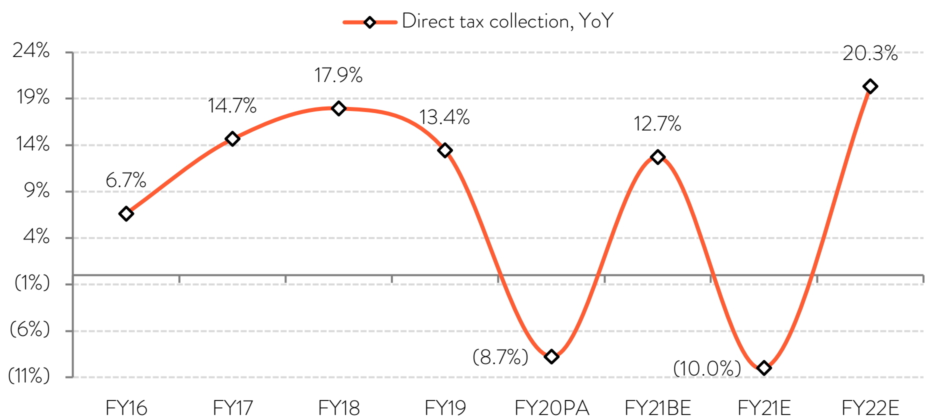
Tax collections to bounce back strongly

We estimate a rebound in direct tax collection in FY22 to 20.3% compared with 10% decline estimated in FY21. Indirect tax collections are likely to increase by 12.2% in FY22 following a 3.0% increase to be seen in FY21. Overall receipts are expected to increase to Rs 33.6tn from Rs 30.4tn in FY21.

Direct taxes to see revival

In FY22, we estimate direct tax collections to increase to Rs 11.2tn (+20.3% over FY21E), led by 23% increase corporate tax collections and 17.5% rise in income tax collections. Apart from favourable base, growth will also be supported by revival in economic activity as vaccination drive gathers pace in the country and globally. In addition, nominal GDP growth in FY22 is expected at 14% after seeing 4.2% decline in FY21. This should give a boost to direct tax collections.

FIG 12 – DIRECT TAX COLLECTIONS TO SEEN AN UPSWING IN FY22E



Source: Union Budget Documents, Bank of Baroda Research | Note: E-Bank of Baroda Estimates; PA-Provisional Actual; BE-Budget Estimate

Indirect revenues will also see revival

With revival in domestic and global consumption, we expect pick-up in GST and custom revenues. Higher excise on petrol and diesel will also continue to support government's kitty. GST collections are also estimated to increase by 12.1% and customs by 20.6%.

FIG 13 – INDIRECT TAX COLLECTIONS TO BE BOUYANT

(Rs bn)	FY20PA	FY21BE	FY21E	FY22E
GST	5,988	6,905	5,373	6,022
Excise	2,396	2,670	3,402	3,743
Customs	1,092	1,380	1,015	1,225
Others	60	10	30	30
Total	**9,536**	**10,965**	**9,821**	**11,020**

Source: Union Budget Documents, Bank of Baroda Research | Note: E-Bank of Baroda Estimates; BE-Budget Estimates; PA-Provisional Actuals

AGR and spectrum auction to elevate non-tax revenues

We expect government's non-tax revenues to increase by 35% in FY22 after 15.4% decline likely in FY21. While the dip in FY21 is on account of lower earnings growth of PSEs and postponement of 5G spectrum auction, next year's rebound will be led by higher earnings and 5G auction.

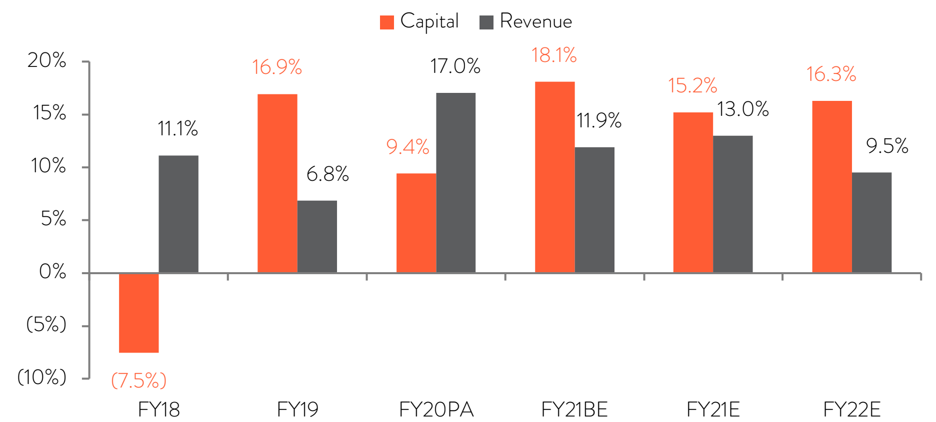
Higher G-Sec issuances to boost capital receipts

Capital receipts in FY22 are estimated to be slightly lower at Rs 14.4tn compared with Rs 14.7tn in FY21E. The decrease will likely be led by drop in gross and net issuances of government securities at Rs 11.2tn (Rs 13.1tn in FY21E) and Rs 8.5tn (Rs 10.75tn in FY21E) respectively.

Total expenditure to rise 10.4%

Overall, we expect the government's total expenditure to rise by 10.4% in FY22 compared with 13.3% increase in FY21E. Allocation toward capital investments is projected to rise by 16.3% from 15.2% in FY21E, while revenue spending is estimated to rise by 9.5% following 13% rise in FY21E.

FIG 14 – CAPITAL SPENDING TO LEAD EXPENDITURE GROWTH IN FY22E



Source: Union Budget Documents, Bank of Baroda Research | Note: E-Bank of Baroda Estimates; PA-Provisional Actual; BE-Budget Estimate

Fiscal deficit at 5.3% of GDP in FY22E

In our view, with revived buoyancy in direct and indirect taxes, and limited room for expanding market borrowing, centre will aim to bring down the fiscal deficit from 7.2% in FY21E to 5.3% in FY22E. While the current fiscal year has been unlike any other, and both and state and central government have expanded their deficits to revive growth, the focus will now move towards asset monetisation for financing infrastructure investments in FY22.

FIG 15 – FISCAL ESTIMATES

(Rs bn)	FY19	FY20PA	FY21BE	FY21E	FY22E	% Increase	
						FY21E/FY20PA	FY22E
Tax Revenue							
Corporation Tax	6,636	5,569	6,810	4,820	5,928	(13.5)	23.0
Taxes on Income	4,730	4,803	6,380	4,515	5,305	(6.0)	17.5
Indirect Taxes	9,373	9,536	10,965	9,821	11,020	3.0	12.2
Total - Tax Revenue	**20,795**	**20,099**	**24,230**	**19,181**	**22,281**	**(4.6)**	**16.2**
Less: State's Share	7,615	6,507	7,842	6,215	7,219	(4.5)	16.2
Centre's Tax Revenue	13,172	13,559	16,359	12,937	15,031	(4.6)	16.2
Total Non-Tax Revenue	**2,357**	**3,262**	**3,850**	**2,759**	**4,107**	**(15.4)**	**48.9**
Centre's Revenue (net)	**15,529**	**16,821**	**20,209**	**15,696**	**19,139**	**(6.7)**	**21.9**
Capital Receipts							
Internal Debt Market Borrowing	4,227	4,740	5,449	10,749	8,500	126.8	(20.9)
Disinvestment	947	503	2,100	600	2,500	19.3	316.7
Others	2,447	4,800	2,664	3,386	3,447	(29.5)	1.8
Total Capital Receipts	**7,622**	**10,043**	**10,213**	**14,735**	**14,447**	**46.7**	**(2.0)**
Draw-down of Cash Balances	-	-	-	-	-	-	-
Total Receipts	**23,151**	**26,864**	**30,422**	**30,430**	**33,586**	**13.3**	**10.4**
Expenditure							
Interest Payments	5,826	6,110	7,082	6,874	7,562	12.5	10.0
Defence Expenditure	2,908	3,056	3,231	3,102	3,226	1.5	4.0
Subsidies	1,968	2,373	2,278	4,078	3,466	71.8	(15.0)
Transfer to States	1,191	1,549	2,004	2,304	2,996	48.8	30.0
Rural Development	1,328	1,594	1,448	2,186	2,623	37.2	20.0
Transport	1,436	1,521	1,696	1,559	1,840	2.5	18.0
Home Affairs	981	1,197	1,144	1,017	1,068	(15.0)	5.0
Education	803	924	993	554	610	(40.0)	10.0
Agriculture	633	1,208	1,548	1,317	1,554	9.0	18.0
Others	6,076	7,331	8,998	7,438	8,641	1.5	16.2
Total Expenditure	**23,151**	**26,864**	**30,422**	**30,430**	**33,586**	**13.3**	**10.4**
Revenue	20,074	23,496	26,301	26,551	29,073	13.0	9.5
Capital	3,077	3,367	4,121	3,880	4,513	15.2	16.3
Revenue Deficit	4,545	6,675	6,092	10,855	9,934	-	-
Fiscal Deficit	**6,494**	**9,356**	**7,963**	**13,985**	**11,697**	**-**	**-**
% of GDP	**3.4**	**4.6**	**3.5**	**7.2**	**5.3**	**-**	**-**

Source: Union Budget Documents, CEIC, Bank of Baroda Research; E-Bank of Baroda Estimates; BE-Budget Estimates; PA-Provisional Actuals

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