FISCAL UPDATE

31 May 2022

Fiscal deficit at 6.7% in FY22

Centre's fiscal position in FY22 improved more than anticipated as the government was able to lower its fiscal deficit (% of GDP) to 6.7% from budgeted 6.9%. However, this was mainly on account of upward revision to FY22 nominal GDP. Although some key notable trends in FY22 were: significant jump in centre's net revenue (excess of Rs 90,000 crore), sharp miss in disinvestment proceeds and marginal uptick in subsidy and revenue spending. We maintain our fiscal deficit forecast for FY23 at 6.6%.

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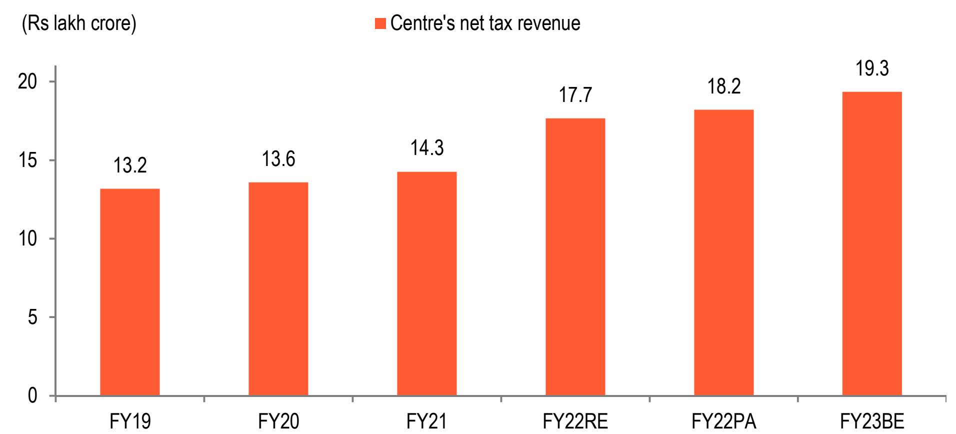
Fiscal Deficit lower at 6.7% in FY22: Centre's fiscal deficit came in at 6.7% of GDP in FY22 versus 6.9% projected (revised estimates) in the budget. In absolute terms, fiscal deficit was at Rs 15.87 lakh crore (99.7% of the target) compared with Rs 15.91 lakh crore, implying that better than expected nominal GDP print helped lower the gap. In the budget, government had assumed a nominal GDP of Rs 232.1 lakh crore, which is now projected at Rs 236.8 lakh crore (additional Rs 4.6 lakh crore). Lowering the deficit was only partly supported by higher than anticipated receipts growth - mainly revenue receipts. Centre's total receipts rose by Rs 28,723 crore, while expenditure overshot by Rs 24,171 crore, implying a saving of only Rs 4,552 crore in the fiscal deficit target.

Higher than expected receipt growth: Centre's overall receipts rose to Rs 22.1 lakh crore in FY22 compared with government's revised estimates (RE) of Rs 21.8 lakh crore. Within this, revenue receipts for FY22 have come in at Rs 21.7 lakh crore, compared with RE of Rs 20.8 lakh crore, implying an excess of ~90,000 crore. Both tax and non-tax receipts posted better than projected growth. Net tax revenue receipts are up at Rs 18.2 lakh crore (27.6% YoY) versus RE of Rs 17.7 lakh crore (23.8%), while non-tax revenue settled at Rs 3.5 lakh crore (67.6%) versus RE of Rs 3.1 lakh crore (51.1%).

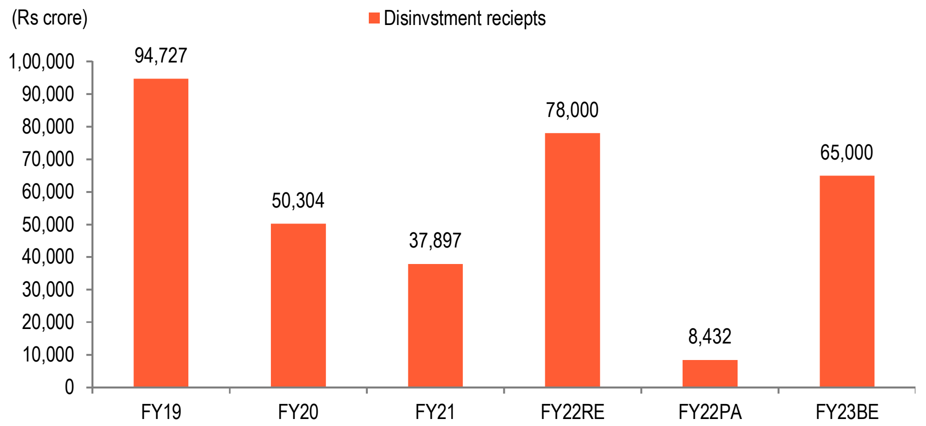
Fig 1 – Trajectory of Centre's net tax revenues



Source: CEIC, Bank of Baroda Research

Lower non-debt capital receipts: Overall non-debt receipts have come in sharply lower at Rs 39,208 crore compared with Rs 99,975 crore estimated in the revised estimates of the budget. The shortfall is mainly on account of significant miss in the disinvestment target. Disinvestment proceeds for FY22 have come in at Rs 8,432 crore compared with RE of Rs 78,000. This miss was mainly on account of delay in LIC's IPO.

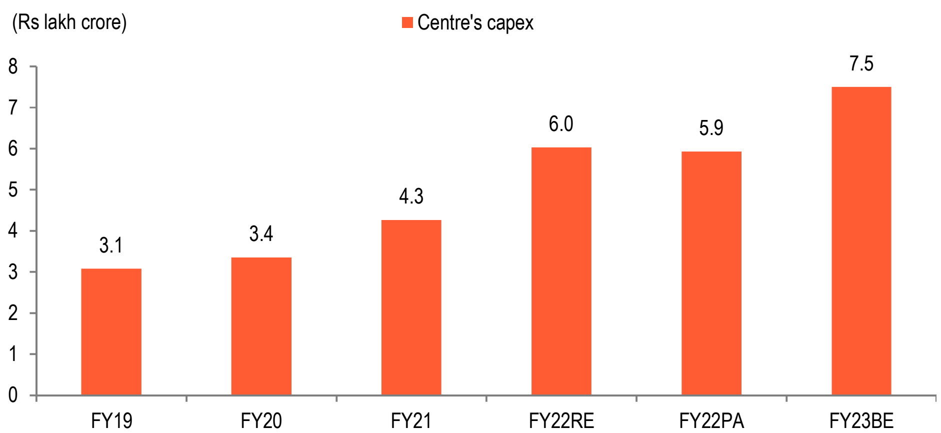
Fig 2 – Disinvestment proceeds



Source: CEIC, Bank of Baroda Research

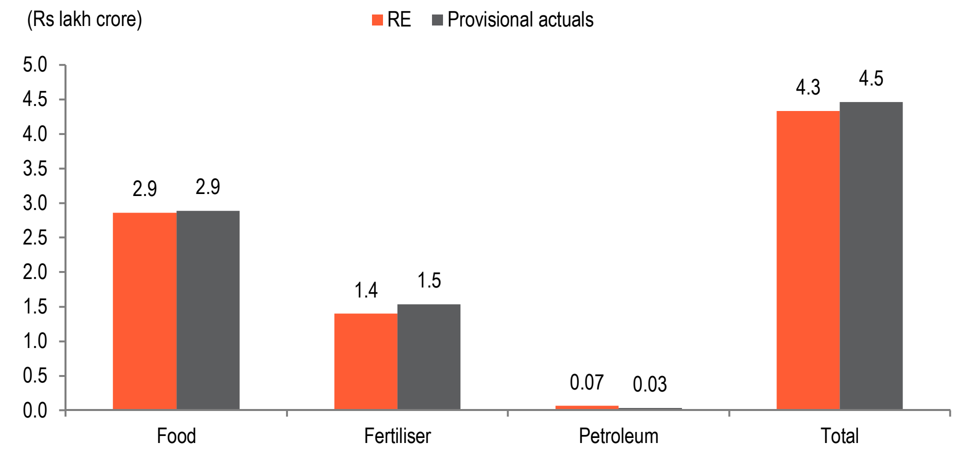
Expenditure overshoots target: With the help of higher revenue growth, government was able to spend slightly more than budgeted in FY22. Total spending by the centre was at Rs 37.9 lakh crore (100.6% of target) compared with RE of Rs 37.7 lakh crore. The jump was mainly seen in revenue spending, which rose to Rs 32 lakh crore compared with RE of Rs 31.7 lakh crore. On the other hand, capital expenditure missed the target (Rs 6 lakh crore) marginally and settled at Rs 5.9 lakh crore. Within revenue spending, subsidies were at Rs 4.5 lakh crore in FY22 versus RE of Rs 4.3 lakh crore. Amongst the subsidies, slippage was only marginal in case of food subsidies (Rs 2,500 crore) and more on account of fertilizer subsidies (Rs 13,536 crore). However, government made savings on petroleum subsidies.

Fig 3 – Trajectory of Centre's capital spending



Source: CEIC, Bank of Baroda Research

Fig 4 – Subsidy spending versus budgeted targets



Source: CEIC, Bank of Baroda Research

Outlook for FY23: Recently, government had announced slew of measures to tame inflation and reduce the burden on common man. These measures included excise duty cuts, higher food and fertilizer subsidies and cut in custom duty on some essential items. All things remaining the same, if we take into account the fiscal cost of government measures announced, then the fiscal deficit for FY23 would increase from Rs 16.6 lakh crore (FY23BE) to Rs 19.3 lakh crore (7.5% as % of GDP). However, taking into account revised GDP print for FY22, we can assume that now with higher inflation, nominal GDP in FY23 is estimated to be higher at 13.5-14% compared with 11.1% assumed by the government earlier in Feb'22. Also reviewing the performance of revenue growth in FY22, it can be assumed that higher prices will have a positive impact on Centre's indirect tax collections. Centre's indirect tax collections are estimated to be higher in on account of increased GST revenue and customs duties earned (despite the cuts announced recently on some items). We maintain that gross tax collections will be Rs 1 lakh crore higher than the budgeted amount. As a result, fiscal deficit-GDP ratio is expected to come in at 6.6% versus budgeted 6.4%, also assuming no cuts in expenditure. However, in case of even higher nominal GDP, or cuts in expenditure, government might be able to meet its target of 6.4% fiscal deficit.

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