FY22 FISCAL REVIEW

20 January 2022

Sonal Badhan | Dipanwita Mazumdar
Aditi Gupta | Jahnavi
chief.economist@bankofbaroda.com

Fiscal consolidation to take a hit

Despite a higher than projected nominal GDP growth and pick up in revenues, we except fiscal deficit in FY22 to come at 7%. This will be 0.2% higher than BE of 6.8%, mainly owing to shortfall in disinvestment receipts and higher than projected spending. We expect net and gross borrowing to remain unchanged from FY22BE and deficit will be financed through higher short-term borrowings/dip into NSSF funds. Budget for FY23 will also be significant keeping in view of upcoming major state elections.

Key highlights

- Reviving private capex, infrastructure spending, and asset monetisation to be key focus areas of FY23 Budget.
- Fiscal deficit for FY22 estimated at 7% of GDP.
- Gross/net borrowings to remain unchanged from BE in FY22.

FY22 fiscal deficit at 7%: With a 17.6% increase in nominal GDP, Centre's net revenues are estimated to rise by 18.4% to Rs 19.3tn (8.3% of GDP) instead of BE of Rs 17.9tn (8% of GDP). Spending is also likely to increase by 4.7% in FY22 to Rs 36.8tn (15.8% of GDP). The gap between revenue and spending will be met by an increase in fiscal deficit to 7% of GDP from BE of 6.8%. Most of the fiscal deficit will be financed through market borrowings (short-term and long-term; 67% of FD).

Indirect taxes to shine: Centre's gross tax collection is likely to be Rs 1tn higher than the budgeted target of Rs 22.2tn. Of this Rs 1tn, Rs 0.7tn additional gains will be seen under indirect tax collections. Within this too, customs and GST collections are estimated to pick up faster than budgeted projections. On the other hand, direct taxes are likely to overshoot the budgeted target only marginally, by Rs 0.3tn to Rs 11.4tn. In case of non-tax revenues, higher than estimated revenue will be on account of higher dividend paid by the RBI and better than expected corporate results of PSUs.

Revenue spending to soar: In the wake of second and third wave of Covid-19, government spending is estimated to increase more than budgeted on account of food and fertilizer subsidy bill and health and social sector spending. Recently, government had announced extension of its food grain distribution program (PM-GKAY) into its fifth phase till Mar'22. In addition, covering the cost of vaccination of eligible adults, higher MGNREGA spending, clearing dues of Air India, and payment of export incentives is expected to add considerable burden on the exchequer. Government has received approval for additional Rs 3.7tn spending in FY22, with net cash outgo of ~Rs 3tn. While we do not expect this entire amount will be spent in FY22, we estimate additional spending to the tune of Rs 1.9tn in FY22. We expect capital spending to be in line with budgeted projection and revenue spending to exceed the target.

@2022 Bank of Baroda. All rights reserved
Important disclosures are provided at the end of this report.

FY22 outlook

Pre-Omicron recovery to support centre's revenue target

The FY22 Budget was presented against the backdrop of first Covid-19 pandemic wave denting India's growth outlook. As a result, it was estimated that recovery will be slow and conservative targets were set in the budget. On the basis of a nominal GDP growth of 14.4% in FY22, gross tax revenues were estimated to increase by 16.7% on revised estimates of Rs 19tn in FY21. However, actual tax collections in FY21 were higher at Rs 20.2tn. Thus 16.7% increase required to meet the budget estimates for FY22 turned into only 9.5% increase required over FY21 actual collections.

According to advance estimates released by CSO, nominal GDP growth in FY22 is estimated to be higher at 17.6%. Hence, the gap between budget estimates and tax collections in FY22 will further narrow. During Apr-Nov'21, gross tax collections has already reached Rs 15.4tn as against Rs 10.3tn during the same period last year, a jump of 50.3%. This has brought it much closer to FY22BE of Rs 22.2tn. At the current run-rate, and adjusting for the impact of Omicron in Q4FY22, we expect centre's tax collections to increase by 14.5% in FY22 to Rs 23.2tn from Rs 20.2tn (provisional actual) in FY21. In H2FY22, after a sharp rebound in recovery in Q3, we except to see some slowdown in Q4 on account of surge in covid-19 cases and state induced restrictions.

This implies gross tax collections for FY22 are likely to overshoot the government's target by around Rs 1tn (0.4% of GDP). Out of this, direct taxes will be higher by Rs 0.3tn and indirect taxes by Rs 0.7tn. Non-tax revenues too are likely to be slightly higher. Disinvestment receipts were estimated to be Rs 1.75tn in FY22. Revenue from 5G auction was estimated at another Rs 250bn. Most of these revenues could be realised in FY22, contingent upon IPO of LIC. There would still be a shortfall in disinvestment.

Direct tax collections still slow in recovery

Direct tax collections were estimated to increase to Rs 11.1tn in FY22, an increase of 22.4% over revised estimate of Rs 9.1tn in FY21. However, actual tax collections were slightly higher at Rs 9.3tn in FY21. During Apr-Nov'21, direct tax collections have reached Rs 7tn against Rs 4.2tn last year, an increase of 66.3%. Economic recovery in the first 3 quarters of FY22 has led to sharp rebound in direct taxes.

Corporate tax collections during Oct-Nov'21 are 127% of last year's level compared with 205% of last year's level in H1. In case of income tax, the collections during Oct-Nov'20 are 105% higher than last year. This compares well with H1 when income tax collections were at 165% of last year's level.

Given the slight easing seen in H2, because of base effect and the impact of Omicron, we now expect direct tax collections to increase by 22.8% to Rs 11.4tn in FY22. This implies only additional Rs 0.3tn from FY22BE (0.1% of GDP). While corporate tax collections will be lower by 24% during the year, income tax collections are likely to be up by 21.7% over last year.

Indirect tax revenues much better placed

Driven by record rebound imports due to recovery in domestic demand and revival in GST collections, indirect tax collections have shown much sharper improvement in FYTD22 compared with direct taxes. Indirect tax revenues have reached Rs 8.4tn (Apr-Nov'21) are up by 39% than last year and even over a 2-year horizon (compared with Apr-Nov'19), they are up by 36.4%.

Within indirect tax revenues, custom collections are 99.5% higher than last year at Rs 1.26tn (Apr-Nov'21). Even compared with pre-pandemic levels (Apr-Nov'19), collections are up by 65.6% so far and this is mainly due to pick up in imports and higher international commodity prices. At the current run-rate and after adjusting for impact of Omicron variant, custom duty collection are estimated at Rs 1.8tn (30.6% higher than last year's actual).

CGST collections have also followed a similar trajectory as corporate tax collections. During H1FY21, CGST collections were 164% of last year's level. However, during Oct-Nov'21, CGST collections are 118% higher than last year's level. Compensation cess on sin goods has done far better at Rs 668bn (131% of last year's level during Apr-Nov'21). Given the growth in GST collections, also seen in the revival of most high frequency indicators, we expect GST collections to reach Rs 6.6tn, 20.4% lower than last year.

In case of excise duty collections, despite reduction in duty by Rs 5/lt on petrol and by Rs cut of 10/lt on diesel in Nov'21, budgeted target of Rs 3.35tn is expected to be met.

Thus indirect taxes are estimated to be Rs 11.7tn during FY22 which is 9.1% higher than last year's actual collections of Rs 10.7tn. It will be Rs 0.7tn (0.3% of GDP) higher than FY22BE of Rs 11tn.

Fig 1 – Robust tax collections to support higher spending

(Rs bn)	FYTD20	FYTD21	FYTD22	Chg (%)	FY22E	Chg (%)*
Tax revenue (gross)	11,741	10,261	15,419	50.3	23,171	14.5
Direct taxes	5,565	4,207	6,997	66.3	11,380	22.8
Corporate Tax	2,886	1,857	3,536	90.4	5,670	24.0
Income Tax	2,679	2,350	3,461	47.2	5,710	21.7
Indirect taxes	6,176	6,053	8,423	39.1	11,720	9.1#

Source: CEIC, Union Budget Documents, Bank of Baroda Research | Note: BE-Budget Estimates; PA-Provisional Actuals | FYTD: Apr-Nov | *FY22E over FY21PA| #Includes taxes of UTs

Non-tax revenues too rebound

In case of non-tax revenues too, the government is likely to exceed the budget target. As against BE of Rs 2.4tn, government may receive non-tax revenue of Rs 2.9tn. This will be on account of higher than estimated dividend from RBI and PSUs. In FYTD22 dividends have already risen by 81% compared with 55% decline seen in FYTD21. However, postponement of 5G auction will act as a negative drag on the revenues.

Fig 2 – Non-tax government revenues to overshoot BE

(Rs bn)	FY20	FY21PA	FY22BE	FY22E
Dividends & Profits	1,861	970	1,035	1,535
Others	1,410	1,111	1,395	1,330
Non-Tax Revenues	**3,272**	**2,081**	**2,430**	**2,865**

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

Short-term borrowings to push capital receipts up

The government had budgeted for capital receipts of Rs 16.9tn in FY22. Out of this, net borrowing was budgeted at Rs 9.24 (~55%). Gross borrowings were pegged at Rs 12.1tn. Unlike last year, when government had to increase its borrowing much above the budgeted level (due to Covid-19 crisis), this year government is set to maintain its budgeted target for gross and net borrowings.

On the other hand, disinvestment receipts which were budgeted at Rs 1.75tn are estimated to fall short of the target and come in between Rs 1-1.25tn, assuming success of LIC's IPO. However, the gap will be much larger if LIC IPO does not take place before Mar'22. 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 17.4tn, Rs 0.5tn higher than FY22BE will ensure that gap left due to miss in disinvestment target is met.

Fig 3 – Capital receipts to sore higher

(Rs bn)	FY20	FY21PA	FY22BE	FY22E
Internal Debt Market Borrowing	4,740		9,247	9,247
Disinvestment	503	320	1750	1000
Others	4,780		5,951	7,191
Total capital receipts	**10,023**	**18,190**	**16,948**	**17,438**

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 FYTD22, expenditure has increased by 8.8%. Both capital expenditure and revenue spending have made a recovery. While capital spending is up only marginally by 13.5% this year versus 12.8% last year, revenue spending has improved more and is up by 8.2% versus 3.7% last year. During this period, Centre's net revenue has risen by 67.1%, implying that spending has scope to pick up pace in the remaining period of H2FY22.

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

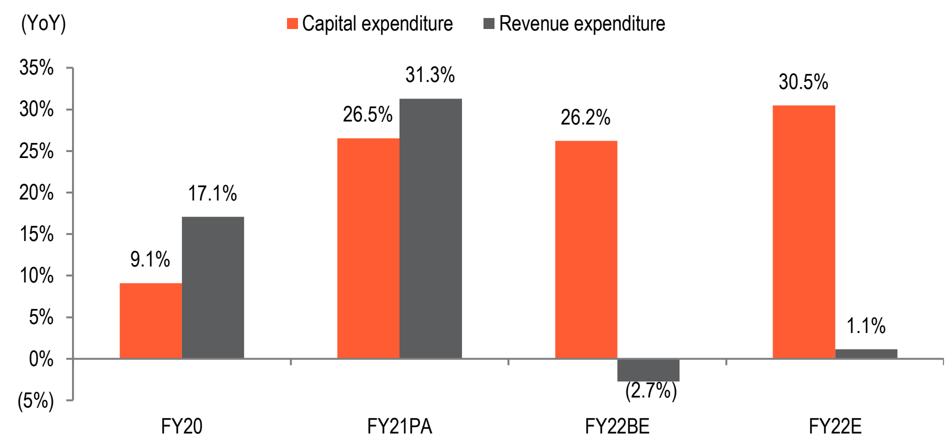
During FYTD22, capital spending has increased by 13.5%, but over a 2-year horizon (pre-pandemic) it has picked up even more sharply by 28%. The increase is led by Ministry of civil aviation (60.6% versus 48.1% last year and 137.8% from FYTD20), Ministry of housing & urban affairs (66.4% versus 17.6% decline last year), Ministry of railways (65.5% versus 2.1% decline last year), Ministry of road transport & highways (35.4% versus 14.5% last year) and Ministry of port shipping & waterways (44.9% versus 39% decline last year). Yet, only 49% of the budgeted expenditure has been met so far. We thus expect pick up in pace in the remaining months of FY22 in order to meet the FY22BE of Rs 5.54tn (+30.5% over FY21PA).

During FY22, the centre's revenue expenditure is expected to increase by 1.1% led by higher food subsidy bill, health expenditure, and social sector spending (MGNREGA). While government officials had earlier indicated food subsidy might cost the exchequer Rs 4tn versus BE of Rs 2.4tn, it is now believed that spending will be less than Rs 4tn but will still exceed the budgeted target by a huge margin.

Centre's revenue expenditure so far (Apr-Nov'21) has increased by 8.2%. Ministry-wise spending has shown mixed trends. On one hand, Ministry of consumer affairs (25.7% versus 4% last year), MSME (316.8% versus 47% decline last year) and Ministry of Commerce and Industry (86.5% versus 44.1% decline last year) and Ministry of Petroleum (-38.4%) noted the sharpest increase. On the other hand, Ministry of Agriculture (-11.1%), chemicals & fertilizer (-0.9%) and heavy industries (-28.7%) saw decline.

Till Nov'21, expenditure on food subsidy incurred has only been Rs 1.64tn. Even fertilizer subsidy realised till date has been only Rs 651bn. These are far below the revised government targets of Rs 4tn (food subsidy) and Rs 1.4tn (fertilizer subsidy). In addition, nearly Rs 620bn has also been appropriated for the part payment of Air India's debt and Rs 220bn for spending under MGNREGA. Overall, in the 2 supplementary grants, government has approval for additional Rs 3.7tn spending. Of this, net cash outgo is expected at Rs 2.9tn. However, we estimate that only ~Rs 2tn will spent additionally in the fiscal year.

Fig 4 – Expenditure on the rise



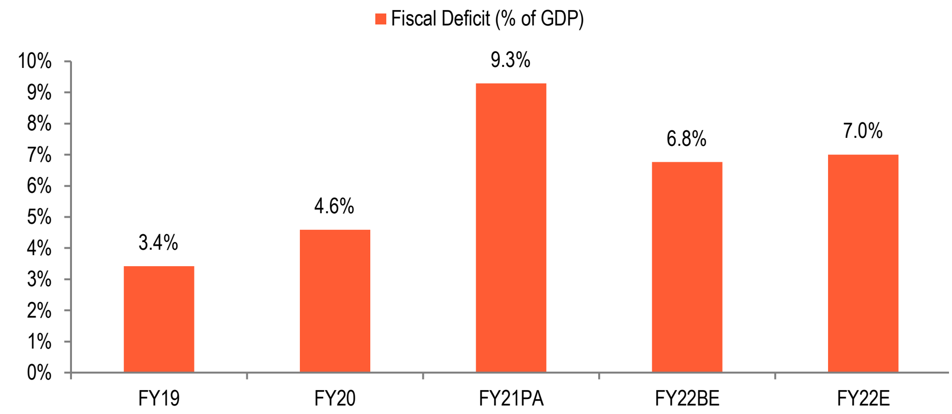
Source: Union budgets, CEIC, Bank of Baroda Research| Note: BE-Budget Estimates; PA-Provisional Actuals| FY22E over FY21PA|

As a result of this, we estimate both revenue and capital expenditure to pick up sharply in Q4FY21. For FY22, we expect revenue expenditure to increase by 1.1% to Rs 31.2tn as against BE of Rs 29.3tn. Thus, the overall expenditure is estimated to be up at Rs 36.8tn versus FY22BE of Rs 34.8tn.

Fiscal deficit to be 7% in FY22E

We expect fiscal deficit to increase to 7% of GDP in FY22 from BE of 6.8% (9.3% in FY21PA). The gap been budgeted spending and estimated spending for FY22 is expected to come in at 0.8% of GDP. This gap projected to be met by estimated 0.6% increase in net revenues. The remaining 0.2% will add to the fiscal deficit and will be financed by similar increase in capital receipts, mainly short-term borrowings.

Fig 5 – Fiscal deficit to breach budgeted target in FY22E



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

Fig 6 – Fiscal Estimates

(Rs bn)	FY19	FY20	FY21PA	FY22BE	FY22E	% Increase	
						FY22E/FY21PA	FY22BE
Tax Revenue							
Corporation Tax	6,636	5,569	4,572	5,470	5,670	24.0	22.6
Taxes on Income	4,730	4,927	4,692	5,610	5,710	21.7	22.2
Indirect Taxes	9,373	9,547	10,740	11,020	11,720	9.1	11.4
Total - Tax Revenue	**20,795**	**20,101**	**20,241**	**22,171**	**23,171**	14.5	**16.7**
Less: State's Share	7,615	6,507	5,950	6,656	6,656	11.9	4.8
Centre's Tax Revenue	13,172	13,569	14,232	15,454	16,454	15.6	14.9
Total Non-Tax Revenue	**2,346**	**3,272**	**2,081**	**2,430**	**2,865**	**37.7**	**15.4**
Centre's Revenue (net)	**15,519**	**16,841**	**16,313**	**17,884**	**19,319**	**18.4**	**15.0**
Capital Receipts							
Internal Debt Market Borrowing	4,227	4,740	11,110	9,247	9,247	-	-
Disinvestment	947	503	320	1,750	1,000	-	-
Others	2,447	4,780	6,760	5,951	7,191	-	-
Total Capital Receipts	**7,622**	**10,023**	**18,190**	**16,948**	**17,438**	**(4.1)**	**(10.6)**
Total Receipts	**23,151**	**26,863**	**35,112**	**34,832**	**36,757**	**4.7**	**1.0**
Expenditure							
Total Expenditure	**23,151**	**26,863**	**35,112**	**34,832**	**36,757**	**4.7**	**1.0**
Revenue	20,074	23,506	30,864	29,290	31,215	1.1	(2.7)
Capital	3,077	3,357	4,248	5,542	5,542	30.5	26.2
Revenue Deficit	4,555	6,665	14,551	11,406	11,896	-	-
Fiscal Deficit	**6,505**	**9,337**	**18,334**	**15,068**	**16,268**	**-**	**-**
% of GDP	**3.4**	**4.6**	**9.3**	**6.8**	**7.0**	**-**	**-**

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

Disclaimer

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at www.bankofbaroda.com

For further details about this publication, please contact:

Economics Research Department
Bank of Baroda
chief.economist@bankofbaroda.com