

Fiscal deficit

Fiscal deficit at 68%; impressive pace of capital spending

INDIA | INDONOMICS | Update

30 October 2015

Top takeaways from September fiscal data

- ✓ Strong pace of plan capital expenditure
- ✓ Tax revenue growth stronger than budgeted
- ✓ 75% of budgeted dividends received
- ✓ Fiscal deficit target of 3.9% should be achieved
- ✗ Current risk – Lack of disinvestment

Manageable fiscal deficit led by higher tax and dividend receipts: Fiscal deficit for 1HFY16 is at 68% of budgeted estimate (BE), lower than the last two years' average pace of 79% of BE. Tax revenue growth has been strong led by excise and customs, while income, corporate, and service tax collections are also faring well. Dividend receipts are at 75% of BE vs. 68% last year, possibly led by higher profit transfers from RBI. There is a sharp jump in other tax revenue (economic services) at 68% of BE vs. 22% of BE last year – payment could have come from telecom (auctions) or railways – unsure. Disinvestment is lagging behind and considering stock market sluggishness, this could put fiscal strain ahead.

Plan capital spending continues to soar: Total expenditure in 1H at 51% of BE is higher than the trend rate (9-year average at 47%), but largely led by higher plan capital spending which commands a much higher economic multiplier. Plan capital spending is at a historical high (61% of BE vs. last nine year average of 40%). Non-plan capital expenditure at 43% of BE is in line with the historical trend. Plan revenue spending is higher (52% of BE) due to higher capital spending.

Fiscal targets comfortable placed: We expect FY16 fiscal target of 3.9% of GDP to be comfortably achieved. Government has huge savings from LPG (due to DBT and lower prices) and fuel subsidy along with higher excise tax revenue (led by higher excise and customs duty on crude). That said, we will be watchful of some progress on disinvestment. We expect yields to respond positively to fiscal data.

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Central Government Fiscal Account (April-September of respective years)

(Rs bn)	2012-13	2013-14	2014-15	2015-16	YoY	MoM	Comments
Revenue Receipts	3,509	3,899	4,179	5,134	22.8	48.6	Strong growth led by taxes and dividends
% of BE	37.5%	36.9%	35.1%	45.0%			
Tax Revenue	2,938	3,076	3,232	3,697	14.4	76.1	Sharp mom growth led by advance corporate tax payment
% of BE	38.10%	34.80%	33.10%	40.20%			
Total Receipts	3,571	3,970	4,232	5,320	25.7	46.6	
% of BE	36.5%	35.4%	33.5%	43.5%			
Non-Plan Expenditure	4,913	5,729	6,158	6,567	6.7	20.4	In line with historical trend
% of BE	50.7%	51.6%	50.5%	50.0%			
On Revenue Account	4,467	5,192	5,682	6,114	7.6	20.8	
% of BE	51.6%	52.3%	51.0%	50.7%			
On Capital Account	446	538	476	454	-4.7	15.3	Not as impressive as plan capital spending
% of BE	42.8%	45.9%	45.2%	42.7%			
Plan Expenditure	2,027	2,361	2,463	2,538	3.1	36.0	Higher trend led by higher capital spending
% of BE	38.9%	42.5%	42.8%	54.6%			
On Revenue Account	1,675	1,930	1,947	1,710	-12.2	27.6	
% of BE	39.8%	43.5%	42.9%	51.8%			
On Capital Account	352	431	515	828	60.7	57.4	Extremely impressive, frontloading continuing
% of BE	35.1%	38.5%	42.4%	61.2%			
Total Expenditure	6,940	8,091	8,621	9,105	5.6	24.4	
% of BE	46.5%	48.6%	48.0%	51.2%			
Fiscal Deficit	3,369	4,121	4,388	3,786	-13.7	2.5	Lower than last two-years; manageable levels
% of BE	65.6%	76.0%	82.6%	68.1%			

Source: CGA, PhillipCapital India Research

Tax Components

(Rs bn)	Sep-15	YoY (%)	Apr-Sep'15	YoY (%)	FY16BE	YoY (%)	Comments
Gross tax revenue	1978	19.4	5969	21.7	14495	15.8%	Stronger than full-year estimate
Corporation tax	1010	13.9	1826	12.6	4706	10.5%	Improving
Income tax	391	26.6	1224	11.9	3274	17.5%	Improving
Customs duty	184	4.5	1036	18.6	2083	10.4%	Slight drop in growth in Sep, but ahead of BE
Excise duty	228	51.1	1030	70.1	2298	23.9%	Sustaining strong growth pace
Service tax	152	22.7	787	20.8	2098	24.8%	Stable

Source: CGA, PhillipCapital India Research

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