

## India Macro Flash

### Fiscal Trends Remain Weak: Apr-Oct Deficit at 90% of Estimates; Further Cuts Needed to Meet Targets: All Eyes on Feb Budget

- **Apr-Oct Deficit at Rs4757bn or 90% of FY15 Estimates** — Trends in govt finances remain weak with the Apr- Oct deficit coming in at Rs4757bn or 90% of budget estimates. This compares with the 5 year average of 74% in the same period. Looking ahead, while the govt's 4.1% target for FY15 appear challenging, recent steps on expenditure compression e.g. Diesel de-regulation, austerity measures (10% cut in non-plan expenditure) and a possible reduction in plan-expenditure (similar to last two years) could help the govt come close to its target.
  - **Revenues up 4.8% vs BE 18.6%** — Gross tax collections remain sluggish up 5.9% in Apr-Oct v/s budgeted growth rate of 17.7%. As seen in fig 2, pg 2, continuation of weak trends in excise (-1.7%) and corporate taxes (3.0%) do raise concerns on the strength of the economic recovery. However, key to note is that divestment revenues that are currently at ~Rs 1.2bn in FY15YTD vs. the target of Rs634bn are likely to rise with upcoming stake sales in oil/coal majors.
  - **Expenditure up 4.3% vs BE 12.9%** — Revenue growth has been dismal, but encouragingly, the govt. has kept expenditures in check primarily by limiting plan expenditure (-0.4%) v/s BE of 20.9%. Non plan expenditure has also been reined in at 6.2% v/s BE of 9.4%. Within non-plan expenditure, the subsidies payout in Apr-Oct is at 75% of BE. While government has announced a 10% cut in non-plan expenditure (~0.3% of GDP), we believe that the cuts are likely to be extended in plan expenditure as well to the tune of ~0.5% of GDP for govt to meet its fisc targets. (See p2 for details)
- **What's New? Goodbye to Triple Digit Oil** — Following the OPEC meeting - which left the supply unchanged, Brent prices fell further to US\$71/bbl. Our global team in its note – [Goodbye Triple Digit Oil](#), believes that the crude market appears to have come back into balance within the \$70-90 long run equilibrium. The team estimates that the current market is oversupplied by ~0.7 mb/d with the supply overhang increasing to 1.3-m b/d in 1H'15. Note that every US\$1/bbl decline in crude reduces under-recovery by US\$700mn, part of which could also reduce fiscal costs.
- **Bottom Line: All Eyes on FY16 Budget in Feb** — While in the near term, the government will aim to meet FY15 target of 4.1% through austerity measures and plan expenditure cuts, fiscal consolidation over longer term (3% by FY17) could only be achieved with structural fiscal reforms such as implementation of GST, targeted cash transfers and expenditure rationalization. For example, recent fuel price reforms and lower crude prices are likely to reduce fiscal deficit by~ 0.5% of GDP. Overall, we expect government to make further progress in these areas when it announces its full budget in Feb-15, and continue on path of fiscal consolidation.

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*With thanks to*  
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#### WHAT's INSIDE:

- **October Fiscal Trends**– p2
  - **Govt Finances** – p3
  - **Statistical Snapshot** – p4
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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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## Latest Fiscal Trends

### Apr-Oct FISCAL DEFICIT

\* Fiscal Deficit in Apr-Oct FY15 is at **89.6% of budget estimates vs 84% during the same period last year**

\* Revenue growth remains sluggish, up **4.8% vs budgeted 18.6%**

\* Expenditures are in check, up **4.3% vs budgeted 12.9%**

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

	Oct-14	%YoY	Apr-Oct FY15	%YoY	Budget Est FY15	% To Total Budget	Budgeted Growth
a. Revenue receipts	622	-6.0	4,801	5.3	11,898	40.3	15.6
Net tax revenues	457	-6.7	3,689	3.5	9,773	37.7	16.9
Non-tax	165	-4.1	1,112	11.7	2,125	52.3	10.0
b. Non-debt cap receipts	9	-8.9	63	-22.5	740	8.5	101.8
c. Total receipts (a+b)	631	-6.0	4,863	4.8	12,638	38.5	18.6
d. Revenue expenditure	898	-7.3	8,527	5.4	15,681	54.4	12.0
e. of which interest	203	-16.8	2,060	11.7	4,270	48.2	12.3
f. Capital expenditure	103	24.4	1,094	-3.4	2,268	48.2	18.8
g. Total expenditure (d+e)	1,000	-11.4	9,621	4.3	17,949	53.6	12.9
h. Plan Expenditure	207	-35.2	2,670	-0.4	5,750	46.4	20.9
i. Non Plan Expenditure	793	-2.1	6,951	6.2	12,199	57.0	9.4
j. Fiscal deficit (g-c)	369	-19.4	4,757	3.8	5,311	89.6	
k. Revenue deficit (d-a)	276	-10.3	3,726	5.6	3,783	98.5	
l. Primary Deficit (j-e)	166	-22.3	2,698	-1.5	1,041	259.0	

Source: CGA, Ministry of Finance

### TAX COLLECTIONS

\* Gross taxes were down 1.4% in October

\* Cumulative tax collections were up **5.9%**, with all components showing slower growth - Income (+9.2%), Customs (+7.1%), Service (+12%), Corporate (+3%), Excise (-1.7%)

Figure 2. Tax Collections – April –October (Rs Bn, %)

	Oct-14	%YoY	Apr-Oct FY15	%YoY	BE FY15	% to BE	BE Growth
Corporate	111	(23.5)	1,734	3.0	4,510	38.4	14.6
Income	156	(6.8)	1,250	9.2	2,782	44.9	17.8
Customs	167	17.8	1,041	7.1	2,018	51.6	15.2
Excise	126	1.0	731	-1.7	2,064	35.4	15.4
Service	160	3.7	812	12.0	2,160	37.6	31.0
Gross Taxes	730	(1.4)	5,636	5.9	13,645	41.3	17.7
Devolverment to States	268	8.1	1,922	10.8	3,872	49.6	19.9
Net Taxes	457	(6.6)	3,689	3.5	9,773	37.7	16.9

Source: CGA, Ministry of Finance

### FUEL SUBSIDY

\* The de-regulation of Diesel and lower crude prices are expected to halve under-recoveries for oil companies, from Rs 1400bn in FY14 to Rs 680bn in FY16.

\* As a result, the fuel subsidy cost for government could decline by 0.4%-0.5% of GDP

Figure 3. Trends in Oil Under-recoveries / Subsidies (Rs bn)

Year Ending Mar 31	FY11	FY12	FY13	FY14	FY15E	FY16E	FY17E
Gross Under-Recoveries	782	1,385	1,610	1,399	837	681	675
- Diesel	347	812	921	628	125	0	0
- LPG	218	300	396	465	410	402	413
- Kerosene	195	274	294	306	302	279	262
Less: Upstream sharing	303	550	600	670	649	506	497
% of total	39%	40%	37%	48%	77%	74%	74%
Less: gov't compensation	410	835	1,000	708	188	175	178
% of total	52%	60%	62%	51%	23%	26%	26%
Crude Prices (US\$/bbl)	87	114	111	108	103	97	95
INR/US\$	45.6	47.9	54.4	60.4	61.0	62.0	62.0
Diesel losses (Rs / ltr)	(3.4)	(8.9)	(9.9)	(6.9)	(1.7)	0.0	0.5
LPG losses (Rs/cylinder)	(248)	(331)	(448)	(471)	(435)	(398)	(393)
Kerosene losses (Rs / ltr)	(16.6)	(25.8)	(30.5)	(35.0)	(33.8)	(32.6)	(31.4)

Source: PPAC, OMCs, Citi Research

### SUBSIDIES

\* Total subsidies have reached **75% of budget estimates in 1HFY14**

Figure 4. Subsidy Trends in Apr-Oct (Rs bn)

	BE (Rs bn)	Apr-Oct FY15	% of BE-FY15	% Apr-Oct FY14
Oil	635	488	77%	84%
Fertilizer	730	531	73%	75%
Food	1153	879	76%	87%
Total Subsidies	2518	1899	75%	

Source: CGA, Budget Documents

## Snapshot of Government Finances

Figure 5. Snapshot of Indian Government Finances (Rs bn)

	FY09	FY10	FY11	FY12	FY13	FY14RE	FY15BE	
<b>a. Gross Tax Revenue</b>	6,053	6,245	7,931	8,892	10,359	11,589	13,645	<b>Revenues</b>
% to GDP	10.8	9.6	10.2	9.9	10.2	10.2	10.6	<b>Key Assumptions</b>
% YoY	2.0	3.2	27.0	12.1	16.5	11.9	17.7	Income Tax: +17.8%
Corporation tax	2,134	2,447	2,987	3,228	3,563	3,936	4,510	Corporate: +14.6%, Customs +15.2%
Income tax	1,060	1,224	1,391	1,645	1,965	2,362	2,782	Excise: +15.4%; Service: +31%
Excise duty	1,086	1,030	1,377	1,449	1,758	1,788	2,064	
Import duty	999	833	1,358	1,493	1,653	1,751	2,018	<b>Apr-Oct Trends</b>
Service tax	609	584	710	975	1,326	1,649	2,160	Income Tax: +9.2%
<b>b. (-) Devolvement to States &amp; UTs</b>	1,620	1,680	2,232	2,594	2,944	3,229	3,872	Corporate: +3%, Customs +7.1%
<b>c. Net tax revenues (a-b)</b>	4,433	4,565	5,699	6,298	7,415	8,360	9,773	Excise: -1.7%; Service: +12%
<b>d. Non tax revenues</b>	969	1,163	2,186	1,217	1,374	1,932	2,125	
<b>e. Net revenue receipts (c+d)</b>	5,403	5,728	7,885	7,514	8,792	10,292	11,898	
<b>f. Non-debt capital receipts</b>	67	332	353	369	410	366	740	
Recovery of loans	61	86	124	189	151	108	105	
Divestments/Other	6	246	228	181	259	258	634	
<b>g. TOTAL REVENUES (e+f)</b>	5,470	6,060	8,237	7,884	9,202	10,659	12,638	
%YoY	-6.6	10.8	35.9	-4.3	16.7	15.8	18.6	
<b>h. Revenue expenditure</b>	7,938	9,118	10,407	11,458	12,435	13,995	15,681	<b>Expenditures</b>
Interest (1)	1,922	2,131	2,340	2,732	3,132	3,801	4,270	
Defense	733	907	921	1,030	1,113	1,248	1,344	
Subsidies	1,297	1,414	1,734	2,179	2,571	2,555	2,607	Food: Rs1150 bn; Fuel: Rs730bn; Fert: Rs634bn
Pensions	329	561	574	612	695	741	820	
Grants to States	382	459	498	515	480	616	699	
Admin and social services	927	1,107	1,198	1,053	1,153	1,315	1,406	
Plan expenditure	2,348	2,539	3,142	3,337	3,292	3,719	4,535	
<b>i. Capital expenditure</b>	902	1,127	1,566	1,586	1,669	1,909	2,268	
Defense	410	511	621	679	705	789	946	
Loans	87	121	298	120	119	83	107	
Plan expenditure	405	495	648	786	844	1,037	1,215	
<b>j. Plan expenditure</b>	2,752	3,034	3,790	4,124	4,136	4,755	5,750	Plan expenditure to rise 20.9%
<b>k Non Plan expenditure</b>	6,087	7,211	8,183	8,920	9,967	11,149	12,199	Apr-Oct: down 0.4%
<b>l. TOTAL EXPENDITURE (h+i): (j+k)</b>	8,840	10,245	11,973	13,044	14,104	15,904	17,949	Non-plan expenditure to rise 9.4%
% YoY	24.0	15.9	16.9	8.9	8.1	12.8	12.9	Apr-Oct: up 6.2%
<b>Deficit trends</b>								
<b>m. Fiscal Balance (g-l)</b>	-3,370	-4,185	-3,736	-5,160	-4,902	-5,245	-5,311	FY15 fiscal deficit contained at 4.1% GDP vs. estimates of 4.5% in FY14
% to GDP	-6.0	-6.5	-4.8	-5.7	-4.8	-4.6	-4.1	
<b>n. Revenue Balance (e-h)</b>	-2,535	-3,390	-2,523	-3,943	-3,643	-3,703	-3,783	
% to GDP	-4.5	-5.2	-3.2	-4.4	-3.6	-3.3	-2.9	
<b>o. Primary Deficit (m-1)</b>	-1,448	-2,054	-1,396	-2,428	-1,770	-1,444	-1,041	
% to GDP	-2.6	-3.2	-1.8	-2.7	-1.8	-1.3	-0.8	
<b>Financing the deficit</b>								
Market borrowings (Net)	2,336	3,984	3,254	4,362	4,674	4,539	4,612	
PPF & special deposits	80	161	125	108	109	100	120	
Small savings	-13	133	112	-103	86	116	82	
Net external assistance	110	110	236	124	72	54	57	
Others	418	-189	-56	828	471	286	268	
Cash Drawdown	438	-14	64	-160	-510	150	172	
<b>Total financing</b>	3,370	4,185	3,736	5,160	4,902	5,245	5,311	
<b>Memo items (% to GDP)</b>								
Centre	-6.0	-6.5	-4.8	-5.7	-4.8	-4.6	-4.1	
State	-2.3	-2.9	-2.1	-2.4	-2.3	-2.2	-2.6	
<b>Combined</b>	-8.3	-9.3	-6.9	-8.1	-7.2	-6.9	-6.7	
Off Balance Sheet Items	-1.7	-0.2	0.0	0.0	0.0	0.0	0.0	
<b>Total Deficit</b>	-10.0	-9.5	-6.9	-8.1	-7.2	-6.9	-6.7	
Combined liabilities	76.8	75.5	70.2	69.6	69.8	69.8	69.8	

\*Includes proceeds of transfer of RBI's stake in SBI. RE: Revised Estimates; BE: Budgeted Estimates, based on the government's nominal GDP forecast. Source: Budget Documents, Citi Research estimates

# Statistical Snapshot

Figure 6. India Macroeconomic Summary FY04 – 17E

Fiscal Year to 31 March	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E	FY17E
<b>National Income Indicators</b>														
Nominal GDP(Rs bn)	28,617	32,422	36,934	42,947	49,871	56,301	64,778	77,841	90,097	101,133	113,551	128,312	146,276	165,467
Nominal GDP (US\$ bn)	623	720	834	950	1,241	1,224	1,367	1,708	1,873	1,873	1,880	2,070	2,359	2,805
Per Capita GDP (US\$)	582	662	754	847	1,090	1,061	1,168	1,440	1,558	1,539	1,499	1,651	1,854	2,171
<b>Real GDP growth (%)</b>	<b>8.1</b>	<b>7.0</b>	<b>9.5</b>	<b>9.6</b>	<b>9.3</b>	<b>6.7</b>	<b>8.6</b>	<b>8.9</b>	<b>6.7</b>	<b>4.5</b>	<b>4.7</b>	<b>5.6</b>	<b>6.5</b>	<b>7.0</b>
Agriculture growth (%)	9.0	0.2	5.1	4.2	5.8	0.1	0.8	8.6	5.0	1.4	4.7	0.5	3.0	3.0
Industry growth (%)	7.3	9.8	9.7	12.2	9.7	4.4	9.2	7.6	7.8	1.0	0.4	3.9	5.9	7.0
Services growth (%)	8.1	8.1	10.9	10.1	10.3	10.0	10.5	9.7	6.6	7.0	6.8	7.5	7.5	7.8
<b>By Demand (%YoY)</b>														
Consumption	5.4	1.9	8.7	7.7	9.4	7.7	8.4	8.2	8.9	5.2	4.7	5.6	6.8	6.8
Pvt Consumption	5.9	1.7	8.6	8.5	9.4	7.2	7.4	8.7	9.3	5.0	4.8	5.5	7.0	7.0
Public Consumption	2.6	3.4	8.9	3.8	9.6	10.4	13.9	5.8	6.9	6.2	3.8	6.0	6.0	6.0
Gross Fixed Capital Formation	13.6	20.7	16.2	13.8	16.2	3.5	7.7	11.0	12.3	0.8	-0.1	2.5	6.5	8.5
<b>Cons; Invst, Savings * (%GDP)</b>														
Consumption	75.0	70.1	69.2	68.0	67.2	68.6	69.1	67.5	68.5	68.8	68.9	69.2	68.9	68.9
Gross Capital Formation	26.9	32.8	34.7	35.7	38.1	34.3	36.3	36.5	36.4	34.7	31.4	31.7	31.7	31.4
Gross Domestic Savings	28.7	32.4	33.4	34.6	36.8	32.0	33.7	33.7	31.3	30.1	30.5	30.8	31.0	31.0
<b>Real Indicators (%YoY)</b>														
Commercial vehicle sales	36.2	22.4	10.1	33.3	4.2	-21.4	39.2	27.0	19.5	-1.9	-20.2	-4.5	11.6	15
Car sales	27.2	17.8	7.7	20.7	12.1	0.3	25.7	29.2	3.9	2.4	-6.7	1.7	10.6	20
Two-wheelers	11.3	15.7	13.6	11.5	-7.8	2.7	25.9	25.8	13.9	2.9	7.3	10.0	10.0	20
Diesel consumption	1.2	6.9	1.4	6.7	11.1	8.5	8.9	6.5	8.0	6.7	-1.0	4.0	4.0	
Mobile Tele density	3.1	4.8	8.2	14.1	22.0	33.0	48.5	66.8	75.1	79.0	87.9	78.0	80.0	
<b>Monetary Indicators (% YoY)</b>														
Money supply	13.0	14.0	15.9	20.0	22.1	20.5	19.2	16.2	15.8	13.4	17.0	16.0	17.0	17.5
Inflation – WPI (Avg)	5.5	6.5	3.7	6.5	4.8	8.0	3.6	9.6	8.8	7.5	5.9	4.0	4.0	4.0
CPI (Avg)	3.8	3.9	4.2	6.8	6.2	9.1	12.3	10.5	8.4	10.2	9.5	7.2	6.2	6.0
Bank credit growth	15.3	30.9	37.0	28.1	22.3	17.5	16.9	21.5	17.0	14.1	15.0	14.0	15.0	16.0
Deposit growth	17.5	13.0	24.0	23.8	22.4	19.9	17.2	15.9	13.5	14.2	13.5	14.0	14.0	14.0
<b>Fiscal Indicators (% GDP)</b>														
Centre's fiscal deficit	-4.3	-3.9	-4.0	-3.3	-2.5	-6.0	-6.5	-4.8	-5.7	-4.9	-4.6	-4.1	-4.0	-3.6
State fiscal deficit	-3.9	-3.4	-2.5	-2.1	-1.4	-2.3	-2.9	-2.1	-2.4	-2.3	-2.2	-2.6	-2.5	-2.6
Combined deficit (Centre+State)	-8.2	-7.2	-6.5	-5.4	-4.0	-8.3	-9.3	-6.9	-8.1	-7.2	-6.9	-6.7	-6.5	-6.2
Off Balance Sheet Items			-0.5	-0.9	-0.6	-1.7	-0.2							
Combined liabilities ( dom+ext)	90.0	88.8	84.6	79.9	76.1	76.8	75.5	70.2	69.6	69.8	69.6	68.5	66.2	64.7
<b>External Sector (% YoY)</b>														
Exports (US\$bn)	66.3	85.2	105.2	128.9	166.2	189.0	182.4	250.5	309.8	306.6	318.6	342.5	376.8	422.0
% YoY	23.3	28.5	23.4	22.6	28.9	13.7	-3.5	37.3	23.7	-1.0	3.9	7.5	10.0	12.0
Imports (US\$bn)	80.0	118.9	157.1	190.7	257.6	308.5	300.6	381.1	499.5	502.2	466.2	490.0	539.0	598.3
%YoY	24.1	48.6	32.1	21.4	35.1	19.8	-2.6	26.7	31.1	0.5	-7.2	5.1	10.0	11.0
Trade deficit (US\$bn)	-13.7	-33.7	-51.9	-61.8	-91.5	-119.5	-118.2	-130.6	-189.8	-195.7	-147.6	-147.5	-162.2	-176.3
Invisibles (US\$bn)	27.8	31.2	42.0	52.2	75.7	91.6	80.0	84.6	111.6	107.5	115.2	110.8	118.3	125.4
Current Account Deficit (US\$bn)	14.1	-2.5	-9.9	-9.6	-15.7	-27.9	-38.2	-45.9	-78.2	-88.2	-32.4	-36.7	-44.0	-50.9
% to GDP	2.3	-0.3	-1.2	-1.0	-1.3	-2.3	-2.8	-2.7	-4.2	-4.7	-1.7	-1.8	-1.9	-1.8
Capital Account (US\$bn)	16.7	28.0	25.5	45.2	106.6	7.4	51.6	62.0	67.8	89.3	48.8	75.5	81.5	77.5
% GDP	2.7	3.9	3.1	4.8	8.6	0.6	3.8	3.6	3.6	4.8	2.6	3.6	3.5	2.8
Forex Assets (incl gold) (US\$bn)	110.3	140.9	151.6	199.2	309.2	252.3	277.0	303.5	294.4	292.6	303.7	342.5	380.1	406.7
Months of imports	16.5	14.2	11.6	12.5	14.4	9.8	11.1	9.6	7.1	7.0	7.8	8.4	8.5	8.2
External Debt (US\$bn)	112.7	134.0	139.1	172.4	224.4	224.5	260.9	317.9	360.8	409.4	442.2	457.2	472.2	487.2
Short Term Debt (US\$bn)	4.4	17.7	19.5	28.1	45.7	43.3	52.3	65.0	78.2	96.7	89.2	94.2	99.2	104.2
<b>Exchange Rate</b>														
US\$/INR - annual avg	45.9	45.0	44.3	45.2	40.2	46.0	47.4	45.6	48.1	54.0	60.4	62.0	62.0	60.0
% depreciation	-5.2	-2.0	-1.6	2.0	-11.1	14.4	3.0	-3.8	5.5	12.3	11.9	2.6	0.0	-3.2

\* At current prices.

Source: CSO, RBI, Ministry of Finance, Citi Research estimates

## Appendix A-1

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