SBI RESEARCH

ECOWRAP

GST REVENUE AT CONSTANT PRICES HAS JUMPED 26% FROM PRE-PANDEMIC LEVEL INDICATING CONSUMPTION GROWTH HAS RECOVERED STRONGLY: RUPEE DEPRECIATION COULD BE TEMPORARY AS RBI SET TO HIKE RATES BY 35-50 BASIS POINTS

Issue No. 22, FY23
Date: 04 Aug 2022

India's twin deficit– fiscal and current account problem is in news. Fiscal deficit for Q1 FY23 has reached 21.2% of the annual target compared to 18.2% in Q1FY22. Tax revenue has been robust with record high GST revenues which have been possible because of increased compliance and higher economic activity. On the expenditure side, Government has incurred higher capital expenditure (23.4% of BE in FY23 compared to 20.1% of BE during same period in FY22) which bodes well for our growth potential.

GST collections have increased significantly this year, with the monthly collection remaining above Rs 1.4 lakh crore for the consecutive 5 months. The latest number has been Rs 1.49 lakh crore in Jul'22, 28% higher than the same month last year.

Importantly, our estimates of inflation adjusted GST revenue for FY23 shows the average collection has been around Rs 1.20 lakh crore. This is a 26% jump in inflation adjusted GST from the pre-pandemic level at Rs 95,000 crore. In simple terminology, this shows that even after accounting for higher inflation, GST collections have remained robust and this increase could be the pure consumption impact.

Meanwhile, the Government has announced several measures in this financial year to arrest rising inflation, including oil excise duty cut, additional fertilizer and gas subsidy resulting in increased expenditure. However, windfall gain tax and additional tax revenue owing to GST over and above the budget are expected to provide relief to fiscal situation. **Furthermore, higher nominal GDP will provide a cushion, thereby fiscal deficit is likely to come around 6.5% of GDP (Budgeted:6.4% of GDP).**

However, on the external sector, trade deficit continues to show a bulge and has widened to record high of $31 billion in Jul'22, mainly on account of decline in exports to $35 billion from over $40 billion in the previous month, while imports remained strong at $66 billion. On the exports front, petroleum products exports witnessed policy intervention to combat inflation locally and anchor domestic demand whereas gems & jewellery, chemicals, readymade garments saw muted/softer demand from key markets battling recessionary fears with consumer sentiments and expectations entering frosty zones. Simultaneously, Petroleum, crude and products together accounted for about a third of the import bill in July and had it not been for the architecture put in place by the Government to source Russian crude at discounted pre-war prices, the figures could have been substantially higher as many countries in Europe are reeling from spiking energy prices that are affecting the economy and livelihood alike.

The monthly variation in trade deficit at $4.8 billion for Jul'22 is the largest since Sep'21 (when trade deficit increased by $9.7 billion m-o-m). **Cumulatively, India recorded a trade deficit of $100.0 billion during Apr-Jul'22. If we annualised this trade deficit number, it comes at 8.5% of our GDP projections for FY23. Interestingly, this is much lower than the peak deficit of 10.7% of GDP achieved in FY13. Thus the current situation is much better than that in 2012-13.**

Based on the current circumstances we have revised our CAD estimates from 3.2% of GDP to 3.7% of GDP for FY23 (FY22 CAD: 1.2% of GDP).

Going forward, while the crude has exhibited signs of softening thereby cooling off inflationary concerns further locally (though higher trade deficit numbers seem to have flared up the exchange rate again after the brief hiatus seen last week as FPI flows reversed the trend), there would be a paradoxical situation where inflation trajectory may not have a cascading effect on runaway exchange rate dynamics as sentiments in South China sea could steer the patchy global sentiments. Also, yields in USA spiked across tenors on the back of hawkish comments from Mary Daly and Charles Evans showcasing increased confidence about the prospect of Fed continuing hiking interest rates with gap between 2-year and 10-year Treasury yields shifting to a fresh extreme on yield curve metric, the long term yield falling considerably, levels not seen since 2000.

FISCAL SITUATION Q1 FY23

- In the first quarter of FY23, Government fiscal deficit reached Rs 3.51 lakh crore or 21.2% of the annual target compared to 18.2% in the year-ago period. The total expenditure came at 9.47 trillion or 24.0% of corresponding BE 2022-23 (23.6% of BE in the corresponding period of FY22) and total receipts were Rs 5.96 trillion or 26.1% of BE (27.7% of BE in the corresponding period of FY22).
- Trend in tax revenue has been similar to last year, but non tax revenue is much lower than what we achieved in the same period in FY22. Meanwhile, expenditure is on the higher side on account of improved capex by the Government.

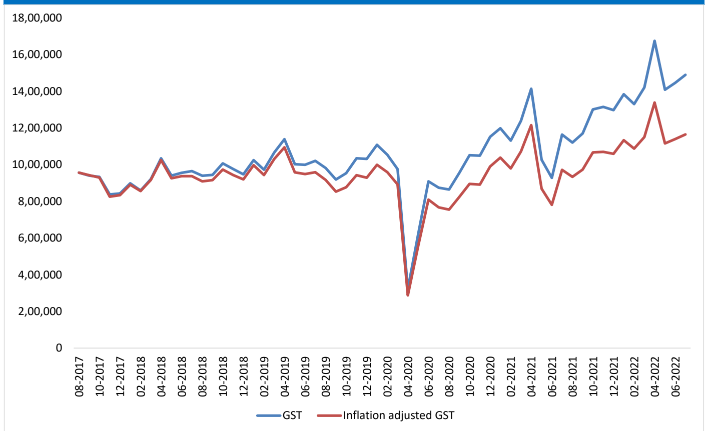
GST COLLECTION—IS IT DUE TO INFLATION?

- GST collections have increased significantly this year, with the monthly collection above Rs 1.4 lakh crore for the consecutive 5 months. The latest number has been Rs 1.49 lakh crore in Jul'22, 28% higher than the same month last year. Various reasons, including better compliance, economic recovery and higher inflation are considered as some of the factors leading to higher GST revenue for the Government.
- We have tried to estimate inflation adjusted GST revenues by deflating the GST revenue using the Consumer Price Index excluding Fuel.
- Since the inception of GST, the two series have moved more or less together prior to the pandemic. The gap between the two started increasing since May 2020 with a significant difference between the two since mid-2021. Currently, nearly 8% of the increase in GST revenues can be attributed to higher inflation. The 3-M MA of adjusted GST revenue has been above Rs 1.0 lakh crore since Nov'21, with the current value at Rs 1.14 lakh crore.

FISCAL DEFICIT ESTIMATE

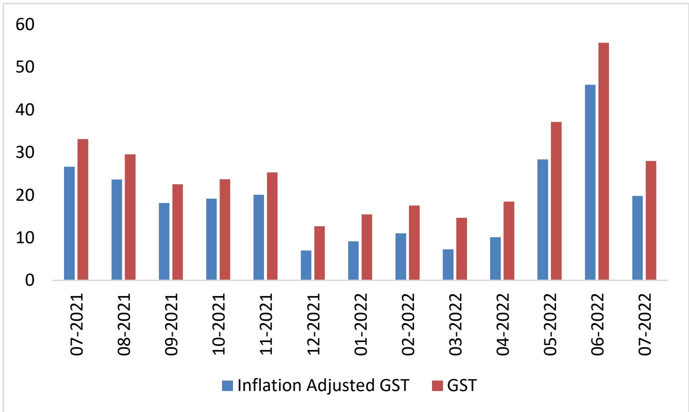
- The Government has announced several measures in this financial year to arrest rising inflation, including oil excise duty cut, additional fertilizer and gas subsidy resulting in increased expenditure
- However, windfall gain tax and additional tax revenue owing to GST over and above the budget are expected to provide relief to fiscal situation. Furthermore, higher nominal GDP will provide a cushion, thereby leading to fiscal deficit of around 6.5% of GDP (Budgeted:6.4% of GDP).

Inflation adjusted GST revenue (Rs crore)



Source: SBI Research

Growth in GST revenue (% yoy)



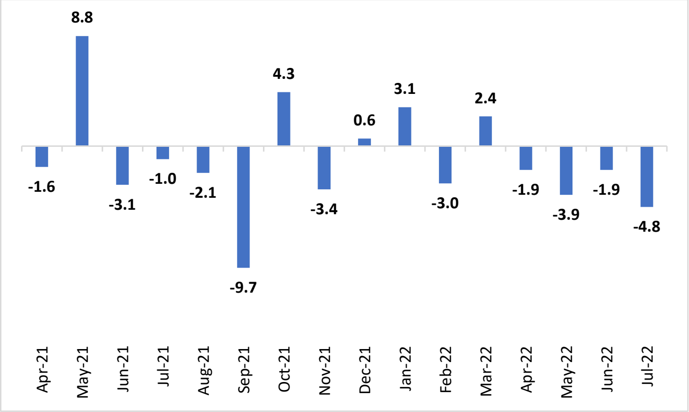
Source: SBI Research

Fiscal arithmetic FY23 (Rs lakh crore)	
Additional Expenditure	
Fertiliser subsidy	1.10
Gas subsidy	0.06
PMGKAY	0.80
Oil excise duty cut	1.00
Higher interest payment owing to increase in rate	0.10
Total increase in expenditure	*3.06*
Additional Revenue	
Windfall gain tax	0.80
Higher tax collection	0.90
Total increase in revenue	1.70
Net fiscal implication	1.36
Fiscal Deficit BE	16.61
Revised Fiscal Deficit	17.97
New GDP	274.6
Revised Fiscal Deficit (% of GDP)	6.5%
Source: SBI Research	

EXTERNAL SECTOR DYNAMICS

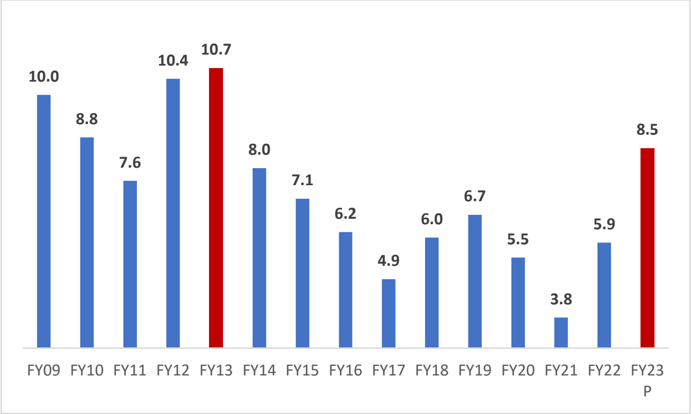
- On the external front, trade deficit has widened to record high of $31 billion in Jul'22, mainly on account of decline in exports to $35 billion from over $40 billion in the previous month, while imports remained strong at $66 billion.
- The monthly variation in trade deficit at $4.8 billion for Jul'22 is the largest since Sep'21 (when trade deficit increased by $9.7 billion m-o-m). In Jul'22, the entire increase in trade deficit is owing to decline in exports following the Government measures to control inflation.
- Cumulatively, India recorded a trade deficit of $100.0 billion during Apr-Jul'22. If we annualised this trade deficit number, it comes at 8.5% of our GDP projections. Interestingly, this is much lower than the peak deficit of 10.7% of GDP achieved in FY13. Thus the current situation is much better than that in 2012-13.
- Based on the current circumstances we have revised our CAD estimates from 3.2% of GDP to 3.7% of GDP for FY23 (FY22 CAD: 1.2% of GDP).

Trade Deficit (Monthly Variation in $ Billion)



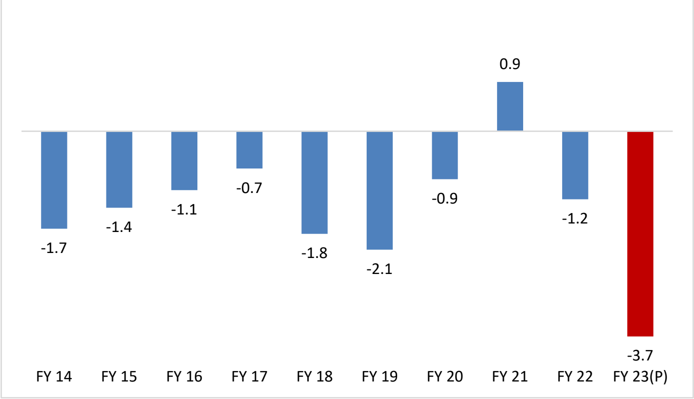
Source: SBI Research

Trade Deficit (% of GDP)



Source: SBI Research

CAD (% of GDP)



Source: SBI Research

Disclaimer: The Ecowrap is not a priced publication of the Bank. The opinion expressed is of Research Team and not necessarily reflect those of the Bank or its subsidiaries. The contents can be reproduced with proper acknowledgement. The write-up on Economic & Financial Developments is based on information & data procured from various sources and no responsibility is accepted for the accuracy of facts and figures. The Bank or the Research Team assumes no liability if any person or entity relies on views, opinion or facts & figures finding in Ecowrap.

Contact Details:
Dr. Soumya Kanti Ghosh
Group Chief Economic Adviser
State Bank of India, Corporate Centre
M C Road, Nariman Point, Mumbai - 400021
Email: soumya.ghosh@sbi.co.in,
gcea.erd@sbi.co.in
Phone:022-22742440
: kantisoumya