



भारतीय स्टेट बैंक
STATE BANK OF INDIA

From off balance sheet to headline deficit: The budget redefines fiscal rules

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Consolidation of Finances: Pragmatic Move towards greater transparency.....

- Outstanding liabilities of FCI financed through NSSF funds as on 1 April 2020 was Rs 2.54 lakh crore. As per revised estimates, in FY21 the Government made net repayments of Rs 1.36 lakh crore. Further there is an interest payment of Rs 21,835 crore which is paid to NSSF. Thus a total payment of Rs 1.6 lakh crore has been paid this year to NSSF
- Hence of the Rs 3.1 lakh crore increase in food subsidy bill, a maximum amount of Rs 1.6 lakh crore seems to have shifted from off-balance sheet entry to fiscal estimates
- Taking the amount of Rs 1.58 lakh crore shifted from off-balance sheet to food subsidy bill and reduce from the revised estimate of fiscal deficit, then in effect fiscal deficit would still be around 8.7% of GDP instead of 9.5% of GDP
- Also, of the additional expenditure increase of Rs 4.1 lakh crore (Rs 3.8 lakh crore of Revenue Expenditure and Rs 0.3 lakh crore of Capital Expenditure) the actual incremental spending by the Government after removing the off balance sheet amount shifted to food subsidy bill is still Rs 2.52 lakh crore
- Adjusting for Rs 48,000 crore fertiliser subsidy arrears of FY20, the incremental spending is thus Rs 2.04 lakh crore
- This is the direct fiscal stimulus at 1% of GDP in FY21
- **However, the payment of arrears has been a continuing custom**
- **The greater transparency in numbers, a long standing demand will enthuse the market and even rating agencies!**

FCI funding through NSSF (Rs lakh crore)			
	FY21	FY22	FY23
Liabilities at the beginning of year	2.54	1.18	0.42
Additions during the year	0.84		
Repayments during the year	2.21	0.55	
Net repayments during the year	1.36		
Interest paid during the year	0.22	0.21	
Total amount retired during the year	1.58	0.76	
Amount shifted to food subsidy			
Option A: If we consider amount remaining after the payment made in FY21 is shifted			1.18
Option B: If we consider net amount paid this year is shifted			1.36
Option C: If alongwith B, we also consider interest paid this year is shifted			1.58
Fiscal deficit without considering amount shifted as per option C			8.7%

.....Progressive decline in off balance sheet resources is most welcome

- The Government was using Off-Budget borrowing on a massive scale through public sector agencies. However, there has been a progressive decline in extra budgetary resources (EBR) for PSUs to Rs 3.47 lakh crore in FY22 from the revised Rs 3.88 lakh crore in FY21. EBR for Petroleum and Natural Gas, steel and power has increased while that of others have declined
- In FY22, the Government has reduced the EBR mobilised through NSSF and fully serviced bonds to Rs 30,000 crore only from Rs 1.3 lakh crore in FY21 RE
- This EBR added to fiscal deficit in FY22 makes headline fiscal deficit excluding and including EBR converge approx. at 6.8% of GDP. In FY21, the fiscal deficit including the EBR of Centre of Rs 1.3 lakh crore comes at 10.2% of GDP compared to 9.5% of GDP. Thus, there has been a movement from off-balance sheet to headline fiscal deficit, with no almost no gap now between the headline fiscal deficit and fiscal deficit with EBR

Total Borrowing Requirements including EBR (Rs lakh crore)				
	FY 20	FY21 (BE)	FY21 (RE)	FY22 (BE)
Net market borrowing of Centre	4.7	5.4	10.5	9.2
Net market borrowing of State	4.9	5.6	7.2	8.9
Extra Budgetary Resources of Center (through fully serviced bonds & NSSF)	1.5	1.9	1.3	0.3
Extra Budgetary Resources for PSUs	4.9	4.6	3.9	3.5
Total Borrowing	16.0	17.4	22.9	21.9
Total Borrowing (% of GDP)	7.9	7.8	11.7	9.8
Fiscal Deficit of Center (% of GDP)	3.8	3.5	9.5	6.8
Fiscal Deficit + EBR of Center (% of GDP)	4.6	4.3	10.2	6.9

Source: Union Budget Documents & SBI Research

- The Government has clearly stated that by FY23, FCI funding from NSSF will be vacated

Subsidy Trends (Rs lakh crore)				
	FY21 (BE)	FY21 (RE)	FY22(BE)	FY 23
Major Subsidies	2.28	5.96	3.36	
Fertiliser Subsidy, <i>of which</i>	0.71	1.34	0.80	
Current year subsidy bill		0.86	0.80	
Arrears		0.48	-	
Food Subsidy, <i>of which</i>	1.16	4.23	2.43	
Current year subsidy bill		2.65	1.67	
Transferred from NSSF*		1.58	0.76	0.42
Petroleum Subsidy	0.41	0.39	0.14	-
Source: Union Budget documents & SBI Research, *including interest payments				

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