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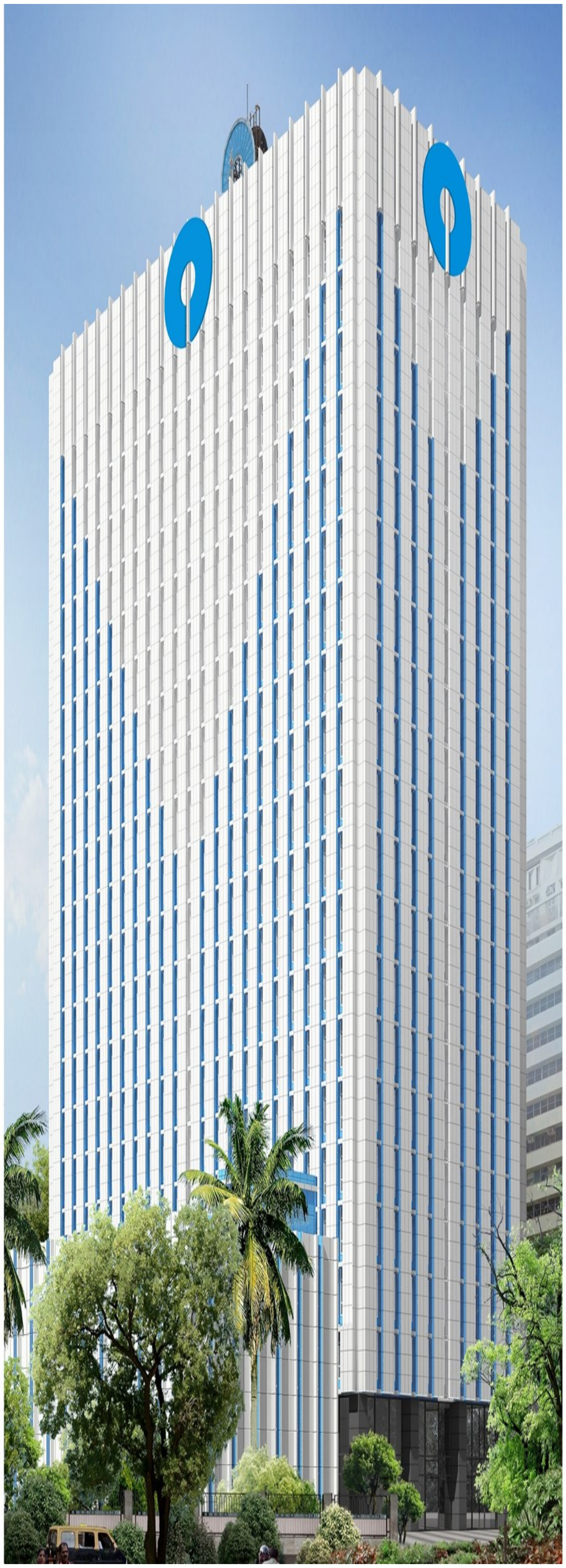
THE OPTICS OF BUDGET NUMBERS: AS SMALL SAVING COLLECTION SURGES, BANK DEPOSIT GROWTH SLOWS



We believe that the Government will stick to the fiscal deficit target of 3.3% of GDP in FY19 for the time being. For FY20, fiscal deficit is likely to be Rs 6.72 lakh crore or 3.2% of GDP, assuming a modest 11.7% of nominal GDP growth.

However, such fiscal deficit numbers might be optical as of now, as indirect tax collections and even disinvestment receipts are much below target. We expect a cut in capital expenditure by Rs 50,000 crore and postponing Rs 30,000 crore of revenue expenditure to the next year.

For the next year, for Centre, we are assuming a Gross market borrowing of Rs 6.50 lakh crore and a Net market borrowing of Rs 4.13 lakh crore (less than FY19 estimate of Rs 4.20 lakh crore). In case of states, for FY20, gross borrowings are likely to be around Rs 5.5 lakh crore (10% growth in borrowing normally occurs) and net borrowing at Rs 4.1 lakh crore.

Thus total borrowing of Centre and States combined is expected at Rs 12.0 lakh crore in FY20. However, in order to keep the redemptions in check, we estimate switching of securities worth around Rs 30,000-35,000 crore, which would bring the Gross borrowing for FY20 near the FY19 budgeted Gross market borrowing of Rs 6.05 lakh crore. We are expecting minimum buybacks in FY20 as the Government might be carrying forward a minimal cash balance into FY20.

There is however an underlying trend that is visible from budget numbers in the last couple of years. As against the budgeted amount of Rs 75,000 crore (revised later to Rs 1 lakh crore), borrowings through small savings has reached Rs 45,396 crore by Nov'18. (For FY 18, the Government had completed the scheduled borrowing of Rs 1.02 lakh crore through Small Savings Scheme). The large funding through NSSF is possible in part owing to large interest gap between bank deposits and the small saving rates. **However, this may make it difficult for banks to reduce deposit rates and hence lending rates in near future**. Interestingly, in the last few months, with bank deposit growth significantly lagging bank credit growth, banks have been increasing deposit rates to protect the possibility of deposit flight from banks. Such widening gap between deposit and credit growth requires banks to manage liquidity by focusing on deposit growth. Thus, it is imperative that we make bank deposits attractive by making it tax free.

BUDGET ESTIMATES

- GST collections so far have been Rs 8.71 lakh crore in FY19. Adjusting for SGST component and share of states in IGST collections, the total GST collections for the Center amounts to Rs 4.44 lakh crore. This large shortfall in revenues is expected to be reduced by higher excise duty collections.
- Taking into account the devolution to the states of 42% of the overall tax collections (except GST), the total revenue receipts for FY19 come around Rs 16.66 lakh crore as against the Budget Estimates of Rs 17.26 lakh crore.
- In case of disinvestments, we expect the Government will be able to generate Rs 60,000 crore compared to the BE of Rs 80,000 crore.

Budget Estimates (Rs lakh crore)			
	2018-19 (BE)	2018-19 (RE) (SBI)	2019-20 (BE) (SBI)
Revenue Receipts	17.26	16.66	19.33
Capital Receipts	7.16	6.07	7.20
Recovery of loans	0.12	0.12	0.15
Other Receipts	0.80	0.60	0.80
Revenue Expenditure	21.42	21.10	24.20
Capital Expenditure	3.00	2.50	2.80
Fiscal Deficit	6.24	6.22	6.72
Fiscal Deficit as a % of GDP	3.3	3.3	3.2
Source: SBI Research, Budget Documents			

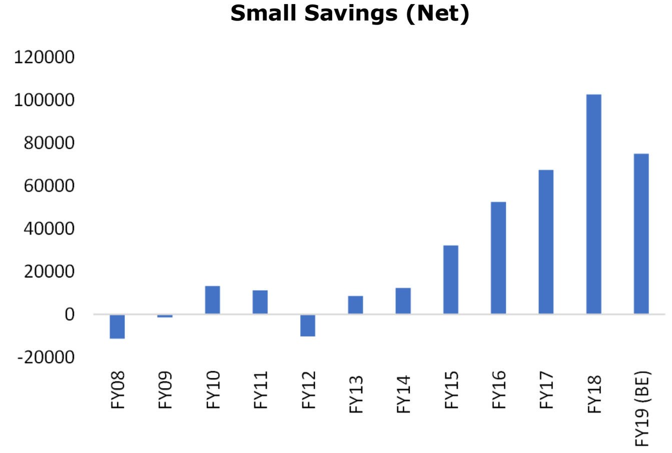
- Based on the recent data, capital expenditure between Apr-Nov'18 amounted to Rs 1.91 lakh crore, thus for FY19 the total capital expenditure is likely to come around Rs 2.5 lakh crore (Rs 50,0000 cut).
- We believe that the Government will be able to achieve fiscal deficit target of 3.3% of GDP in FY19, however this means another Rs 30,000 crore of revenue expenditure might be pushed to next year.
- For FY20, fiscal deficit is likely to be Rs 6.72 lakh crore or 3.2% of GDP, assuming a modest 11.7% of nominal GDP growth.

BORROWING ESTIMATES

- For the next year, we are assuming a Gross market borrowing of Rs 6.50 lakh crore and a Net market borrowing of Rs 4.13 lakh crore (less than FY19 estimate of Rs 4.20 lakh crore).
- In order to keep the redemptions in check, we estimate switching of securities worth around Rs 30,000-35,000 crore, which would bring the Gross borrowing for FY20 near the FY19 budgeted Gross market borrowing of Rs 6.05 lakh crore. We are expecting minimum buybacks in FY20 as the Government might be carrying forward a minimal cash balance into FY20.

Government Borrowings (Rs crore and as a % of GDP)				
	FY18 (RE)	FY19 (BE)	FY19 (RE)	FY20 (BE)
Gross Market Borrowings	599000	605539	535000	650000
% GDP	3.6	3.2	2.8	3.1
Less repayments	139590	143478	115000	236878
% GDP	0.8	0.8	0.6	1.1
Net Market Borrowings	402394	390120	420000	413122
% GDP	2.4	2.1	2.2	2.0
Source: Union Budget documents & SBI Research				

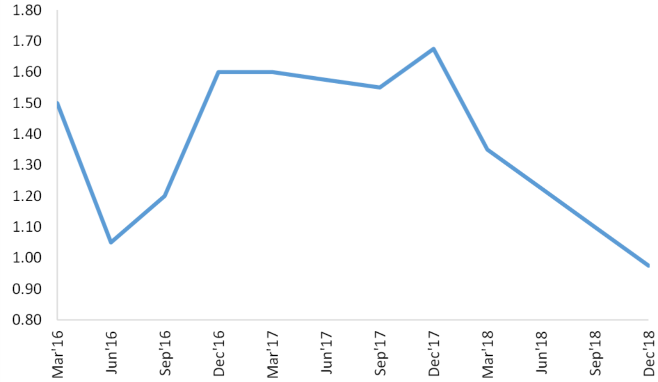
- For the current FY19, the Government had a buyback target of Rs 71,941 crore and switch of Rs 28,059 crore.
- The Government has also dipped into Small Saving scheme to meet a part of its expenditure. This has been in line with the trend observed in the past few years. This also helped keeping the bond yields in check (by keeping interest rates low), simultaneously managing liquidity in the market.
- As against the budgeted amount of Rs 75,000 crore (revised later to Rs 1 lakh crore), borrowings through small savings have reached Rs 45,396 crore by Nov'18. (For FY 18, the Government had completed the scheduled borrowing of Rs 1.02 lakh crore through Small Savings Scheme).



Source: Union Budget Documents, SBI Research

- It may be noted that the National Small Savings Fund" (NSSF) in the Public Account of India was established with effect from April 1999 and all small savings collections are now credited to this Fund. As per the recommendations of Committee on Small Savings in the year 1999, the NSSF was created within the Public Account and formalizes the Central Government's use of small savings collections accruing in the Public Account to finance its fiscal deficit. The objective of NSSF was to de-link small savings transactions from the Consolidated Fund of India and ensure their operation in a transparent and self-sustaining manner.
- Since NSSF now operates in the public account, its transactions do not impact the fiscal deficit of the Centre directly. Before 1999, the on-lending to States from the small savings collections was treated as part of Central Government's expenditure and added to Central Government's fiscal deficit. Therefore, other things remaining the same, an increase in small savings collections led to an increase in fiscal deficit.
- The large funding through NSSF is possible owing to interest gap between bank deposits and the small saving rates. The gap between the small saving interest rate (average of PPF and Sukanya Samridhi accounts rate) and average bank term deposit (>1 year) still remains around 98 bps.
- However, this may make it difficult for banks to reduce deposit rates. Interestingly, in the last few months, with bank deposit growth significantly lagging bank credit growth, banks have been increasing deposit rates to protect the possibility of deposit flight from banks. For the fortnight ended 04 Jan'19, on a YoY basis, the aggregate deposits have registered a growth of 9.9% or Rs 10.85 lakh crore and advances have increased by 14.5% or Rs 11.85 lakh crore.
- Such widening gap between deposit and credit growth requires build up of liquidity, which has to be met through the banking channel since in the event of no buyback of securities and RBI not doing aggressive OMOs, the banks would have to manage liquidity by focusing on deposit growth.

Gap between Small Savings interest rate and Bank Term Deposit (>1 year)



Source: RBI, SBI Research

- The next year, may therefore see a hardening of interest rates. The huge redemption pressure may lead to liquidity squeeze and therefore, the Government would have to go for switching of securities for longer term ones, which is the only option foreseeable at the present juncture., in the absence of buyback.
- In case of states, gross borrowing for FY19 is expected to reach Rs 5.10 lakh crore. For FY20, gross state borrowings are likely to be around Rs 5.5 lakh crore (10% growth in borrowing normally occurs) and net borrowing at Rs 4.1 lakh crore.
- Thus total borrowing of Centre and States combined is expected at Rs 12.0 lakh crore in FY20. As discussed earlier, this number may be lower depending on switches that the Government and RBI agrees to do to keep Net borrowing in check in FY20.

State Borrowings (Rs lakh crore)

	FY17	FY18	FY19	FY20 (SBI)
Gross Borrowing	3.82	4.29	5.10	5.50
Repayments	0.39	0.74	0.80	1.40
Net Borrowing	3.43	3.55	4.30	4.10

Source: RBI & SBI Research

ABOUT US

The Economic Research Department (ERD) in SBI Corporate Centre is the successor to the Economic and Statistical Research Department (E&SRD). The latter came into being in 1956, immediately after the State Bank of India was formed, with the objective of "tendering technical advice to the management on economic and financial problems in which the Bank has interest and which required expert analysis".

After the first reorganization of the Bank, when specialized departments like Management Science, Management Information Systems, Planning and Market Segment Departments took over the statistical work of E&SRD, the Department was renamed as ERD.

However, with the ERD team now taking on multidimensional functionalities in the area of risk management , corporate analytics, strategy and so on, who knows, the time may have come to rename it again!

DISCLAIMER

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