Depreciating ₹ not likely to cause fiscal slippage

Petroleum, fertiliser imports to become expensive, subsidy bill set to rise

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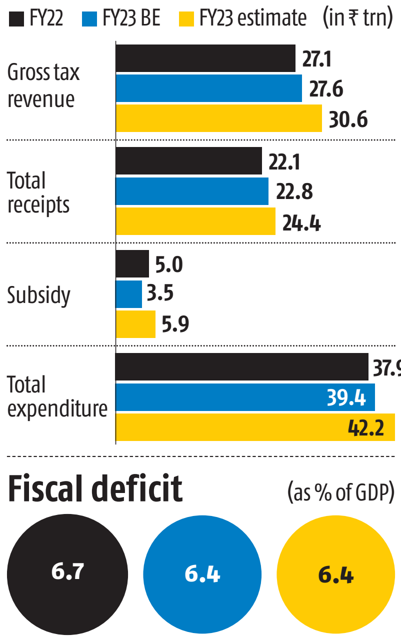

Note: FY23 estimate by IDFC Bank
Sources: Finance Ministry, IDFC Bank

Cheaper crude oil sourced from Russia and conservative estimate of nominal GDP may secure the Centre's finances from any significant deterioration in FY23 as a result of rupee hitting a fresh low at 80.86 against dollar on Thursday, experts said.

In principle, a depreciating rupee will make India's petroleum and fertiliser imports expensive. Since the government provides cooking gas and fertilisers at a subsidised rate to the end consumer, it should bloat the government's subsidy bill.

N R Bhanumurthy, Vice-Chancellor of Dr B R Ambedkar School of Economics University, however, said despite depreciation in rupee, the government is not going to face a ballooning subsidy bill, primarily on account of dip in oil prices. "Also, India has been purchasing oil from Russia at a discount. I don't see much change in the subsidy bill," he added.

Cheaper crude oil from Russia has made it India's third largest source of petroleum after Iraq and Saudi Arabia in April-July period. Crude oil price has slipped below $90 per barrel after the 75 bps rate hike by the Federal Reserve on Wednesday.

In a research note released on Wednesday, Gaura Sen Gupta, India economist at IDFC Bank, said the Centre's expenditure budget may exceed by ₹2.7 trillion in FY23. "Fertiliser subsidy is likely to exceed Budget Estimates by ₹1.25 trillion due to surge in gas prices (input cost) and supply disruptions caused by the Russia-Ukraine crisis. LPG subsidy could exceed the budgeted amount of ₹58 trillion by ₹20,000 crore due to under-recoveries by oil marketing companies. NREGA expenditure is likely to exceed Budget Estimates of ₹73,000 crore by ₹14,000 crore," she said.

Since most taxes of the central government are ad valorem, including Customs duty and the goods and services tax, higher imported inflation due to rupee depreciation should ideally boost tax revenue

Sen Gupta said further extension of the PM Garib Kalyan Anna Yojana by six months would mean an additional cost of ₹80,000 crore, thereby exceeding the food subsidy allocation in the budget by ₹98,000 crore in FY23. "As a ratio to GDP, even with a fiscal slippage of ₹1 trillion, the 6.4 per cent of GDP (fiscal deficit) target will still be met with nominal GDP growth expected to exceed budget estimates," she added.

While the government had pegged nominal GDP at 11.1 per cent for FY23, IDFC Bank estimated it to touch 16.5 per cent of GDP for the financial year.

Madan Sabnavis, chief economist at Bank of Baroda, said if rupee remains below 80, the cost of imports will go up, which will enhance customs collections. "Basic fuel cost will rise. There are chances of prices coming down, even though the crude rate has dropped. Fertiliser subsidy may have to be recalibrated. Overall imported inflation will also get reflected in higher GST collections for the government as final product prices increase," he added.

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Sen Gupta said she estimated net tax revenues to exceed Budget Estimate by ₹2 trillion and gross tax revenue to exceed Budget Estimate by ₹3 trillion.

Monthly GST collections averaged above ₹1.4 trillion for the sixth month in a row in August and is expected to beat budget estimates.

Direct tax collections at 30.9 per cent of the full year target during April-July period against 22.2 per cent during the same period a year ago are also expected to exceed budget expectations.

Sachidanand Shukla, chief economist at Mahindra Group, said there was no straightforward answer to whether a rupee depreciation will lead to fiscal slippage. "It may so happen that the rupee falls but crude also tanks. Whether the government allows prices to be passed on and to what extent, etc. So it remains to be seen what will be its impact on the subsidy bill and fiscal deficit," he added.