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Fiscal Update

Central government has recently presented the first batch of supplementary grants. The net cash outgo is pegged at Rs 3.26 lakh crore which is ~1.2-1.3% of the GDP. While a bulk of additional spending is for fertilizer and food subsidy, other important heads also include compensation to OMCs, rural development, railways and roads. We don't expect this is to have a significant impact on the targeted fiscal deficit ratio (6.4%) which may move up by 0.2-0.3% of GDP as there are other forces at work that will counter this impact which includes buoyant revenue collections and expected increase in nominal GDP.

First supplementary grant:

Union government has sought grant for additional expenditure of Rs 4.36 lakh crore, of which Rs 1.11 lakh crore will be met through higher revenues and overall net cash outgo is projected to be at Rs 3.26 lakh crore. This spending will be over and above the budgeted amount of Rs 39.45 lakh crore for FY23.

Out of the net cash outgo of Rs 3.26 lakh crore,

- Rs 1.09 lakh crore is on account of higher fertilizer subsidy bill, which was incurred owing to higher input prices following the outbreak of the Russia-Ukraine war.
- Additional Rs 80,348 in on account of extension of PM-Garib Kalyan Anna Yojna (PMGKAY).
- To cover for the losses made by Oil Marketing Companies (OMCs) owing to domestic LPG operations and PM-Ujjwala Yojna, Ministry of Petroleum is set to incur additional Rs ~25,000 crore.
- Apart from this, ministry of rural development has estimated an extra Rs ~45,000 spending under National Employee Guarantee Fund (NEGF)/MG-NREGA/PM-Awas Yojna-Rural.
- Ministry of Railways is estimated to spend Rs 12,000 as capital outlay, while Ministry of road transport & highways will spend an extra Rs ~18,000. Nearly Rs 10,000 crore will be used of meeting resource gap of J&K and Puducherry.

Table 1: Breakdown of major expenses using net cash outgo

Ministry/Department	Additional expenditure (Rs crore)	% of total
Ministry of chemicals and fertilizers	1,09,289	34
Ministry of consumer affairs, food & public distribution	80,348	25
Ministry of rural development	45,177	14
Ministry of petroleum and natural gas	24,944	8
Ministry of road transport and highways	17,919	6
Department of revenue	14,069	4
Ministry of railways	12,000	4
Transfers to Jammu and Kashmir & Puducherry	10,357	3
Total	**3,14,103**	**96**
Grand total	**3,25,757**	**100**

Source: DEA, Bank of Baroda Research

The spending (Rs 1.11 lakh crore) which will be met through higher revenue/savings will include Rs 45,000 crore spent by Ministry of rural development, Rs ~14,000 crore by Ministry of defence, Rs ~13,000 crore Ministry of telecom and communication, Rs 10,000 by department of revenue and Rs ~19,000 crore by Ministry of road transport & highways.

Table 2: Breakdown of major expenses using savings/higher revenues

Ministry/Department	Additional expenditure (Rs crore)	% of total
Ministry of rural development	44,832	41
Ministry of road transport and highways	19,209	17
Ministry of defence	14,370	13
Ministry of communications	13,669	12
Department of Revenue	9,747	9
Total	**1,01,826**	**92**
Grand total	**1,10,181**	**100**

Source: DEA, Bank of Baroda Research

Outlook for fiscal deficit

The increase in total expenditure of Rs 3.26 lakh crore will result in total size of the budget going up to Rs 42.7 lakh crore assuming nothing else changes. The fiscal deficit under ceteris paribus conditions will increase from Rs 16.6 to Rs 19.9 lakh crore. The budget was premised on the GDP in nominal terms to be Rs 258 lakh crore. However, based on the developments during the year which is characterized by high inflation we expect the GDP to increase to Rs 275-280 lakh crore. With no other change in the budgetary numbers the fiscal deficit ratio would be between 7-7.1%.

However, we need to realize that the dynamics of the budgetary numbers have changed during the year on the revenue side too.

- On the income side, direct tax collections through income and corporation tax would be higher by around Rs 45-50,000 crore assuming corporate profits improve. (There might be downside risks to corporate tax collections if companies continue making lower profits/losses in Q3 and Q4 as well. Our study on corporate results for Q2FY23 showed 18.5% drop in PBT for a sample of 1,519 non-BFSI/IT companies).
- Within indirect taxes, a net increase of around Rs 47,000 crore may be expected with GST and customs clocking higher revenue and excise coming down by around Rs 30-35,000 crore.
- Further, within non-tax revenues, the budgeted amount of Rs 2.70 lakh crore can be exceeded by between 35-45,000 crore with better dividend being paid by PSUs including banks and revenue from economic services including communication coming in higher.
- Disinvestment proceeds are however expected to be lower by around Rs 25,000 crore at Rs 40,000 crore, down from BE of Rs 65,000.
- Taking all these into account net revenue of the government will provide a support of Rs 1.17 lakh crore.
- We thus expect fiscal deficit ratio to come at ~6.6-6.7% of GDP in FY23 assuming that none of the other expenses are lowered and the budget size is at Rs 42.71 lakh crore. If there are cuts invoked by any ministry, the fiscal deficit will only improve.

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