1 Feb 2023

Dipanwita Mazumdar
Economist

Budget 2023-24: Quick take:

Reinvigorating growth through investment

Union Budget for FY24 is a continuation of the ideology displayed in earlier budgets and has hence tread on similar lines. Focus has been on tuning spending towards capital expenditure to create a multiplier effect on growth by crowding in private investment. From inflation standpoint as well, budget has given a relief by raising rebate limit under personal income tax from existing Rs 5 lakh to Rs 7 lakh (new regime). Other estimates such as tax revenue collection in line with slightly downward bias for GDP growth in FY24 seems feasible. From market standpoint as well, budget has given a cheer by not inflating the gross borrowing numbers which led yields to be trading lower today. Even equity markets got a boost from the fine print laid out in the budget whether it be focus towards increasing productivity and efficiency or ensuring quality spending. Sector wise, MSMEs have been the focus, whether be it providing digilocker facility to them, integrating them in the value chain or revamping the credit guarantee scheme by providing a corpus of Rs 9,000 crore.

Tax Revenue to get a hit in FY24:

- Though FY23 has been a year of good revenue collections (both corporate and income tax is expected to grow by 17.3% and 17.1% respectively), the hit is likely to be in FY24. This will be in line with slowing GDP growth. Both corporate and income tax are expected to grow by 10.5% each to Rs 9.2 lakh crore and Rs 9 lakh crore respectively.
- Indirect taxes are likely to be buoyant at Rs 15.3 lakh crore as per FY24BE from Rs 13.3 lakh crore in FY23RE. This would be supported by robust GST collections of Rs 9.6 lakh crore in FY24 from Rs 8.5 lakh crore in FY23RE.
- Total tax revenue is expected to increase by 10.4% to Rs 33.6 lakh crore in FY24BE from Rs 30.4 lakh crore in FY23RE.

Non tax revenue is expected to increase to Rs 3 lakh crore in FY24BE from Rs 2.6 lakh crore in FY23RE. This would be supported by better dividends from PSUs and Banks estimated at Rs 91,000 crore from Rs 83,953crore in FY23RE. This is on the back of better financial results of corporates and Banks.

FY24 fiscal deficit pegged at 5.9%:

- Fiscal deficit target for FY24 (BE) at 5.9% is in line with our estimate of 5.75-6%. FM has repeatedly mentioned in her statement that objective would be in restoring the fiscal glide path of less than 4.5% by FY26.
- Budget has assumed nominal GDP growth of 10.5% in FY24, which translates to around 6.5% of real GDP growth (as enumerated in the baseline projections of Economic Survey) and another 4% comes from inflation. So the favourable base support might not be there for fiscal

deficit ratio. Further, with growth slightly on the downside in FY24, receipts from tax collections would also be bit of a challenge. So this part needs to be looked with caution.

Focus on capex continued:

- This year's budget again focused on the importance of higher government spending to boost growth and crowd in private investment. Thus, centre's capex spending is expected to increase by 37.4% in FY24BE to Rs 10 lakh crore against 22.8% increase seen in FY23RE.
- Ministry wise, capital outlay for road transport and highways have increased 1.3times to Rs 2.6 lakh crore in FY24BE compared to 1.9 lakh crore in FY23BE. For defense as well, the capital outlay increased to Rs 1.6 lakh crore in FY24BE compared to Rs 2.7 lakh crore in FY23RE. For telecom, it increased to Rs 61,692 crore from Rs 54,150crore in FY23RE. Other than this, capital outlay for Petroleum and Natural Gas have showed a sharp increase to Rs 35,509 crore in FY24BE from Rs 600 crore in FY23RE.
- States transfer (as 50-year interest free loan to be spend as capex), have been higher at Rs 1.37 lakh crore in FY24BE which was Rs 1.1 lakh crore in FY23RE.

Revenue spending pruned down: Revenue spending is expected to ease, noting only 1.2% increase in FY24BE to Rs 35 lakh crore compared with 8.1% increase (Rs 34.6 lakh crore) seen in FY23RE. This may be positive for inflation where persistently higher demand side pressure existed (core inflation sticky at 6%) on the back of fairly robust macro fundamentals of Indian economy.

Disinvestment receipts have been pegged slightly higher at Rs 61,000crore in FY24BE from Rs 60,000crore in FY23RE.

Reasonable borrowing numbers to comfort yields:

- Borrowing numbers have been carefully adjusted with no over burdening seen towards gross borrowing. Rather reliance has been towards garnering small savings in the rising rate cycle regime.
- In FY24BE, gross borrowing is estimated at Rs 15.43 lakh crore against Rs 14.21 lakh crore in FY23RE. Benchmark 10Y yield is currently trading abound 6bps lower compared to its previous day's close of 7.34%. Repayments are likely to be higher at Rs 4.4 lakh crore against Rs 3.1 lakh crore in FY23RE. Thus, net borrowing amounts to Rs 11.8 lakh crore, slightly higher compared to Rs 11.1 lakh crore in FY23RE.
- Interest cost is also likely to be at Rs 10.8 lakh crore in FY24BE against Rs 9.4 lakh crore in FY23RE. Outstanding liabilities of the government would rise to Rs 169.5 lakh crore against Rs 152.6 lakh crore in FY23RE. This tantamount to an effective interest rate (Interest payment/Average outstanding liabilities) of 6.7% in FY24BE which is only slightly higher compared to 6.5% in FY23RE. We expect 10Y yield is likely to inch lower in the coming days.
- Net securities against small savings is expected to increase to Rs 4.7 lakh crore in FY24BE compared to Rs 4.4 lakh crore in FY23RE. This is assumed on the back of higher rates on these instruments.

Table 1: Fiscal Estimates

(Rs. crore)	FY22	FY23BE	FY23RE	FY24BE	% Increase	
					FY23RE/FY22	FY24BE/FY23RE
Tax Revenue						
Corporation Tax	7,12,037	7,20,000	8,35,000	9,22,675	17.3	10.5
Taxes on Income	6,96,243	7,00,000	8,15,000	9,00,575	17.1	10.5
Indirect Taxes	12,93,498	13,30,000	13,85,000	15,29,200	7.1	10.4
Total - Tax Revenue	**27,09,315**	**27,57,820**	**30,43,067**	**33,60,858**	**12.3**	**10.4**
Less: State's Share	8,98,392	8,16,649	9,48,405	10,21,448	5.6	7.7
Centre's Tax Revenue	18,04,793	19,34,771	20,86,662	23,30,630	15.6	11.7
Total Non-Tax Revenue	**3,65,112**	**2,69,651**	**2,61,751**	**3,01,650**	**(28.3)**	**15.2**
Centre's Revenue (net)	**21,69,905**	**22,04,422**	**23,48,413**	**26,32,280**	**8.2**	**12.1**
Capital Receipts						
Internal Debt Market Borrowing	7,04,097	11,18,612	11,08,183	11,80,911	57.4	6.6
Disinvestment	13627.22	65000	60,000	61000	340.3	1.7
Others	9,03,629	5,56,123	6,73,878	6,40,692	(25.4)	(4.9)
Total Capital Receipts	**16,21,353**	**17,39,735**	**18,42,061**	**18,82,603**	**13.6**	**2.2**
Total Receipts	**37,91,258**	**39,44,157**	**41,90,474**	**45,14,883**	**10.5**	**7.7**
Expenditure						
Total Expenditure	**37,93,692**	**39,44,909**	**41,87,234**	**45,03,096**	10.4	7.5
Revenue	32,00,818	31,94,663	34,58,960	35,02,135	8.1	1.2
Capital	5,92,874	7,50,246	7,28,274	10,00,961	22.8	37.4
Revenue Deficit	10,31,021	9,90,241	11,10,547	8,69,855		
Fiscal Deficit	**15,84,521**	**16,61,196**	**17,55,319**	**17,86,816**		
% of GDP	**6.70%**	**6.44%**	**6.43%**	**5.90%**		

Source: Budget Documents, Bank of Baroda Research

Disclaimer

For further details about this publication, please contact:

Economics Research Department
Bank of Baroda
+91 22 6698 5143
chief.economist@bankofbaroda.com
dipanwita.mazumdar@bankofbaroda.com