UNION BUDGET 2022-23

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Investment focused budget

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Union budget for FY23 is an investment oriented budget, with focus on boosting government capex and reviving private sector spending. While the fiscal deficit target of 6.4% is higher than our expectation (6-6.25%), we still believe that government is on track to achieve its fiscal consolidation target by FY26. To boost consumption, few measures were announced and we expect this to be a drag on growth. Steep rise in borrowings will also imply that 10Y yield will come under pressure this year (est.: ~7%).

FY22 fiscal deficit at 6.9%: In line with our view, the revised fiscal deficit target for FY22 is now at 6.9% (BoB est.: ~7%), higher than the budgeted estimate of 6.8%. This is mainly owing to higher than projected expenditure (7.4% in FY22 (RE) versus 1% rise projected in BE). This is driven by both revenue spending and capex. Robust revenue collections, supported by rebound in economic activity have allowed fiscal slippage to be minimal. Centre's tax revenues are expected to rise by 23.8% in RE to Rs 17.7tn from Rs 15.5 in BE. Non-tax revenues are also expected to overshoot the BE by Rs 700bn. Thus, net revenue collections are expected to come in Rs 2.9tn higher than the BE at Rs 20.8tn.

FY23 fiscal deficit at 6.4%: Fiscal deficit target for FY23 (BE) at 6.4% is higher than our expectations (6-6.25%). However, considering much of the fiscal space has been used to boost investments, we would term this fiscal deficit target as being more realistic. In terms of income, government expects normalisation of revenues, and projects tax revenues to increase by Rs 2.4tn to Rs 27.6tn (9.6%) in FY23 (BE). On the other hand, non-tax revenues are estimated to ease to Rs 2.7tn from Rs 3.1tn in FY22 (RE), as dividends and profit growth stabilizes. Disinvestment receipts are also more realistically targeted at Rs 650bn versus Rs 780bn in FY22 (RE). Centre's net revenue is projected to be up by 6% versus 27.2% in FY22.

Focus on capex: Centre's capex spending is expected to increase by 41.4% in FY22RE to Rs 6.02tn against 27% increase seen in FY21. Even in FY23, capex is expected to shoot up by 24.5%. This year's focus has been to improve the investment demand (GFCF/GDP: 29.6%), through enhanced public spending on infra which would crowd in private investment. On the other hand, revenue spending is expected to ease, noting only 2.7% increase in FY22RE to Rs 31.7tn compared with 31.2% increase in FY21. Even in FY23, revenue spending is estimated to increase by only 0.9%. Thus consumption demand (PFCE/GDP=57.5% of GDP) would still be a laggard in FY23.

Higher borrowing to put pressure on yields: In FY23BE, gross borrowing is estimated at Rs 14.95tn against Rs 10.47tn in FY22RE. Even repayments are likely to be higher at Rs 3.76tn compared to Rs 2.7tn in FY22RE. Thus, net borrowing amounts to Rs 11.19tn, far higher compared to Rs 7.76tn in FY22RE. Interest cost is also likely to be elevated at Rs 9.4tn in FY23BE against Rs 8.14tn in FY22RE. Outstanding liabilities of the government would shot up to Rs 152tn against Rs 136tn in FY22. Thus, burgeoning debt burden and expansive borrowing program (90% of gross fiscal deficit financed through gross borrowing-last seen in FY18), will put pressure on yields. It is likely to shoot up to ~7% in FY23.

Fig 1 – Fiscal Estimates

(Rs bn)	FY20	FY21	FY22BE	FY22RE	FY23BE	% Increase	
						FY22RE/FY21	FY23BE
Tax Revenue							
Corporation Tax	5,569	4,577	5,470	6,350	7,200	38.7	13.4
Taxes on Income	4,927	4,871	5,610	6,150	7,000	26.2	13.8
Indirect Taxes	9,547	10,769	11,020	12,590	13,300	16.9	5.6
Total - Tax Revenue	**20,101**	**20,271**	**22,171**	**25,161**	**27,578**	24.1	9.6
Less: State's Share	6,507	5,950	6,656	7,448	8,166	25.2	9.6
Centre's Tax Revenue	13,569	14,263	15,454	17,651	19,348	23.8	9.6
Total Non-Tax Revenue	**3,272**	**2,076**	**2,430**	**3,138**	**2,697**	51.1	(14.1)
Centre's Revenue (net)	**16,841**	**16,339**	**17,884**	**20,789**	**22,044**	27.2	6.0
Capital Receipts							
Internal Debt Market Borrowing	4,740	10,329	9,247	7,758	11,186	(24.9)	44.2
Disinvestment	503	379	1,750	780	650	105.8	(16.7)
Others	4,780	8,123	5,237	6,631	5,561	(18.4)	(16.1)
Total Capital Receipts	**10,023**	**18,831**	**16,234**	**15,169**	**17,397**	(19.4)	14.7
Total Receipts	**26,863**	**35,170**	**34,119**	**35,958**	**39,442**	2.2	9.7
Expenditure							
Total Expenditure	**26,863**	**35,098**	**34,832**	**37,700**	**39,449**	7.4	4.6
Revenue	23,506	30,835	29,290	31,673	31,947	2.7	0.9
Capital	3,357	4,263	5,542	6,027	7,502	41.4	24.5
Revenue Deficit	6,665	14,496	11,406	10,884	9,902		
Fiscal Deficit	**9,337**	**18,183**	**15,068**	**15,911**	**16,612**		
% of GDP	**4.6%**	**9.2%**	**6.8%**	**6.9%**	**6.4%**		

Source: Union Budget Documents, Bank of Baroda Research; BE-Budget Estimates; RE-Revised Estimates

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