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STCI Primary Dealer Ltd

Budget FY24 – A Preview

Budget FY24-Choosing between populism and prudence

Highlights:

- ***Budget FY24 will be a tightrope walk between populism and fiscal prudence.***
- ***Our estimates indicate a gross fiscal deficit of 5.9% in FY24.***
- ***Gross borrowings to be Rs.16.4 trillion for FY24.***
- ***FY23 gross fiscal deficit seen unchanged at 6.4%.***

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The Union Budget FY24 is scheduled to be presented on February 01, 2023. For the financial year, the government's stance on fiscal policy will be of interest since it is the last budget to be presented before the general elections in 2024. Going by past trends, it would be fair to expect some populist measures by the central government especially on themes of poverty alleviation, job creation, and food security.

Also, the theme of crowding in private capex by increasing its own capital spending will likely continue through in FY24. Our estimates indicate a fiscal deficit of 5.9%, with a gross borrowing number of Rs.16.4 Lakh crore. We project a nominal GDP growth of 11%.

We do not see any fiscal slippage for FY23, and though the spending will increase due to the high nominal GDP for this year, it should be offset by the robust tax revenues.

The global growth scenario looks weak and India at present seems to be in a sweet spot being a relatively fast-growing economy. If the center and states could manage to avoid fiscal slippage, it could turn strongly in India's favor as far as foreign investment, and inclusion in global bond indices is concerned, garnering off shore capital when it is most needed.

Since FY20, the budgets have been radically different from pre-COVID ones due to the significant increase in fiscal deficits, and consequently higher gross borrowings, as the government had to spend significantly on health, food, and other welfare segments during the pandemic, in addition to the fiscal support via government schemes.

I. Macroeconomic Backdrop:

India stands at an inflection point as the world fights abnormally high inflation levels. Monetary policy in India has initiated a rate hiking cycle to curb inflation by raising policy interest rates by 225 basis points since the off-cycle policy meeting in May 2022. The general assembly elections stand only a year ahead in 2024. India is probably the only economy in the world which is experiencing a 6% or slightly above 6% growth while the rest of the world grapples with landings of all kinds, hard and soft. In such a scenario, the crucial event of the Union Budget is a much-awaited phenomenon.

Since FY21, the government has had to push the boundaries of fiscal consolidation, to increase government spending in times of extreme economic distress caused due to the strict lockdowns and ensuing curbs on economic activity caused by the recurring waves of the coronavirus and its variants. The gross fiscal deficit in the year FY21 was revised from 3.5% to 9.2% owing to a significant cleanup of the government balance sheet and spending on health and welfare owing to the pandemic.

The medium term fiscal target of the government is to curb the fiscal deficit to 4.5% of GDP by FY26. Starting in FY22 with a clean balance sheet, the government committed itself to fiscal consolidation, with the pathway to exhibit a significant consolidation from 9.2% in FY21 to 6.8% in FY22. Doing this, the government kept up the quality of expenditure with increased capital expenditure. FY23 was again characterized by a push to capital expenditure by the central government and an incentive with back to back interest free loans to state governments to increase capex.

The budgetary challenges lie with increased intensity in FY24. We expect the government to keep up with its earlier commitment of fiscal consolidation and work with a fiscal deficit of 5.9% for FY24, with the assumptions of a nominal GDP growth of 11%. We expect the government to increase capital expenditure in FY24, and also retain some of the welfare-based expenditure to reduce economic inequality as far as possible.

II. The Fiscal Balance

A. Estimates for FY24

1. Receipts Side

Revenue receipts for FY23 seem sluggish if compared to the revenue flow in FY22. Till November 2022, revenue collected was 64.6% of the revenue as estimated in the budget. Whereas in the previous year, revenue collections were relatively fast paced with the total amount collected till November 2021 was at ~75.9% of budget estimates. The sluggish revenue stream can be attributed to tax as well as non-tax streams of revenue which although quite robust in isolation, look slower when compared to the numbers of FY22. This is accommodating for the fact that FY23 considers a higher total receipt.

Table 1: Government Receipts (in Rs. Cr.)			
	Budgeted	**% of BE**	
	FY23	**8M FY23**	**8M FY22**
Revenue Receipts	22,04,422	64.6%	75.9%
Tax (Net)	19,34,771	63.3%	73.5%
Non-Tax	2,69,651	73.5%	91.8%
Non-debt Capital Receipts	79,291	52.3%	11.0%
Recovery of loans	14,291	91.3%	87.2%
Other Receipts	65,000	43.7%	5.4%
Total Receipts	**22,83,713**	**64.1%**	**69.8%**
Source: Union Budget Documents, CGA, STCI PD Research			

Tax revenues have been robust on the back of good GST collections. On an average GST collection has been within Rs.1.4-1.5 lakh crore for the year. For FY24, the assumption of robust tax collections will stand, though the increase in GST collections might not be as spectacular as the past two years since much of the tax system loopholes have been closed and the space to grow is now limited in comparison to previous years' growth.

2. Expenditure Side

The budget for FY23 gave an unprecedented push to capital expenditure, which took over the previous year's capex was higher than ~35%, and almost ~24% over the revised estimates for FY22. The FYTD expenditure of the center is slightly higher in FY23 at 62% as compared to 60% in FY22. While revenue expenditure pattern has been more or less similar over the two years i.e. FY22 and FY23, capex has seen a higher push this year as compared to the previous year. Capital expenditure in FY23 stands at 60% till November 2022 as compared to a level of 49% in FY22. This was due to the fact that the uncertainty of the pandemic years led the center to be more cautious about discretionary spending in FY22.

For FY23 revenue expenditure stood at ~Rs.20 Lakh Crore up to November 2022, as compared to the expenditure of ~Rs.18 Lakh Crore in the corresponding period of the previous year. At nearly 30%, interest payments comprised the largest component of revenue expenditure. In terms of capital expenditure, the spending this year has almost doubled with the FYTD23 capex standing at Rs.4.47 Lakh Crore as compared to Rs.2.73 Lakh Crore in the previous year up to November 2021.

Table 2: Government Expenditure (in Rs. Cr.)			
	Actual	**% of BE**	
	8M FY23 (BE)	**8M FY23**	**8M FY22**
Revenue Expenditure	19,95,674	62.5%	61.5%
Capital Expenditure	4,47,113	59.6%	49.4%
Total Expenditure	**24,42,787**	**61.9%**	**59.6%**
Source: Union Budget Documents, CGA, STCI PD Research			

The demand for supplementary grants i.e. seeking approval for expenditure which is over and above the budget estimates has been estimated at Rs.4.35 Lakh crore rupees, owing to the higher than expected spending on fertilizer subsidies this year due to sudden spike in fertilizer prices due to the Russia-Ukraine conflict. The additional spending on fertilizers in form of subsidies is Rs.1.1 Lakh crore for FY23. In addition, an estimated Rs.80,348 crore has been demanded due to the additional dole out of free food grains under the Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY). Though this scheme has been discontinued, the free food grain provision still remains under the National Food Security Act (NFSA). The total supplementary demands also include additional expenses by other ministries such has Ministry of Petroleum and Natural Gas which has demanded an additional payout of Rs.24,944 crore towards payment of subsidies provided for the LPG connections to the poor under the Pradhan Mantri Ujjwala Yojana (PMUY). The other schemes such as MNREGA and Rs.10,000 crore for transfer to states GST compensation fund have also been included in the first batch of supplementary grants.

Though the additional spending through supplementary grants is estimated at Rs.4.36 Lakh crore, the net payout is expected to be Rs.3.25 lakh crore due to savings of various ministries of up to Rs.1.10 lakh crore. Also, the additional spending should be met with the robust tax revenues of FY23, and there is less likelihood of any major fiscal slippage in FY23. Hence, we expect the fiscal deficit to be stable at 6.4% for FY23.

B. Our Estimates for FY24

1. We expect a nominal GDP growth of 11%, and fiscal deficit at 5.9% of GDP.

For FY24, we expect the central government's fiscal deficit at 5.9% of nominal GDP, assuming that net tax revenues will grow moderately as compared to the previous year, at a growth rate of close to 7%, above the 6.3% seen in FY23 and significantly lower than 28% seen in FY22. FY22 saw robust recovery from the lows of the pandemic in FY21, and hence most of the macro parameters have shown spectacularly high growth. This trend is not expected to continue in the next year.

This year the budget may see a conservative estimate for both the disinvestment and tax collections continuing the past year's trend.

For FY24, we have assumed a net tax collection growth of ~10% over FY23 BE on assumption that tax revenues will have comparatively lesser space from hereon to grow at the pace as was witnessed in the previous year. On the disinvestment front the major item on agenda will be IDBI Bank, which is estimated to garner ~Rs.35-40,000 crore in FY24. Shipping Corporation and CONCOR, BEML, NMDC Steel, are also expected to be divested in FY24, though the performance of the government on this front has been dismal so far.

2. **Government's capex push to continue in FY24, also a lower subsidy payout than revised estimates for FY23.**

The government will continue its push on capex, though we expect growth in capex to be significantly lower than what was factored in the previous year. We estimate the capex in FY24 around 16% higher than FY23. That would lead to Rs.8.7 lakh crore worth of capital spending. A lower subsidy payout in FY24 might be expected as FY23 has seen a total subsidy outgo of Rs.5.32 lakh crore due to higher spending on food and fertilizer and also on fuel. In FY24, we expect the total subsidy payout to be reduced to Rs.4.2 lakh crore.

Table 3: Budget Expectations (in Rs. Lakh Cr.)

	FY23 (BE)	FY23 (SE)	FY24 (SE)
Total Receipts	22.8	24.2	24.6
Total Expenditure	39.4	41.7	42.5
Fiscal Deficit	16.7	17.5	17.9
GDP	258.0	273.1	303.1
% of GDP	6.4%	6.4%	5.9%

BE: Budget Estimates, SE: STCI PD Estimates
Source: Union Budget Documents, CGA, STCI PD Research

III. Borrowing Programme

The government's borrowing programme for FY23 is largely in line with the budget estimates in FY23, with ~88% completed till date. Though the actual spending will be higher as per our estimates due to additional demand for grants it should not disturb the 6.4% GFD/GDP ratio for FY23.

Table 4: Estimated Market Borrowing in FY24 (in Rs. Lakh Cr.)	
Net G-Sec Borrowing	11.98
(+) Redemptions	4.42
Gross G-Sec Borrowing	16.4
Source: Union Budget Documents, CGA, STCI PD Research	

Assuming a 67% dependence of the central government on market borrowings we estimate net market borrowings to be Rs.11.98 lakh crore. Thus, the gross borrowing will be Rs. 16.4 Lakh Crore would be ~15% higher than the borrowing amount of Rs. 14.31 Lakh Crore, announced by the Government for FY23. The estimated redemptions of Rs.4.4 Lakh Crore could possibly reduce by the end of the current financial year due to switches/conversions. Assuming that the Government is able to undertake switches worth Rs.50,000-1,00,000 Crore through a combination of auctions and individual deals, the gross borrowing could then fall within a range of Rs.15.4-15.9 Lakh Crore. With heavy redemption pressures in the coming years (Rs. 4.40 Lakh Crore in 2023-24, Rs. 4.02 Lakh Crore in 2024-25, Rs. 5.50 Lakh Crore in 2025-26) we would see continuation of debt consolidation via buyback/switches/conversions in Budget FY24.

Supply pressures in FY24 would be determined based on the distribution of borrowings in H1 and H2 of the financial year. If the Government sticks with a front-loaded borrowing programme by scheduling 55%-60% of borrowing for the first half of the year; H1 FY24 would witness weekly auction size of G-Secs auctions of around Rs.33,000 -35,000 Crore.

IV. Conclusion

The FY24 budget will present a challenge to the government between fiscal prudence and populist measures like the distribution of free food grains and LPG connections to the poor under the relevant government schemes. The fiscal balance should lead to a consolidation of roughly 40-50 basis points in FY24. For the bond markets, a large fiscal deficit and an ensuing large borrowing programme might dent the sentiment going ahead. Notably, the previous experience in FY23, of a large borrowing programme was not turbulent and the markets witnessed robust demand from market participants throughout the year especially insurance companies. This demand was more on the longer end of the curve. The government, in consultation with the RBI, might want to issue more securities in the longer end of the curve to satisfy that investor segment and naturally distribute redemption pressures over a longer time horizon. Gross borrowings below Rs.16 Lakh crore will be taken as a positive by the markets and we expect the yield range to be between 7.20-7.45% in the near term.

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