Analysis of Union Budget 2023-24

1 Feb 2023

From the desk of MD & CEO

Union Budget presentation is always a keenly awaited event for individuals, corporates, banking institutions and market participants alike. The Union Budget for FY24 was presented against the backdrop of impending general elections. Noting the strong domestic fundamentals and building on its previously laid out framework of fiscal prudence, the government presented a pragmatic budget, which was widely cheered by the markets.

Fiscal discipline and a steadfast commitment to capex spending remain the key focus areas of the Budget. A conscious effort has been made to reduce the fiscal deficit successively and bring it under the government's self-mandated target of 4.5% of GDP by 2025-26. More importantly, the government has reduced its dependence on market borrowings to fund its deficit which also alludes to the sound fiscal management undertaken by the government.

With net borrowings being at same level as last year, pressure on liquidity has been avoided. Focus has been on driving growth through capital spending, while reducing the less productive revenue expenditure substantially. The government hopes that the big capex push will have a positive impact on growth and employment and will also help crowd in private sector investment.

On the revenue side, tax projections have been lowered to reflect the impact of a slowdown in growth and hence are conservative. Non-tax receipts will stand to benefit from higher dividend from banks. This in turn has been possible due to strong financial performance of banks amidst a rising interest rate cycle.

Attention has also been placed on MSMEs which continue to be impacted due to the pandemic and higher commodity prices. By enhancing the credit guarantee scheme for MSMEs, government aims to improve credit availability for this sector. Green energy and renewed push for digital infrastructure have also been prioritised.

In the attached analysis, the Economic Research Department has analysed the Union Budget in detail and its likely impact on various sectors. I do hope you find it useful and welcome any feedback on the same.

Sanjiv Chadha

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Budget at a glance

- Budget for FY24 balances between fiscal consolidation, nudging private investment through crowding in, and protecting consumer income from inflationary pressures through tax relief.
- Capex target for FY24 (BE) has been increased by ~37% to Rs 10 lakh crore, pushing the capex-GDP ratio to 3.3% from 2.7% in FY23RE. Revenue expenditure growth will be moderate next year.
- This will be achieved with the help of 12% increase in net revenue receipts (+8.2% in FY23RE), and gross borrowing of Rs 15.4 lakh crore (Rs 14.2 lakh crore in FY23RE).
- Fiscal deficit (as % of GDP) remains on target (6.4%) for FY23(RE) and will be brought down to 5.9% in FY24(BE).

We believe that in the next two budgets the government will lower the fiscal deficit ratio by 75 bps annually to reach the 4.5% mark.

Rs lakh crore	FY22	FY23RE	FY24BE	FY23 (% chg)	FY24 (% chg)
Total tax revenue	27.1	30.4	33.6	12.3	10.4
Total non-tax revenue	3.7	2.6	3.0	(28.3)	15.2
Centre's revenue (net)	21.7	23.5	26.3	8.2	12.1
Total capital receipts	16.2	18.4	18.8	13.6	2.2
Total receipts	37.9	41.9	45.1	10.5	7.7
Total expenditure	37.9	41.9	45.0	10.4	7.5
Revenue expenditure	32.0	34.6	35.0	8.1	1.2
Capital expenditure	5.9	7.3	10.0	22.8	37.4
Revenue deficit (% of GDP)	4.4%	7.3%	4.1%	2.9%	-
Fiscal deficit (% of GDP)	6.7%	6.4%	6.4%	5.9%	-

Source: Union Budget documents, Bank of Baroda Research

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Budget assumptions

In order to arrive at budget ratios, government makes some critical assumptions.

- This year, government has taken a slightly more conservative view on GDP growth than what is estimated in the economic survey. Budget expects nominal GDP to be up by 10.5% in FY24, compared with 11% assumed in the survey. This is noting 6-6.5% real GDP growth and 4-4.5% inflation. However, if inflation exceeds government expectations, it will provide a favourable base for the fiscal deficit ratio.

- Assumptions regarding revenue collections are broadly in line with expectation of nominal GDP growth, hence are more likely to be achieved by the government.

- Tax structure shows that ratio of direct tax collections to GDP is higher at 6% in FY24, while that for indirect taxes is lower at 5.1% of GDP. Both remain unchanged from FY23RE.

- Capex spend has been given a considerable push. If this is achieved, multiplier effects will be significant, and can help elevate private investment-GDP ratio as well. *In the last few years however, this has not crowded in private investment.*

- Overall size of the budget has been maintained at ~15% of the GDP, in line with historical trends.

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Tax revenue collections

- In FY24, indirect tax collections are projected to record a more robust growth (+10.4% from 7.1% in FY23RE) compared with direct tax collections, which are estimated to moderate (10.5% versus 17.2%).

- Direct tax collections will see a slowdown on three accounts. One, as new companies are incentivized to begin operations, they will be paying a lower tax of 15%. Two, personal tax relief given by the government, and three, moderation in economic growth will impact profits of companies and personal incomes.

- In case of indirect taxes, custom duty hikes, and unchanged excise duty structure will lend support to overall collections. Indications are that there will be no cut in excise on fuel products. Further, with income tax relief provided, consumption may get support, which will in turn help GST collections maintain momentum.

Rs lakh crore	FY22	FY23RE	FY24BE	FY23 (% chg)	FY24 (% chg)
Total direct tax	14.1	16.5	18.2	17.2	10.5
Corporate tax	7.1	8.4	9.2	17.3	10.5
Income tax	7.0	8.2	9.0	17.1	10.5

Rs lakh crore	FY22	FY23RE	FY24BE	FY23 (% chg)	FY24 (% chg)
Total indirect tax	12.9	13.9	15.3	7.1	10.4
Customs	2.0	2.1	2.3	5.1	11.0
Union excise duties	3.9	3.2	3.4	(18.9)	5.9
Service tax	0.010	0.010	0.005	(1.2)	(50.0)
GST	7.0	8.5	9.6	22.3	12.0

Source: Union Budget documents, Bank of Baroda Research

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Non-Tax revenue collections

- Non tax revenues are estimated to increase in FY24 by 15.2%, following 28.3% decline in FY23.
- This will be driven by 8.4% (-47.7% in FY23) increase in dividends and profits and 22.3% (-17.4% in FY23) increase in “other non-tax” revenue.
- Dividend growth will be driven by PSBs, as profit margins of banks improve during high interest rate regime. On the other hand RBI surplus will remain constrained.
- Growth in other non-tax revenue will be due to higher telecom receipts (Rs 89,470 crore in FY24 versus Rs 68,784 crore in FY23). *Following the 5G spectrum auction, some telecom companies opted for payment in annual installments. This has led to more than usual increase in other-non tax receipts.*

Rs lakh crore	FY22	FY23RE	FY24BE	FY23 (% chg)	FY24 (% chg)
Total non-tax revenue	3.7	2.6	3.0	(28.3)	15.2
Interest receipts	0.22	0.25	0.25	12.6	0.7
Dividends and Profits	1.6	0.8	0.9	(47.7)	8.4
Other non-tax revenue	1.8	1.5	1.8	(17.4)	22.3

Source: Union Budget documents, Bank of Baroda Research

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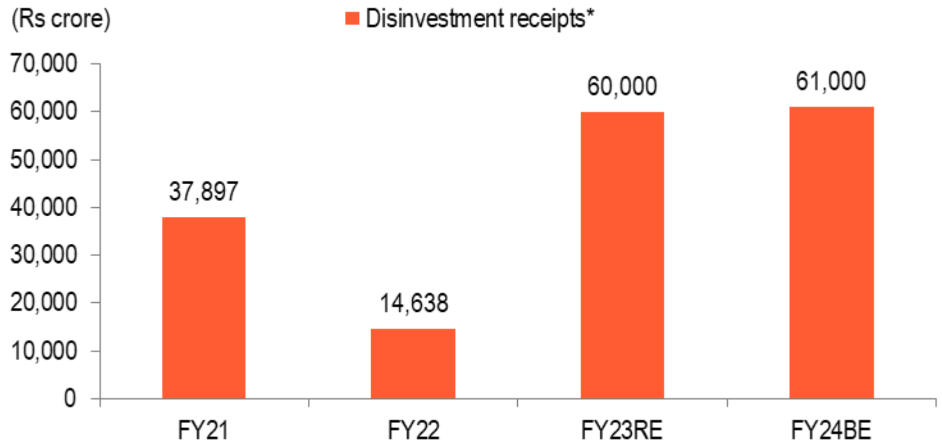
Disinvestment receipts need to be tracked

- Disinvestment receipts have been pegged slightly higher at Rs 61,000 crore as per FY24BE. (this includes Rs 10000 cr on asset monetization)

- In FY23RE as well, the number is kept at Rs 60,000 crore. However as per CGA data, till now (Apr-Dec'22) Rs 38,671 crore has been received.

- *In the current scenario of rising rate cycle and uncertainty on global growth front, raising capital might be an issue. Hence we expect some shortfall in this target.*
- *We also need to see how the government manages to raise around Rs 20,000 cr in the next two months*



Source: Union Budget documents, Bank of Baroda Research
**here the entire miscellaneous capital receipts have been taken*

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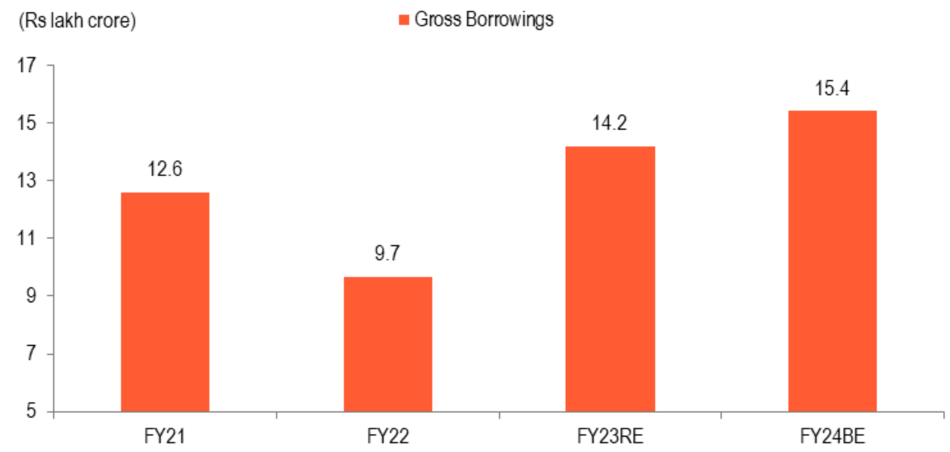
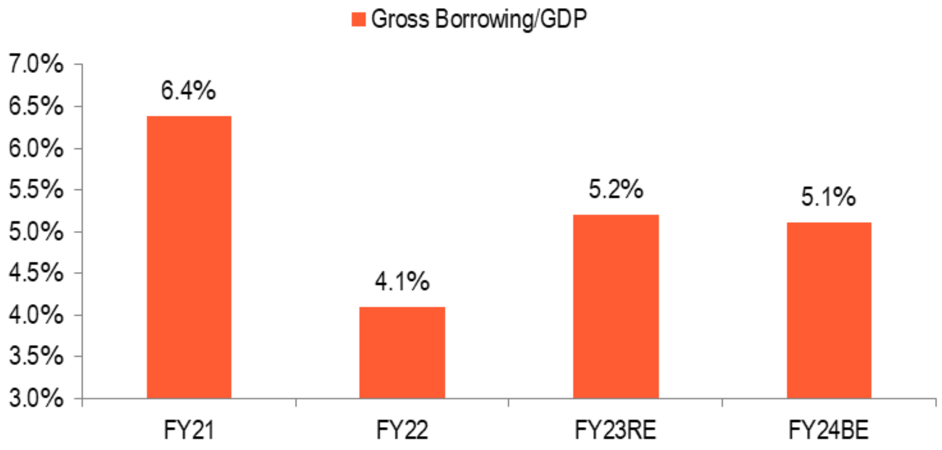
Borrowing profile of the government

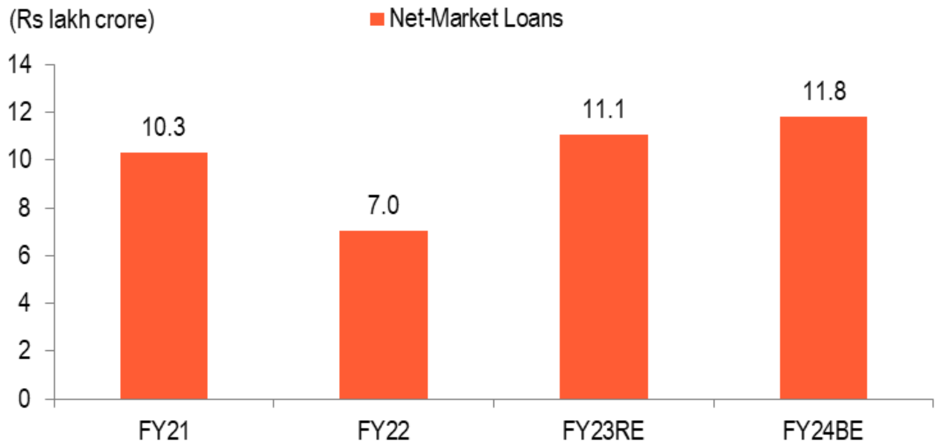
Gross borrowing is expected to be at Rs 15.4 lakh crore as per FY24BE



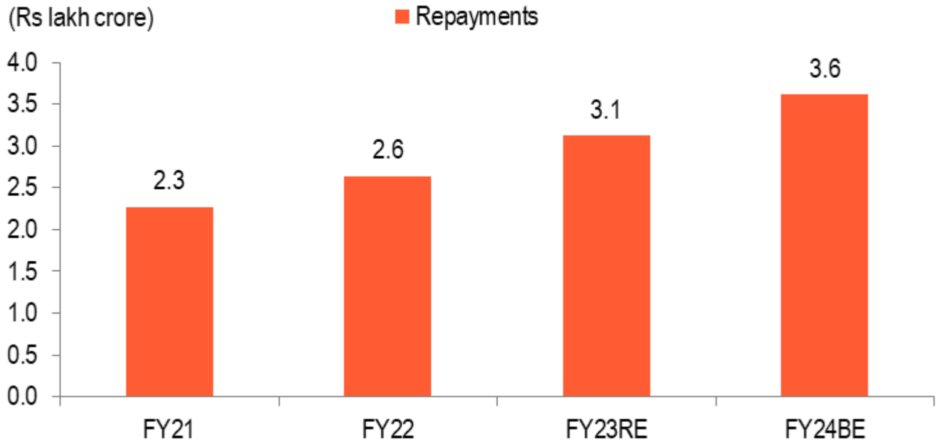
Gross borrowing to GDP is expected to moderate to 5.1% in FY24 from 5.2% in FY23



Net borrowing is pegged slightly higher at Rs 11.8 lakh crore



Repayment is higher at Rs 3.6 lakh crore in FY24BE



Source: Union Budget, Bank of Baroda Research

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Centre's Fiscal deficit Profile

(Rs lakh crore)	FY21	FY22	FY23RE	FY24BE
Gross Borrowings	**12.6**	**9.7**	**14.2**	**15.4**
Repayments	(2.3)	(2.6)	(3.1)	(3.6)
Net-Market Loans	10.3	7.0	11.1	11.8
Net-Short Term Borrowings	2.0	0.8	1.0	0.5
Net-Securities against Small Savings (NSSF)	4.8	5.5	4.4	4.7
Fiscal Deficit (FD)	**18.2**	**15.8**	**17.6**	**17.9**
Gross Borrowings/FD	69.3%	61.1%	81.0%	86.4%
Net Borrowing/FD	56.8%	44.4%	63.1%	66.1%
Net-Short Term Borrowings/FD	11.2%	4.9%	5.7%	2.8%
NSSF/FD	26.6%	34.8%	25.0%	26.4%

Source: Union Budget, Bank of Baroda Research

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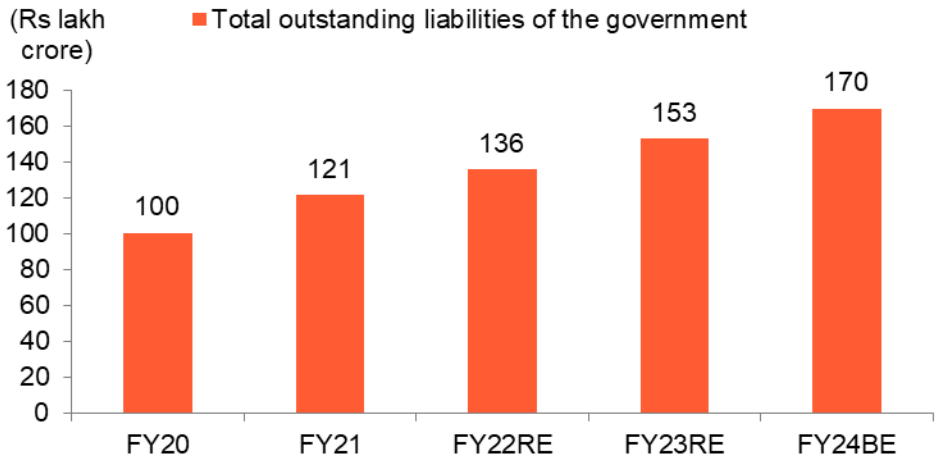
Liabilities and rates

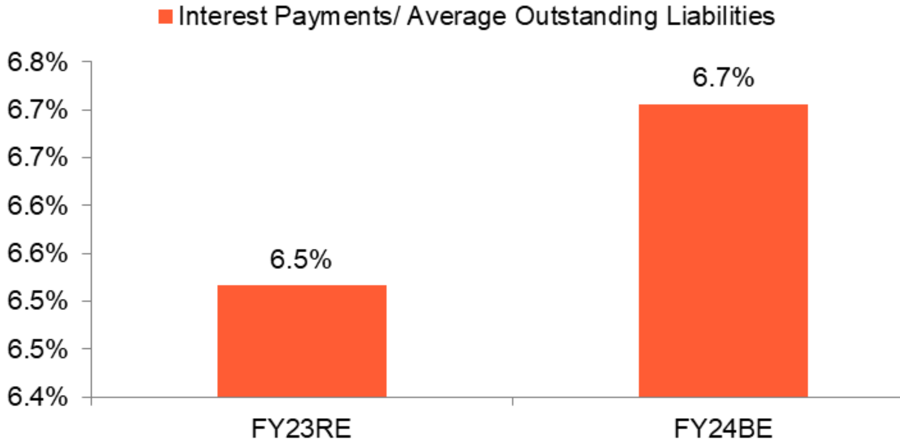
- Total liabilities of the central government is likely to go up to Rs 170 lakh crore in FY24 from Rs 153 lakh crore in FY23RE.

- Interest cost is also likely to be higher at Rs 10.8 lakh crore in FY24BE against Rs 9.4 lakh crore in FY23RE.

- Effective interest rate which is calculated as interest payment/average outstanding liabilities is expected to go up slightly to 6.7% from 6.5% in FY23.

- *However the budget has rightly balanced the mix of financing fiscal deficit by not inflating the gross borrowing numbers and relying on increase in small savings inflow. Thus we do not expect any upside pressure on yields as of now.*
- *As % of GDP o/s debt remains at ~56%. There is still a long way to go to meet the FRBM target*





Source: Union budget documents, Bank of Baroda Research

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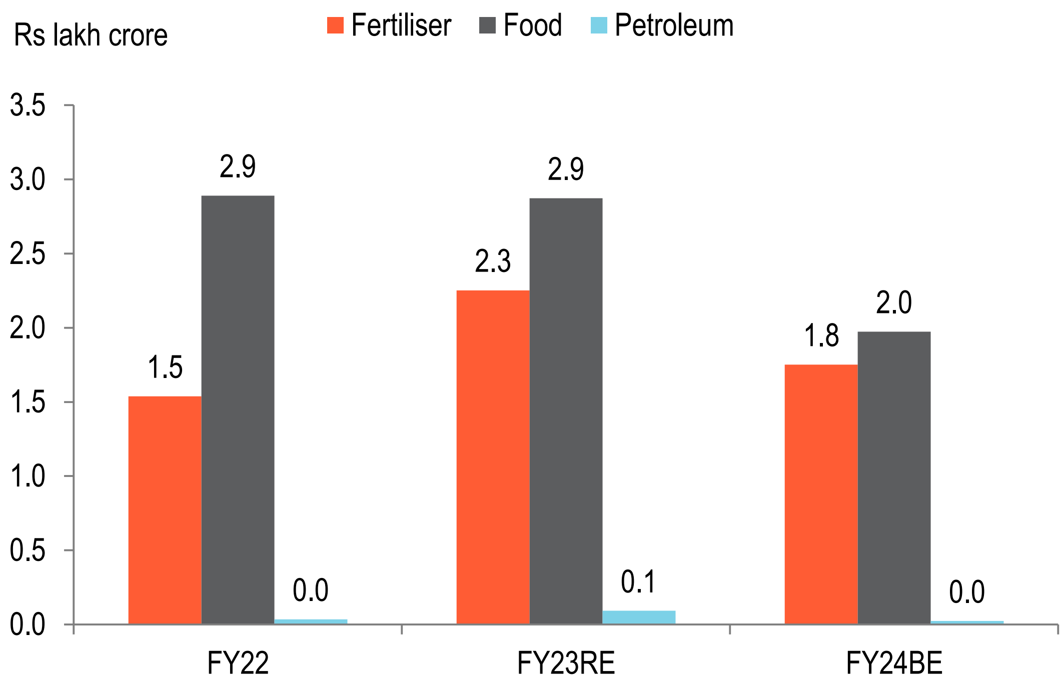
Subsidies

- Total subsidies including food, fertilizer and petroleum subsidy is likely to decline by 28% in FY24.
- The total subsidy bill is pegged at Rs 3.7 lakh crore for FY24BE compared with Rs 5.2 lakh crore in FY23RE.
- Food, petroleum and fertilizer subsidy are down by 31%, 75% and 22% respectively for FY24BE.
- Allocation towards subsidies are relatively lower in FY24 as government has ended the free foodgrain programme.



Source: Union budget documents, Bank of Baroda Research

Important message is that the gradual moderation in subsidies was expected as the government has withdrawn the free food programme under PMGKY. Fertilizer subsidy was likely to be lower on expectation of moderation in crude prices and tweaking of gas procurement policy. We believe that lowering these outlays has helped to divert resources for capex.

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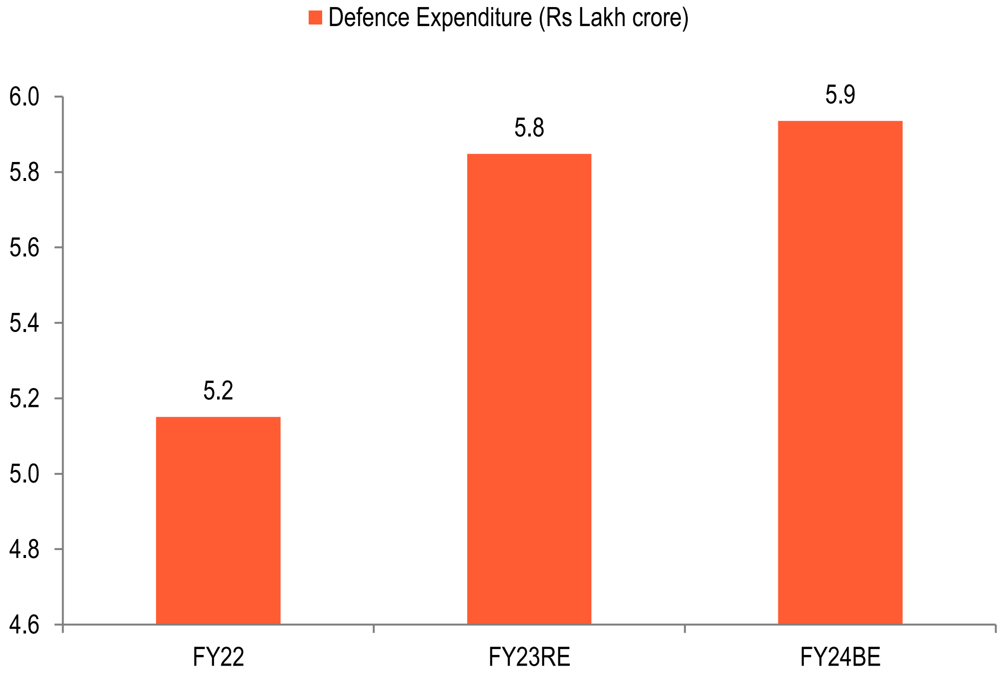
Defence

- Defence sector has received higher allocation of Rs 5.94 lakh crore in FY24BE versus Rs 5.85 lakh crore in FY23RE.

- For capex, a total of Rs 1.62 lakh crore (against Rs 1.5 lakh crore for FY23RE) has been kept aside for purchasing new weapons, warships, aircrafts and other military hardware.

- Government has been trying to boost domestic manufacturing, it had also introduced PLI in Sep’22 with the objective to spur manufacturing.



Source: Union Budget documents, Bank of Baroda Research│BE: Budget Estimates, RE: Revised Estimates

Higher allocation for defence is positive for manufacturing sector growth especially steel, chemicals, semiconductors, non-ferrous metals, etc.

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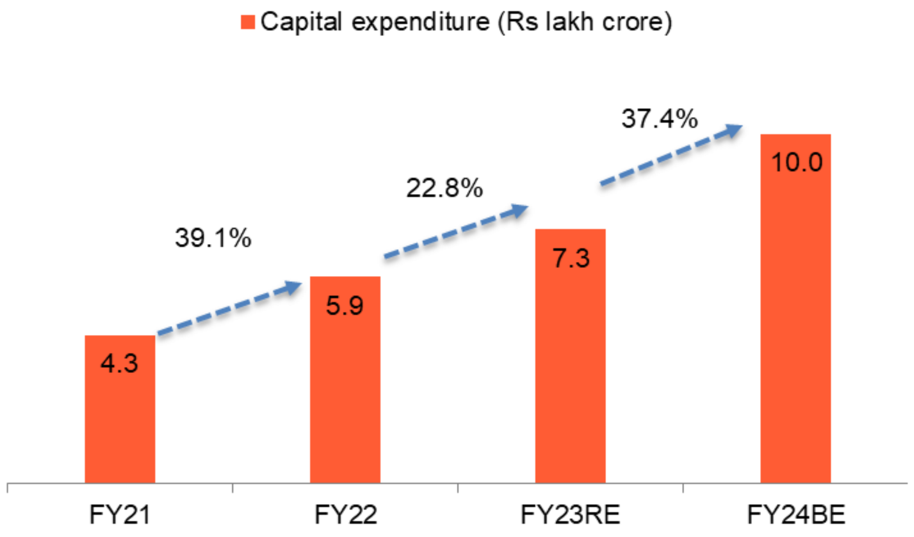
Investment

- In FY23, Centre's capex spending is expected to increase to Rs 7.3 lakh crore from Rs 5.9 lakh crore in FY22.

- In FY24BE as well, the increase in Centre's capex is expected to take off at a sharper pace of 37.4% to Rs 10 lakh crore.

- As a percentage of GDP, capital expenditure is expected to rise sharply to 3.3% of GDP as per FY24BE compared to 2.7% of GDP seen in FY23RE.

- *The budget has focused on improving investment demand of the economy to crowd in private investment. Even in terms of outlay major infra segments such as road, railways, highway, telecom have been given a major push. Thus, multiplier effect on growth is soon to follow. This indeed will have forward and backward linkages in terms of job creation.*



Source: Union Budget documents, Bank of Baroda Research | BE: Budget Estimates, RE: Revised Estimates

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Centre’s boost towards infrastructure spending

Ministry (Rs bn)	FY21	FY22	FY23RE	FY24BE
Telecommunications	4,356	5,470	54,150	61,692
Defence	1,39,925	1,45,779	1,60,420	1,71,375
Housing and Urban Affairs	10,304	25,957	27,341	25,997
Railways	1,09,324	1,17,100	1,37,100	2,40,000
Road Transport and Highways	89,195	1,21,251	1,87,744	2,58,606
Total GBS	**4,26,317**	**6,02,711**	**7,50,246**	**10,00,961**
Total IEBR excl. FCI	**4,93,648**	**4,80,091**	**3,45,781**	**3,42,365**

Note: Ministry-wise data shows allocation for capital expenditure under gross budgetary spending. Total GBS is not adding up because of the ‘others’ component.
IEBR-Internal and extra budgetary resources

Defence, railways and roads account for 67% of total capex and have been prime drivers in last few years

Source: Union Budget, Bank of Baroda Research

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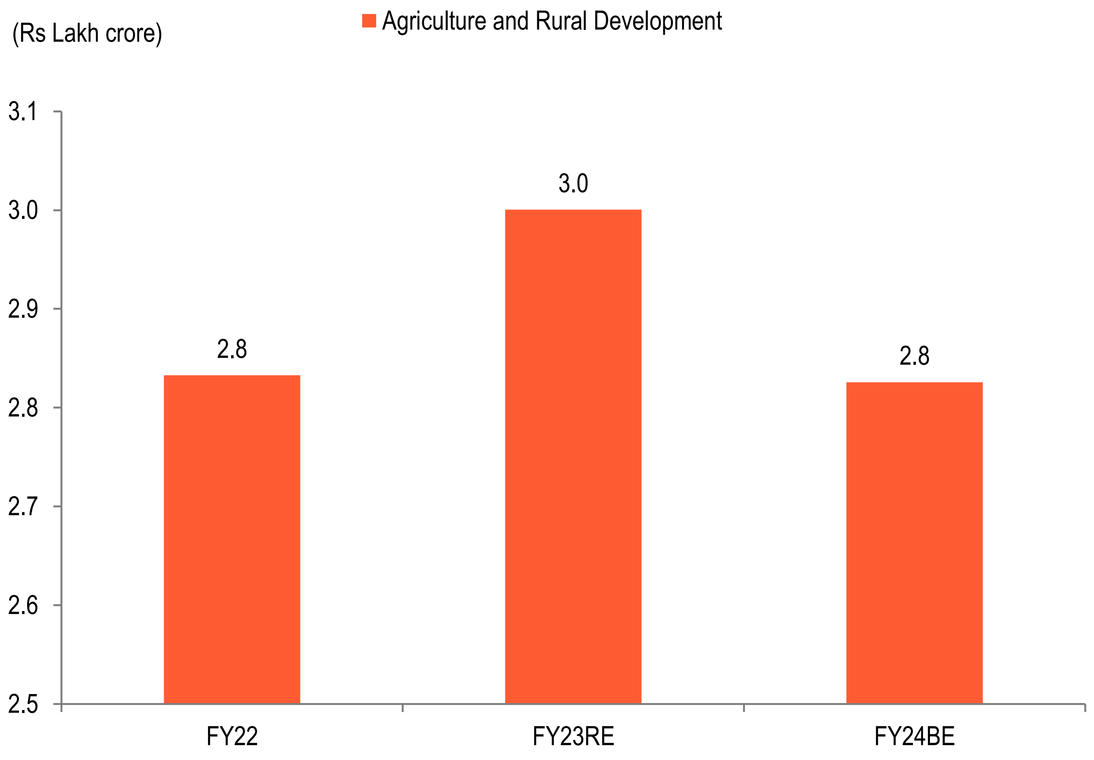
Agriculture and Rural Development

- Overall allocation for agriculture, allied sectors and rural development has been pegged at Rs 2.8 lakh crore in FY24BE down form Rs 3.0tn in FY2RE

- With focus on fisheries, dairy and animal husbandry, the target for agriculture credit has been raised to Rs 20 lakh crore.

- With the objective to encourage agri-startups in rural areas, agriculture accelerator fund will be created. This will provide innovative and affordable solutions to farmers.

- It has been proposed to launch Atmanirbhar Clean Plant program for high value horticulture crop with an outlay of Rs 2,200crore.



Source: Union Budget documents, Bank of Baroda Research

All these measures will boost the agri allied services which account for ~ 40% of agri sector

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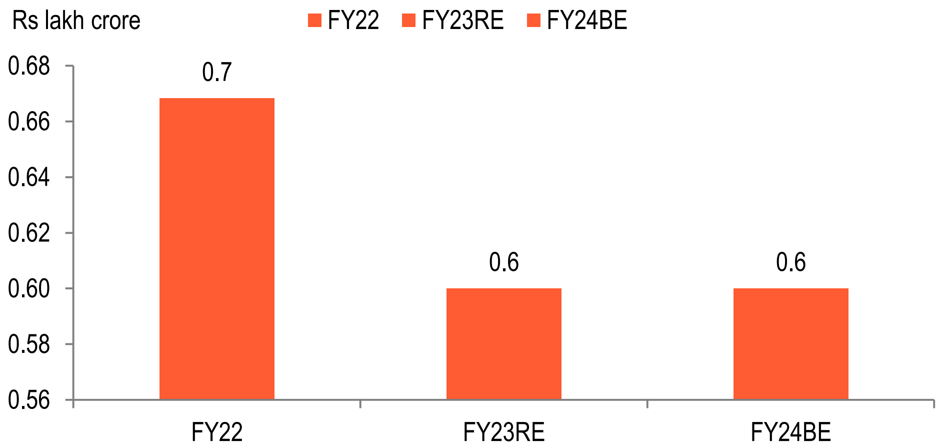
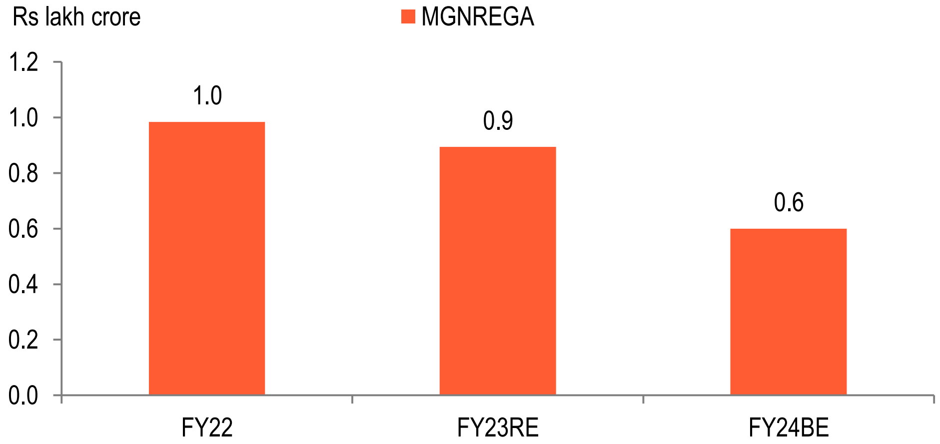
Agriculture and Rural Development (contd..)

- A new sub scheme will be launched under the PM-Matsya Sampada Yojana with the investment amount of Rs 6,000 crore. This will help in improving value chain efficiencies and expand the market.

- It has been proposed to build an open source and inter operable public good-Digital Public Infrastructure. This will provide information services for crop planning and improved access to credit, insurance and guide towards crop estimation.

- MGNREGA allocation has been lowered drastically. While, allocation for PM-KISAN remained stable.





Overall the budget has been positive for the agriculture and rural sector as the focus remains on self dependency. The NREGA amount should be interpreted with understanding that it is demand scheme and allocation are made accordingly. However, in case required we may expect supplementary demands to be raised in course of the year

Source: Union budget documents, Bank of Baroda Research

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Health, Education, housing etc

- Establishment of new 157 nursing colleges in co-location with other such medical colleges formed since 2014.

- To launch a mission of eliminating Sickle cell Anaemia by 2047 through more awareness and universal screening of 7 crore people by collaborative efforts of both centre and state government.

- In order to promote research and innovation, a new programme in pharma will be formed.

- Pradhan Mantri PVTG development mission will be formed to improve the socio-economic conditions of vulnerable tribal groups. An allocation of Rs 15,000 crore will be given in the next 3-years towards this mission.

- Allocation of Rs 79,000 crore has been made under the PM-AWAS yojana for FY24.

Overall it is positive, allocation towards health expenditure is up from Rs 79,145 crore in FY23RE to Rs 89,155 crore in FY24.
Rural housing in particular to benefit from the outlays which will help the construction sector: cement, steel etc.

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Banking & Financial Sector

- Government has pegged dividend of Rs 48,000 crore in FY24 from RBI, public sector banks and other financial institutions. In FY23, this number will stand at Rs 40,953 crore.

- Total dividend and interest collection will be around Rs 1,15,820 crore in FY24 against Rs 1,08,592 crore in FY23RE.

- The Budget has proposed a new revamped credit guarantee scheme for MSME with the corpus amount of Rs 9,000 crore applicable from FY24. It will provide additional collateral-free credit of Rs 2 lakh crore.

- Formation of National financial Information registry has been proposed. This will promote financial inclusion, foster financial stability and facilitate efficient flow of credit. It will be formed in consultation with RBI.

Financial sector remains one of the 7 priorities to guide the country. Revamping of credit guarantee scheme is big positive for the sector. Bank credit flow to this sector to increase by around 10% from current levels of ~ Rs 19-20 lakh crore. Profits of PSUs excluding banks can come under pressure as in FY23 and hence there can be a downside to the target of Rs 43,000 cr.

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Budget Impact

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Growth to get a boost

- Increased capital spending is likely to provide impetus to growth through a multiplier effect.
- Capex has been scaled up significantly to Rs. 10 lakh crore (3.3% of GDP) in FY24BE, marking a steep 33% increase over FY23BE.
- "Green growth" has also been prioritized with a focus on domestically produced renewable energy sources and reduced dependent on imported fossil fuels.

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Support to consumption

- Certain amendments were introduced in the income tax structure, focused on the new tax regime. These include higher rebate (Rs 7,00,000 versus Rs 5,00,000 earlier), increased tax exemption limit (Rs 3,00,000 versus Rs 2,50,000) and a reduction in the number of income tax slabs (from 6 to 5).

- While the new income tax regime has remained a less popular, these measures may nudge taxpayers to opt for it. If there are tax savings, this could be channeled to consumption.

- On margin, these measures may at most help households to overcome some of the cost of high inflation, while having no material impact on consumption.

- Lowering of import duties on some of the goods like electronics can lead to lower prices and increase demand

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Savings may see an improvement

- Maximum limits for deposits under Senior Citizen Savings Scheme and Monthly Income Scheme have been increased. *If this results from shift from alternative savings avenue to this scehme, it may not increase overall savings*

- A new small saving scheme for women has been launched with a limit of Rs 2 lakh for a period of 2 year and fixed interest rate of 7.5%. *Presently banks are offering higher rates and this may not be attractive.*

- Income tax exemptions on proceeds of high valued insurance policies have been scaled back.
- With people opting for new tax regime, exemptions will be removed that will make investing in insurance less attractive
  - This measure will have a negative impact on the insurance sector and impact savings.

- *However, the super rich will save more from rationalization of their surcharge to 25%*

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Inflation impact

- As fiscal deficit is under control, no demand side forces to be generated which will prevent demand-pull inflation
- Lowering of customs duties on some products will bring down prices.
  - However, as duties have been increased on other products, there can be countervailing impact
- Since excise collections are going to increase, implication is that they will not lower excise on fuel products

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Crowding in private investment a priority

- By enhancing the capital outlay by a whopping 37%, the budget aims to crowd in private sector investment which still continues to be nascent.

- Infrastructure Finance Secretariat to help bring in private sector investment in sectors such as road, railways etc. which predominantly rely on public investments.

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MSMEs to benefit

- Additional corpus of Rs. 9,000 crore to be allocated under the revamped Credit Guarantee Scheme for MSMEs. This will provide enhanced collateral free credit of Rs. 2 lakh crore. Cost of credit lower by 1%. *Gain would be Rs 2000 cr.*

- MSMEs have continued to reel under pressure due to the Covid-19 crisis and higher commodity prices and have struggled to meet their working capital requirements.

- Higher credit guarantee will ease pressure on MSMEs.

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Boost to domestic industry

- Import/customs duty on certain products and intermediate inputs were tinkered. These include:

  - Parts used in mobile phone and television production (duty reduced)
  - Electric kitchen chimney (increased), heat coils (reduced)
  - Chemicals and petrochemicals (reduced)
  - Inputs for shrimp feed (reduced)
  - Seeds used in manufacture of lab grown diamonds (LGDs) (reduced)
  - Exemption on basic custom duty (BCD) on raw materials used by the steel sector (continued)
  - Concessional BCD on copper scrap also retained

- This will spur domestic production and exports of these products and will benefit domestic manufacturing.

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Positive for market sentiments

- Fiscal deficit target for FY23 maintained at 6.4%. For FY24, fiscal deficit expected lower at 5.9%.
- Government also reiterated its stance to bring down fiscal deficit to below 4.5% by 2025-26.
- Focus on fiscal prudence despite rising global headwinds positive for investors’ sentiments.
- Market borrowings in FY24 also lower than consensus estimates which has been cheered by market participants.
- After the budget announcement, bond yields eased by more than 7bps and USD/INR closed flat.

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Thank You

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