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FY24 Budget Preview

Despite this being last full budget before the elections, budget for FY24 is unlikely to be a populist one. Government is expected to remain committed to its fiscal glide path announced in the budget for FY22 (<4.5% deficit by FY26), and aim to reduce the fiscal deficit ratio next year by 50 -75 bps to around 5.75%. Working within this framework, central government will try to balance task of providing social protection for the weaker section of the society, boost disposable income and give private investment and state capex a nudge. Revenue growth will also act as a constraint as it moderates from the higher levels achieved in FY23. This trend will be in line with easing nominal GDP growth in the wake of global slowdown. Thus to support quality spending, we estimate gross borrowing at Rs 16.0-17 lakh crore. 10Y G-Sec bond yield is expected to trade between 7.5-7.60% on an average in FY24.

Expectations from FY24 Budget

Balance between populism and consolidation

The latest budget presentation for 2023-24 (FY24) will the last full budget that the government presents before the general elections of 2024. Thus, while it will be tempting for the government to announce populist measures, it will also have to embark further on the path of fiscal consolidation. In the budget for 2021-22, FM had announced that fiscal deficit will be brought under 4.5% by 2025-26. In order to meet this commitment, deficit will have to be brought down by 50-100bps in the upcoming fiscal year, from the level achieved in FY23RE. Moderation in nominal GDP in FY24, will further add to strain. At the same time there are several expectations from different sectors which can be addressed by the Budget. We give here our expectations, which have been placed forth keeping in mind the practical side of fiscal space that will be available.

Key themes: Steering consumption and investment

Keeping in view the impending slowdown in CY23, government through its budget will aim to give both consumption and investment a nudge. To boost consumption, government is likely to

- Increase the limit under standard deductions under the income tax act.
- Provisions under capital gain tax may also get simplified. Simplification of provisions to calculate capital gain tax and increase in non-taxable limit on equity LTCG from Rs 1 lakh to Rs 2 lakh, may also be considered in the budget for FY24.
- Some tweaking of income tax slabs may be expected.
- Exemption limit for interest home loans to be increased to provide a push to housing.
- Savings under section 80C to be relooked and increased to encourage savings.

Non-tax revenue estimates for FY24 will be of interest as there is a mixed picture emerging. RBI surpluses can be affected by the higher expense on interest paid in the SDF/reverse repo transactions while the lower yields will affect interest income. PSBs have done well to increase dividend payments while the OMCs have not had an effective financial performance due to the turbulence in oil prices.

On the taxes side:

- Customs duties are expected to be increased on certain non-critical items such as electronic products, iron & steel, plastics, leather.
- On the other hand, duty could be lowered for certain other items in order to correct the inverted duty structure and boost exports. Sectors that can benefitted may include: Gems and Jewellery (reduction in duty on gold); fertilizer (reduction in duty on phosphoric acid and ammonia); Urea (reduction in duty on LNG).

Further, government will ensure that food security and social sector benefits for the weaker section are not compromised. Increased allocation under MGNREGA and sufficient buffer for food subsidy will be maintained. Hence we can expect higher spending under the heads of rural development and social welfare. The PM-Kisan Scheme will continue with probably an enhancement for FY24.

In order to boost investment, government may opt to continue providing interest free loans to states for increased capex spending. Rs 1 lakh crore was provided for in FY23 of the Rs 7.5 lakh crore of outlay. This may be persevered with in FY24 though the amount can be lowered considering that the states have not been aggressive in their capex spending. At the central level, push will be given to infrastructure sector, under which rural and urban housing, highways, railways, airports, and renewables will be in focus. This is likely to be achieved by pushing capex spending to 2.9% of GDP from 2.7% estimated for FY23. In addition, reduction in custom duty on imported raw materials will benefit the export oriented industries. Also, expansion of the PLI scheme in order to incorporate more sectors under its ambit will be key to watch. In particular, the scheme may be extended to SMEs in a separate package.

Fiscal consolidation: FD 5.75-6% of GDP in FY24

Fiscal deficit (FD) in FY24 will face drags from two sides. As global growth is expected to slowdown, domestic growth will also face pressure. This will impact both real and nominal GDP, which will give lesser room for the government to push fiscal deficit in absolute terms to a higher level. Secondly, as the economy slows, revenue growth of the government will also get impacted. Assuming, nominal GDP will register ~11-12% growth in FY24 (down from 15.4% in FY23), fiscal deficit is expected to come in at ~Rs 17.75-18 lakh crore, implying a deficit of ~5.75% (50-75 bps less than FY23's target of 6.4%). The focus will be on reducing the deficit ratio by 0.5-0.75% for FY24.

Gross borrowing programme

In FY23, the government could end up borrowing less than Rs 14.95 lakh crore announced in the budget, implying that net borrowing will also be less than Rs 11.19 lakh crore. This is largely on account better than estimated revenue collections. In FY24, as revenue collections are expected to cool off, net borrowing is estimated to come in at ~Rs 12-12.5 lakh crore. Along with repayments of Rs 4.5 lakh crore, this implies a gross borrowing of around Rs 16.50-17.0 lakh crore. Others sources of support will such as short-term borrowings and financing through small savings will be more in focus in view of high interest rate environment.

Subsidy levels

Following sharper than estimated jump in subsidies in FY23, subsidies are expected to be rationalised in FY24. Last year, while the government had budgeted Rs 3.2 lakh crore in subsidies, it is estimated that the bill would go up to Rs 5.4 lakh crore. From that level, the burden is expected to come down to Rs 4.3 lakh crore in the next financial year. Pruning will be visible across segments, with food subsidy come in the range of Rs 2-2.5 lakh crore and fertilizer subsidy at ~Rs 1-1.5 lakh crore. As international fuel prices weaken, owing to global growth slowdown, petroleum subsidy may inch up compared to FY23BE.

Fig 1 – Subsidy breakdown

(Rs lakh crore)	FY22PA	FY23BE	FY23E	FY24E
Food	2.89	2.07	2.87	2.50
Fertilizer	1.54	1.05	2.14	1.50
Fuel	0.03	0.06	0.36	0.30
Total	4.46	3.18	5.37	4.30

Source: CEIC, Union Budget Documents, Bank of Baroda Research | Note: PA- Provisional Actuals, BE-Budget Estimates, E-Bank of Baroda estimates

Interest payments

With interest rates rising in the recent period, interest cost burden is estimated to increase further in FY24. Following estimated 17% increase in FY23 (Rs 9.4 lakh crore), interest payment is expected to increase to Rs 10.8 lakh crore (+15%) in the next fiscal year. We also expect 10Y G-Sec yield to average 7.5-7.6% during the year, in line with elevated global rates.

Fig 2 – Interest burden

(Rs lakh crore)	FY22PA	FY23BE	FY23E	FY24E
Interest payments	8.05	9.41	9.41	10.82

Source: CEIC, Union Budget Documents, Bank of Baroda Research | Note: PA- Provisional Actuals, BE-Budget Estimates, E-Bank of Baroda estimates

Capital expenditure to shine

In order to give continued push to investment and improve the quality of expenditure, we expect that government will focus more on capital spending than revenue spending. We thus estimate 12.5-20% jump (Rs 7.5 lakh crore estimated in FY23) in capex to Rs 9.0 lakh crore in FY24. Revenue expenditure on the other hand is estimated to increase less substantially to Rs 34.4 lakh crore from estimated Rs 33.9 lakh crore in FY23.

Fig 3 – Capex

(Rs lakh crore)	FY22PA	FY23BE	FY23E	FY24E
Capital spending	5.9	7.5	7.5	8.5-9.0

Source: CEIC, Union Budget Documents, Bank of Baroda Research | Note: PA- Provisional Actuals, BE-Budget Estimates, E-Bank of Baroda estimates

Size of the budget

Size of the budget is likely to range between Rs 44-45 lakh crore in FY24.

Fig 4 – Budget size

(Rs lakh crore)	FY22PA	FY23BE	FY23E	FY24E
Size	37.9	39.4	41.4	43.4

Source: CEIC, Union Budget Documents, Bank of Baroda Research | Note: PA- Provisional Actuals, BE-Budget Estimates, E-Bank of Baroda estimates

Disinvestment

Disinvestment for FY23 was targeted for Rs 65,000 crore and despite LIC IPO and Air India stake sale in FY23, the government is set to miss the target by ~Rs 25,000 crore. In FY24, market conditions and government's ability to attract buyers will decide where the receipts will fall between Rs 40-50,000 crore bracket. While privatisation of IDBI is one big-ticket item that government will try to conclude in the next year fiscal year, other key companies to watch may include: Shipping Corporation, Concor, BEML, HLL life care and NMDC steel.

Tax projections will be critical

Tax receipts

On the revenue side, tax receipts would be critical in determining the extent to which fiscal consolidation can be achieved next year. Receipts move broadly in sync with the state of the economy. This implies that as nominal GDP is expected to ease next year, revenue growth will also witness some moderation.

In FY23, centre's net revenue collections are expected to register 8.2% growth (+Rs 1.4 lakh crore) over FY22 versus 6% estimated in the budget. This is in line with higher than estimated increase in nominal GDP growth (15.4% versus 11.1% expected in the budget). In FY24, centre's net revenue is estimated to clock in at 6.3% at ~Rs 25 lakh crore. This will be led by 5.9% growth in centre's tax revenues and 8.7% increase in non-tax revenues.

Fig 5 – Tax receipts

(Rs lakh crore)	FY22PA	FY23BE	FY23E	FY24E
Centre's net tax revenue	18.2	19.3	20.3	21.5
Growth (%YoY)	*27.6*	*9.6*	*11.6*	*5.9*
Centre's net revenue	21.7	22.0	23.5	24.9
Growth (%YoY)	*32.7*	*6.0*	*8.2*	*6.3*

Source: CEIC, Union Budget Documents, Bank of Baroda Research | Note: PA- Provisional Actuals, BE-Budget Estimates, E-Bank of Baroda estimates

In conclusion:

The budget will announced at a critical time when the world slips into recessionary like conditions, with India standing different. To ensure that the wheels are lubricated there are expectations from the government to provide enough to keep consumption and investment on track. Given the overall constraint of fiscal prudence, the budget will have to make money work better at a time when the buoyancy in tax receipts will be constrained. High inflation prevailing presently will have to be kept at the back of the mind when contemplating any new taxes or enhancements. The markets will be looking at the fiscal deficit level and the borrowing programme of the government as that will have a bearing on liquidity in direction of interest rates.

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