FY24 Union Budget & Macro Outlook

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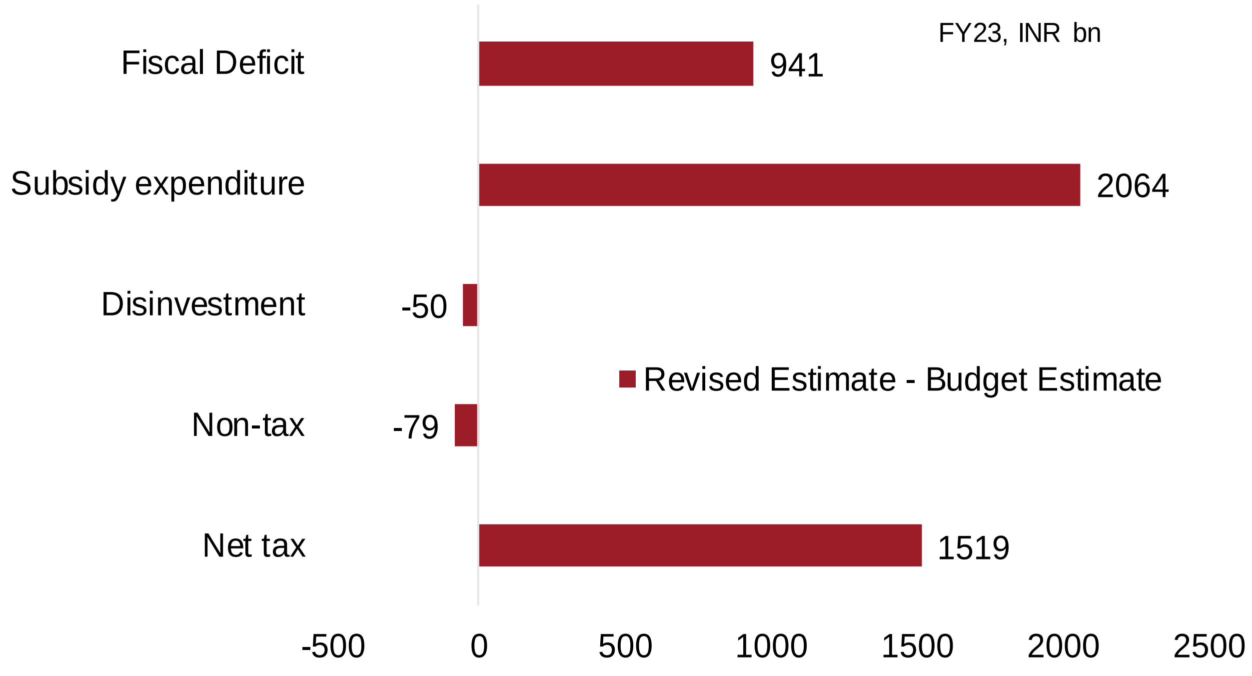
FY23 fiscal deficit expected at 6.4% of GDP

Slippage estimated at INR941bn

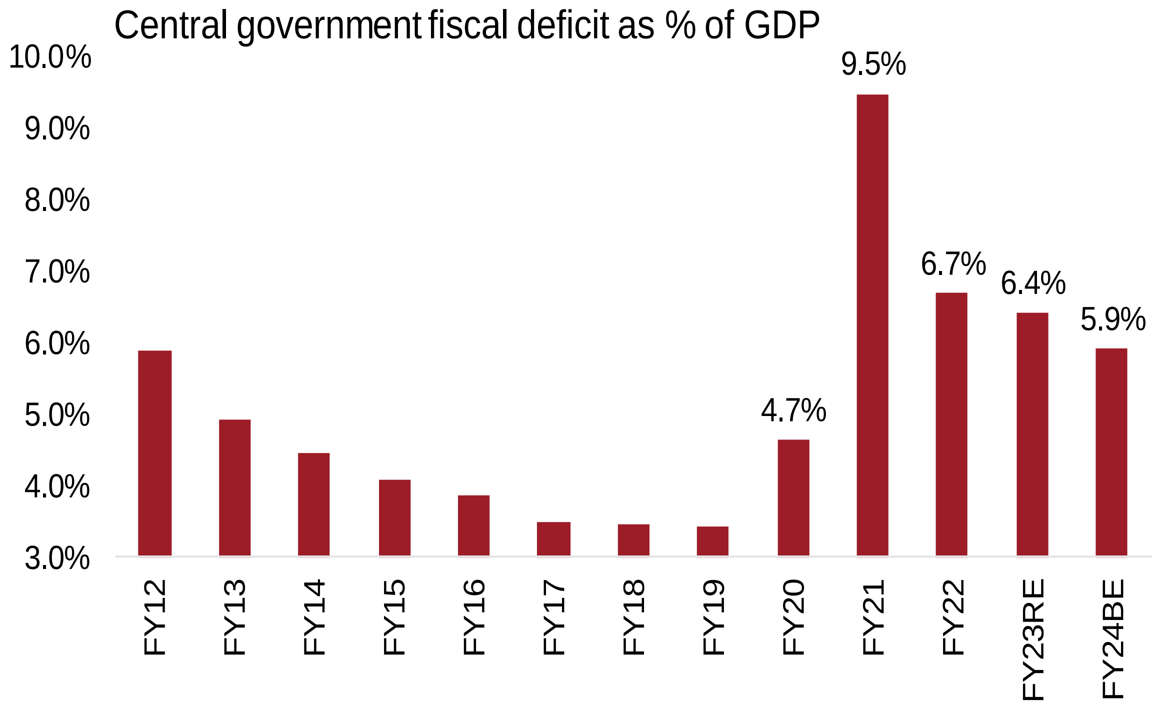


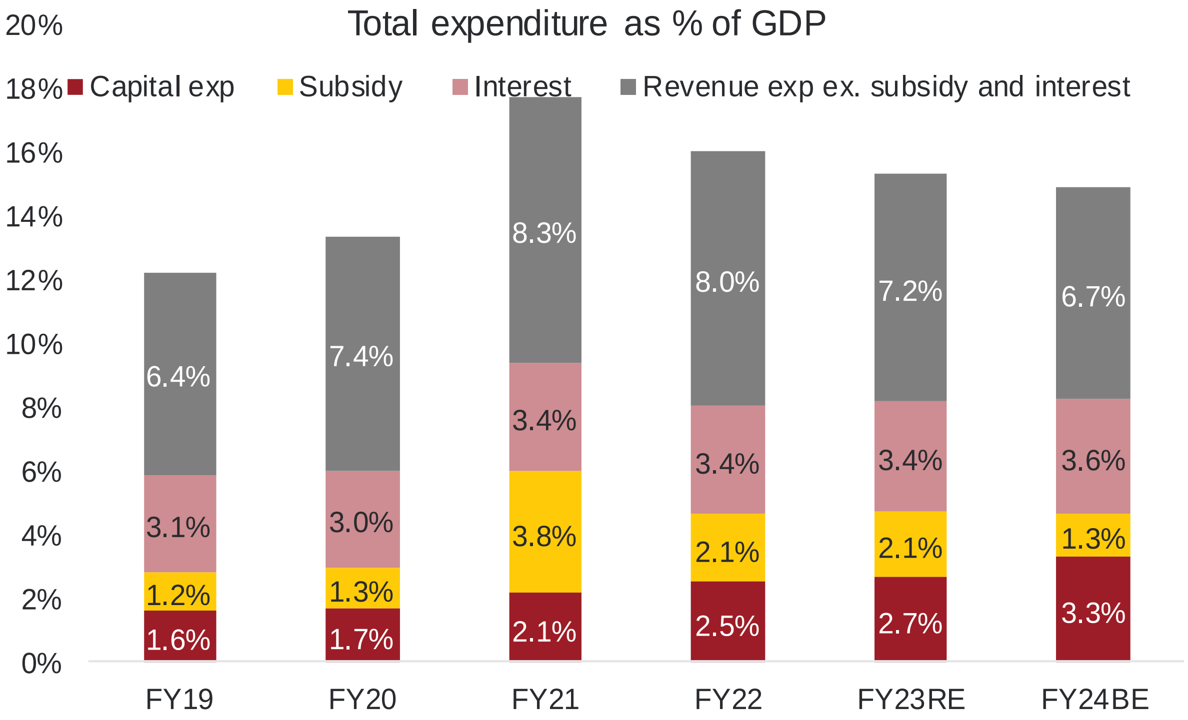
- The extra funding requirement is bridged by higher net t-bill collection of INR1tn v/s Budget Estimate of INR500bn
- Nominal GDP growth at 15.4% in FY23 RE v/s 9% in FY22

Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

FY24 fiscal deficit to reduce to 5.9% of GDP

Despite slower nominal GDP growth and tax revenue growth





- Reduction in subsidy expenditure
- Reduction in revenue expenditure ex. subsidy and interest
- Nominal GDP growth at 10.5% in FY24 v/s 15.4% in FY23

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Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

FY24 Expenditure – where is fiscal space being created?

	Rs bn				% GDP			
	FY22	FY23BE	FY23RE	FY24BE	FY22A	FY23BE	FY23RE	FY24BE
Revenue Expenditure	**32009**	**31947**	**34590**	**35021**	**13.5%**	**12.4%**	**12.7%**	**11.6%**
-Interest Payments	8055	9407	9407	10800	3.4%	3.6%	3.4%	3.6%
-Subsidy	5039	3556	5621	4031	2.1%	1.4%	2.1%	1.3%
--Food subsidy	2890	2068	2872	1974	1.2%	0.8%	1.1%	0.7%
--Fertilizer subsidy	1538	1052	2252	1751	0.6%	0.4%	0.8%	0.6%
-Pay and allowance	2546	4223	2862	3006	1.1%	1.6%	1.0%	1.0%
-Pension	1989	2071	2448	2344	0.8%	0.8%	0.9%	0.8%
-Compensation cess	1108	1200	1300	1450	0.5%	0.5%	0.5%	0.5%
Capital Expenditure	**5929**	**7502**	**7283**	**10010**	**2.5%**	**2.9%**	**2.7%**	**3.3%**
Total Expenditure	**37938**	**39449**	**41872**	**45031**	**16.0%**	**15.3%**	**15.3%**	**14.9%**

Subsidy savings in FY24 estimated at INR1.6tn

- Fertilizer subsidy normalization assuming energy prices remain range-bound and there are no further supply-chain disruption
- Food subsidy to be contained post merger of PMGKAY and NFSA. Under the merged scheme all food grains provided under NFSA will be free. This is more cost effective than extending PMGKAY

- Moderation in pensions and allocation to rural and agriculture

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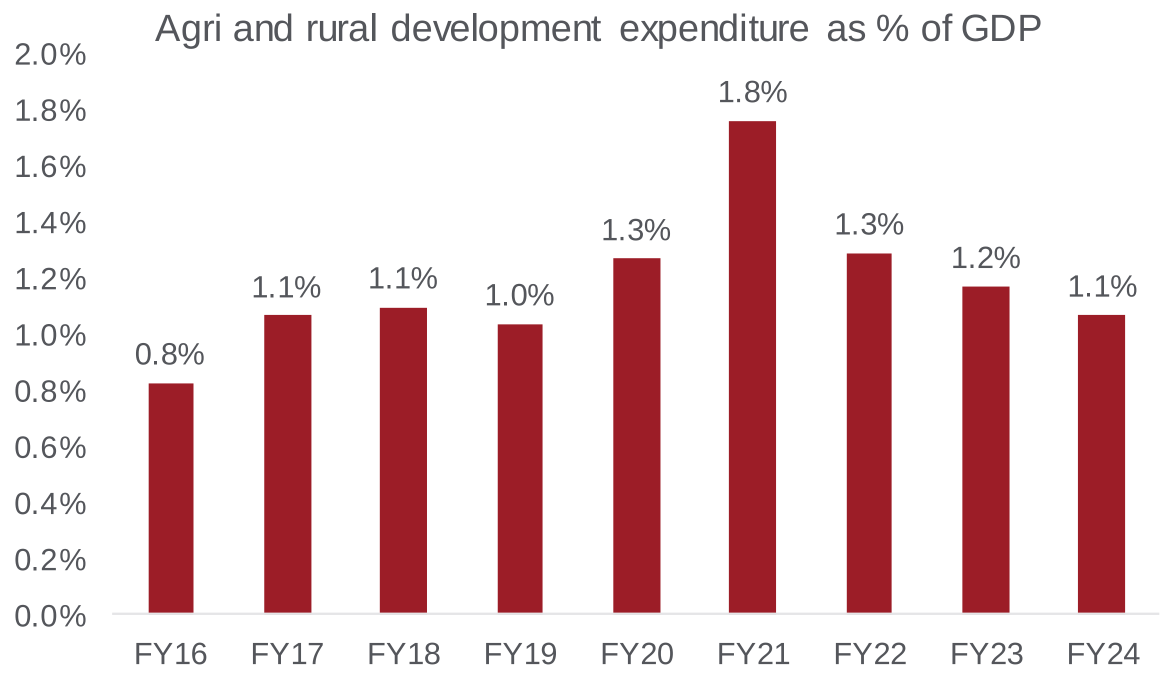
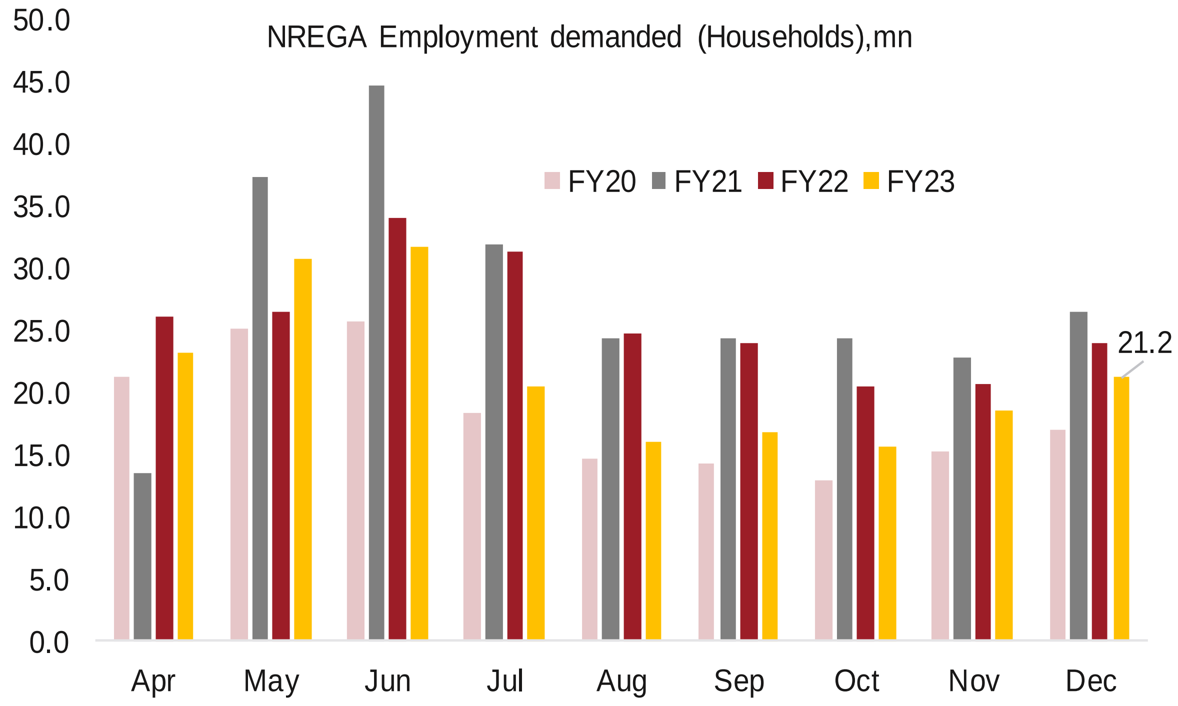
Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

Allocation to rural and agriculture reduces

Expenditure on NREGA expected to normalize



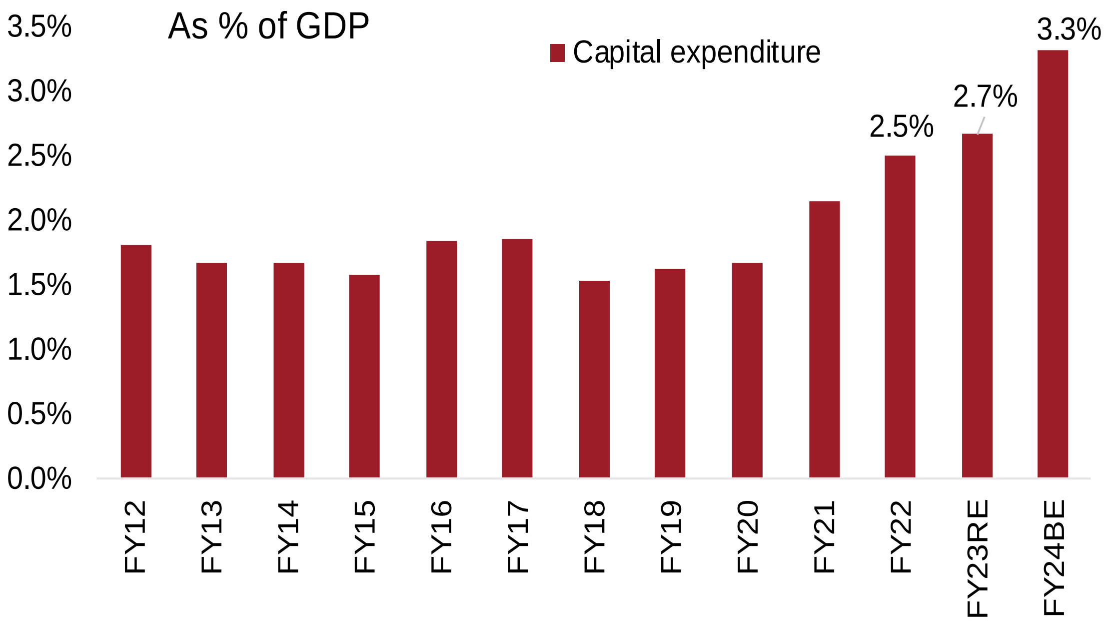


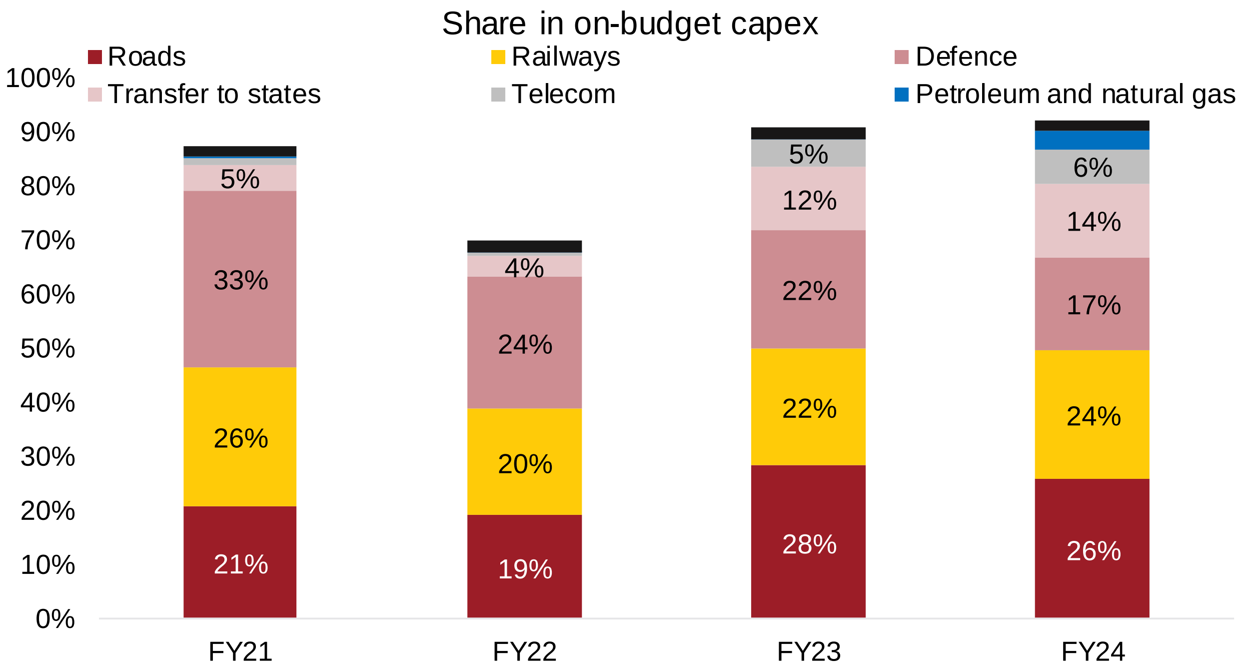
Outlay for NREGA is lower at INR600bn in FY24 v/s INR894bn in FY23 (Revised Estimate), reflecting normalization of employment demand under the scheme as growth recovery progresses.

Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

Higher on-budget capital expenditure

Highest allocation to roads, railways and defence



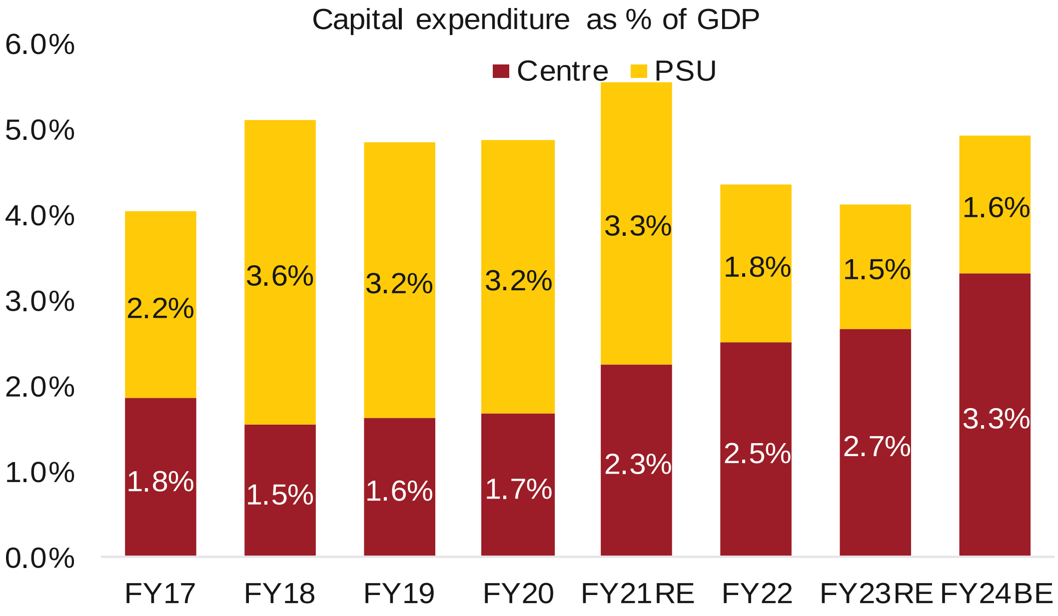


- **Capital expenditure as % of GDP at a historical high**
- **Note this also includes INR1.3tn interest free capital loans to state governments**

Source: CEIC, IDFC FIRST Bank Economics Research.

Higher PSU capital expenditure in FY24

This is also includes FCI



PSU capex INR bn	FY23RE	FY24BE	Share in FY24BE
Food Corporation of India	550	1450	30%
Indian Renewable Energy Development Agency	256	358	7%
Oil and Natural Gas Corporation Limited	300	301	6%
Indian Oil Corporation Limited	141	257	5%
National Thermal Power Corporation Limited	225	225	5%
National High Speed Rail Corporation Limited	180	206	4%
Coal India Limited	165	165	3%
Housing and Urban Development Corporation	182	153	3%
Dedicated Freight Corridor Corporation of India Ltd	184	152	3%
Nuclear Power Corporation of India Limited	107	129	3%
National Hydro Electric Power Corporation Limited	71	109	2%
Grand Total	**4011**	**4877**	

PSU capex excluding FCI at 1.1% of GDP in FY24 v/s 1.3% in FY23

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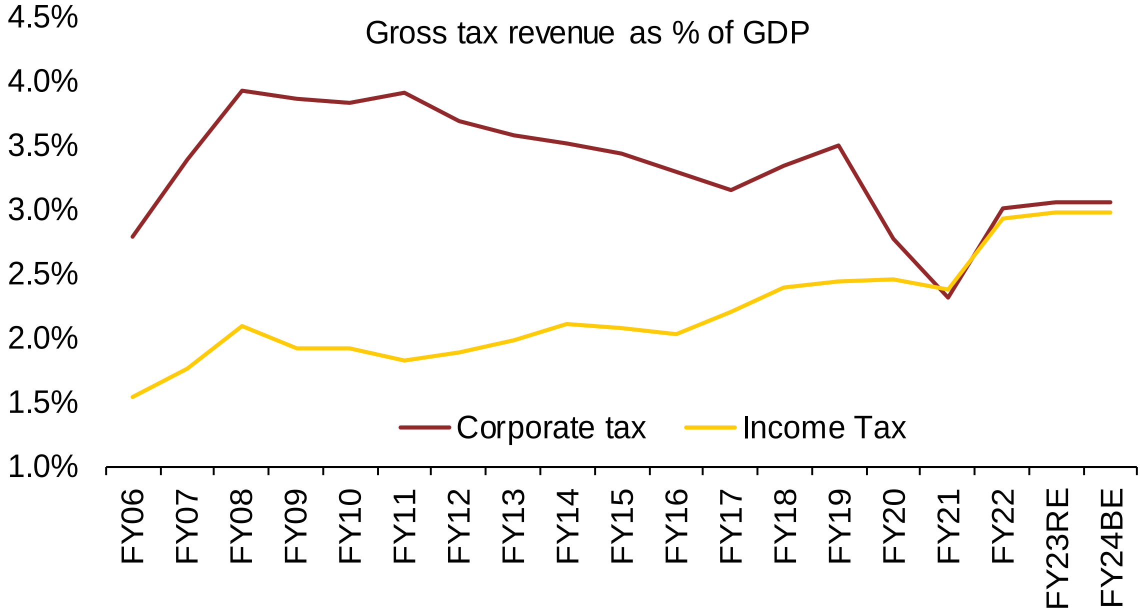
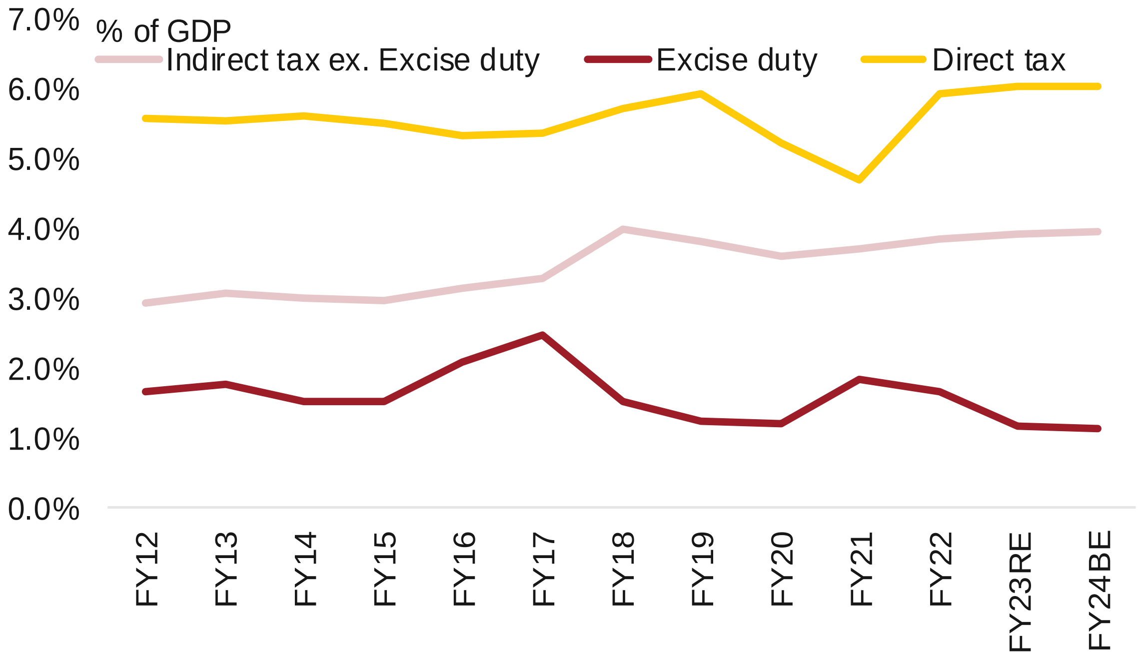
Source: CEIC, IDFC FIRST Bank Economics Research.

Gross tax revenue assumption slightly optimistic

Gross tax revenue growth Budgeted at 10.4%YoY in FY24 v/s 12.3% in FY23





- The relief given on the direct and indirect tax, costing the government INR350bn annually. Majority of the revenue foregone is due to reduction in income tax under the new regime, which has now been made the default tax regime.

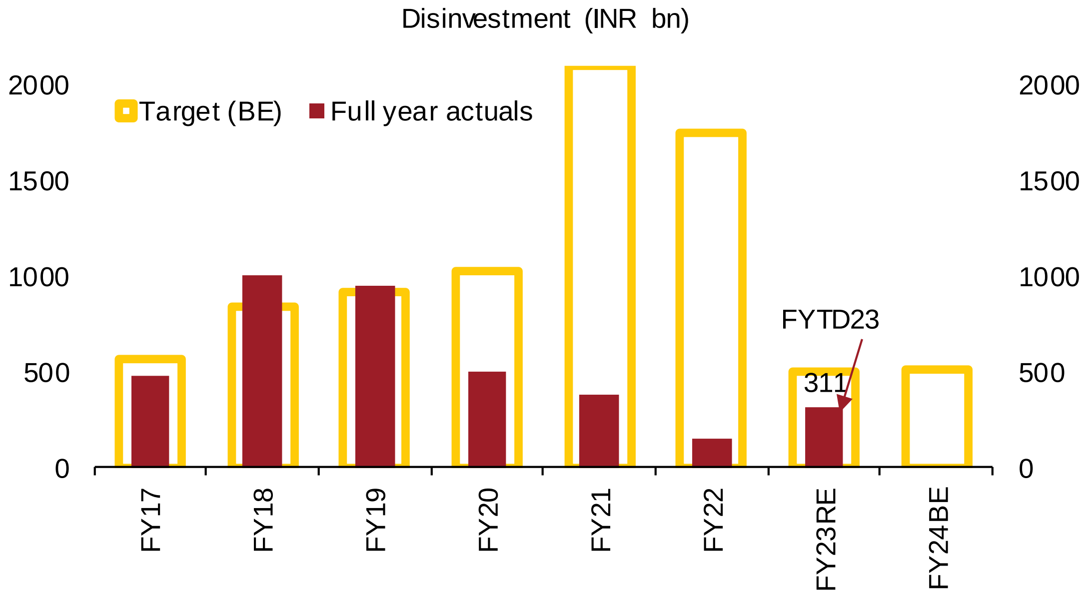
- The following were the changes under the **new income tax regime**:
  - The rebate limit was increased to INR7 lakh from INR5 lakh earlier
  - For middle incomes, the number of tax slabs have been reduced and tax exemption limit increased to INR3 lakh
  - Highest tax rate is reduced to 39% from 42.74%

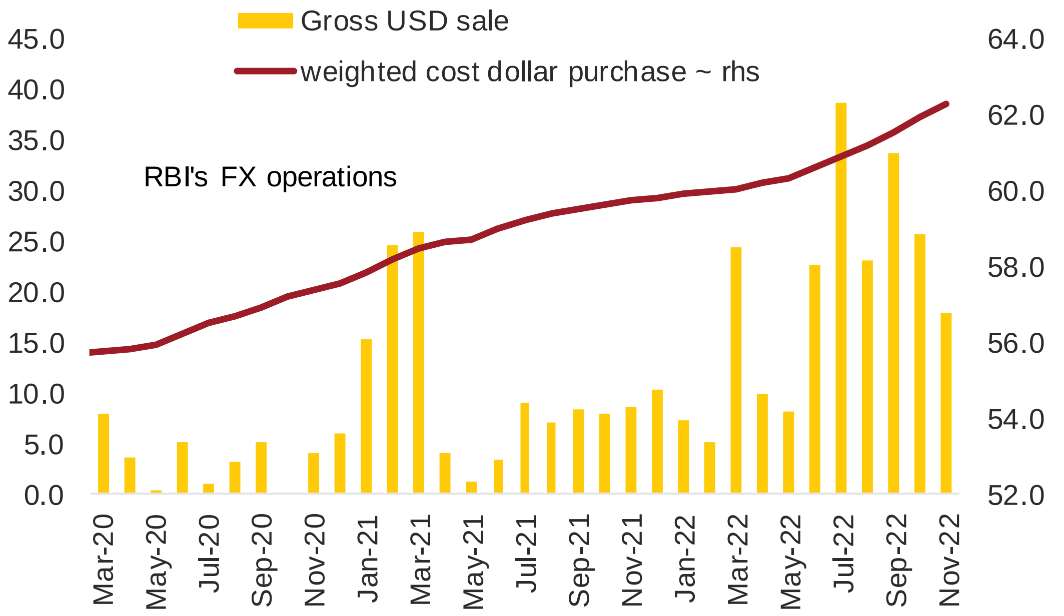
- **Income tax receipts** Budget Estimate of 3.0% of GDP (same as FY23), will need to be monitored.
- **Excise duty revenue**, the Budget Estimate of 1.1% of GDP v.s 1.2% in FY23 (revised estimate), is bit on the optimistic side. This is because revenues from excise duty on petrol and diesel (for consumption) is expected to moderate post the duty cut in May 2022.

Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

Non-tax revenues and disinvestments

FY24 disinvestment target is more realistic





- Disinvestment target for FY24 was realistic at INR510bn v/s INR500bn in FY23RE. FY23 revenues may not be achieved
- Dividend from RBI and PSU banks estimated at INR480bn v/s INR410bn in FY23 (Revised Estimate), which is on the conservative side. In FYTD23 RBI has undertaken gross dollar sales of US$180bn v/s US$97bn in FY22
- Revenue collections from telecommunication services is expected to be at INR895bn in FY24 v/s INR688bn in FY23.

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Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

Support to states marginally lower at 6.2% of GDP

TRANSFER OF RESOURCES TO STATES AND UNION TERRITORIES WITH LEGISLATURE				
(INR bn)	FY22A	FY23BE	FY23RE	FY24BE
I. Some Important Items of Transfer	2028	1637	1252	1836
Back to Back Loans to States in lieu of GST Compensation Shortfa	1479	0	0	0
Special Assistance as Loan to States for Capital Expenditure	142	1000	760	1300
II. Finance Commission Grants	2074	1921	1733	1655
III. Transfer to States [Other than (I)+(II)]	3458	3837	3953	4270
IV. Transfer to Delhi,Puducherry and Jammu & Kashmir	511	556	687	653
Grand Total	8072	7951	7624	8414
States' share of Net Proceeds of Union Taxes and Duties	8984	8166	9484	10215
Total transfer	**17056**	**16118**	**17108**	**18629**
As % of GDP	7.2%	6.2%	6.3%	6.2%

- The moderation is due to lesser devolution of taxes to states, reflecting the slowdown in overall tax collection growth
- Other transfer to state governments is expected to remain steady at 2.8% of GDP, supported by enhanced capex loan to state governments.

Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

Funding of fiscal deficit

Net issuance of INR11.8tn of g-secs in FY24

INR bn	FY22(A)	FY23BE	FY23RE	FY24BE
External Financing	**361**	**193**	**239**	**221**
Domestic Financing	**15484**	**16419**	**17413**	**17647**
(a) Market Borrowings	**8146**	**11587**	**12058**	**12309**
-Net g-sec	**7325**	**11186**	**11082**	**11809**
--Gross g-sec	9684	14950	14210	15430
--Repayments	-2643	-3764	-3128	-3621
-Short-term	**774**	**500**	**1000**	**500**
--14 day tbills	112			
--91 day tbills	454	-220	44	130
--182 day tbills	713	360	624	235
--364 day tbills	-504	360	332	135
(b) Securities against Small Savings	**5513**	**4254**	**4389**	**4713**
(c) State Provident Funds	103	200	200	200
(f) Others	1697	370	799	543
(g) Cash Balance {Decrease(+)/Increase(-)}	25	8	-32	-118
TOTAL FINANCING	**15845**	**16612**	**17553**	**17868**

FY23 – No extra g-sec issuance

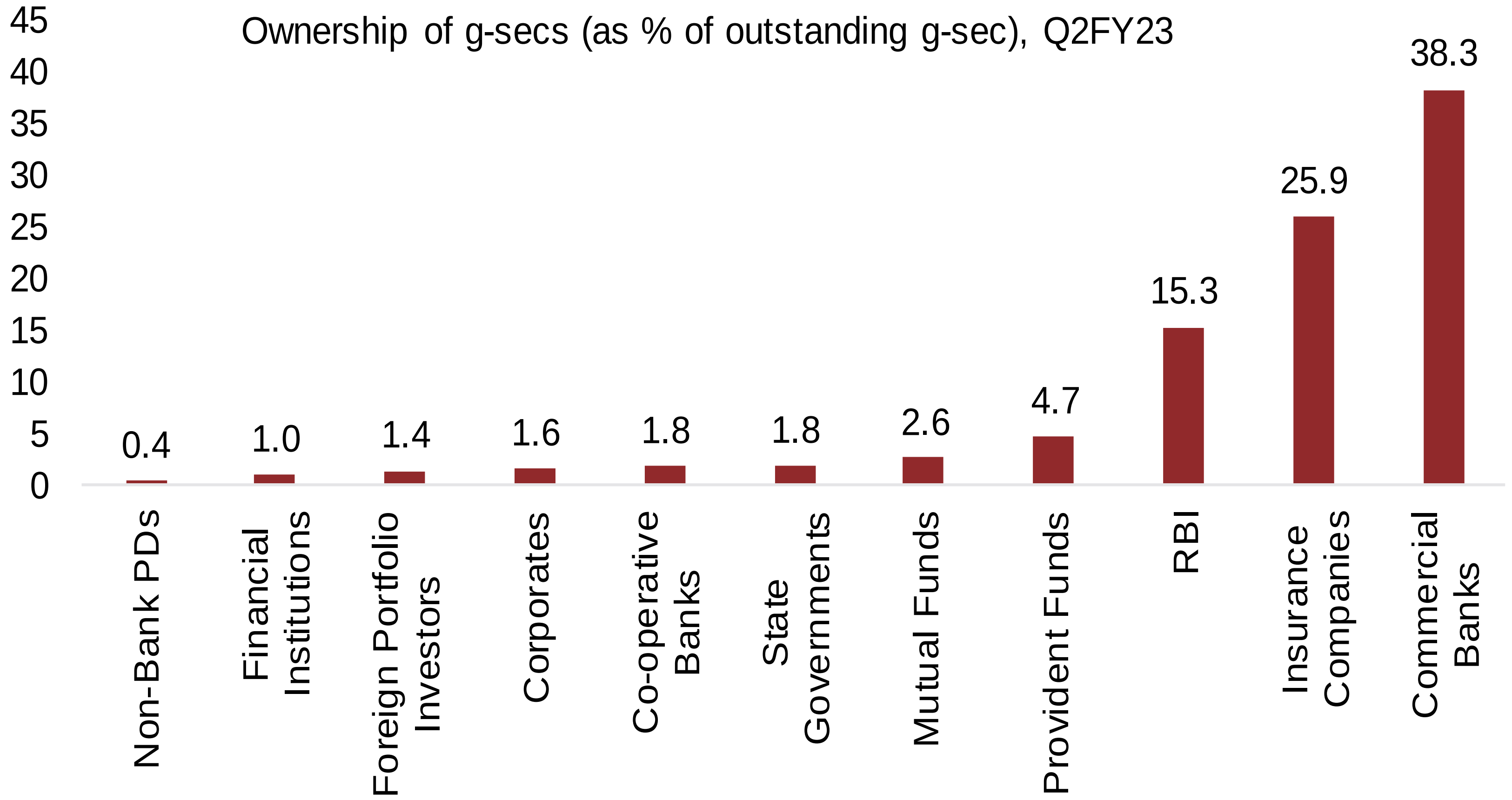
- The extra funding requirement is bridged by higher net t-bill collection of INR1tn v/s Budget Estimate of INR500bn. This may require the extra t-bill issuance

In FY24 – Gross g-sec issuance is at INR15.43tn in FY24 and net issuance at INR11.8tn, coming in line with our estimates.

- Small savings collections are expected to be higher in FY24 at INR4.7tn v/s INR4.4tn in FY23 (Revised Estimate). The government has announced New small savings scheme for women (up to INR2 lakh for 2years at 7.5% interest) and Senior Citizen Savings Scheme will be enhanced from INR15 lakh to INR30 lakh. This is likely to support small saving collection in FY24.

Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

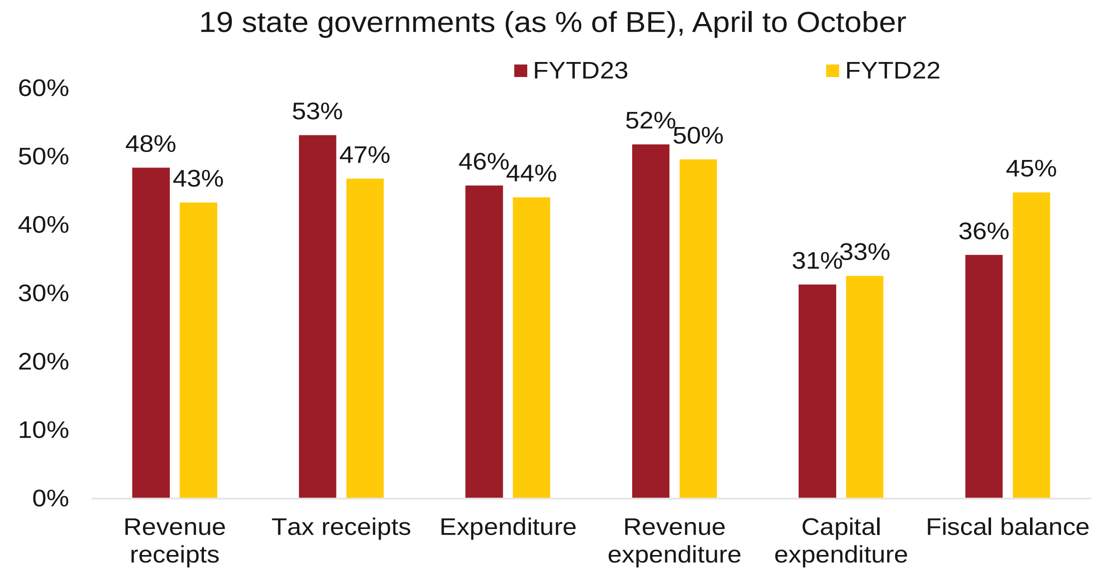
Government securities - Demand-Supply dynamic



Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

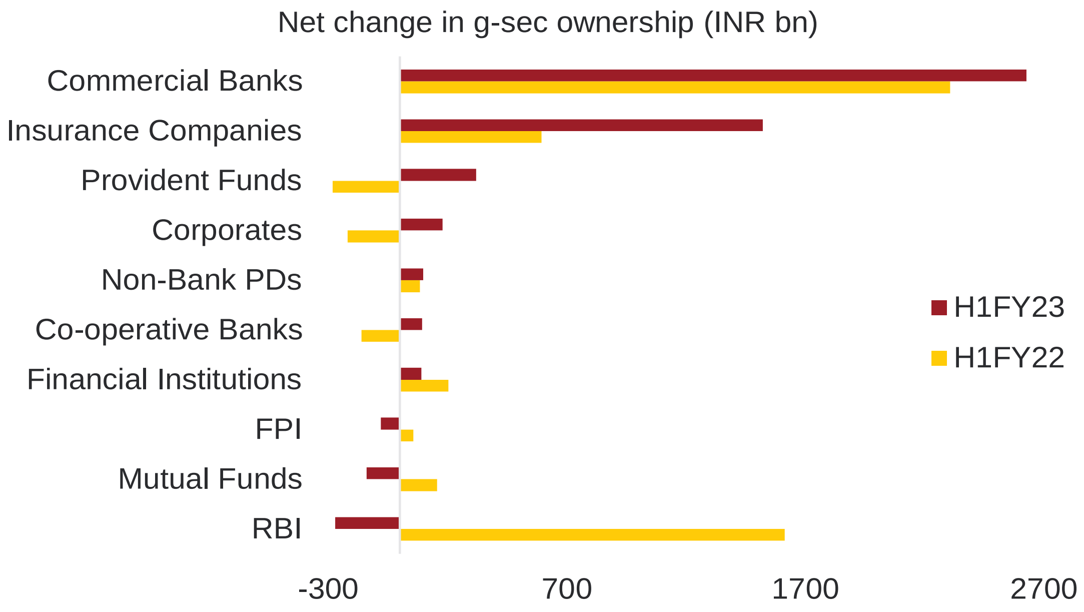
Government securities - Supply dynamic

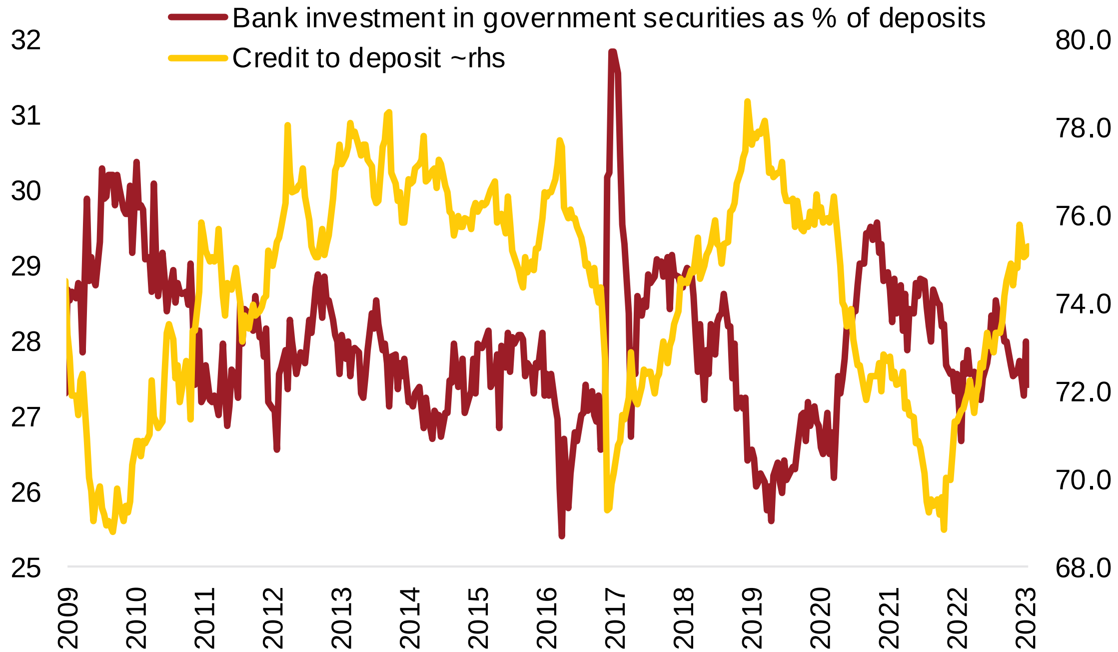
	Net market issuance		
INR bn	**FY22**	**FY23RE**	**FY24BE**
Centre	8631	11082	11809
State	4925	4604	5601
Centre + State	**13556**	**15686**	**17410**



- Supply dynamics to be less favourable with rise in SDL and corporate bond supply

Government securities - Demand dynamic





- Demand not expected to deteriorate as majority of the rate hiking cycle is behind us
- Liquidity conditions expected to be in deficit in FY24, creating space for RBI to buy bonds if needed

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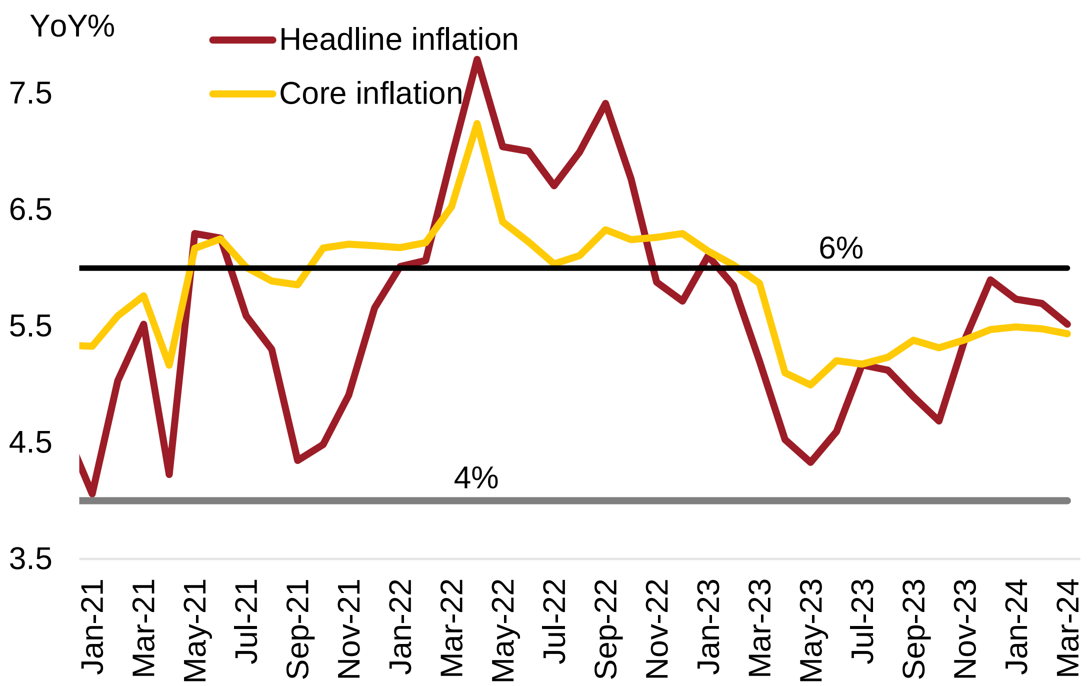
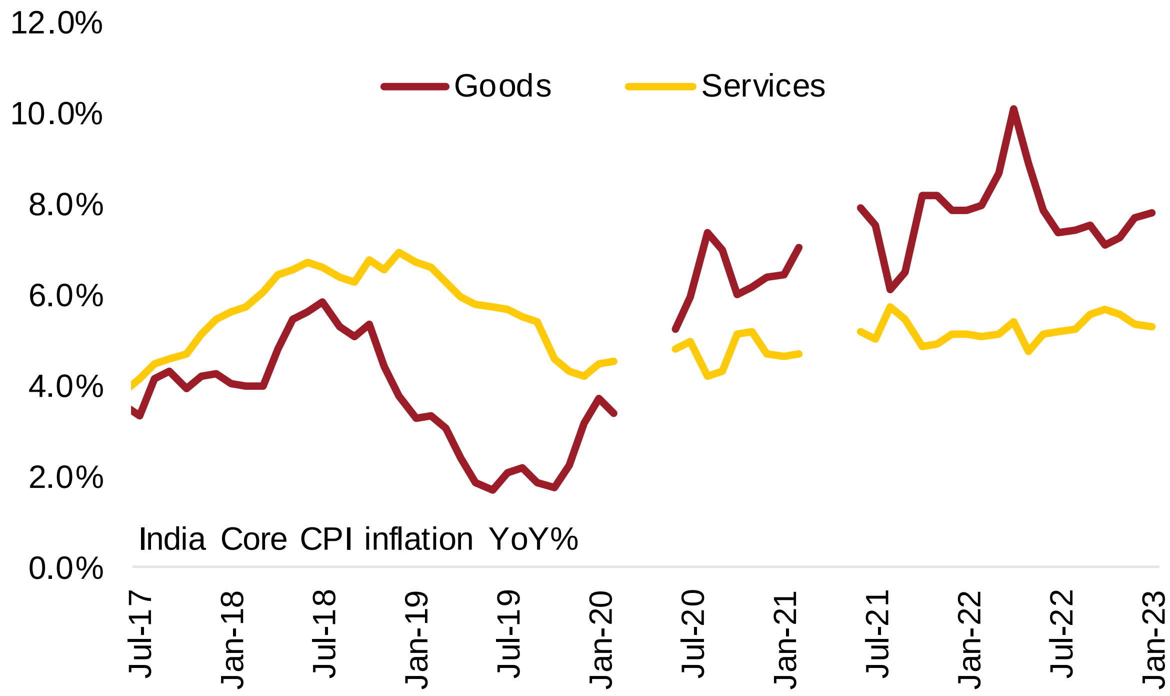
Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

RBI: Terminal repo rate expected at 6.75%

FY24 CPI inflation between 5 to 5.5% v/s 6.7% in FY23

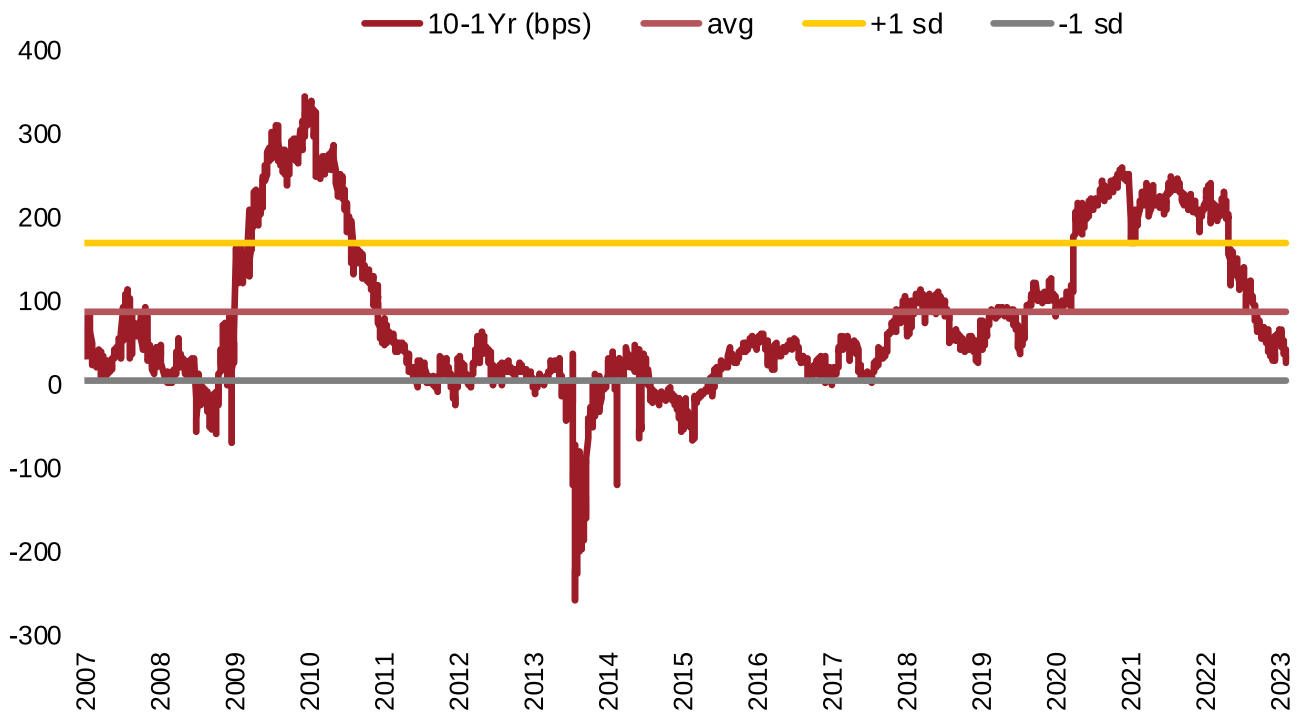




Chances of 25bps hike in April have risen

- Focus has shifted towards elevated core inflation, which could stay sticky as services sector recovery gains momentum
- External factors also support another rate hikes given Fed is likely to remain hawkish
- 25bps hike in April ; stance likely to be a close call

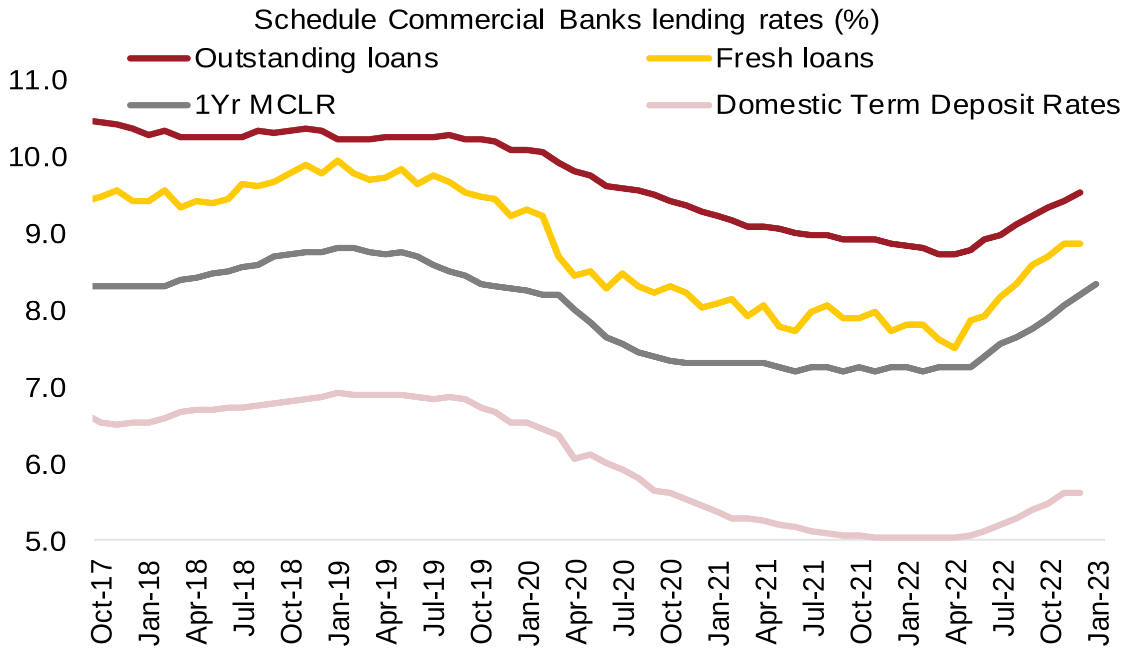
10-yr g-sec expected to be range-bound 7.3% to 7.5%

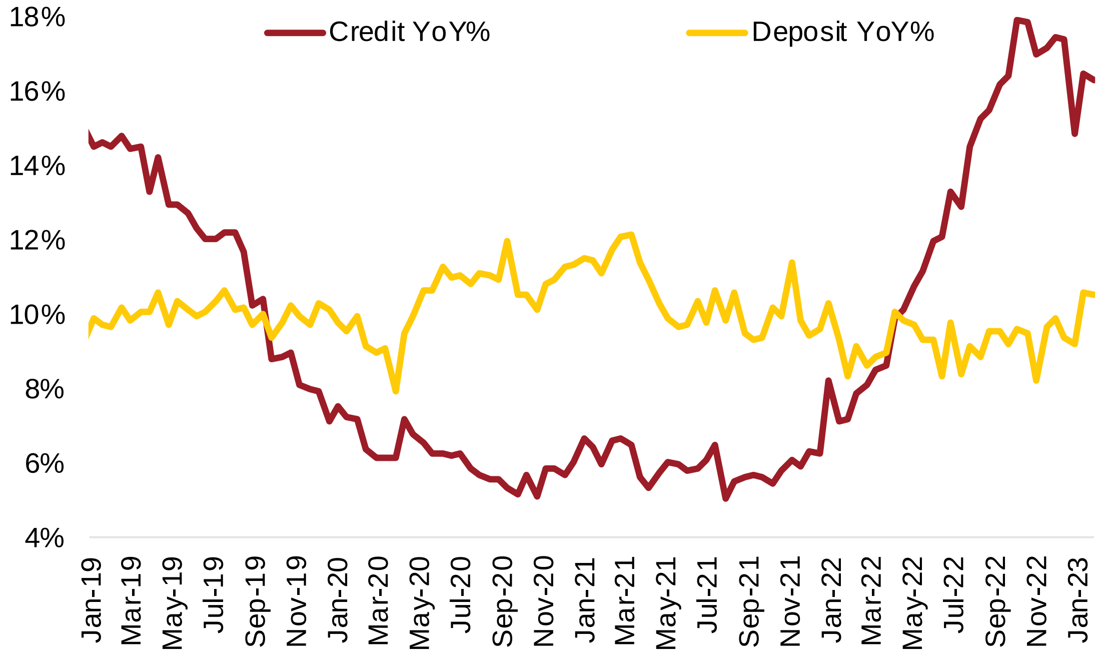


- Another change factor which supported demand for g-sec in FY23 are insurance companies and provident funds. In FY24, the demand for longer dated securities could be impacted by the measure to make income from insurance policies taxable if the total premium for an individual in a year exceeds INR 0.50m across their insurance policies (except ULIPs). This is likely to impact demand for guaranteed return products which could impact demand for ultra-long bonds (30/40yr) in FY24.

Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

Transmission of the rate hikes





	FYTD23 (Apr-Dec)
Outstanding loans weighted average lending rates	0.78
Fresh loans weighted average lending rates	1.25
1Yr MCLR	1.10
Domestic term deposit rates	0.59
Repo rate	2.25

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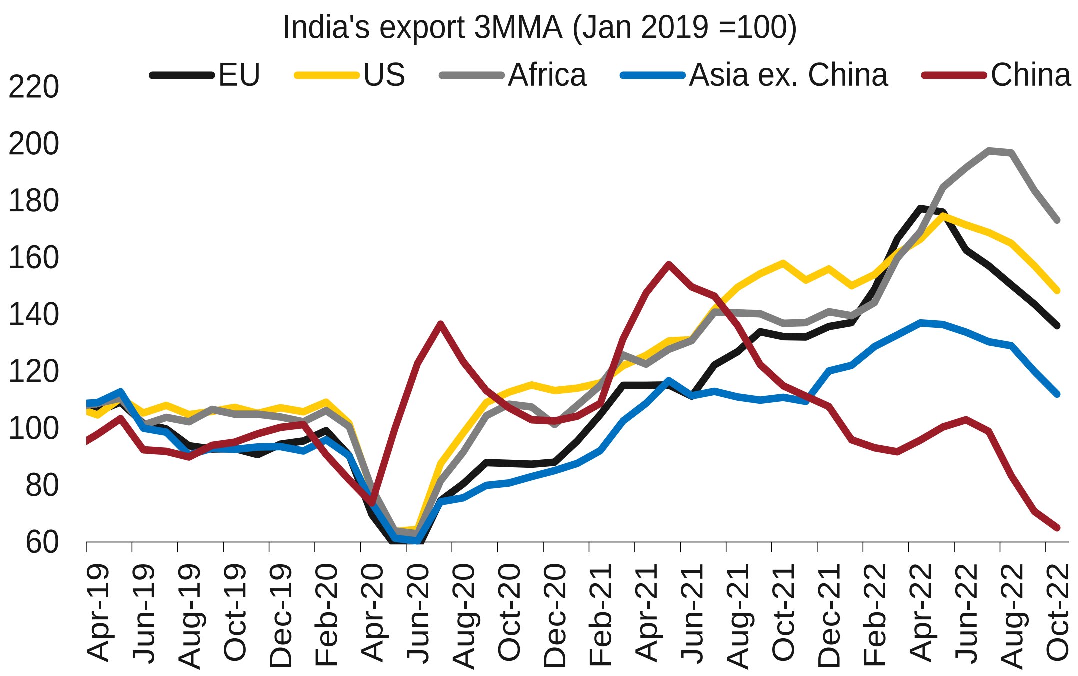
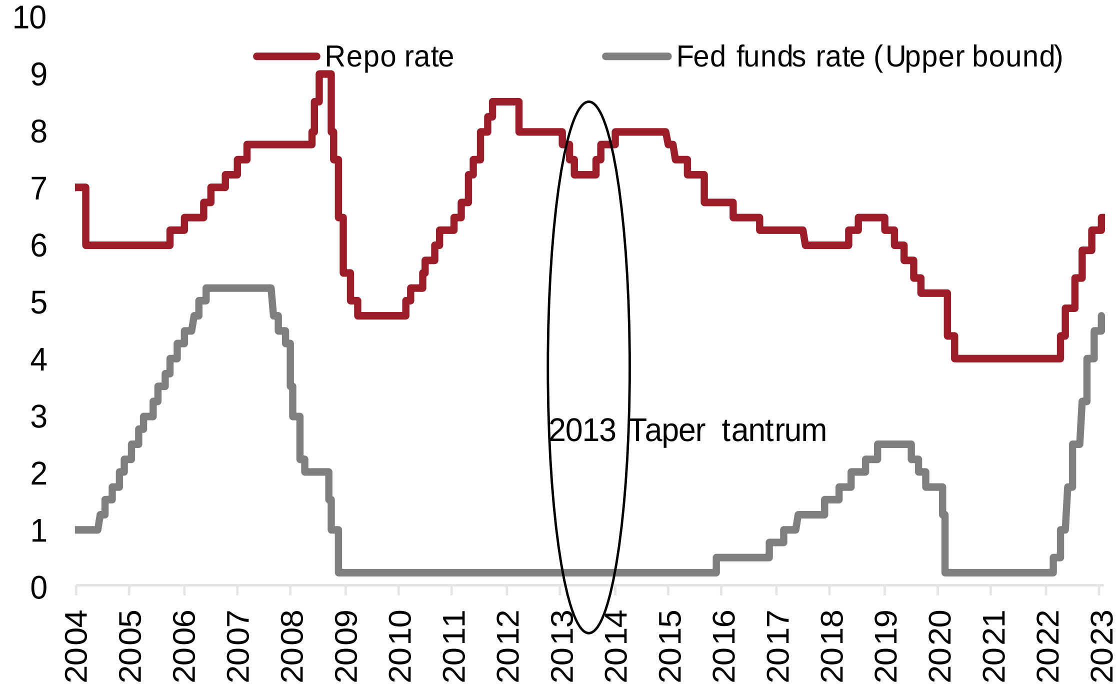
Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

FY24 CAD to narrow as oil prices remain ranged

USDINR expected to trade between 81 to 83.50 till March 2023 ; Between 83.50 to 85 post March 2023





Depreciation supported by

- Interest rate differentials between India and US near historical lows
- Current account deficit to narrow as crude oil prices likely to remain ~US$80 to 85pb in FY24. However, weakness in exports to limit improvement. FY24 current account deficit expected at 2.8% of GDP v/s 3.0% in FY23
- India to start FY24 with lower FX reserve cover
- Risk-off sentiment to keep portfolio flows volatile

Source: CEIC, IDFC FIRST Bank Economics Research

FY24 fiscal deficit target at 5.9% of GDP

	Rs bn				% GDP			
	FY22	FY23BE	FY23RE	FY24BE	FY22A	FY23BE	FY23RE	FY24BE
Revenue Receipts	**21699**	**22044**	**23484**	**26323**	**9.2%**	**8.5%**	**8.6%**	**8.7%**
Gross tax revenue	**27093**	**27578**	**30430.7**	**33609**	**11.4%**	**10.7%**	**11.1%**	**11.1%**
Corporate tax	7120	7200	8350.0	9227	3.0%	2.8%	3.1%	3.1%
Income tax	6962	7000	8150.0	9006	2.9%	2.7%	3.0%	3.0%
CGST	5912	6600	7240.0	8118	2.5%	2.6%	2.7%	2.7%
Compensation cess	1048	1200	1300.0	1450	0.4%	0.5%	0.5%	0.5%
Customs	1997	2130	2100.0	2331	0.8%	0.8%	0.8%	0.8%
Excise	3908	3350	3200.0	3390	1.7%	1.3%	1.2%	1.1%
Tax Revenue (Net)	**18048**	**19348**	**20867**	**23306**	**7.6%**	**7.5%**	**7.6%**	**7.7%**
Non-Tax Revenue	**3651**	**2697**	**2618**	**3017**	**1.5%**	**1.0%**	**1.0%**	**1.0%**
--Dividends from PSE	593	400	430	430	0.3%	0.2%	0.2%	0.1%
--Dividend RBI & PSB	1014	739	410	480	0.4%	0.3%	0.1%	0.2%
Non-Debt Capital Receipts	**394**	**793**	**835**	**840**	**0.2%**	**0.3%**	**0.3%**	**0.3%**
-Recovery of Loans	247	143	235	230	0.1%	0.1%	0.1%	0.1%
-Disinvestment + others	146	650	600	610	0.1%	0.3%	0.2%	0.2%
Total Receipts	**22093**	**22837**	**24319**	**27163**	**9.3%**	**8.9%**	**8.9%**	**9.0%**
Revenue Expenditure	32009	31947	34590	35021	13.5%	12.4%	12.7%	11.6%
Capital Expenditure	5929	7502	7283	10010	2.5%	2.9%	2.7%	3.3%
Total Expenditure	**37938**	**39449**	**41872**	**45031**	**16.0%**	**15.3%**	**15.3%**	**14.9%**
Fiscal Deficit	**15845**	**16612**	**17553**	**17868**	**6.7%**	**6.4%**	**6.4%**	**5.9%**
Nominal GDP	236646	258000	273078	301751				
Nominal GDP - growth	19.5%	9.0%	15.4%	10.5%				

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Source: CEIC, IDFC FIRST Bank Economics Research

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