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Sonal Badhan
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Fiscal deficit at 45% of BE

Centre's fiscal deficit has reached Rs 8 lakh crore as of Oct'23 (FYTD basis) which is only 45% of the budget estimate, compared with 45.6% of the target achieved last year. As % of GDP it is currently running at 6.1% versus targeted 5.9%. The deficit ratio has been on a downward trajectory since Aug'23. In Oct'23, centre's both receipt and expenditure growth has seen some moderation when compared with H1FY24 (as of Sep'23). Amongst the receipts, corporate tax collections and indirect tax collections (mainly customs and excise) have been a major drag. On the spending front, government has achieved 53.2% of its budget estimate, lower than 54.3% last year (as of Oct'22). Major ministries which have spent less than budgeted compared with last year include, ministries of road transport, railway, consumer affairs, rural development and chemicals & fertilizers. This also suggests that spending in H2 will be higher in order to meet the targets. We continue to believe that centre will meet its fiscal deficit target of 5.9% in FY24.

Fiscal deficit ratio on track: Centre's fiscal deficit by Oct'23 has reached 45% of the budgeted estimate (BE) for FY24 and is at Rs 8 lakh crore versus estimated Rs 17.9 lakh crore. In terms of % of GDP, the 12MMA ratio is on downward trajectory since Aug'23 and is currently at 6.1% (Oct'23) compared with 6.3% in H1FY24 (as of Sep'23). Sharper moderation in spending compared with receipt growth, is paving the way for centre to meet is deficit target of 5.9% by Mar'24.

Slight moderation in receipt growth: Centre's revenue receipts have currently (Apr-Oct'23) reached 59.6% of the budgeted target for FY24, compared with 61.2% target achieved during the same period last year. Net tax revenue receipts have reached only 55.9% of BE versus 60.5% last year. On YoY basis, gross tax revenue receipt growth has seen slight easing in Oct'23 (FYTD basis) as it moderated to 14% from 16.3% recorded in H1FY24.

This is on account of slowdown in both direct and indirect tax collections. Within direct taxes, corporate tax collection growth slipped to 17.4% as of Oct'23 from 20.2% in H1, as period of advance tax collections has ended. Income tax collections on the other hand have managed to maintain a steady growth of 31.1% in Oct'23 as well, unchanged from H1. Indirect tax receipt growth eased to 3.7% from 6.6% in H1, on account of slowdown in customs (1.2% versus 23.1%) and excise duty collections (-9.3% versus -10.8%). As a result, growth in centre's net tax revenue receipts has also eased to 16.1% from 19.5% in H1.

Spending momentum slowing: In FYTD24 so far (Apr-Oct'23), centre has achieved 53.2% (Rs 24 lakh crore) of its targeted expenditure estimate, slightly lower than 54.3% achieved last year during the same period. Within this, while capex is at the same level as last year (55%), revenue expenditure is slightly lower so far at 53% (Rs 18.5 lakh crore) versus 54% last year. In terms of YoY growth (Apr-Oct), overall expenditure growth has eased to 11.7% as of Oct'23, down from 16.2% as of H1. Here, revenue expenditure growth eased to 10% (6.5% as of H1) and capex to 33.7% from 43.1% in H1.

Amongst major ministries, ministry of road transport (67% as of Oct'23 versus 78% as of Oct'22), railways (77% versus 93%), rural development (52% versus 63%), agriculture (38% versus 51%), chemical and fertilizers (67% versus 96%), and consumer affairs (56% versus 62%), have spent less than budgeted this year compared with last year during the same period, pushing the overall spending growth low. These ministries account of nearly Rs 12 lakh crore of budgeted expenditure (26% of total). In terms of YoY growth, on FYTD basis, ministries of consumer affairs, rural development, petroleum and agriculture have dragged the overall growth numbers down. We expect spending to pick up in H2 as ministries rush to meet to their targets and also as we approach closer to general elections in 2024.

Outlook for FY24: We believe that government remains on track to meet its fiscal deficit target of 5.9% for FY24. This will be mainly due to: one, nominal GDP growth rate is expected to be higher than what has been projected in the budget (10.5%). Higher base in the denominator will give elbow room to the government for minor slippage in absolute fiscal deficit. Two, even as higher expenditure is projected on account of extension of PMGKAY scheme, a majority of the cost is already accounted for in the budget. The remaining slippage can be met through cuts in expenditure by other ministries. On the other hand, downside risk can emancipate from slow progress being made on disinvestment front, and moderating inflation impacting government's indirect tax revenues. Any weakness in corporate performance can also impact direct tax collections.

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For further details about this publication, please contact:

Economics Research Department
Bank of Baroda
chief.economist@bankofbaroda.com