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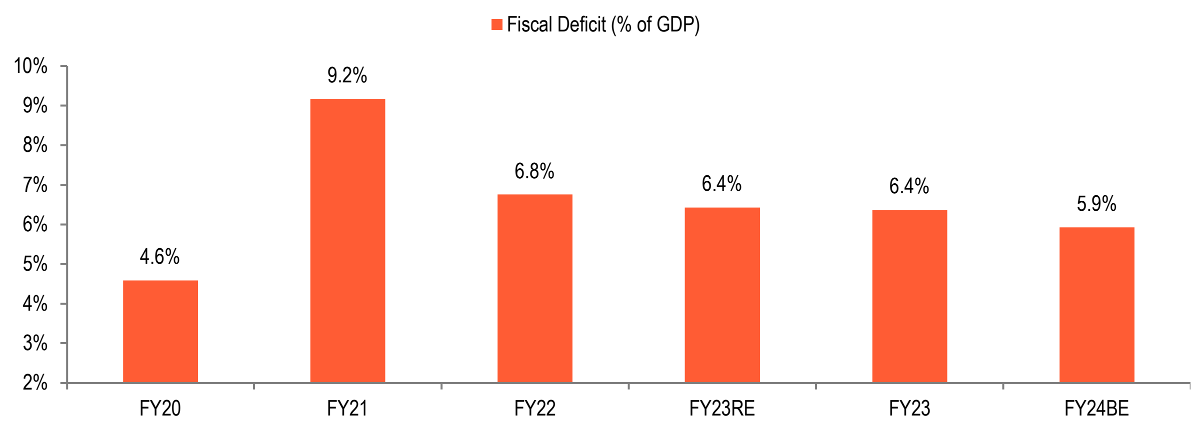
Fiscal deficit at 6.4% in FY23

Centre's fiscal position in FY23 came in line with government's revised projections for FY23. Better than expected growth in nominal GDP (16.1% as per provisional estimate for FY23 versus 15.4% as per 1st AE for FY23), pick up in revenue collections, helped government achieve this target. Higher than previously estimated growth in both tax and non-tax revenues helped government boost its net tax revenues. This boost also helped major slippage in disinvestment receipts. Minor slippage in overall spending was covered by revenue growth and GDP boost. Slippage in spending could be attributed to higher outgo for fertilizer subsidies, which was offset by cut in spending by ministries like consumer affairs (food subsidy), agriculture, and health. We continue to expect fiscal deficit ratio of 5.9% for FY24, as downside risks to revenue growth persist (easing inflation and slowing economic conditions).

Fiscal Deficit meets the target FY23: Centre's fiscal deficit came in line with the revised estimates at 6.4% of GDP in FY23. In absolute terms, fiscal deficit was at Rs 17.33 lakh crore (99.6% of the target) compared with Rs 17.55 lakh crore. Apart from the support of nominal GDP (16.1% versus projected 15.4%), better than expected revenue collections also helped. Centre's total receipts rose by Rs 23,793 crore, while expenditure was broadly in line (excess Rs 1,605 crore spent), implying a total saving of Rs 22,188 crore (0.1% of GDP) in the fiscal deficit target.

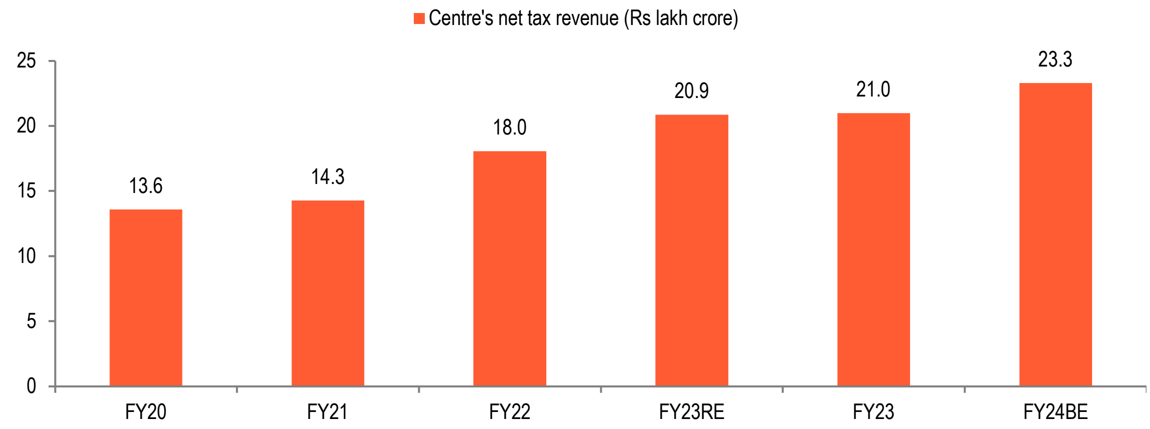
Figure 1: Fiscal deficit meets target in FY23



Source: CEIC, Bank of Baroda Research

Higher than expected receipt growth: Centre's overall receipts rose to Rs 24.6 lakh crore in FY23 compared with government's revised estimates (RE) of Rs 24.3 lakh crore, recording a jump of 11.2% over FY22. Within this, revenue receipts for FY23 have come in at Rs 23.8 lakh crore, compared with RE of Rs 23.5 lakh crore, implying an excess of ~35,000 crore. Both tax and non-tax receipts posted better than projected growth. Net tax revenue receipts are up at Rs 21 lakh crore (9.8% YoY) versus RE of Rs 20.9 lakh crore (8.2%), while non-tax revenue settled at Rs 2.9lakh crore (-21.6%) versus RE of Rs 2.6 lakh crore (-28.3%).

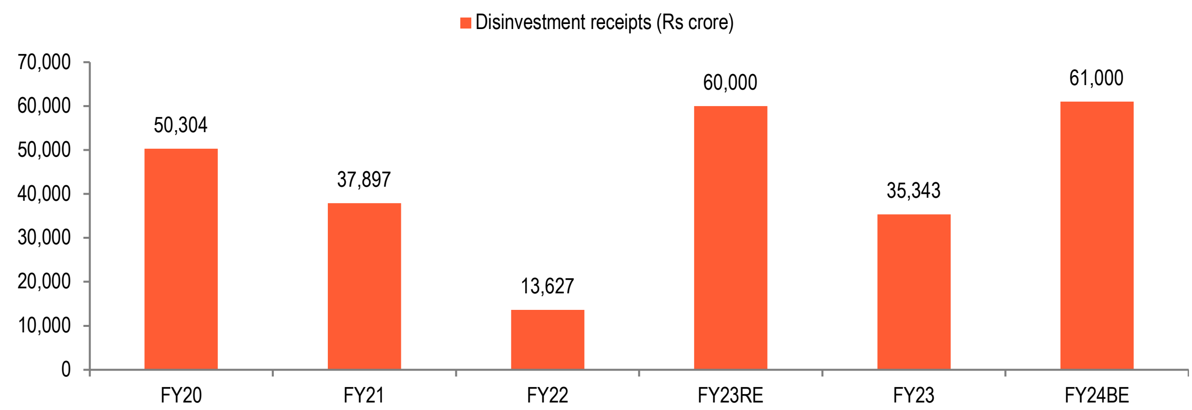
Figure 2: Centre's net tax revenue higher than projected in FY23



Source: CEIC, Bank of Baroda Research

Lower non-debt capital receipts: Overall non-debt receipts have come in sharply lower at Rs 72,187 crore, compared with Rs 83,500 crore estimated in the revised estimates of the budget. The shortfall is mainly on account of significant miss in the disinvestment target. Disinvestment proceeds for FY23 have come in at Rs 35,343 crore compared with RE of Rs 60,000.

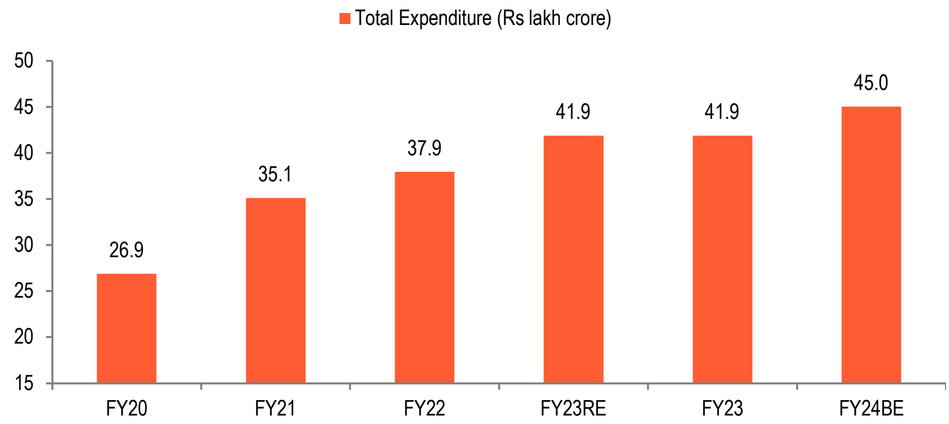
Figure 3: Centre's disinvestment receipts fall short of target



Source: CEIC, Bank of Baroda Research

Expenditure broadly meets estimates: With the help of higher revenue growth, government was able to meet the spending targets and still lower the fiscal deficit. Within this, while revenue expenditure target fell short of Rs 6,946 crore, capex overshot by Rs 8,551. This implied overall slippage of Rs 1,605 crore. Thus, revenue spending came at Rs 34.5 lakh crore (RE: Rs 34.6 lakh crore) while capex came in at Rs 7.4 lakh crore (RE: Rs 7.3 lakh crore). Amongst the subsidies, savings from food (Rs 14,392 crore) and petroleum (Rs 2,354 crore), were offset by higher payments on account of fertilizer subsidy (Rs 26,119 crore). As a result, subsidy account saw a slippage of Rs 9,374 crore.

Figure 4: Centre's total expenditure in line with RE



Source: CEIC, Bank of Baroda Research

Amongst major ministries, more than projected decline was noted in spending by ministry of Agriculture (-11.9% versus RE of -3.2%), consumer affairs (-7.4% versus -3.3%), health (-10.3% versus -6.3%). less than projected spending was also done by ministry of defence (14.5% versus 16.8%), education (20.9% versus 24.3%), and rural development (10% versus 12.8%). On the other hand, ministry of road & transport met their spending target, while ministry of chemical and fertilizer, and finance overshot their targets.

Table 1: Ministry-wise expenditure

Ministries (%YoY)	FY23 provisional	FY23 RE
Ministry of Agriculture and Farmer's Welfare	-11.9	-3.2
Ministry of Chemicals and Fertilisers	63.8	47.1
Ministry of Consumer Affairs, Food and Public Distribution	-7.4	-3.3
Ministry of Defence	14.5	16.8
Ministry of Finance	7.9	6.9
Ministry of Health and Family Welfare	-10.3	-6.3
Ministry of Home Affairs	11.0	14.3
Ministry of Education	20.9	24.3
Ministry of Petroleum and Natural Gas	437.3	488.9
Ministry of Road Transport and Highways	75.7	75.7
Ministry of Rural Development	10.0	12.8

Source: CEIC, Bank of Baroda Research

Outlook for FY24: Considering that both real GDP and inflation is expected is come down in FY24, we also estimate moderation in nominal GDP in the current fiscal year. From 16.1% in FY23, we expect it to slow down to 11-12%, although this is still higher than government's 10.5% target. Further, as inflation comes down, indirect tax collections will get impacted and we might see some moderation on that account as well. Direct taxes have a downside risk if our economic growth slows more than anticipated, in the wake of global growth slowdown. As of now, we maintain that expenditure target will be met in FY24, thus while remaining cautious we maintain that fiscal deficit target of 5.9% for FY24.

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