SBI RESEARCH

ECOWRAP

Issue No. 55, FY23
Date: 17 Jan 2023

FISCAL DEFICIT FOR FY24 IS LIKELY TO BE SET CLOSE TO 6.0% OF GDP, NET MARKET BORROWINGS AT RS 11.7 LAKH CRORES: A LOWER DEFLATOR COULD MAKE THINGS DIFFICULT

The budget FY24 presents a challenge before the Government to stick to the road map for fiscal consolidation, amidst a global environment of declining inflation. **For India, this could make things difficult to set a nominal GDP number significantly higher than 10%, with a deflator ~3.5%. But this could also mean a higher GDP growth than anticipated at ~6.2%.**

For FY23, total receipts of the Government would be higher than BE by around Rs 2.3 lakh crore, on account of higher direct tax receipts (~Rs 2.2 lakh crore), higher GST receipts (Rs 95,000 crore) but lower dividends (~Rs 40,000 crore), lower fuel tax net of cess (Rs 30,000 crore) and lower disinvestment receipts (~Rs 15000-20,000 crore). Meanwhile, expenditure is likely to be on the higher side of the BE by around Rs 3 lakh crore on account of higher subsidy bill and additional spending announced by the Government. Taking this into account, fiscal deficit of the Government in FY23 is expected to come at Rs 17.5 lakh crore. However, higher nominal GDP growth (15.4%) estimates will help in keeping the fiscal deficit at 6.4% of the GDP.

In FY24, we assume the Government expenditure is likely to increase by around ~8.2% over FY23 estimates to Rs 46.0 lakh crore. Subsidy bill which increased significantly in FY23 is estimated to be reduced in FY24 to around Rs 3.8-4.0 lakh crore and capital expenditure is expected to grow by 12%. Meanwhile, receipts (minus borrowing and other liabilities) are expected to grow by ~12.1% with tax revenue receipts growth likely at 11.0%. With nominal GDP growth at 10%, tax buoyancy is thus expected at close to 1.1 compared to expected tax buoyancy of 1.5 in FY23.

Thus, fiscal deficit for FY24 is estimated at around Rs 17.95 lakh crore or 6.0% of GDP in FY24, thereby resulting in fiscal consolidation of 40 bps from the current fiscal. As far as borrowing is concerned, we believe net market borrowing of the Centre in FY24 will be around Rs 11.7 lakh crore and with repayments of Rs 4.4 lakh crore, gross borrowing are expected at Rs 16.1 lakh crore. We believe switch of ~Rs 50,000 crore is also likely to be announced.

With higher tax devolution from the Centre, the states are likely to borrow around Rs 8 lakh crore in FY23, lower than earlier anticipated. In FY24, the overall gross borrowing by Centre and States is likely to be Rs 24.3 lakh crore (Rs 22.2lakh crore in FY23) and net borrowings Rs 17.0 lakh crore (Rs 16.7 lakh crore in FY23). We further believe that the Government will continue to rely on small saving schemes (Rs 5 lakh crore likely in FY24).

GoI can give a hard push to SSY (Sukanya Samriddhi Yojana), through encouraging fresh registrations in a mission drive mode, allowing one time registrations for all leftover cases up to 12 years. A smooth borrowing program would require the RBI to issue papers by matching the profile of redemption of Government paper. A demand for the mid segment has to be created to keep the pressure off the 10-year segment by doing OMO in the mid-segment. **Historically, during the rate easing cycle (2015-mid 2018), the spread between the repo and G-sec averaged to 70 bps, thus with terminal repo rate expected at 6.5%, 10 year G-sec yield could decline to 7.1%-7.20%.**

BUDGET 2023-24: FISCAL ARITHMETIC

- Global economy continues to slowdown with recessionary risks looming large amidst the synchronised tightening. Meanwhile, domestic economic activity is likely to moderate, however India continues to remain the bright spot supported by its strong macro fundamentals. The budget FY24 presents a challenge before the Government to provide environment for supporting growth while at the same time allowing for gradual fiscal consolidation so as to reach the target of 4.5% of GDP by FY26.
- As per the first advanced estimates, real GDP will grow by 7.0% in FY23, and nominal GDP growth is expected at Rs 273.1 lakh crore (+15.4%).

Fiscal Estimates

Rs lakh crore	FY23 BE	FY23 (SBI)	FY24 (SBI)	% yoy
GDP	258	273	300	9.8
Receipts (Rev+Cap-Borrowing)	22.8	25.0	28.1	12.1
Tax Revenue	19.3	22.1	24.5	11.0
Non-tax Revenue	2.7	2.3	2.8	19.7
Capital Receipts - Borrowing & other liabilities	0.8	0.6	0.7	21.7
Expenditure	39.4	42.5	46.0	8.2
Fiscal deficit	16.6	17.5	18.0	-
Fiscal Deficit (% of GDP)	**6.4**	**6.4**	**6.0**	

Source: SBI Research

- For FY24, real GDP growth is likely to be around 6.2% and with deflator expected at 3.6%, nominal GDP would grow by 9.8% to Rs 300 lakh crore in FY24 budget.
- Monthly data from CGA indicates that overall expenditure has already reached 61.9% of the BE till Nov'22, with revenue expenditure at 62.5% of BE and capital expenditure at 59.6% of BE. This is higher than what was achieved during the same time last year.
- Meanwhile, total revenues of the Government are 64.6% of the BE during Apr-Nov'22 leading to fiscal deficit of 58.9% of the BE till Nov'22, compared to 46.2% of BE till Nov'21. According to our calculations, in FY23 total receipts of the Government would be higher than BE by around Rs 2.3 lakh crore, on account of higher direct tax receipts (~Rs 2.2 lakh crore), higher GST receipts (Rs 95,000 crore) but lower dividends (~Rs 40,000 crore), lower fuel tax net of cess (Rs 30,000 crore) and lower disinvestment receipts (~Rs 15000-20,000 crore).
- Meanwhile, the expenditure is likely to be on the higher side of the BE by around Rs 3 lakh crore on account of higher subsidy bill and additional spending announced by the Government.
- **Taking this into account, fiscal deficit of the Government in FY23 is expected to come at Rs 17.5 lakh crore. However higher nominal GDP growth estimates keeps the fiscal deficit at 6.4% of the GDP.**
- In FY24, we assume the Government expenditure may increase around ~8% over FY23 estimates to Rs 46.0 lakh crore. Subsidy bill which increased significantly in FY23 is likely to be capped in FY24 to around Rs 3.8-4.0 lakh crore and capital expenditure is expected to grow by at least 12%.
- Meanwhile, receipts (minus borrowing and other liabilities) are expected to grow by ~12.1% with tax revenue receipts growth likely at 11.0%. **Thus, fiscal deficit for FY24 is estimated at around Rs 17.95 lakh crore or 6.0% of GDP in FY24, thereby limiting the fiscal consolidation to 40-50 bps from the current fiscal.**

MARKET BORROWING

- We believe net market borrowing of the Centre will be around Rs 11.7 lakh crore and with repayments of Rs 4.4 lakh crore gross borrowing are expected at Rs 16.12 lakh crore. We believe switch of ~Rs 50,000 crore is also likely to be announced. With higher tax devolution from the Centre, the states are likely to borrow around Rs 8 lakh crore in FY23, lower than earlier anticipated.

Market Borrowings (Rs lakh crore)

	FY22	FY23 (Estimates)	FY24 (Estimates)
Centre			
Gross Borrowing	11.3	14.2	16.1
Repayments	2.8	3.1	4.4
Net Borrowing	8.5	11.1	11.7
State			
Gross Borrowing	7.0	8.0	8.2
Repayments	2.1	2.4	2.9
Net Borrowing	4.9	5.6	5.3

Source: SBI Research

- For FY24 state borrowing is expected at Rs 8.2 lakh crore on a gross basis and Rs 5.3 lakh crore on a net basis.
- **The overall gross borrowing by Centre and States is likely to be Rs 24.3 lakh crore (Rs 22.2 lakh crore in FY23) and net borrowings Rs 17.0 lakh crore (Rs 16.7lakh crore in FY23).**
- **Regarding the financing of fiscal deficit, the Government will continue to rely on small saving schemes (Rs 5 lakh crore likely in FY24). It can give a hard push to SSY (Sukanya Samriddhi Yojana), through encouraging fresh registrations in a mission drive mode, allowing one time registrations for all leftover cases up to 12 years. Roping in Business Correspondent (BC) channel partners by banks can be extremely useful since banks have a low share vis-à-vis Post offices (~16% in number of SSY accounts though ~30% share in deposits).**
- Even net issuance of T-Bills to the tune of Rs 50,000 crore is expected.
- **A smooth borrowing program would require the RBI to issue papers by matching the profile of redemption of Government paper. Ideally, papers up to 7 years in the short term segment, 10-15 years in the mid segment and beyond 15 years in the long term segment could be the ideal mix of meeting the borrowing appetite of market players**. Currently, commercial banks and insurance companies account for 64.2% of the outstanding G-sec papers (Sep'22). For short/mid-term segment, Banks, Mutual Funds (debt & hybrid), General Insurance Companies and Life Insurance Companies (ULIP & Hybrid) are the potential players. EPFO, Pension Fund, Other Provident Fund and Life Insurance Companies owing to their long liability profile are the players in the long term segment.

- A demand for the mid segment has to be created to keep the pressure off the 10-year segment by doing OMO in the mid-segment. From the redemption profile of the Government till FY43, we estimate that FY29, FY30, FY37 & FY38 have more legroom to absorb redemption.
- A quarterly borrowing calendar, in place of half yearly calendar on the lines of T-bill and SDL calendar will provide Government the flexibility to manage borrowing in line with evolving revenues and expenditures.
- Switch auctions may be used proactively. This will help market participants to take into ac-count lower maturities during next financial year (FY24) and increase demand for securities during FY23.

Sector wise recommendations for the Budget 2023-24

- The Government should focus on agriculture and rural economy development alongside infrastructure development. Some of the key sector wise reforms that should be addressed in the forthcoming budget are given below.

Agriculture

- 60% of Agri credit, out of the outstanding bank credit of about Rs 15.9 lakh crores to the Agri & Allied sector, is by way of KCCs. Renewal for KCC loans requires payment of both principal and interest, to ensure interest subvention. It is proposed that the payment of interest should be enough condition for renewal of KCC loans of small and marginal farmers for amounts up to Rs 3 lakhs.
- A credit guarantee scheme for agriculture may also be considered.
- Minimum Support Price may be converted to Floor Price of Auction on e-National Agriculture Market (eNAM).

Infrastructure Financing

- Banks and Institutions may be allowed to raise tax free infrastructure bonds (preferred tenor 15-20 years) and the exclusive purpose of such resources should be for Infrastructure project finance.
- Infrastructure financing companies may be allowed to issue tax-paid bonds to tap funding from retail investors. Such structure while being attractive to the retail investors will also ensure that the Govt. is not losing on its tax revenue.

Legal

- Govt. may consider extending **Prepack Insolvency Regime** to all eligible (Sec 29 A compliant) Corporate Debtors irrespective of their size. This will not only facilitate a higher percentage of resolutions through resolution plans but also save many Corporate Debtors ending into liquidation process leading to loss of jobs and value of assets.
- To make insolvency regime much more investor friendly and attract more interest from foreign investors in bad assets, cross border insolvency framework must be introduced without any further delay as it is appearing as the major hurdle in resolution of CIRP cases with cross border assets (e.g. Jet Airways).

Power

- Replacing of cross subsidy on power tariffs may be phased out and replaced with Direct Benefit transfer by states to individuals (which is also envisaged under amendments to electricity act). This would improve the viability of the sector and draw in investments in a big way.
- GST may be reduced in Coal as input credit is not available for the GST paid in coal.
- Land acquisition issues continue to impact projects. More projects may be bid out under the solar park model wherein the state Government may acquire land, set up the park and transmission infrastructure and then invite bids for developers to set up projects.

Taxation

- Under 80TTB interest income from deposits by senior citizen (Savings bank accounts, fixed deposits, recurring deposit accounts) up to Rs 50,000 is exempted from income tax. This threshold may be increased to Rs 75,000 / Rs 1 lakh which still will have much lower fiscal cost.

Contact Details:
Dr. Soumya Kanti Ghosh
Group Chief Economic Adviser
State Bank of India, Corporate Centre
M C Road, Nariman Point, Mumbai - 400021
Email: soumya.ghosh@sbi.co.in,
gcea.erd@sbi.co.in
Phone:022-22742440
: kantisoumya