FORTUNA PR
THE ECONOMIC TIMES
CIRRUS
Copyright - 2022 Bennett, Coleman & Co. Ltd. All rights reserved
Tue, 24 Jan-23; Economic Times - Mumbai; Size : 86 sq.cm.;
Circulation:227412; Page : 12

Budget's Twin Targets: Higher Capex, Lower Fiscal Deficit

Ramnath Krishnan
Group CEO, ICRA

With the budget just a week away, expectations are running high. Several challenges abound owing to slowing global growth, an uneven domestic recovery and the need to continue on the fiscal consolidation path.

The budget has the unenviable task of having to address these issues simultaneously. A balance is sought to be struck between supporting growth via augmentation of productive spending while sticking to path of fiscal consolidation as the global and Indian economies move away from a crisis situation and closer to business as usual.

Since mid-FY22, revenues have surprised on the upside. However, the coming fiscal year is likely to be marked by moderation in growth of nominal GDP as well as government's tax receipts, which the Budget Estimates (BE) for FY24 are likely to acknowledge.

Given this sobering feature, lower subsidies hold the key to striking requisite balance between enhancing productive spending and fiscal consolidation. We believe that a sharp fall in food and fertiliser subsidies in FY24 relative to FY23 will afford the government breathing room on the spending side. This will aid a double-digit growth in capex spending, taking the budgeted amount to about ₹8.5-9.0 trillion from the already healthy ₹7.5 trillion expected in FY23, with higher allocations likely for the key infrastructure segments like roads, railways, urban infrastructure, and power.

Within the stepped-up capex we anticipate that the government would focus on the Gati Shakti and National Infrastructure Pipeline (NIP) targets. Further, dedicated allocations for specified large infrastructure projects such as High-Speed Rail, Jal Jeevan Mission, Bharat Mala, Sagar Mala, Smart Cities, and Inland Waterways development could help expedite these programmes. Additionally, incremental allocations towards NaBFID and the NIIF would help them to ramp up their lending/investment to such programmes.

In addition, the government may continue to provide a push to affordable and rental housing. It could also consider increasing the allocation for an expanded Production Linked Investment (PLI) scheme to support the domestic manufacturing sector as well as generate employment, to build on the nascent success seen so far.

FISCAL MATH

Fiscal deficit is projected to dip to ₹17.3 tn in FY24 from ₹17.5 tn expected in FY23

Incentivising debt raising by some infra-PSUs similar to infrastructure bonds/tax-free bonds may also support funding availability for the sector. Notably, with improved profitability and asset quality, the capital requirements for public banks are negligible and the GoI is unlikely to budget capital allocation for FY24.

Additionally, we anticipate that the interest-free capex loan to states would continue in FY24. The actual offtake of funds under this scheme by the state governments in FY23 is likely to influence its allocation for next year.

Owing to a sharper increase in capex vis-à-vis the low single-digit growth expected in revenue, the quality of the GoI's spending is expected to improve. However, interest payments may continue to usurp a quarter of total expenditure in FY24, highlighting the need to limit borrowings, going ahead.

On balance, we anticipate that a moderate fiscal correction would be attempted by the GoI in the budget. We are hopeful of a fiscal deficit target below 6.0% mark, which would depend on factors such as the market-driven level of fertiliser subsidy, as well as disinvestment receipts.

We project the GoI's fiscal deficit to dip to ₹17.3 trillion in FY24 from the ₹17.5 trillion expected in FY23. However, as a proportion of GDP, the fiscal deficit is likely to moderate considerably to 5.8% in FY24 from 6.4% projected in FY2023. Moreover, the quality of fiscal deficit is expected to jump in FY24 vis-à-vis FY23, following the relatively faster growth foreseen in the GoI's capex.

Benefitting from the Centre's fiscal consolidation, we are hopeful the net G-sec issuance will display a welcome decline to ₹10.4 trillion in FY24 from the ₹10.9 trillion estimated for FY23. However, a step up in State capex would push up State Government security issuance in FY24. Moreover, a sharp step up in redemptions of both the Centre and the states would certainly enlarge the gross general government borrowing figure in FY24.