STABLE HOUSEKEEPING

FM STICKS TO FISCAL ROAD MAP, TARGETS DEFICIT OF 5.9% IN FY24

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New Delhi, 1 February

BUDGET TRENDS OVER THE YEARS

(All figures in ₹ trillion unless specified otherwise)

	FY22 BE	FY22 Actual	FY23 BE	FY23 RE	FY24BE
Net tax revenue	15.45	18.05	19.35	20.87	23.31
Non-tax revenue	2.43	3.65	2.69	2.62	3.02
Capital receipts (including divestment)	1.75	0.15	0.65	0.60	0.61
Revenue expenditure	29.29	32.01	31.94	34.59	35.02
Capital expenditure	5.54	5.93	7.50	7.28	10
Total Budget size	34.83	37.94	39.45	41.87	45.03
Fiscal deficit	15.07	15.84	16.61	17.55	17.87
(Fiscal deficit as % of GDP)	**(6.8)**	**(6.7)**	**(6.4)**	**(6.4)**	**(5.9)**

Source: indiabudget.gov.in | BE: Budget Estimate, RE: Revised Estimate

Union Finance Minister Nirmala Sitharaman on Wednesday said in her Budget speech the Central government was expected to achieve its fiscal deficit target of 6.4 per cent this fiscal year (FY23), and is targeting a fiscal deficit of 5.9 per cent for FY24.

"In my Budget Speech for 2021-22, I had announced we plan to continue the path of fiscal consolidation, reaching a fiscal deficit below 4.5 per cent by 2025-26 with a fairly steady decline over the period. We have adhered to this path, and I reiterate my intention to bring the fiscal deficit below 4.5 per cent of GDP by 2025-26," she said.

The fiscal deficit is the difference between the government's expenditure and revenues when the former is higher.

"To finance the fiscal deficit in 2023-24, net market borrowings from dated securities are estimated at ₹11.8 trillion. The balance financing is expected to come from small savings and other sources. Gross market borrowings are estimated at ₹15.4 trillion," Sitharaman said.

Union Finance Secretary T V Somanathan said at the post-Budget press conference the Centre would not deviate from its borrowing target numbers, and any alteration in the fiscal deficit would be funded through other means, including the National Small Savings Fund, apart from the borrowing programme.

This is the third year in a row when the Centre is not amending the Fiscal Responsibility and Budget Management Act, which governs budget making and deficit targets.

Responding to a question by Business Standard on the matter, Sitharaman said two years of the pandemic and a year of supply-chain disruption due to war in Europe required flexibility.

The finance ministry said in the Fiscal Policy Statement, tabled along with the Budget: "The Budget for FY2023-24 is being presented amidst the ongoing geo-political tensions, looming fear of economic recession in major economies, resurgence and spread of CoVID-19 in China, among others. Further, medium-term projections amidst unprecedented global turbulence and headwinds may not be reliable. Hence, fiscal projections for the year FY2024-25 and FY2025-26 are not being placed alongside this Statement."

Rahul Bajoria, head of emerging Asia economics, Barclays, said: "The Budget has set realistic revenue targets and prioritised expenditure prior to an election year, and proposed modest fiscal consolidation, along expected lines."

In absolute terms, the Revised Estimate (RE) for the fiscal deficit for FY23 is ₹17.55 trillion, as against the Budget Estimate (BE) of ₹16.61 trillion. However, it will still be 6.4 per cent of GDP because nominal GDP for this year is now expected to be ₹273.07 trillion as against the earlier assumption of ₹258 trillion.

The budget size for FY24 (total expenditure) will be ₹45 trillion as against the RE of FY23 of ₹41 trillion. The BE for FY23 was ₹39 trillion (see chart).

The BE for revenue expenditure for FY24 is ₹35 trillion as against the FY23 RE of ₹34.59 trillion and BE of ₹31.9 trillion. This means that most of the increase in expenditure for the next year is in capital expenditure.

Sitharaman said the Centre would continue its focus on capital expenditure, which had been increased to ₹10 trillion for FY24, as against the FY23 RE of ₹7.3 trillion and BE of ₹7.5 trillion. This will include the continuation of 50-year, interest-free loans to states for their capex needs. That support has been increased by ₹30,000 crore for FY24 to ₹1.3 trillion.

This was the third consecutive Budget to set a capex target increase of more than 30 per cent over the preceding year.

"As expected, the FY2023 fiscal deficit was maintained at 6.4 per cent of GDP with an absolute overshoot being absorbed by higher nominal GDP. The fiscal deficit and borrowing figure for FY24 are slightly higher than our forecasts, given the welcome spike in capex," said Aditi Nayar, chief economist, ICRA.

Barclays' Bajoria said while revenue expenditure was expected to be broadly flat amid a falling subsidy bill, capital expenditure growth remained the key priority.

The Centre's two big-ticket expenditure items — food and fertiliser — are tipped to drop sharply in FY24 after rising in a big way in FY23.

"The Budget has ticked all the right boxes and looked at managing market aspirations and realities on the ground continuing with fiscal consolidation while also ensuring that money is spent towards capital creation. A fiscal deficit of 5.9 per cent of GDP along with conservative growth in tax receipts seems to be achievable and in line with market expectations," said Sanjay Kumar, partner, Deloitte India.

On the revenue front, net tax revenue for FY24 is budgeted at ₹23.3 trillion as against the FY23 RE of ₹20.87 trillion and BE of ₹19.35 trillion. Non-tax revenue is budgeted at ₹3.02 trillion in FY24 as against the FY23 RE of ₹2.62 trillion.