

11.7% nominal GDP growth forecast more than Budget estimate

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The government appears to be far more conservative than the monetary policy committee (MPC) of the Reserve Bank of India (RBI) in its projection of nominal economic growth for 2023-24, on the basis of which major figures such as taxes and fiscal deficit are estimated in the Budget.

The MPC, at its meeting that concluded on Wednesday, pegged the nominal GDP growth rate at 11.7 per cent for the year. Though RBI's panel did not give nominal GDP growth, it pegged real economic growth at 6.4 per cent and retail price inflation at 5.3 per cent. On the other hand, the Budget assumed nominal GDP growth at 10.5 per cent, to ₹301.75 trillion for FY24, from ₹273.08 trillion for the current financial year in the first advance estimates. Though the budget did not give a break up of this into real economic growth and inflation, finance ministry officials said the former is taken at 6.5 per cent, the latter at 4 per cent.

If MPC's projections hold good, various figures in the Budget would change when the revised estimates are worked out. For instance, the Budget projected almost the same growth for tax receipts, at 10.44 per cent, as was taken for nominal GDP.

Even this tax revenue growth was seen as conservative, as there would be buoyancy of tax revenues too. But at the very least, tax revenues should grow by 11.7 per cent if MPC projections come true.

At 11.7 per cent, taxes would yield ₹33.99 trillion instead of ₹33.61 trillion projected in the Budget.

Together with taxes, various other ratios such as fiscal deficit would also change. Even when assuming that expenditure will rise proportionately with tax receipts and fiscal deficit will remain at ₹17.87 trillion, projected in the Budget for 2023-24, the gap between the expenditure and receipts of the government would be 5.8 per cent instead of 5.9 per cent given in the Budget.

Not everyone agrees with MPC's pro-

jections. For instance, HDFC Bank in a note said, "We see a high chance of this forecast (economic growth of 6.4 per cent) being revised down going forward. We expect GDP growth at 5.8-6 per cent in FY'24."

MPC assessed that external and internal economic developments will lead to more economic growth and less inflation than projected in the previous policy.

As such, the committee projected the consumer price index-based inflation rate to be 6.5 per cent for the current financial year and 5.7 per cent for the fourth quarter from earlier forecasts of 6.7 per cent and 5.9 per cent respectively.

In fact, a key assumption also under-



GDP GROWTH AT CURRENT PRICES (in%)

2018-19	10.6	
2019-20	6.2	
2020-21	-1.4	
2021-22	19.5	
2022-23*	15.4	
2023-24**	10.5	
2023-24***	11.7	

Sources: MoSPI, MPC, and Budget for 2023-24; Note: *First Advance Estimates, **Budget assumption, ***Derived from MPC projections

went a change. The MPC had, in December, assumed the Indian crude basket to be \$100 a barrel on an average. Now the projections are based on \$95 billion a barrel. This price has been less than \$90 billion a barrel since October. It stood at \$80.76 till 7 February. The average price had stood at \$80.92 in January. MPC projected inflation to be 5.3 per cent for the next financial year under the assumption of normal monsoon. It had not projected the full year inflation in the previous policy. However, it retained projections for Q1 at 5 per cent and Q2 at 5.4 per cent. Inflation for Q3 and Q4 were pegged at 5.4 per cent and 5.6 per cent, respectively.