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The Union Budget 2023 was announced against the backdrop of a highly uncertain global economic outlook and the overhang of public debt created during the COVID pandemic. Given that the Central government has been spending 44-45 percent of its net tax revenue on paying the interest on debt, it was critically important that the government did not increase its "spending" disproportionately this year by taking recourse to higher borrowings. It was heartening to see that in the Budget 2023, the government strictly followed the fiscal glide path, lowered its fiscal deficit (as percent of GDP) to 5.9 percent in FY24 from 6.4 percent in FY23 and reiterated its commitment to reduce it below 4.5 percent by FY26.

A reduction in the fiscal deficit during FY24 was achieved through subsidy rationalisation. While the spending on petroleum subsidy was lowered by 75.4 percent, that on food subsidy was reduced by 31.3 percent and on fertiliser subsidy by 22.3 percent on year. A lower burden on account of food subsidy was achieved by ending the free food grain disbursements under the Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY) in 2022. However, allocations have been extended under the National Food Security Act, by which the government will provide free food grains to the beneficiaries of the National Food Security Act for another year. Still the overall spending on food subsidies will be lower in FY24. A reduction in fertiliser subsidy was driven by moderation in oil prices and the government's revised gas procurement policy for fertiliser companies.

Higher Capex

Furthermore, the government has protected the quality of spending in the Budget 2023 by marginally increasing the current spending by 1.2 percent (y-o-y) but significantly increasing the capital spending (capex) by 37.4 percent (y-o-y) to Rs 10 trillion. As in the past few years, maximum amounts of capex are being allocated to roads, transport and railways followed by defence, communication and housing. Hopefully, state governments as well as the private sector would start spending sizeably on capital projects during FY24. So far, the higher public spending of the past two years has not 'crowded in' the private spending due to the uneven recovery in consumption demand and uncertain global outlook. However, state governments have been incentivised to undertake more capex by continuing the 50-year

interest-free loans for one more year to spur investment in infrastructure, with a significantly enhanced outlay of Rs 1.3 trillion.

The underlying 'macroeconomic framework' as well as the 'revenue growth assumptions' on which this Budget is based are quite realistic. The estimated growth of 10.4 percent (y-o-y) in gross tax revenue is in line with the assumption of 10.5 percent growth in nominal GDP in FY24 and the estimated growth of 15.2 percent in non-tax revenue receipts is realistic as it is based on the 30.1 percent growth in spectrum sales.

Household Purchasing Power

In the domain of personal taxes, by increasing the tax rebate, changing the income tax slabs, reducing the surcharge for higher income groups, extending the benefit of the standard deduction to pensioners under the new tax regime and increasing the limit for tax exemption on leave encashment for non-government salaried employees, the government has tried to give a great boost to the new tax regime and also improve the post-tax purchasing power of the household sector. All these measures have good potential to boost the consumption demand, provided there is a good pick-up in the private capex, which will create more jobs.

The bond market expectation for the gross market borrowings was in the band of Rs 16-16.5 trillion but the actual number in today's Budget was Rs 15.4 trillion. Hence, there was no negative surprise on this front. Moreover, robust financing via small savings and lesser reliance on market borrowings buoyed the sentiment in the fixed income markets. Going ahead, likely benign prints for food and fuel inflation coupled with a fiscally conservative government augur well for the interest rate trajectory and investment climate.

Green Initiatives

In this Budget, the government has explicitly expressed its focus on "green". There is a proposal to scrap vehicles that are more than 15 years old. According to the Finance Minister, the government is actively trying to reduce the carbon intensity of the economy by focusing on green energy, green farming, green mobility, green buildings, green equipment and policies for the efficient use of energy across various economic sectors. Schemes regarding mangroves and coastal transport have been announced, which have green implications. Other allocations such as those related to batteries, energy storage and natural farming reflect the government's green focus.

While the Budget is on the right path directionally, its success to a large extent depends on the evolving global situation. If global economic growth slows significantly during FY24, then India is likely to face adverse impacts through the trade, investment and financing channels. In this scenario, only a dedicated approach to strengthening the domestic drivers of growth through necessary structural reforms will help us minimise the growth losses.

Rupa Rege Nitsure is Group Chief Economist, L&T Financial Services. Views are personal and do not represent the stand of this publication.

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