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Fiscal Update: October 2023

A slowing nominal growth, an increased fertilizer/LPG subsidy outgo and NREGA work demand poses upside risks to the fiscal trajectory. However, this is partly offset by brightening direct tax collections.

The gross tax receipts remained buoyant in September thus translating to improvement in net taxes with Centre even after accommodating speedier devolution to states.

- Gross tax collection - net of refunds but before devolution to states (Apr-Sep'23) grew at 16.3%YoY: direct taxes at 25.4% YoY and indirect taxes at 6.5% YoY. Within direct taxes collections, Corporation tax was up 20.2% YoY and Income tax was up 31.1% YoY.
- Direct tax collections release on PIB earlier this month for receipts up to 9th Oct had showed collections (net of refunds) growing by 21.8% YoY on the back of improved income tax collections.
- Indirect taxes grew at 6.5% YoY supported by good growth in customs (up 23% YoY) and GST (up 8.7%). Contraction in excise collections at 10.8% YoY getting milder as the effect of tax cuts in May'22 continue to fade.
- Improvement in gross taxes has accommodated speedier devolution of tax to states (one additional instalment in June along with increase in pace of devolution since July). This has helped States to support capex spending and to finance development projects. Net tax collections after adjusting for this continues to grow at a good pace of 14.7% YoY.

Non-tax revenues boosted by the higher RBI dividend in May and despite slower disinvestment, have seen total receipts grow at 17.7% YoY (better than budgeted growth of 10.6% YoY)

- RBI dividend of Rs.874.2 bn. was far higher than the full year dividend budget of Rs.480 bn for RBI, Nationalized Banks and FIs.
- Disinvestment receipts at Rs.69.5 bn. (bulk of this coming from OFS of Coal India Ltd.) are seen slower compared to budget target of Rs.610bn.

The overall expenditure in H1 grew 16.2% YoY as strong capex was supplemented by decent revenue spends.

- Revenue expenditure was up 10% YoY and excluding subsides and interest spends showed growth of 11% YoY.
- Revenue spends on subsides (fertilizer), defence services, pensions, rural development, health and family welfare, projects related to supply of piped water to HHs showed good increases.
- Cabinet approved fertilizer subsidy for Kharif season at Rs.1.08 tn. (P&K: 380 bn and Urea: 700 bn). The higher fertilizer uptake during this Kharif compared to previous two years and the recent increase in crude prices point at full year subsidy exceeding the budget estimate of Rs.1.75 tn. by around Rs.0.45 tn.
- Capital expenditure rose 43% YoY, which was in line with the budget capex thrust on road and railway spending. Road, railways and defence together account for 74% of the total capex spends.
- The Centre has sanctioned Rs.0.94 tn. to states in H1FY24 for capital investment under special assistance to states as long-term interest free loans and states have started drawing funds under this head.

An upturn in direct tax collections has provided a breather for now, however, slowing nominal growth, and disinvestment challenges do pose a concern.

- Non-debt capital receipts are budgeted to come from disinvestment of Govt. stake (Rs.510 bn.), monetization of national highways (Rs.100 bn.) and recoveries of loans (Rs.230 bn.) The Centre could garner Rs.80 bn. (up to end Oct) from disinvestment (bulk of this coming from OFS of Coal India Ltd., Rail Vikas Nigam Ltd., SJVN Ltd. and HUDCO).
- On the expenditure side, slippages are likely on fertilizer subsidy outgo (as indicated above), spends on NREGA exceeding budgetary allocation of Rs.600 bn. by around Rs.470 bn. should the demand for work follow the pattern seen last year in the remainder of this fiscal. NREGA spends at end Oct at Rs.706bn. have already exceeded the budget allocation of Rs. 600 bn. for the full year.
- Nominal GDP growth this fiscal is likely to be lower at around 8.8% on softer deflator inflation following shaper contraction in WPI inflation. This itself is likely to add around 12 bps to the budgeted fiscal deficit of 5.92% of GDP.
- Potential additional outgo on fertilizer, LPG subsidy, NREGA and other departments related to pensions, Defence services and Posts is partially offset by higher than budgeted dividend payout from RBI and likelihood of direct tax collections exceeding budgeted targets. This is likely to add further 16 bps on the fiscal (as % GDP).
- The significant upturn in direct tax collections since August offers a glimpse of optimism for surpassing the budgeted targets.

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