Mizuho Flash: India Budget

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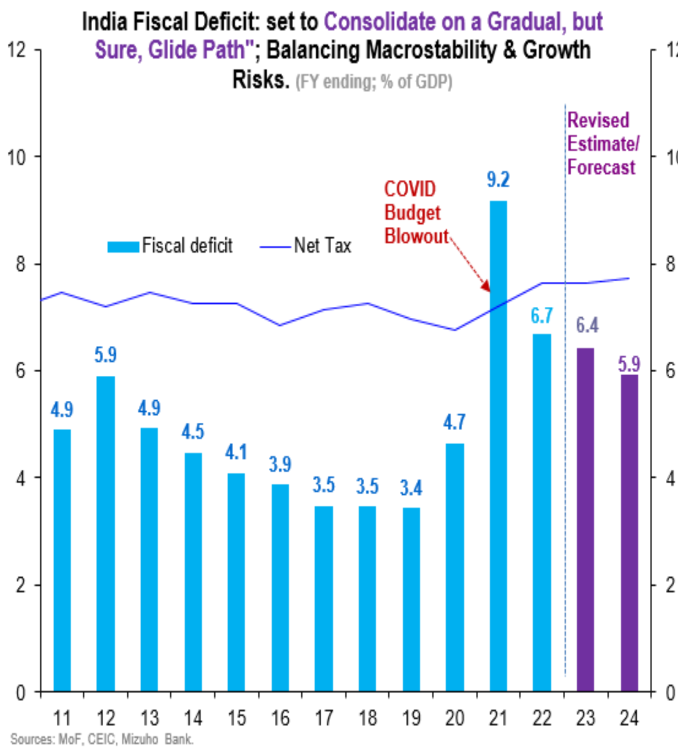
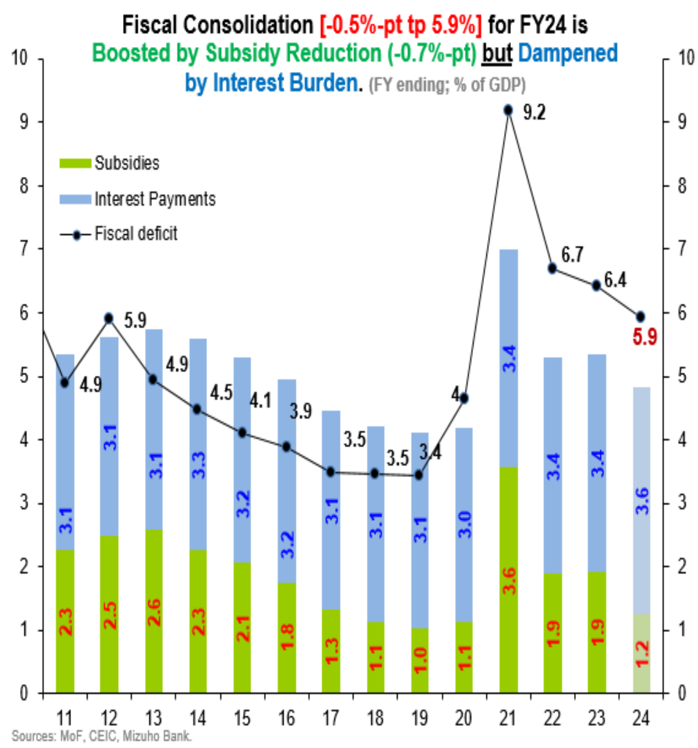
India Budget: Right, But Restrained, Notes





- The **Union Budget for FY23-24 struck the right notes**; **balancing growth-stability trade-offs**; rejecting **populist temptations** ahead of elections to, and; **committing to inclusion and investments** that underpin medium-/longer-term growth potential. ***But*** somewhat **ambitious revenue targets highlight biding constraints and risks of slippage**.

- First off, what's encouraging is the **credible consolidation** by *cutting headline fiscal deficit by 0.5%-pts to 5.9%* of GDP for FY23-24 (from 6.4% in FY22/23); in line with our expectations of a **"sweet spot" sub-6% deficit target** that **strikes a balance between macro-stability and growth backstop**.

- Crucially, this **did not come at the expense of public investments** as **capex commitments were in fact raised to 3.3% of GDP** (INR10trln) from 2.7% of GDP for FY22/23. At a time when private sector demand (especially big-ticket investments) is at risk of lagging, this is critical public sector backstop that both buys time and boost underlying confidence.

- Whereas **a significant, 0.7%-pt** (of GDP) **reduction in subsidies** to 1.2% of GDP for FY23-24 (FY22/23: 1.9%) **helps to blunt otherwise binding trade-off between public investments and consolidation**. And this is welcome streamlining of otherwise burdensome fiscal drag. The caveat though is that global energy/commodity/food prices remain volatile, perhaps overstating the assurance of fiscal relief.

- What's more, **realistic nominal GDP growth target of 10.5%**, moderating substantially from 15.4% growth for FY22/23, concede **fading base effect boost**, and more worryingly, **gathering external headwinds**. Moreover, this *avoids unrealistic deficit reduction from "denominator" effects.*

- But the **glaring stretch in the Budget**, which is otherwise very grounded and constructive, is **that revenue assumptions appear to be rather ambitious**. Fact is, in stark contrast to tax revenue buoyancy in FY22/23, boosted by both robust real growth and subsidies blunting high inflation, FY23/24 tax collections are likely to be crimped by global headwinds mount and compromised discretionary spending.

- Which in turn **could take some wind out of optimism based on net borrowings being materially reduced** to 3.7% of GDP (INR11.028trln) from 4.0% in FY22/23 (INR11.058trln). What this means is that a bump up in future debt issuances to plug revenue gaps may soften bond markets later in 2023; despite post-Budget boost. And so **Budget optimism, while justified, may best be to be tempered**.

- Especially given that **widening Current Account deficit not only waters down the positives from a reduction in headline fiscal deficit**; but **may even amplify "twin deficit" vulnerabilities** against a backdrop of **global recession risks conspiring with elevated US interest rates**.

- Consequently, the **case for imminent and unimpeded gains in Indian asset markets and the rupee on account of fiscal boost are clearly overstated**; if not misguided. Admittedly, the fiscal stance helps with macro-stability. Nonetheless, the Budget is at **best market neutral beyond initial optimism**. Although, fiscal slippage and attendant downside risks continue to outweigh.

- On the broader policy front, measured **fiscal positives probably have no meaningful sway on the RBI**; with no fiscal boost to lean against or space to blunt tightening amid sticky and elevated inflation.

- The **Budget may be hitting all the right notes** … **but** *"it over till the fat lady sings"*, and meanwhile binding economic constraints mean that the **Budget may be restrained**; by revenues, and in terms of asset market and policy/economic boost.