NEW ZEALAND
FOREIGN AFFAIRS & TRADE
Manatū Aorere

APRIL 2023

India Economic Update

A MARKET INTELLIGENCE REPORT

Summary

- India’s economy – the fifth largest in the world – continues to perform strongly against global economic pressure, particularly relative to its peers with large economies. The Indian Government presented a Budget in February that builds on its second term economic policy agenda: large capital expenditure, especially on transport-related infrastructure, and maintaining macroeconomic stability though fiscal restraint.

Report

Economic Survey

The Indian Ministry of Finance's Economic Survey, released as a precursor to the Union Budget, provided an optimistic growth outlook, and emphasised the need for a continued focus on capital expenditure and fiscal consolidation. The Economic Survey's baseline projection for real GDP growth was 6.5 percent y-o-y for the fiscal year 2024, slightly higher than ANZ's forecast of 6 percent. The government's growth optimism in FY24 rests heavily on expectations of a recovery in private capital expenditure, driven by improved balance sheets, restored credit availability, and the government's own high levels of public capital expenditure. A combination of proactive measures by the government and the central bank have led to inflation moderating below 6 percent with the gap between India's Consumer Price Index and Wholesale Price Index narrowing. The Survey noted the effects of global economic pressures on India's economy, but credited India's strong external balance sheet and macro stability as helping to manage these pressures. It highlighted the need to watch external risks including slackening global growth, pressure on India's current account deficit from elevated global commodity prices and strong domestic demand in India.

Union Budget 2023–24

Finance Minister Nirmala Sitharaman presented the Union Budget for FY24 (year ending March 2024), on 1 February, the last full budget ahead of the 2024 general elections. The Budget was widely viewed as maintaining the government's longer term economic strategy, lifting capital expenditure and maintaining gradual fiscal consolidation, and reflecting its confidence in the direction of India's economic development, and grip on political power ahead of elections next year. Expenditure on infrastructure, agriculture, manufacturing and tax rationalisation are consistent with the government's direction in recent years. The big push on public capital expenditure was higher than expected, and perhaps compensates for lower levels of private capital expenditure.

Fiscal Consolidation

The government set a tighter fiscal deficit target of 5.9 percent of GDP for FY24, having met its FY23 fiscal deficit target of 6.4 percent of GDP.While higher tax revenues and solid nominal GDP growth offset the government's spending and helped it achieve its FY23 target, its optimistic nominal GDP growth forecast for the next financial year and associated variations in tax revenue could make it harder to achieve this target. A shortfall in its targeted capital expenditure could yield some fiscal savings however.

Higher Capital Expenditure

The government significantly raised its capital expenditure outlay to USD121 billion (3.3% of GDP) from an already elevated USD88 billion (2.7% of GDP) in FY23; a nearly 37.5 percent increase. Budget allocations included an extension of USD15 billion of interest-free loans to states' capital expenditure projects including road projects, ports and airports. Although public capital expenditure spending typically has a high multiplier effect stimulating private spending and growth, it remains to be seen whether the government can achieve such high levels of infrastructure spending ambition.

Lower revenue expenditure and reduced subsidies

The Budget signalled the government's intention to significantly decrease its revenue expenditure in FY24 – anticipated to fall by 1.1% of GDP from what it spent in FY23 – presumably under the assumption that the pressures that drove up spending on subsidies in 2023 (1.9% of GDP compared to a budgeted 1.2% of GDP) will be lower in FY24. The revenue expenditure decrease follows significant cuts in food and fertilizer subsidies, lower allocations to the flagship rural social security programme, and a freeze on the amount allocated to farmer insurance.

Lower personal income tax

While reducing subsidies, the Budget announced a spate of tax concessions under a vexed 'new tax regime' with an expected cost of 0.12% of GDP. The move is expected to boost consumption putting money into the hands of people at a time when inflation has been eating into disposable incomes. The steady formalisation of India's economy will also mitigate the dent to India's direct tax take.

Indirect taxes have also been tweaked to support domestic manufacturing, including lower customs duties on components for mobile phones and TVs, and changes in the duty structures for electrical, chemicals, metals, compounded rubber and cigarettes.

Agriculture

The government announced a number of measures to help India's agriculture sector. Measures included investing in digital infrastructure for farmers, setting up the Agriculture Accelerator Fund, increased focus on horticulture value chains, significant promotional support to India's millets (grain) sector, new storage facilities for farmers at the cooperative level, and targeting overall credit disbursement of USD242 billion. The Finance Minister talked of developing alternatives to chemical fertilisers and supporting natural and organic farming.

Green Growth

Green growth featured prominently among the key priorities listed in the Budget. A capital outlay of USD4 billion was announced for the energy transitions under the Ministry of Petroleum and Natural Gas. The budget did not specify how this outlay will be utilised. The Budget does contain a new line item related to capital support for Oil Marketing Companies with an outlay of USD3.6 billion, but the purpose of this expenditure remains unclear. The biggest push on green energy is the promised outlay of USD2.4 billion for the recently launched Green Hydrogen Mission, reflecting the government's wider policy priority in this area, including to facilitate transfer of emerging technologies and mobilise international finance under the Paris Agreement Article 6.2 mechanism.

Market Reaction

India's stock markets' initial reaction was positive, in part comforted that no major changes had been made to India's capital gains tax. Bond yields closed at a six-week low at 7.2 percent reflecting confidence in the government's fiscal glide path, and absence of negative surprises about its borrowing targets. India's stock market indices Sensex and Nifty settled with gains of only 0.3 percent and in the red respectively, however, were likely more in response to the radical collapse of Adani stocks.

More info

More reports

View full list of market reports from MFAT at www.mfat.govt.nz/market-reports

If you would like to request a topic for reporting please email exports@mfat.net

To get email alerts when new reports are published, go to our subscription page.

To learn more about exporting to this market, New Zealand Trade & Enterprise's comprehensive market guides cover export regulations, business culture, market-entry strategies and more.

To contact the Export Helpdesk

email exports@mfat.net

call 0800 824 605

visit Tradebarriers.govt.nz