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Government To Raise Capex Spend To Boost Growth, Economists Say

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Published on: 08:20 AM IST, 02 Aug 2022

India is likely to increase its capital expenditure in the coming quarters to boost economic recovery, given the slowdown in private investment, according to economists. "We expect the government's capex spending to remain strong in the coming quarters," said Rajani Sinha, chief economist at CareEdge. "With the private sector slowing in starting the capex cycle, it will be critical for the government to continue with its capex plan to help in economic recovery."

India's capital expenditure stood at Rs 1.75 lakh crore as of June 2022, 23.4% of its budgeted target for the fiscal year. The government has set a capex target of Rs 7.5 lakh crore for fiscal 2022-23, a 35% increase from the previous year.

This is encouraging, despite the increase in additional subsidy expenditures, as it kickstarts an economy hit by the pandemic and rising oil prices due to geopolitical concerns in Europe, economists told BQ Prime.

Latest fiscal deficit data released on Friday showed the Indian government total expenditure at Rs 9.47 lakh crore for the April-June period, while total receipts stood at Rs 5.96 lakh crore including net tax revenue of Rs 5.06 lakh crore.

The budgeted subsidy for the period stood at Rs 67,980 crore, which falls into the broader bracket of revenue expenditure. Apart from this, the government will incur Rs 2.8 lakh crore in additional burden after Finance Minister Nirmala Sitharaman announced inflation relief on food, fertiliser, and fuel in May 2022.

"Encouragingly, 23% of the FY2023 budget estimate for capex has been completed in Q1 FY2023," said Aditi Nayar, chief economist at ICRA Ltd.

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In the budget, the government had announced it will provide Rs 1 lakh crore to states as interest-free loans for capital expenditure.

Rising Tax Collection To Fund Capex And Subsidy

Nayar said the healthy 22% growth in gross tax revenue in Q1 benefits from a low base. "We expect the non-excise gross tax revenues of the GoI to exceed the conservatively estimated FY23 budgeted estimates by a sharp Rs. 3-3.5 trillion (3.5 lakh crore)."

The central tax devolution will overshoot the budget estimates, led by an expected upside in non-excise tax revenues, according to Nayar. This would, in turn, warrant an early reassessment of the monthly amounts being shared with the states to enable them to boost their spending and support economic growth, Nayar said.

India's goods and services tax collection remained above Rs 1.4 lakh crore for the fifth straight month in June, and is expected to average above Rs 1.4 lakh crore for the rest of the fiscal year.

Sinha from CareEdge noted that even after taking in to account "the government's additional subsidy spend towards inflation-relief on food, fertilizer, and fuel is likely to be offset by

healthy tax collection.”

"We have estimated the gross tax revenue collection to exceed the budgeted target by Rs 2.4 lakh crore," Sinha told BQ Prime "Accounting for lower transfer from RBI of Rs 30,307 crore, we estimate net revenue receipts of the centre to overshoot the budget estimates by around Rs 1.3 lakh crore."

Sinha expects government's capex spending to remain strong in the coming quarters. "With the private sector slow in starting the capex cycle, it will be critical for the Government to continue with its capex plan to help in economic recovery."

Capex Unlikely To Impact Fiscal Deficit

India's high capex spend is unlikely to impact fiscal health of the country, given the encouraging tax collection, economists told BQ Prime. The revenue receipt will be enough to meet the country's fiscal deficit target of 6.4% of the GDP.

India's fiscal deficit stood at Rs 3.5 lakh crore as of June 2022, 21.2% of the budgeted target of Rs 16.61 lakh crore, government data showed.

With the large part of the higher-than-budgeted subsidies and loss related to the excise duty cut to be absorbed by higher-than-estimated non-excise taxes, only a further change in subsidies will affect the deficit, according to Nayar of ICRA.

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However, Sinha said the India's spending on food subsidy has fallen in the first quarter, implying the government has just postponed the food subsidy bill payment. "We will see the subsidy payment increasing in subsequent quarters."

