BUDGET 2023-24
HIGHLIGHTS & OUR VIEWS

FEBRUARY 2023

Baroda BNP PARIBAS MUTUAL FUND

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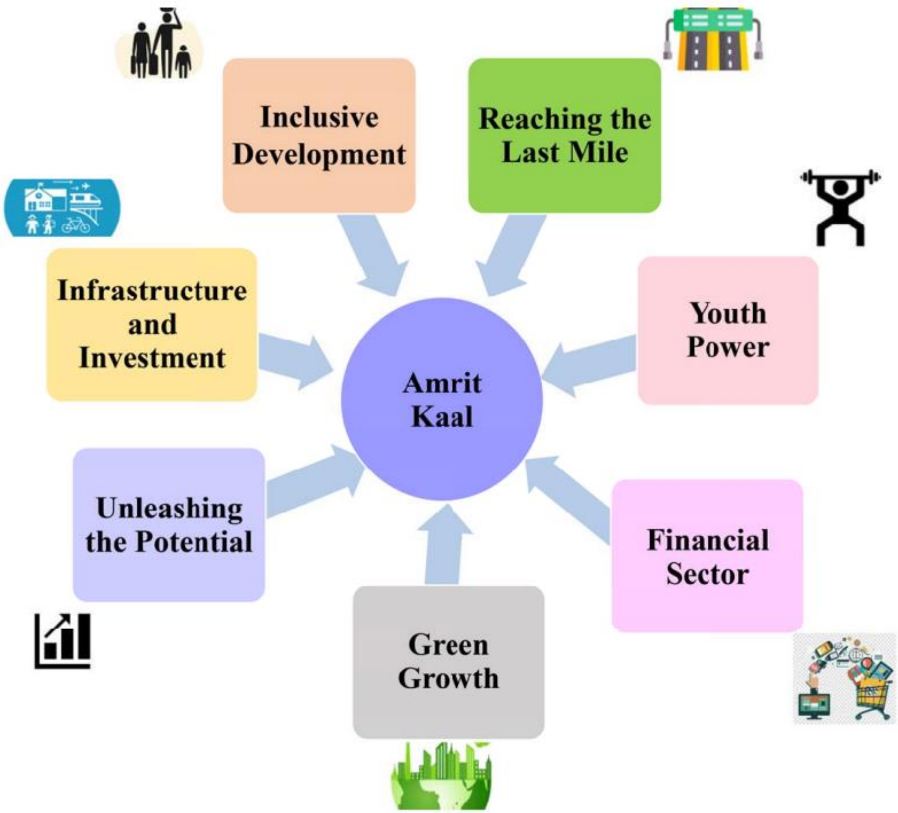
Seven Priorities & Key Facts



- India's GDP Growth at 7% for FY 23
- Growth in gross tax revenue – 10.44%
- Capital Outlay – Rs.10 Lakh Crores

Reduced duty on:

- Phones & TVs manufactured in India
- Lithium batteries
- Lab grown Diamonds

Increased duty on:

- Imported cars,
- Gold, silver & Platinum
- Compounded Rubber
- Cigarettes

Source: Finance Minister's Budget Speech FY 2023-24

The sector(s) mentioned in this document do not constitute any recommendation of the same and Baroda BNP Paribas Mutual Fund may or may not have any future position in these sector(s).

Allocation to Specific Ministries

5.9 Lakh Crs	2.7 Lakh Crs	2.4 Lakh Crs
Defence	Transport & Highways	Railways

1.6 Lakh Crs	1.2 Lakh Crs
Rural Development	Communications

Source: Finance Minister's Budget Speech FY 2023-24

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Spendings on Social Schemes

20 lakh Crs Credit Targeted towards Animal Husbandry, Dairy & Fisheries	**2.1% of GDP** Expenses to Health increased (in FY 19 - 1.9% of GDP)	**2.9% of GDP** Expenses to Education increased (In FY 19 - 2.8% of GDP)	**9,000 Crs** Infused for MSME credit
5,943 Crs Allocation to Eklavya Model Residential Schools	**79,590 Crs** Allocation to Pradhan Mantri Awas Yojana	**5,172 Crs** Allocation to Faster Adoption & Manufacturing of EVs Scheme	**2,491 Crs** North-East Infrastructure Development Scheme

Source: Finance Minister's Budget Speech FY 2023-24

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Fiscal Management

50 Year Interest Free loans to State	• To be spent on capital expenditure 2023-24
Fiscal Deficit	• 3.5% of **gross state domestic product** (GSDP) allowed for states (0.5% tied to power sector reforms)
Fiscal Consolidation	• 6.4% for FY 23 • 5.9% targeted for FY 24 • Targeted at 4.5% by FY26

Source: Finance Minister's Budget Speech FY 2023-24

Personal Income Tax

1. Increased the rebate limit to Rs 7 lakh in the new tax regime.
2. New Tax Regime Slabs Changed:

Old Slabs under New Tax Regime	
0 - 2.5 Lakhs	Nil
2.5 - 5 Lakhs	Nil (5% rebate)
5 - 7.5 Lakhs	10%
7.5 - 10 Lakhs	15%
10 -12.5 Lakhs	20%
12.5 - 15 Lakhs	25%
> 15 Lakhs	30%

New Slabs under New tax Regime	
0 - 3 Lakhs	Nil
3 - 6 Lakhs	5%
6 - 9 Lakhs	10%
9 - 12 Lakhs	15%
12 - 15 Lakhs	20%
> 15 Lakhs	30%

3. Benefit of Standard deductions of 5 lacs extended to pensioners including family pensioners
4. Reduction in the highest surcharge rate, from 37% to 25% in the new tax regime
5. Increase in tax exemption limit on leave encashment from 3 lakhs to 25 lakh
6. No changes in Corporate Tax

Source: Finance Minister’s Budget Speech FY 2023-24

IMPACT ON CAPITAL MARKETS

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Our View

- The Union Budget 2023 turned out to be refreshing in its equitable assumptions and focus on investments – a throwback to traditional economic principles.
- Firstly the budget focused on capex (up by 37% at Rs10 lac crs) with a large emphasis on railway capex (up by 51% at Rs 240,000 cr).
- Secondly, the assumptions were reasonable with possibility of beating some numbers to show a better than expected performance:
  - Nominal GDP growth was pegged - 10.5% with real GDP at 6.5%;
  - Tax collections to grow at 10% ;
  - Divestment proceeds were pegged at Rs610bn
  - Fiscal Prudence: A lot of emphasis was placed on fiscal prudence with deficit set to drop from 6.4% to 5.9% in FY24 with the FM highlighting a glide path to 4.5% by FY26.
- Thirdly, budgetary sops were restricted to certain areas (Ladakh, the North East etc) and to certain communities (tribal welfare etc).
- States allowed more leeway: States have been allowed a leeway of 0.5% of GSDP(Gross state domestic product) if they utilise these proceeds for restructuring of discoms. This is again positive for the power utilities and capital goods sectors.
- For the capital markets, in one sense it was “*no news is good news*”. No tinkering of the Capital gains tax structure for equity investments

Source: Finance Minister’s Budget Speech FY 2023-24 & Internal

Equity Markets

- Market outlook:
  - We do not envisage any changes to our market outlook post the Budget. We continue to expect a low teen earnings growth for the bellwether indices, and we believe that market returns would continue to track this growth.
- Sectors - positives & the negatives:
  - Overall the emphasis on capital spending was a clear positive. The large lift up in capex especially railways, roads and bridges, PM awaas yojana etc and the leeway to states by way of additional borrowing to restructure discoms augurs well for the capital goods, the building materials and pipes sectors.
  - Some consumption boosters at the bottom end is expected to be positive for staples and probably two wheelers. Focus for transition to green energy is a long term positive.
  - On the negatives the key negative was on insurance sector where certain tax breaks were disallowed while oil subsidy allocation was lower than expected which reflects the government may opt for market led compensation on auto fuel retailing.

Source: Finance Minister's Budget Speech FY 2023-24 & Internal

Fixed Income Markets

- The budget, emphasis on consumption with reduced taxation and focus on investment with increased capital outlay.
- Benchmark yield corrected to ~ 7.40% levels on increased capital outlay fearing higher borrowing numbers, but government kept borrowings on expected lines which was marginally higher than FY 23, at INR 11.80 trillion.
- The benchmark yield was around 7.30% post announcement of borrowing numbers on expected lines.
- We expect even at current level of borrowings the yields could be under pressure given the prevailing liquidity and demand scenario.
- We expect a very range bound to slightly upwards movement in the yield curve going ahead. In the near term the direction of yields could be dictated by the policy moves and interest rate stance by both MPC and FOMC.
- Finally, we might witness some steepening from current levels with pressure on long end yields once the next year borrowing kicks off.
- Government borrowing programme is on expected lines with Net borrowing at INR 11.80 trillion and gross borrowing at INR 15.43 trillion
- FY23 fiscal deficit retained at 6.4% of GDP and for FY24 estimated at 5.9% of GDP; on track to achieve 4.5% fiscal deficit target by FY25
- Capital investment increased steeply by 33% to Rs10tn accounting for 3.3% of GDP; 3x of FY20; Effective capex of Rs13.7tn, up by 30% (4.5% of GDP)

Source: Finance Minister’s Budget Speech FY 2023-24 & Internal

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