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STCI
Primary Dealer Ltd

Budget FY2024-25 – A Review Interim

Budget FY25 – Prudence and Quality

Highlights:

- ***Gross fiscal deficit for FY25 will be at 5.1%, leading to a fiscal consolidation of 70 basis points.***
- ***Capital Expenditure estimated at Rs.11.1 Lakh Crore.***
- ***Gross borrowings to be Rs.14.1 Lakh Crore for FY25.***
- ***FY24 gross fiscal deficit lower at 5.8%.***
- ***Nominal GDP growth estimated at 10.5% over the previous year.***

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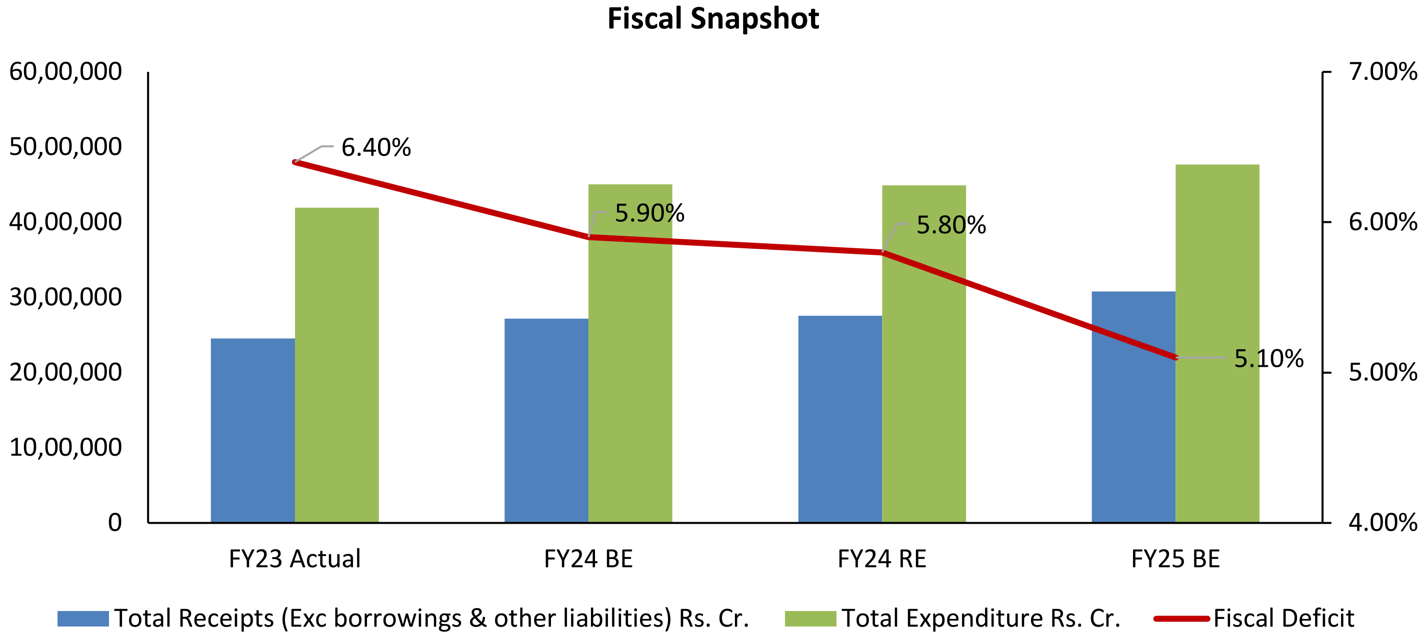
The Union Budget FY25 has delivered more than expected on fiscal prudence and pushed the agenda of development and growth. Keeping in line with convention for interim budgets, the finance minister has not changed the tax regime. In line with the past years trend, tax collections estimates seem to be realistic and hence provide credence to the fiscal arithmetic for FY25. Growth estimates are flat as compared to the previous budget estimates while capital expenditure is now tripled as compared to FY20 and stands at 3.4 per cent of GDP. Subsidy payouts are lower as compared to the previous year, and subsidy is now focused on food subsidy for FY25. The coming financial year seems to be positive for bond markets since the demand supply equation plays in favor of the interest rate markets with a bond inclusion scenario and a lower-than-expected fiscal deficit of 5.1 per cent of GDP as compared to expectations of 5.3 per cent.

The world has seen extreme uncertainty in the recent past beginning with a once in a lifetime pandemic to be succeeded by war which has upset everything from supply chains to trade patterns. In addition to this, the world is also seeing a slow growing China which is a rare event if not an unknown one. As much as supply chains are broken, demand for certain commodities like crude oil have seen sluggishness simply due to the fragile Chinese growth.

The US economy has shown resilience, but inflation remains boiling underwater. The FED has tightened monetary policy by a multidecadal high of 515 basis points and even then, is not very sure of underlying economic forces behaving in response to the central bank's actions. Similar lines can be drawn across Europe.

Amidst this fragile landscape, India has so far been resilient owing to the strong domestic factor mix of consumption, investment and government capex. A 6.5-7 per cent growth is certainly enviable with inflation troubling now and then but still hovering between the tolerance bands of 2-6 per cent. The finance minister has played on the front foot, to optimize this economic position and made a fitting counter-cyclical and fiscally prudent move towards improving the quality of expenditure.



I. Revenues- Realism continues.

Total receipts for the central government are expected to grow by ~11.2 per cent over the revised estimates of the previous year. These are very realistic estimates, if consideration would be given to the fact that GDP growth is at 10.5 per cent over the first advance estimates for FY24. Gross Tax Revenue, which includes the devolution to the states from the center, is expected to grow at 11.5 per cent over FY24 (RE). So, it leads us to a tax buoyancy of around 1.1. Direct taxes are expected to grow at 13.1 per cent while indirect taxes are expected to grow at 9.4 per cent over the previous year's revised estimates. In terms of contributions to the entire tax revenue pool, indirect taxes have a lower share of 42.6 per cent, while direct taxes are dominant with a 57.4 per cent share contribution to the gross tax revenue. Gross Tax revenue as a percentage of GDP is estimated at 11.7 per cent, ~0.2 per cent higher than previous year. Tax Revenue (Net to Center) is projected at Rs26.01 lakh crore, ~11.9 per cent higher than FY24 (RE).

Non-tax revenue of the Centre includes interest receipts, dividends & profits and other receipts like proceeds from railways, communications etc. In FY25, non-tax revenue is estimated at Rs.3.99 lakh crore 6.4 per cent higher than previous year's revised estimates. The major dividends and profits source are RBI and other PSUs/PSE where the government is the majority stakeholder. RBI alone has given a dividend of Rs.87,000 crore to the central government in FY24. Considering that there might be growth headwinds in FY25, the Finance Minister has increased the expected non-tax revenue receipts by 6.4 per cent, also looking at the fact that the revised estimates have so far outpaced the budget estimates by a significant margin of ~Rs.74,000 crore in FY24. A feat which might be difficult to replicate in FY25.

Table 1: Government Receipts (in Rs Cr)				
	Actual	**BE**	**RE**	**BE**
	FY23	**FY24**	**FY24**	**FY25**
Revenue Receipts	**23,83,207**	**26,32,281**	**26,99,713**	**30,01,275**
Tax Revenue (Net)	20,97,786	23,30,631	23,23,918	26,01,574
Non-Tax Revenue	2,85,421	3,01,650	3,75,795	3,99,701
Capital Receipts	**18,09,951**	**18,70,817**	**17,90,773**	**17,64,494**
Recovery of loans	26,161	23,000	26,000	29,000
Other Receipts	46,035	61,000	30,000	50,000
Borrowings and Other Liabilities	17,37,755	17,86,817	17,34,773	16,85,494
Total Receipts	**41,93,158**	**45,03,097**	**44,90,486**	**47,65,769**
Source: Union Budget Documents, STCI PD Research				

Non-Debt Capital receipts include recoveries of loans and advances and miscellaneous capital receipts which include proceeds from divestment of government's equity stake. Given the state of divestment, which has barely reached around 20% of the budgeted target so far at Rs.12,504 crore against a target of Rs.61,000 crore in the budget estimates of FY24. This lacklustre performance was seen despite equity markets reaching all-time highs during the year in India. Hence, the government has revised FY24 estimates down to Rs.30,000 crore and for FY25 the estimates stand at Rs.50,000 crore.

Table 2: Tax Break - Up (In Rs Cr)				
	Actual	**BE**	**RE**	**BE**
	FY23	**FY24**	**FY24**	**FY25**
Gross Tax Revenue	**30,54,192**	**33,60,858**	**34,37,211**	**38,30,796**
Corporation Tax	8,25,834	9,22,675	9,22,675	10,42,830
Taxes on Income	8,33,260	9,00,575	10,22,325	11,56,000
Wealth Tax	-9	-	-	-
Customs	2,13,372	2,33,100	2,18,680	2,18,680
Union Excise Duties	3,19,000	3,39,000	3,03,600	3,18,780
Service Tax	431	500	500	100
Goods and Services Tax	8,49,133	9,56,600	9,56,600	10,67,650
Taxes on Union Territories	8,711	8,408	8,331	9,426
Less - Transfers to Funds	8,000	8,780	8,800	9,440
Less - State's share	9,48,406	10,21,448	10,97,342	12,19,783
Less state's share adjustment	-	-	7151	-
Centre's Net Tax Revenue	**20,97,786**	**23,30,631**	**23,23,918**	**26,01,574**
Source: Union Budget Documents				

II. Expenditure Side- Counter Cyclical with a push on CAPEX.

The Finance minister has continued the theme of improving the quality of expenditure along with maintaining fiscal prudence which is a robust strategy considering that private investment is now slowly picking up though it is not yet up to the level which is expected. The major capital expenditure push happened in FY24 as the Union government announced Rs.10 lakh crore capital expenditure in FY24, which was close to 3 per cent of GDP. This year the improvement has been even more significant as the government proposes a capital expenditure of Rs.11.11 lakh crore, which equals 3.4 per cent of GDP, a 0.4 percentage point increase over the previous year's level.

Revenue expenditure has expanded marginally, with an expansion of 3.2 per cent over the previous year, while as a percentage of GDP it is roughly 11.2 per cent. The largest component of the revenue expenditure remains the interest payments, which naturally depends on the interest rate regime and the multiple interest rates on various securities, and is also dynamic in nature. The total interest payments is worth 3.6 per cent of GDP, at Rs.11.9 lakh crore.

Table 3: Expenditure Break Up in Rs. Crore

	Actuals	BE	RE	BE
	FY23	FY24	FY24	FY25
Revenue Expenditure	34,53,132	35,02,136	35,40,239	36,54,657
Capital Expenditure	7,40,025	10,00,961	9,50,246	11,11,111
Total Expenditure	**41,93,157**	**45,03,097**	**44,90,486**	**47,65,768**
Key Expenditure				
Interest payments	9,28,517	10,79,971	10,55,427	11,90,440
Defence	3,99,123	4,32,720	4,55,897	4,54,773
Pension	2,41,599	2,34,359	2,38,049	2,39,612
Food Subsidy	2,72,802	1,97,350	2,12,332	2,05,250
Fertilizer Subsidy	2,51,339	1,75,100	1,88,894	1,64,000
Education	98,567	1,16,417	1,08,878	1,24,638
Transport	3,90,508	5,17,034	5,24,941	5,44,039

Source: Union Budget Documents

The government has increased the capital expenditure by Rs.1.6 lakh crore and its push to crowd in private investment continues, with the central government banking on the pick-up of private investment and the strong multiplier effects of capital expenditure compared to revenue expenditure. This should have a positive and an accelerating effect on headline growth in the medium term.

Table 4: Expenditure on Major Schemes (in Rs Cr)				
	Actual	**BE**	**RE**	**BE**
	FY23	**FY24**	**FY24**	**FY25**
Core of the Core Schemes				
Mahatma Gandhi National Rural Employment Guarantee Program	90,806	60,000	86,000	86,000
National Social Assistance Program	9,651	9,636	9,652	9,652
Core Schemes				
Jal Jeevan Mission	54,700	70,000	70,000	70,163
Pradhan Mantri Awas Yojna	73,615	79,590	54,103	80,671
Pradhan Mantri Gram Sadak Yojana	18,783	19,000	17,000	19,000
Pradhan Mantri Krishi Sinchai Yojana	6,380	10,787	8,781	11,391
Ayushman Bharat - Pradhan Mantri Jan Arogya Yojna	6,186	7,200	6,150	7,553
Swatch Bharat Mission (Gramin)	4,925	7,192	7,000	7,192
National Health Mission	33,803	36,785	33,886	38,183
National Education Mission	32,875	38,953	33,500	37,500
Major Central Sector Schemes				
Crop Insurance Scheme	10,296	13,625	15,000	14,600
Pradhan Mantri Kisan Samman Nidhi	58,254	60,000	60,000	60,000
Urea Subsidy	1,65,217	1,31,100	1,28,594	1,19,000
Nutrient Based Subsidy	86,122	44,000	60,300	45,000
Food Subsidy to Food Corporation of India under National Food Security Act	2,00,219	1,37,207	1,39,662	-
Procurement of Foodgrains under NFSA	72,282	59,793	72,250	-

Source: Union Budget Documents

Subsidies: Major subsidies of food, fertilizer and petroleum have been reduced, hence providing for the government to propose a lower fiscal deficit as compared to the previous year. Total subsidy payout is ~10.4 of revenue expenditure, in FY25. As a percentage of GDP this is to decline from 1.4 per cent in FY24 to 1.2 per cent in FY25. Depending on the external forces of supply and geopolitical stability the likelihood of these subsidies getting slightly revised upwards cannot be overlooked, as happened in FY24.

Food subsidy has been reduced by Rs.7082 crore over the revised estimates, which were higher by Rs.14,982 crore as compared to FY24 budget estimates due to the extension offered on the Pradhan Mantri Garib Kalyan Anna Yojana (PMGAKY). Fertilizer subsidy too has been lowered by Rs.24,894 crore over revised estimates of previous year, which were revised upwards to protect farmer interest considering the Russia-Ukraine crisis pushing fertilizer prices with significant volatility. Petroleum subsidy has been only marginally lowered as compared to revised estimates to Rs.11,925 crore but is significantly higher as compared to budget estimates of the previous year of Rs.2,257 crore.

III. Sources of Financing Fiscal Deficit

Fiscal deficit for FY25 is estimated at Rs.16.9 Lakh Crore (5.1% of GDP) compared to revised estimate of Rs.17.3 Lakh Crore for FY24 (5.8% of GDP). The revised estimates of FY24 point to conservative spending, especially a marginal cut in capex, by the government and robust tax revenue receipts through direct and more importantly indirect taxes, and also a higher non-tax receipts, and the fiscal deficit for FY24 is revised lower at Rs.17.4 lakh crore as compared to the budget estimates of FY24 at Rs.17.9 lakh crore. In terms percentage of GDP, the reduction is ~0.1 percentage point from 5.9% to 5.8%

Net market borrowing (G-Sec +T Bills), is estimated to finance 73% of the fiscal deficit as per the budget estimates for FY25, at Rs.12.3 Lakh Crore. For FY25 the composition of net market borrowing is made of Rs.11.8 Lakh crore in dated borrowings and Rs.0.5 Lakh Crore in T-bills.

Table 5: Sources of Financing the Fiscal Deficit (In Rs. Cr.)

		Actual	BE	RE	BE
		FY23	**FY24**	**FY24**	**FY25**
	Debt Receipts				
1	Market Borrowings (net)	12,17,845	12,30,911	11,81,779	12,25,182
	Dated (net)	11,05,836	11,80,911	11,80,456	11,75,182
	T-Bills (net)	1,12,009	50,000	1,323	50,000
	CMBs (net)	0	0	0	0
S	Switch (Less)	0	0	0	0
2	Securities Against Small Savings	3,95,860	4,71,317	4,71,317	4,66,201
3	State Provident Funds	5,089	20,000	5,200	5,200
4	Other receipts	83,460	54,258	78,296	-30,591
5	External Debt	37,124	22,118	24,832	15,952
6	Draw down of cash balance	-1,622	-11,787	-26,652	3,549
7	Fiscal Deficit (Sum of 1 to 6)	**17,37,755**	**17,86,816**	**17,34,773**	**16,85,494**

Source: Union Budget Documents

In other major sources, for FY25 the government expects to finance 27% of the fiscal deficit by issuing securities against small savings accounts. Also, the Government estimates a drawdown of cash of Rs.0.4 Lakh Crore for FY25.

IV. Market Borrowings

The gross borrowings of the government were much lower than what the bond markets had expected in FY25. The gross borrowing number totaled to Rs.14.1 Lakh Crore in FY25, Rs.1.3 lakh crore lower than the previous year, also lower than present year market estimates. This was arrived at by a net market borrowing of Rs.12.3 Lakh Crore of which Rs.11.8 Lakh Crore is to be borrowed through dated securities while Rs.0.5 Lakh crore through T-bills. The caveat was in the reduction of the aggregate redemptions for FY25, from the anticipated Rs.3.6 Lakh Crore to Rs.2.4 Lakh Crore as the government shall fund the GST compensation cess payment of Rs.1.2 Lakh Crore from the GST Compensation fund.

Table 6: Market Borrowings (in Rs Cr)

	Actual	BE	RE	BE
	FY23	FY24	FY24	FY25
Gross Market Borrowings (1+2)	14,21,000	15,43,000	15,43,000	14,13,000
1. Net Market Borrowings	11,08,260	11,80,911	11,80,456	11,75,182
2. Redemption	3,12,740	3,62,089	3,62,544	2,37,818
Borrowing for providing back to back loan to States and UTs for GST compensation cess shortfall	-	-	-	-
Source: Union Budget Documents				

The net T-bills issuance for FY24RE and FY25BE is pegged at Rs. 0.50 Lakh Crore each.

Table 7: T-Bills Issuances and Redemptions (in Rs. Cr.)

	Actual	BE	RE	BE
	FY23	FY24	FY24	FY25
14 Day				
Gross	48,68,275	58,34,338	49,32,264	56,22,781
Redemptions	-48,71,057	-58,34,338	-49,32,264	-56,22,781
Net	-2,782	0	0	0
91 Day				
Gross	7,15,951	7,24,661	6,37,135	6,05,819
Redemptions	-7,39,749	-7,11,661	-6,24,264	-5,66,234
Net	-23,798	13,000	12,871	39,584
182 Day				
Gross	5,49,241	5,86,029	5,76,472	5,61,961
Redemptions	-4,96,815	-5,62,558	-5,55,209	-5,52,335
Net	52,426	23,471	21,263	9,626

364 Day				
Gross	4,45,284	4,57,518	4,61,150	4,61,939
Redemptions	-4,07,796	-4,43,990	-4,45,284	-4,61,150
Net	37,487	13,529	15,866	789
Total T-Bills Net	63,332	50,000	50,000	50,000
Source: Union Budget Documents				

The Government has considered both Cash Management Bills (CMB) and Ways and Means Advances (WMA) for FY25. The government has budgeted CMB issuances to the tune of Rs. 1.0 Lakh Crore and WMA at Rs. 5.0 Lakh Crore for FY25. If the Government plans to front load the borrowing by roughly allocating 60% in H1 FY25, the average auction size for dated securities would be ~Rs. 30,000-32,000 Crore.

V. Conclusion

The Union Budget for FY25 has been a positive surprise for the bond markets with the fiscal deficit lower than expected and more importantly gross borrowings lower than the previous year at Rs. 14.1 lakh crore as compared to Rs.15.4 lakh crore in FY24. With the bond inclusion theme written largely over the demand and supply balance in the coming financial year, monetary policy expected to soften and a lower gross borrowing, and flat net borrowing, the yield curve should see significant steepening. The finance minister has played all the right cards, with no change in the tax regime keeping in mind that this is an interim budget. Reducing the subsidy payouts, and assuming a realistic tax revenue growth and a 5.1 per cent fiscal deficit augur well for the RBI and provide some headroom as the fiscal-monetary coordination seems to be in alignment. For the interest markets, this is close to an ideal scenario, and we expect the 10-year benchmark to move within a 6.90-7.15 per cent band in the near to medium term.

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