Budget FY25 – A Preview

Budget FY25-In the Interim

Highlights:

- ***Budget FY25 will be an interim budget without any drastic changes***
- ***Our estimates indicate a gross fiscal deficit of 5.4% in FY25.***
- ***Gross borrowings to be Rs.15.4 lakh crore for FY25.***

Aditya Vyas
aditya@stcipd.com
022-66202245

Macroeconomic Backdrop:

Outlook for growth in 2024 for the world economy is tainted with a possibility of a slowdown, with the IMF World economic outlook projecting global growth to dip to a sub-3 per cent level in 2024, before picking up to above 3 per cent in 2025. The trend is more or less accepted on the backdrop of a massive policy interest rate surge in the preceding year. The monetary tightening came in the form of a multi-decadal increase of 550 basis points in policy interest rates in the US, 515 in the UK and 450 in the EU. Post this monetary tightening a soft landing along with gradual monetary easing is hoped for.

India remained one of the fastest growing economies in the globe, with a 7.2 percent headline GDP growth for FY23, despite risks to headline growth as supply chains were feared to have broken down due to war immediately following the pandemic. The economy has maintained a strong growth momentum despite headwinds arising out of war in the Middle East and an overall slowdown in exports on the basis of a strong government expenditure push and decent personal consumption.

In terms of price pressures, FY24 has seen inflation reach to a peak of 7.4 per cent in April 2023, ebbing down to 4.9 per cent in October post, and climbing back to 5.7 per cent in December 2023. Measures taken by the government on various items of food and fuel have managed to stabilize inflation somewhat.

Current account deficit (CAD) remained moderate and is expected to close FY24 at 1.1-1.2 per cent of GDP as oil prices movements though volatile remained within a range, and the export and import equation remained more or less balanced.

I. The Fiscal Balance

A. Estimates for FY25

1. Receipts Side

As of November, Non-debt capital receipts are much slower as compared to the previous year with the total non-debt capital receipt as a percentage of the budget estimate at 30 per cent as compared to 52 per cent in the corresponding period in the previous year. Non-Tax revenue has been propped up by the dividends and profits accrued to the center through RBI, public sector banks and other public sector undertakings. RBI alone has transferred Rs.87,416 crore as compared to Rs.30,307 crore in the previous year. This has led to the Non-tax revenue clocking a percentage of 94 per cent as compared to 74 per cent in the corresponding period in the previous year.

Table 1: Government Receipts (in Rs. Cr.)

	Budgeted	% of BE	
	FY24	**8M FY24**	**8M FY23**
Revenue Receipts	26,32,281	65%	65%
Tax (Net)	23,30,631	63%	62%
Non-Tax	3,01,650	94%	74%
Non-debt Capital Receipts	84,000	30%	52%
Recovery of loans	23,000	72%	91%
Other Receipts	61,000	15%	44%
Total Receipts	**27,16,281**	**64%**	**64%**

Source: Union Budget Documents, CGA, STCI PD Research

GST collections continue to remain robust and have stabilized at an average of Rs.1.67 Lakh crore for FY24. On average GST revenues have been increasing since FY18, barring the exceptional year of the pandemic. We expect the GST revenue to be 20 per cent higher than FY23. As per our estimates overall GST collections should print at Rs.21.8 Lakh Crore for FY24. Direct taxes are on the rise too, with direct to GDP ratio at its highest ever in India at 6.1 per cent in FY23, and the ratio will see an increase even this year as the number of tax payers continue to increase. With the tax collections being decent we do not expect any fiscal slippage from the Union government in the budget, and the fiscal target of 5.9 per cent should be achieved without much effort.

2. Expenditure Side

On the expenditure front, Revenue expenditure and capital expenditure are both at 59 per cent, a tad lower than the previous year's run rate. The government has been cautious about keeping the fiscal consolidation path in mind, and spent in the nine months accordingly. Also the quality of expenditure has improved substantially in FY24, with the RECO ratio, i.e. the ratio of revenue expenditure in terms of the capital outlay has declined from 6 to 4. This indicates a significant improvement in the quality of expenditure.

In the interim budget we do not expect any major upheavals as we expect capital expenditure to be slightly below the last year's Rs.10 lakh crore level, at Rs.9.6 lakh crore. This stems from the fact that the formal budgeting will happen only in July, and also since this being a pre-election budget, we expect some increase in subsidy payouts and an increase in revenue expenditure to degree.

Table 2: Government Expenditure (in Rs. Cr.)

	Actual	% of BE	
	8M FY24	**8M FY24**	**8M FY23**
Revenue Expenditure	20,66,522	59%	62%
Capital Expenditure	5,85,645	59%	60%
Total Expenditure	**26,52,167**	**59%**	**62%**

Source: Union Budget Documents, CGA, STCI PD Research

The Union government has put up the first batch of demand for supplementary grants equaling ~Rs.1.3 lakh crore due to the additional spend one fertilizer subsidies and Mahatma Gandhi National Rural Employment Guarantee scheme. The government has budgeted a spend of Rs.1.75 lakh crore on fertilizer subsidy alone, keeping in mind the overshooting that had happened in FY23 on the outbreak of the Russia-Ukraine war and the steep prices of gas causing a surge in fertilizer prices .

Though the additional spending through supplementary grants is estimated at Rs.1.29 Lakh crore, the net cash outgo is expected to be ~Rs.58,378 crore, while expenditure matched by savings and enhanced receipts of ministries/departments totals to Rs.70,968 crore,. As per our estimates there is little possibility of slippage and we maintain that the 5.9 per cent deficit target shall be achieved for FY24. The major share of the cash outgo is the expenditure incurred on the fertilizer subsidy of Rs.13,351 crore.

B. Our Estimates for FY24

1. We expect a nominal GDP growth of 10%, and fiscal deficit at 5.4% of GDP.

Nominal GDP growth is a sum of real GDP growth and inflation which in turn a combination of WPI and CPI, for computing GDP. This year, i.e. FY24 wholesale inflation has been low as previous year saw WPI at very high double digits for FY24 averaging close to 9.6 per cent. We expect higher levels on the WPI averaging 3.5 per cent in FY25, and a GVA growth of 6.5 per cent in FY25, leading to a nominal growth of 10 per cent in FY25.

Based on this tax revenues too are expected to grow in alignment with headline GDP growth and overall receipts to grow at around 12-15 per cent. While this is an interim budget, so discretionary spending like capital expenditure should remain flattish and we expect the government to announce Rs.9.6-10 lakh crore worth of capex, almost flattish as compared to last year's amount of Rs.10 lakh crore. This is still a significant 3 per cent of GDP. Divestment targets should remain in the vicinity of Rs.65-60,000 rupees for FY25, looking at the current state of divestment which has not reached even Rs.10,000 crore in FY24 so far.

2. Subsidies might see some increment

As the food security scheme is extended and government might want to increase the subsidy for fertilizers to smooth out any price volatility that might be witnessed during the year. The reason for expecting a slightly lower capex and an increment in subsidy is also because it is pre-election budget, and though new schemes cannot be announced in a vote-on-account budget, the amounts of existing schemes and other transfers may be enhanced as per requirement. Significant changes are not expected in this budget as it is a vote-on-account.

Table 3: Budget Expectations (in Rs. Lakh Cr.)

	FY24 (BE)	FY24 (SE)	FY25 (SE)
Total Receipts	27.2	24.6	30.1
Total Expenditure	45.0	42.5	47.7
Fiscal Deficit	17.8	17.9	17.6
GDP	301.7	303.1	326.2
% of GDP	5.9%	5.9%	5.4%

BE: Budget Estimates, SE: STCI PD Estimates
Source: Union Budget Documents, CGA, STCI PD Research

II. Borrowing Programme

We expect the government to finance its 67 per cent of its fiscal deficit of Rs.17.6 lakh crore via the bond market. This translates into a net G-sec borrowing amount of Rs. 11.8 lakh crore, and while redemptions for FY25 are Rs.3.6 lakh crore, the gross borrowing amount will be Rs.15.4 lakh crore as per our estimates, unchanged as compared to the previous year. A switch of Rs.1 lakh crore is expected to be announced, which will reduce the final gross borrowing to that extent, i.e. Rs.14.4-14.5 crore in FY25.

Table 4: Estimated Market Borrowing in FY25 (in Rs. Lakh Cr.)	
Net G-Sec Borrowing	11.8
(+) Redemptions	3.6
Gross G-Sec Borrowing	15.4
Source: Union Budget Documents, CGA, STCI PD Research	

A game changing factor for FY25, is the inclusion of India in the Global Bond Index – Emerging Markets (GBI-EM) which, as per our estimates will lead to foreign exchange flows worth USD 20-24 billion in FY25 and this will add to the demand side of equation. Bond markets will be better placed in FY25 in terms of the players in the demand side and if the gross borrowing number is on the expected lines, there is an element of bullishness on yields that will carry through in the new financial year. The bullishness will be coupled with caution as increased dollar flows will increase the probability of OMO sales by the RBI, which could lead to a slight hardening of the yield curve.

III. Conclusion

The demand for G-sec is set to increase in FY25. As noted above the inclusion of Indian sovereign bonds in the GBI-EM will bolster demand for these assets. A flat to lower than expected gross borrowing should lead the market to rally by 8-10 basis points on budget day. Moreover, the year gone by has instilled confidence in market participants as to the appetite of the overall market, as a gross borrowing programme of Rs.15.4 lakh crore was smoothly implemented without any devolvement on primary dealers. Monetary policy is expected to change its stance and ease the policy rate post Q1FY25, indicating some steepening in the yield curve going ahead. We expect the 10 year benchmark to trade within the 7.05-7.25 range in the near term.

STCI Primary Dealer Ltd.
CIN: U67110MH2006PLC165306
A/B1- 801, A Wing, 8th floor, Marathon Innova, Marathon Next Gen Compound,
Off. Ganpatrao Kadam Marg, Lower Parel (w), Mumbai 400013.
Dealing Room: (022) 66202217-20 ● Settlements: (022)66202262-64, Fax (022) 66202288
Delhi Office: (011) 47676557-58 ● Kolkata Office: (033) 40611435-36● Bengaluru Office: (080) 42183166/1021
Please mail your feedback to stcipd@stcipd.com
● Website: http://www.stcipd.com
● Twitter: https://twitter.com/stcipd
● LinkedIn: https://www.linkedin.com/company/stci-primary-dealer-ltd/