

## India Watch

## FY25 union budget: Prudence trumps populism

**Continued fiscal consolidation, beating estimates**

As the finance minister rose to present the interim budget for FY25, concerns regarding giving in to political compulsion were running high. However, the outcome was better than even the most prudent estimates. Revised estimates for FY24 indicate that the government would over-achieve the fiscal deficit target by 10bp, now pegged at 5.8% of GDP. Tracking the glide path to 4.5% of GDP by FY26, the FM announced 5.1% of GDP as fiscal deficit target for FY25. Both these estimates were lower than our and consensus' 5.9% and 5.3% of GDP forecast respectively (Exhibit 1). For FY24, higher than budgeted growth in non-tax revenue more than made up for the shortfall in divestment (we still see downside risk to INR300bn FY24 RE). On the expenditure side, revised estimate for capex growth at 28.4% yoy was lower than budgeted growth rate, but most of this was due to lower than budgeted loans and advances. Revenue expenditure grew by 2.5% yoy in FY24, higher than BE. For FY25, we believe that both direct tax revenue and non-tax revenue growth rates are quite conservative and expect upside surprise vs BE. This however could be used for some potential divestment shortfall and funding non-committed revenue expenditure which is expected to grow by only 0.6% yoy in FY25.

**Continued credibility in fiscal math**

Credibility in underlying fiscal math continued. The finance minister assumed a 10.5% yoy nominal GDP growth (in line). Improved tax buoyancy suggests that growth of 11.9% yoy in tax revenue could be easily met (Exhibit 3). In fact, we see some upside to this forecast. Dividend and profit component of non-tax revenue is also expected to surprise on the higher side (Exhibit 4). This, however, is estimated to make up for a potential divestment shortfall, budgeted at INR500bn for FY25 (and INR 300bn FY24 RE, Exhibit 6). As for expenditure, within revenue expenditure interest expense looks set to rise further, making up 32.6% of total revenue expenditure (Exhibit 7). Subsidy bill as a % of revenue expenditure is expected to soften to 10.4% in FY25 from 11.7% in FY24 (Exhibit 8), in a broad-based manner. Net of interest payment and subsidy, other revenue expenditure is expected to grow by only 0.6% yoy in FY25 vs 3.9% yoy in FY24 (Exhibit 9). We see potential upside to this estimate, but higher than budgeted tax revenue growth should make up for this. At 17% yoy capex growth was a tad bit underwhelming vs expectations (FY24 BE was +33% yoy). That said, most of this is on account of fewer loans and advances (Exhibit 12). Adjusted for that, capital outlay as % of GDP is estimated to improve to 2.9% in FY25 from 2.7% in FY24 (Exhibit 10). Further moderation in the ratio of revenue expenditure to capital outlay is indicative of continued improvement in quality of fiscal deficit (3.89 in FY25 vs 4.39 in FY24, Exhibit 11).

**Lower than expected market borrowing**

At 69.7%, market borrowings as % of fiscal deficit are higher than last two years (Exhibit 14). That said, gross borrowing at INR14.13 trn came in lower than our estimate (INR15.2trn) even as net market borrowing at INR11.75 trn was a shade higher, the divergence is explained by dipping into GST compensation cess to adjust the maturity number from INR3.61trn to INR2.38 trn. We see upside to the small savings estimated at INR4.66trn (Exhibit 13). Also, running down of government cash balance and fewer T-bill supply should aid liquidity in the remainder of FY24.

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12653988

Timestamp: 01 February 2024 07:00AM EST

01 February 2024

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FM: Finance Minister  
FD: Fiscal Deficit  
GDP: Gross Domestic product  
BE: Budget Estimate  
RE: Revised estimate  
GST: Goods & services tax

# FY25 union budget: Prudence trumps populism

**Exhibit 1: Fiscal math: Govt. over-delivered on both FY24 & FY25 deficit target. See FY24 fiscal deficit at 5.8% of GDP & FY25 at 5.1% of GDP (vs 5.9% & 5.3% respectively, BofAe)**

Credible nominal GDP growth estimate, conservative tax revenue growth estimate to make up for still ambitious divestment & very low other revenue expenditure growth est

in INR crore	FY23 Actuals	FY24 BE	FY24RE	FY24 (Apr-Dec)	FY24 BofAe	FY25BE	FY25 BofAe	FY25 BE vs FY24 RE yoy	FY25 BE yoy FY24 BE yoy
1. Revenue receipts	2383206	2632281	2699713	2042289	2750000	3001275	3040000	11.2%	12.60%
Tax revenue	2097786	2330631	2323918	1729931	2400000	2601574	2640000	11.9%	13.60%
Non-tax revenue	285421	301650	375795	312358	350000	399701	400000	6.4%	6.44%
2. Non-Debt Capital receipts	72196	84000	56000	29650	33000	79000	75000	41.1%	33.93%
2.1 Recovery of loans	26161	23000	26000	19597	23000	29000	25000	11.5%	-3.85%
2.2 Other receipts	46035	61000	30000	10053	10000	50000	50000	66.7%	66.67%
3. Total receipts (1+2)	2455706	2716281	2755713	2071939	2783000	3080275	3115000	11.8%	13.04%
4. Revenue expenditure	3453132	3502136	3540239	2380587	3565000	3654657	3725000	3.2%	5.22%
of which, interest payments	928517	1079971	1055427	748207	1080000	1190440	1100000	12.8%	4.22%
of which, subsidy	530959	374707	413466	276804	420000	381175	425000	-7.8%	2.79%
& residual	1993135	2048046	2071346	1355576	2065000	2083042	2200000	0.6%	6.21%
5. Capital expenditure	740025	1000961	950246	673630	970000	1111111	1150000	16.9%	21.02%
of which, loans & advances	115268	163834	143193	89085	135000	171523	100000	19.8%	-30.16%
6. Total expenditure (4+5)	4193157	4503097	4490486	3054217	4535000	4765768	4875000	6.1%	8.56%
Fiscal deficit	1737755	1786816	1734773	982278	1752000	1685494	1760000		
as % of GDP	6.4	5.9	5.8		5.9	5.1	5.3		

Source: CGA, RBI

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**Exhibit 2: B/w Apr-Dec India has exhausted 55% of full FY24 target**

Outperformance of revenue receipts paving way for expenditure run rate meeting median

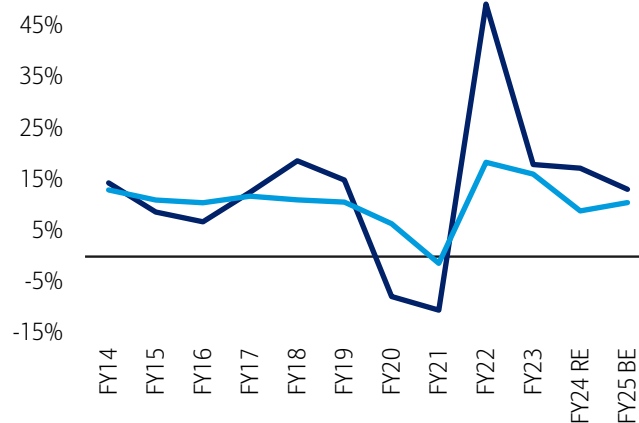
	Apr-Dec 24 as % of FY24 BE	Median Apr-Dec as % of full year actual
Fiscal Deficit	55.0%	74.0%
Revenue receipts	77.6%	67.3%
Tax revenue	74.2%	67.3%
Corporate tax	78.2%	66.6%
Income tax	76.1%	65.0%
Custom duty	67.9%	73.6%
Excise duty	59.7%	62.4%
Total expenditure	67.8%	68.7%
Revenue expenditure net of int payment	67.4%	70.8%
Capital outlay	69.9%	67.3%

Source: CGA

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**Exhibit 3: Direct tax revenue growth & nominal GDP growth yoy**

Nominal GDP growth is estimated at 10.5% yoy in FY25, up from an expected 8.9% yoy in FY24. Commensurately, direct tax revenue growth is estimated at 13.1% yoy in FY25 down from 17.2% yoy in FY24



Source: CGA, RBI

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**Exhibit 4: Various sources of receipts: tax, non-tax, non-debt capital (in INR cr)**

Direct tax revenue growth estimates for FY25 look conservative, some positive surprise on non-tax revenue can be expected as well. Divestment proceeds look ambitious

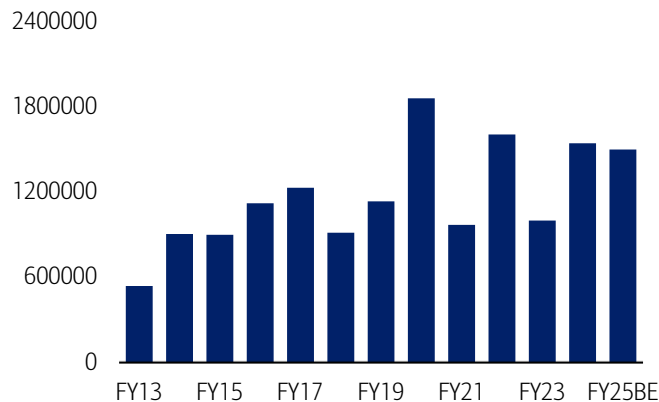
	FY23 Actuals	FY24 BE	FY24 RE	FY25 BE	FY24 RE vs FY23 Actuals yoy	FY25 BE vs FY24 RE yoy
Corporate tax	825834	922675	922676	1042830	12%	13.0%
Income Tax	833260	900575	1022325	1156000	23%	13.1%
Customs	213372	233100	218680	231310	2%	5.8%
Excise duty	319000	339000	303600	318780	-5%	5.0%
GST	849133	956600	956600	1067650	13%	11.6%
Taxes of UT	8711	8408	8331	9426	-4%	13.1%
Other taxes	4460		4500	4700	1%	4.4%
<b>Tax revenue</b>	<b>2097786</b>	<b>2330630</b>	<b>2699712</b>	<b>3001274</b>	<b>29%</b>	<b>11.2%</b>
<b>Non-tax revenue</b>	<b>285421</b>	<b>301650</b>	<b>375795</b>	<b>399701</b>	<b>32%</b>	<b>6.4%</b>
o/w dividend and profits	99913	91000	154407	150000	55%	-2.9%
<b>Non-debt capital receipts</b>	<b>72196</b>	<b>84000</b>	<b>56000</b>	<b>79000</b>	<b>-22%</b>	<b>41.1%</b>
o/w Divestment	46035	61000	30000	50000	-35%	66.7%

Source: FinMin

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**Exhibit 5: Non-tax revenue: Dividend & profits (37% of NTR)**

After a big beat vs estimate in FY24, dividend and profits are expected to soften a shade in FY25, we see upside to this estimate

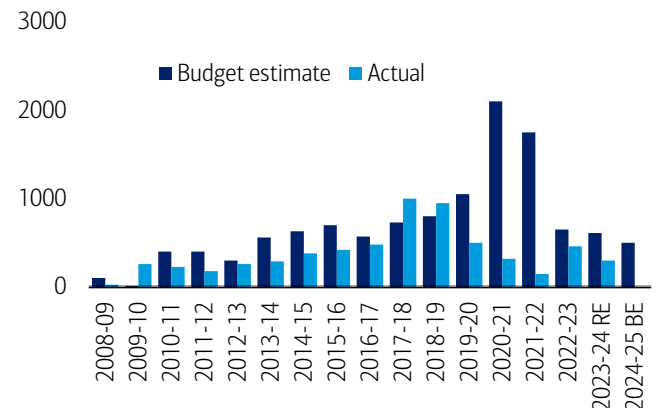


Source: FinMin

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**Exhibit 6: Divestment proceeds: BE vs Actual (INR bn)**

FY24 RE at INR300bn still looks ambitious, FY25 BE at INR500bn looks like a tall task too

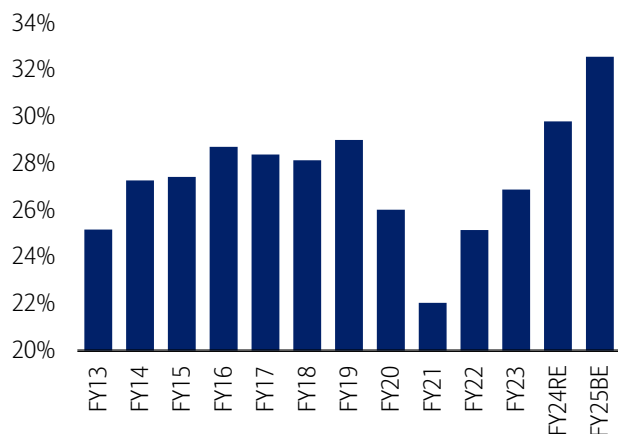


Source: FinMin

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**Exhibit 7: Interest payment as % of revenue expenditure**

At INR 11.9trn, interest payment burden rose further, 32.6% of rev exp.

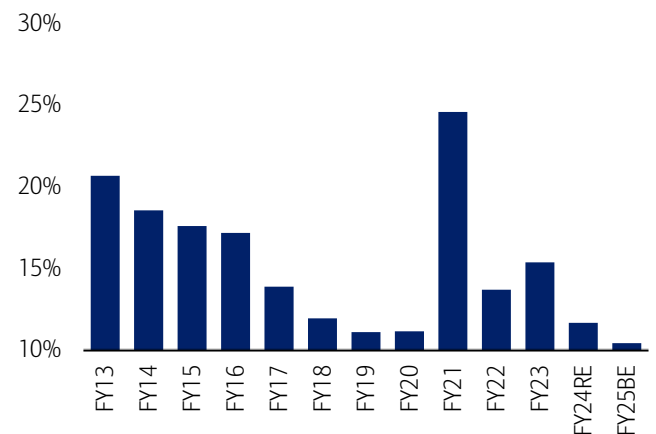


Source: FinMin

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**Exhibit 8: Total subsidies as % of revenue expenditure**

Subsidy bill to moderate on account of fertilizer subsidy to 1.2% of GDP

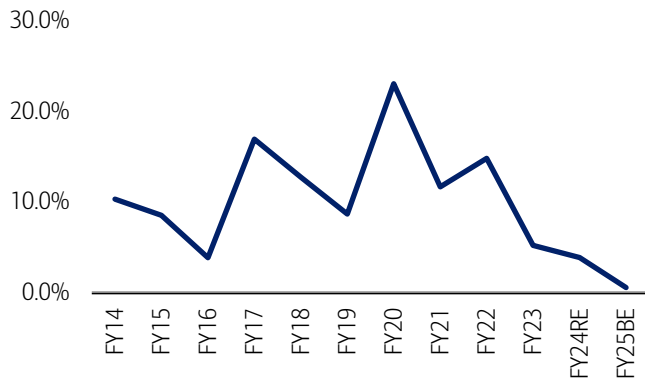


Source: FinMin

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### Exhibit 9: Growth of revenue expenditure net of interest payments and subsidies (% yoy)

Net of interest payment and subsidy, revenue expenditure is expected to grow by only 0.6% yoy in FY25, see upside to this forecast

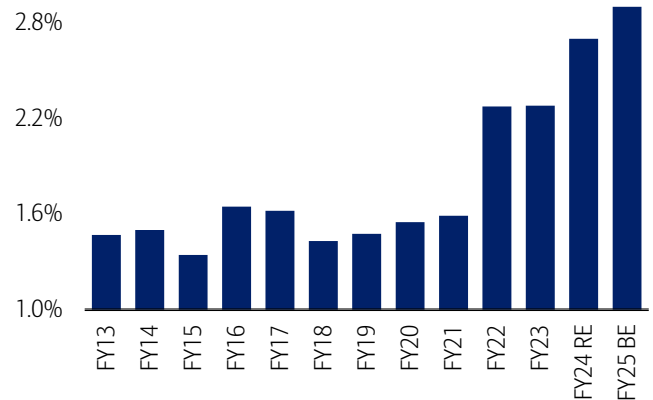


Source: FinMin

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### Exhibit 10: Capital outlay as % of GDP

Capital outlay as % of GDP to rise further to 2.9 from 2.7 in FY24

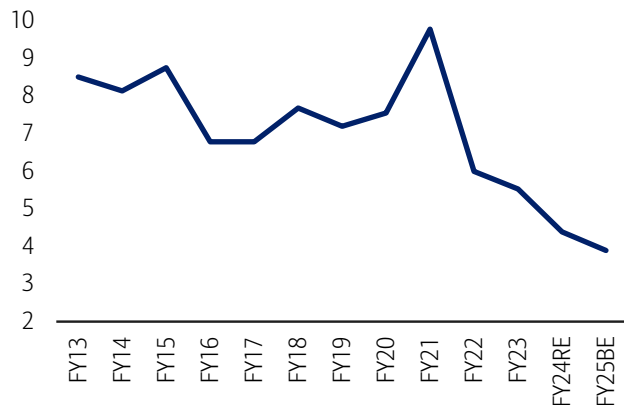


Source: FinMin

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### Exhibit 11: Ratio of revenue expenditure to capital outlay

Improving quality of fiscal deficit, RECO to fall further in FY25

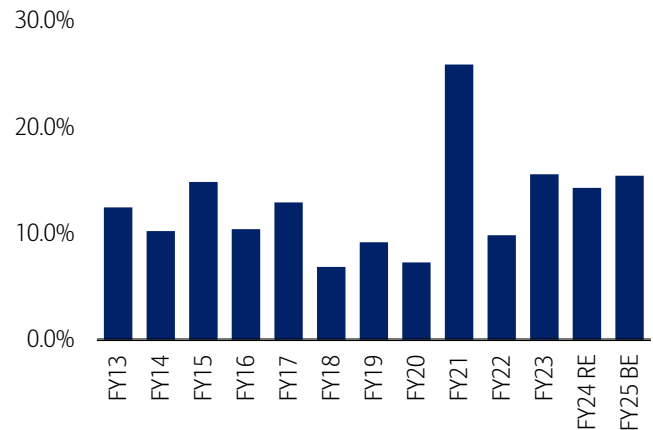


Source: FinMin

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### Exhibit 12: Loans & advances as % of Capex

Interest free loan to states still making up for a sizable part of capex



Source: FinMin

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### Exhibit 13: Sources of financing the fiscal deficit

Drawdown of cash balance and fewer T-bill supply to aid liquidity in coming months, FY25 borrowings well contained. Small savings est. looks conservative

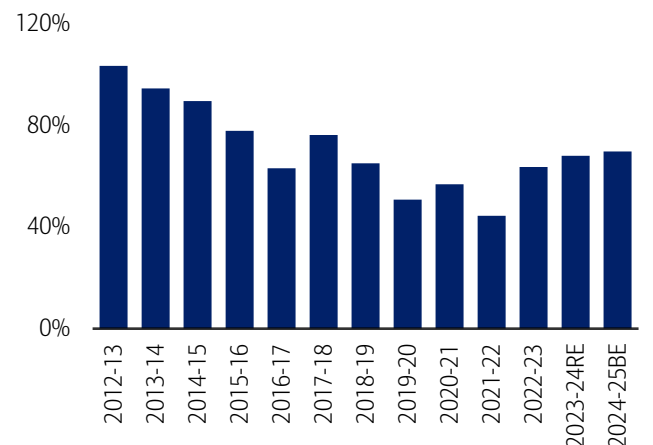
In INR crore	FY23 Actuals	FY24 BE	FY24 RE	FY25 BE
Debt receipts	1739378	1798604	1761424	1681944
Market borrowings	1105836	1180911	1180456	1175182
Short term borrowing	112009	50000	1323	50000
Securities against small savings	395860	471317	471317	466201
State provident funds	5089	20000	5200	5200
Other receipts	83460	54258	78296	30591
External debt	37124	22118	24832	15952
Draw down of cash balance	-1622	-11787	-26652	3549

Source: FinMin

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### Exhibit 14: Financing of Centre's fiscal deficit via market borrowing

Centre to finance 69.7% of fiscal deficit via market borrowing



Source: RBI

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