Union Interim Budget FY25 – Prudence over Populism

TRUST
In Partnership. With Trust.

3 February, 2024

Key takeaways

- **The Union Interim Budget for FY25 stood out with its adherence to the fiscal consolidation path and lower market borrowings for FY25, which cheered the bond markets.**

- **The Budget skipped making changes to both direct and indirect tax rates.**

- **The Budget signaled continuity in policy with its ongoing thrust on infrastructure development, inclusive growth, along with added incentives to support technology and innovation, transition to green energy, housing, agriculture, industry, and tourism.**

Fiscal deficit to moderate to 5.1% of GDP in FY25BE

- **The fiscal deficit for FY24 stands revised at 5.8% of GDP from 5.9% BE.** Higher-than-budgeted tax and non-tax revenues, and lower capital expenditure are expected to offset the shortfall in disinvestment receipts and higher revenue expenditure.

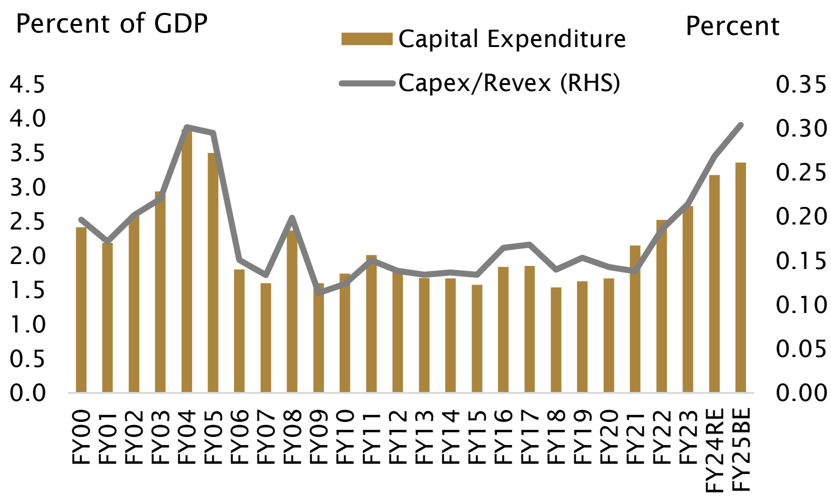
- **In FY25, fiscal deficit is expected to moderate to 5.1% of GDP**, lower than market expectations.
  - While **capital expenditure is expected to grow to 3.4% of GDP from 3.2% in FY24, revenue expenditure is budgeted at around 11.1% of GDP, lower by 0.8pp from FY24,** thereby reducing overall expenditure by 0.6pp to 14.5% of GDP. The **moderation in revenue expenditure comes from lower subsides** at 1.2% of GDP versus 1.5% in FY24.

  - On the receipts side, **gross tax revenues are expected to grow at a modest pace of 11.5%YY.** With implied nominal GDP growth of 10.5%YY, tax buoyancy of 1.1 is expected to be lower than 1.4 in FY24RE.

	Rs. billion			%YY			% of GDP		
	FY23	FY24RE	FY25BE	FY23/ FY22	FY24RE/ FY23	FY25BE/ FY24RE	FY23	FY24RE	FY25BE
Total receipts	24,554	27,557	30,803	11.1	12.2	11.8	9.0	9.3	9.4
Revenue receipts	23,832	26,997	30,013	9.8	13.3	11.2	8.7	9.1	9.2
Gross tax revenues	30,542	34,372	38,308	12.7	12.5	11.5	11.2	11.6	11.7
Non-tax revenues	2,854	3,758	3,997	(21.8)	31.7	6.4	1.0	1.3	1.2
Non-debt capital receipts	722	560	790	83.4	(22.4)	41.1	0.3	0.2	0.2
Total expenditure	41,932	44,905	47,658	10.5	7.1	6.1	15.4	15.1	14.5
Revenue expenditure	34,531	35,402	36,547	7.9	2.5	3.2	12.7	11.9	11.1
Capital expenditure	7,400	9,502	11,111	24.8	28.4	16.9	2.7	3.2	3.4
Gross fiscal deficit	17,378	17,348	16,855	9.7	(0.2)	(2.8)	6.4	5.8	5.1

Quality of expenditure to remain buoyed by capex

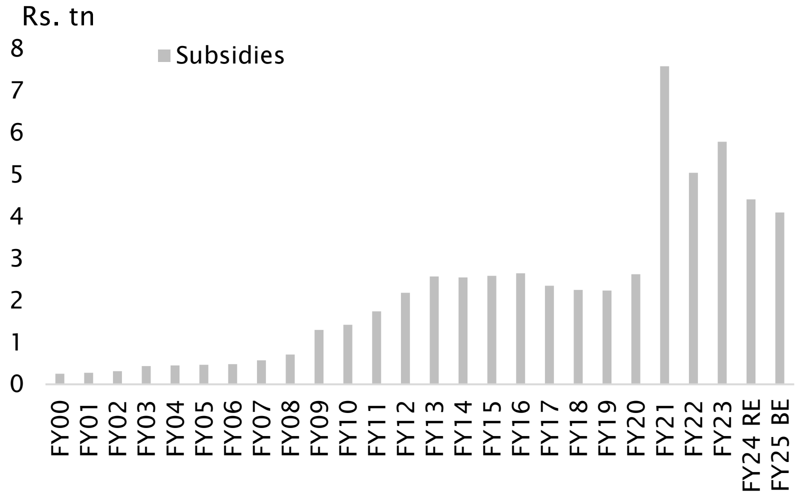
- Over the past four years starting in FY21, capital expenditure increased at an average rate of 30%YY. For FY25, capital spending is expected to grow by around 17%YY (or by 11% over FY24BE) to Rs. 11 trillion. Though the pace of spending is expected to moderate, the share of capital expenditure in GDP is set to increase.
- While most of the capex spending has been borne by roads and railways, there is a marked deceleration in the pace of spending earmarked for these sectors for FY25.
- **The quality of expenditure is expected to remain high amid an increase in capital to revenue expenditure ratio to 0.30 from 0.27 in FY24RE.**



	Rs. billion			%YY			% of GDP		
	FY23	FY24RE	FY25BE	FY23/ FY22	FY24RE/ FY23	FY25BE/ FY24RE	FY23	FY24RE	FY25BE
Total expenditure	41,932	44,905	47,658	10.5	7.1	6.1	15.4	15.1	14.5
Revenue expenditure	34,531	35,402	36,547	7.9	2.5	3.2	12.7	11.9	11.1
Capital expenditure	7,400	9,502	11,111	24.8	28.4	16.9	2.7	3.2	3.4
Defence	1,509	1,678	1,822	4.2	11.2	8.6	0.6	0.6	0.6
Railways	1,593	2,400	2,520	35.8	50.7	5.0	0.6	0.8	0.8
Roads and highways	2,060	2,645	2,722	81.8	28.4	2.9	0.8	0.9	0.8

Risks of slippage on revenue expenditure estimates

- The revised estimates for FY24 suggest higher spending on subsidies, agriculture and rural development than envisaged in the budget estimates. **For** FY25, the Budget has pegged subsidies to ease to 1.2% of GDP from 1.5% in FY24. However, **uncertainties from the ongoing geopolitical tensions and climate risks, including an uneven monsoon/supply-side constraints on agriculture produce, could prompt higher public spending on subsidies.**



	Rs. billion				%YY			% of GDP		
Select items under revenue expenditure	FY23	FY24BE	FY24RE	FY25BE	FY23/ FY22	FY24RE/ FY23	FY25BE/ FY24RE	FY23	FY24RE	FY25BE
Revenue expenditure	34,531	35,021	35,402	36,547	7.9	2.5	3.2	12.7	11.9	11.1
Interest payments	9,285	10,800	10,554	11,904	15.3	13.7	12.8	3.4	3.6	3.6
Transfer to States	1,807	1,873	1,584	1,444	(28.3)	(12.3)	(8.9)	0.7	0.5	0.4
Finance Commission Grants	1,728	1,655	1,404	1,324	(16.7)	(18.7)	(5.7)	0.6	0.5	0.4
Other transfers	79	218	180	120	(82.2)	127.0	(33.3)	0.0	0.1	0.0
Subsidies	5,779	4,031	4,405	4,097	14.7	(23.8)	(7.0)	2.1	1.5	1.2
Food	2,728	1,974	2,123	2,053	(5.6)	(22.2)	(3.3)	1.0	0.7	0.6
Fertilizer	2,513	1,751	1,889	1,640	63.5	(24.8)	(13.2)	0.9	0.6	0.5
Oil	68	23	122	119	99.2	79.6	(2.6)	0.03	0.04	0.04
Other subsidies	470	284	271	285	(18.7)	(42.4)	5.5	0.2	0.1	0.1
Agriculture and farmers' welfare	999	1,155	1,167	1,174	(12.8)	16.9	0.6	0.4	0.4	0.4
Rural development	1,768	1,575	1,711	1,776	10.2	(3.3)	3.8	0.6	0.6	0.5

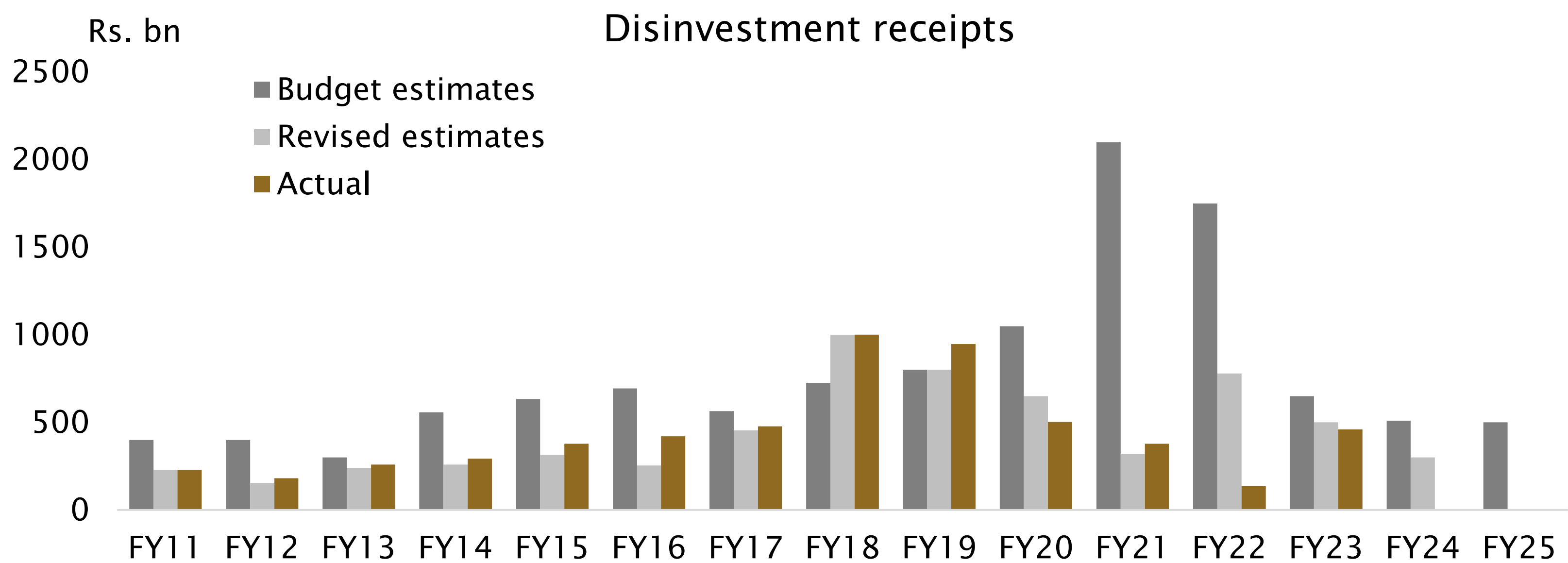
Modest tax buoyancy assumed for FY25BE

- The revised estimates for FY24 indicate higher gross tax revenues, aided by greater direct tax collections that are likely to offset lower indirect tax revenues.
- **Gross tax collections are estimated to grow 11.5%YY in FY25BE. Assuming implied 10.5% nominal GDP growth, this indicates tax buoyancy of 1.1, lower than 1.4 for FY24RE.**
  - Growth in direct taxes is expected to ease, though share in GDP is expected to rise marginally. The opposite holds true for indirect tax revenue estimates.
- **Despite being slightly lower than FY24RE, dividend receipts for FY25 are estimated to remain strong in FY25BE at Rs. 1.5 trillion (0.5% of GDP).**

	Rs. billion				%YY			% of GDP		
	FY23	FY24BE	FY24RE	FY25BE	FY23/ FY22	FY24RE/ FY23	FY25BE/ FY24RE	FY23	FY24RE	FY25BE
Revenue receipts	23,832	26,323	26,997	30,013	9.8	13.3	11.2	8.7	9.1	9.2
Gross tax revenues	30,542	33,609	34,372	38,308	12.7	12.5	11.5	11.2	11.6	11.7
Direct taxes	16,678	18,317	19,533	22,083	17.8	17.1	13.1	6.1	6.6	6.7
Corporation tax	8,258	9,227	9,227	10,428	16.0	11.7	13.0	3.0	3.1	3.2
Income tax (incl. other tax	8,420	9,090	10,307	11,654	19.6	22.4	13.1	3.1	3.5	3.6
Indirect taxes	13,857	15,292	14,839	16,225	7.1	7.1	9.3	5.1	5.0	4.9
Goods and services tax	8,491	9,566	9,566	10,677	21.6	12.7	11.6	3.1	3.2	3.3
Customs duty	2,134	2,331	2,187	2,313	6.8	2.5	5.8	0.8	0.7	0.7
Excise duty	3,227	3,390	3,081	3,235	(18.2)	(4.5)	5.0	1.2	1.0	1.0
Service tax	4	5	5	1	(57.4)	16.1	(80.0)	0.0	0.0	0.0
Transfers to states, UTs, et	9,564	10,302	11,133	12,292	5.7	16.4	10.4	3.5	3.8	3.7
Net tax revenues	20,978	23,306	23,239	26,016	16.2	10.8	11.9	7.7	7.8	7.9
Non-tax revenues	2,854	3,017	3,758	3,997	(21.8)	31.7	6.4	1.0	1.3	1.2
Interest receipts	279	248	318	331	27.3	14.1	4.2	0.1	0.1	0.1
Dividend and profits	999	910	1,544	1,500	(37.8)	54.5	(2.9)	0.4	0.5	0.5
Others	1,577	1,858	1,896	2,166	(13.7)	20.3	14.2	0.6	0.6	0.7

Disinvestment receipts likely to undershoot BE in FY24 and FY25

- **Latest data till December suggests disinvestment receipts of Rs. 100 billion for FY24YTD compared to the revised estimate of Rs. 300 billion for FY24.**
- **Given the muted track record of disinvestment targets versus realized numbers, the government is most likely to undershoot FY25BE of Rs. 500 billion**, more so given the shorter time length for implementation post full final budget to be announced post general elections in April-May.



	Rs. billion				%YY			% of GDP		
	FY23	FY24BE	FY24RE	FY25BE	FY23/ FY22	FY24RE/ FY23	FY25BE/ FY24RE	FY23	FY24RE	FY25BE
Non-debt capital receipts	722	840	560	790	83.4	(22.4)	41.1	0.3	0.2	0.2
Recovery of loans	262	230	260	290	5.8	(0.6)	11.5	0.1	0.1	0.1
Disinvestment receipts	460	510	300	500	237.8	(34.8)	66.7	0.2	0.1	0.2
Other receipts	-	100	-	-						

Lower fiscal deficit aimed via moderation in revenue expenditure

- **Lowering fiscal deficit to 5.1% in FY25BE is being largely aimed via reduction in revenue expenditure**, even as share of capital expenditure in GDP is slated to grow, that of non-tax revenues is expected to ease marginally, and modest increase is assumed for gross tax revenues.
- In FY25, net market borrowing is estimated at Rs. 11.7 trillion, lower than the revised estimate of Rs. 11.8tn for FY24. While these numbers cheered the bond markets, **net borrowing is still expected to finance around 70% of fiscal deficit in FY25BE, up from 68% in FY24BE.**
- Market loans amounting to Rs. 3.6tn are scheduled for repayment in FY25, of which Rs. 1.2tn is expected to be recovered from GST compensation fund and the remaining Rs. 2.4tn from market loans, so that the **gross market borrowing is expected to decline by over 8%YY to Rs. 14.1tn.**

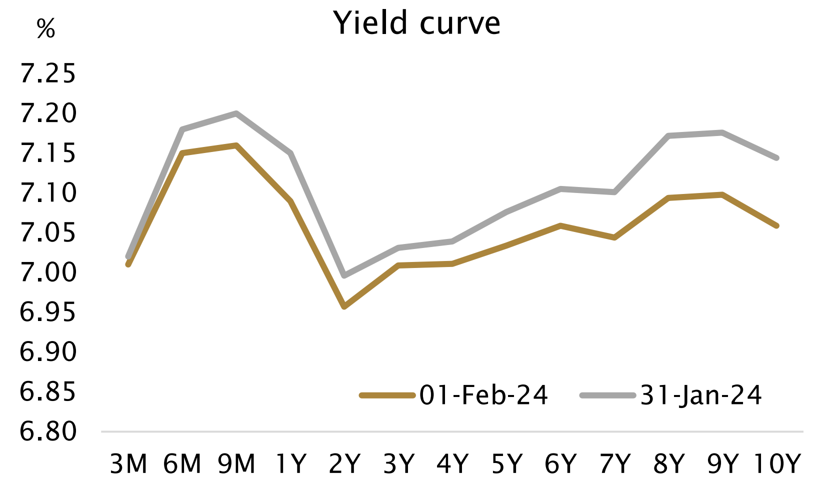
	% of GDP FY24RE	FY25BE	Change (pp)
Total expenditure	15.14	14.54	(0.60)
Revenue expenditure	11.93	11.15	(0.78)
Capital expenditure	3.20	3.39	0.19
Total receipts	9.29	9.40	0.11
Gross tax revenues	11.59	11.69	0.10
Non-tax revenues	1.27	1.22	(0.05)
Non-debt capital receipts	0.19	0.24	0.05
Gross fiscal deficit	5.85	5.14	(0.71)

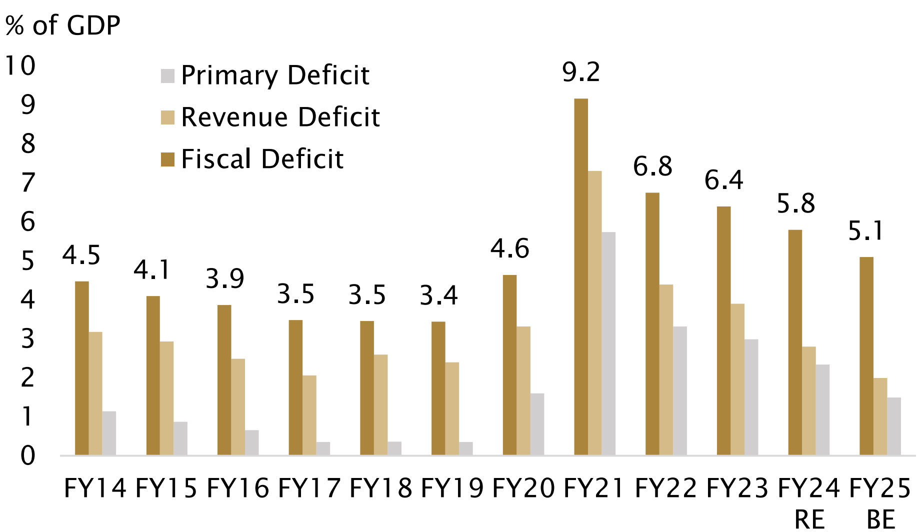
Financing of fiscal deficit			
Rs. bn	FY23	FY24RE	FY25BE
External Debt	371	248	160
Net Market Borrowing	11083	11805	11752
T-bills	1120	13	500
Small Savings	3959	4713	4662
State Provident Funds	51	52	52
Others	810	783	-306
Drawdown of Cash Bal.	-16	-267	35
Total	17378	17348	16855
Net Market Borrowing (% of FD)	64	68	70
Gross market borrowing	14210	15430	14130

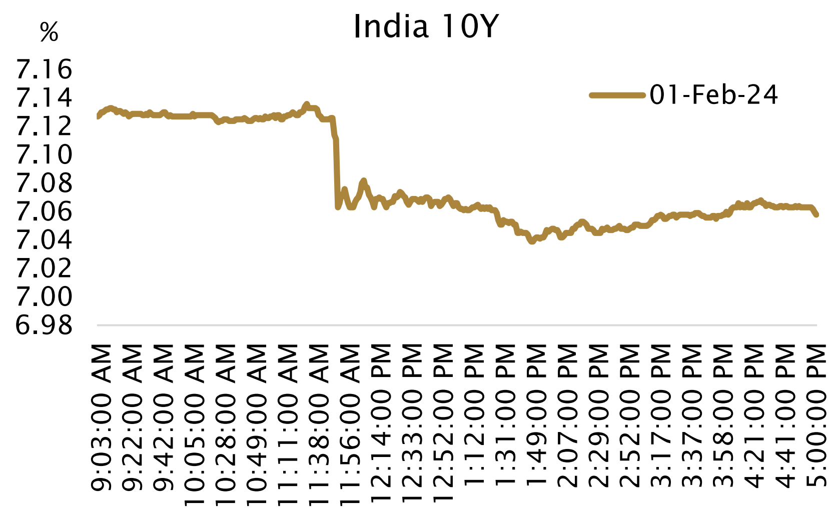
(Rs. billion)	FY24RE	FY25BE
Scheduled repayments	4406	3614
minus recovery from GST compensation fund	781	1236
Market borrowing for repayment	3625	2378
plus net market borrowing	11805	11752
Gross market borrowing	15430	14130

Positive bond market reaction

- Bond markets rallied on lower fiscal deficit and market borrowings projected for FY25, with yields softening across tenors.







Economic Review – Based on MoF latest monthly economic report

Major drivers of growth in the past decade	
1. Balance sheet clean-up (banks, corporates)	5. MSME sector reforms
2. Simplifying regulatory frameworks	6. Public spending on infrastructure
3. Enhancing taxation ecosystem	7. Digitalization
4. Engagement with private sector	8. Inclusive growth policies

Drivers of domestic economic resilience	
1. Resilience of consumption demand	5. Digital infrastructure
2. Enabling investment-led growth	6. Credit creation
3. Agriculture policies for food security	7. Financial mkt. to support investment
4. Reform push to the industry	

Challenges confronting the economy
1. Increased geo-economic fragmentation with impact on global trade and growth
2. Trade-off between energy security and economic growth vs energy transition
3. Impact of artificial intelligence on services trade and employment
4. Availability of appropriately skilled workforce

DISCLAIMER:

We are committed to providing completely independent views to help our clients reach a better decision. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Nothing in this document should be construed as investment or financial advice, and nothing in this document should be construed as an advice to buy or sell or solicitation to buy or sell the securities of companies referred to in this document. The intent of this document is not in recommendary nature. The recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Trust Group has not independently verified all the information given in this document. Accordingly, no representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. Trust Group, its affiliates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. This report has been prepared on the basis of information, which is already available in publicly accessible media or developed through analysis of Trust Group. The views expressed are those of analyst and the Company may or may not subscribe to all the views expressed therein. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose.

Trust Group

1101, Naman Centre, Bandra Kurla Complex, Bandra (E), Mumbai -400 051, Maharashtra.

Ph: +91 22 4084 5000 • Fax: +91 22 4084 5052 • www.trustgroup.co.in