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STCI
Primary Dealer Ltd

Budget FY24 – A Review

Budget FY24 - Fiscal prudence and push to investment

Highlights:

- ***Gross fiscal deficit will be at 5.9%, leading to a fiscal consolidation of 50 basis points***
- ***Capital Expenditure estimated at Rs.10 Lakh Crore***
- ***Gross borrowings to be Rs.15.4 Lakh Crore for FY24.***
- ***FY23 gross fiscal deficit unchanged at 6.4%.***
- ***Nominal GDP growth estimated at 10.5% over the previous year.***

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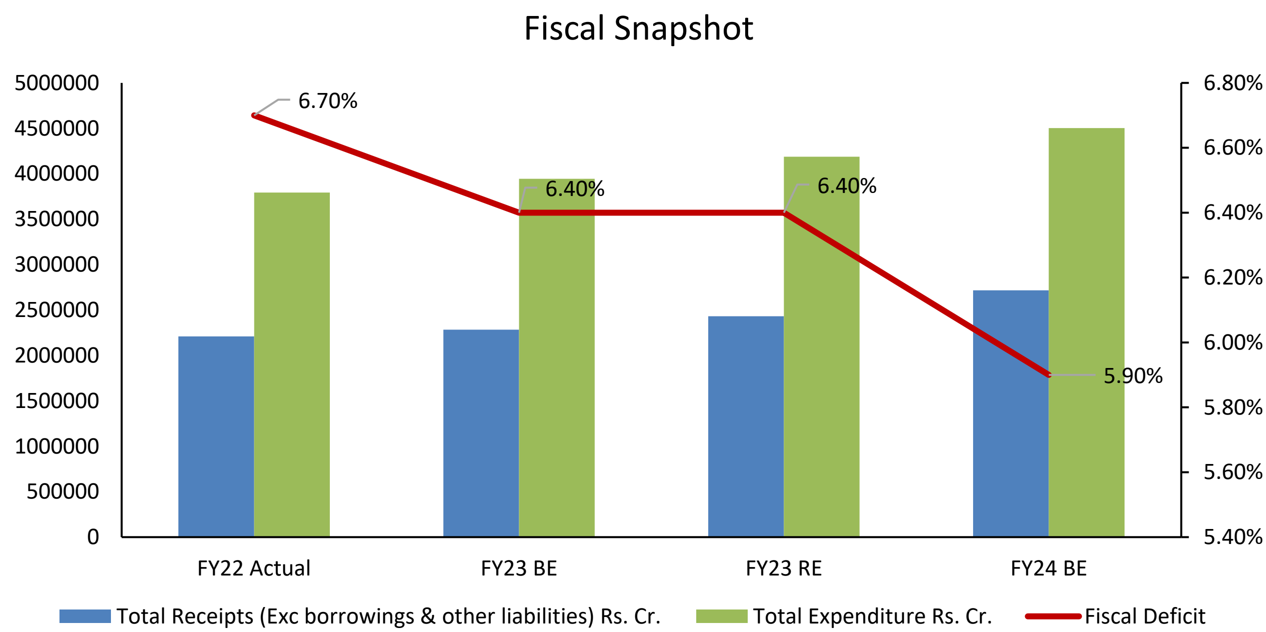
The FY24 Union Budget has tried to achieve both fiscal prudence and an improvement in the quality of government expenditure. A record high increase of 33% in capital expenditure budgeted for the next financial year augurs well for the medium-term growth prospects and boosting consumption. Also, the government has been consistent in curbing revenue expenditure reducing the drag on fiscal balances. A sizable reduction of 20-30% in subsidy payouts was expected and the budget has delivered on this with a 28% reduction. Gross borrowing of the central government is estimated at Rs.15.4 lakh crore, and the gross fiscal deficit (GFD) is estimated at 5.9% of GDP. Overall, a fiscal consolidation of 50 basis points has been achieved, along with a push on investment.

The conservatism of the union government in estimating the revenue receipts especially tax revenue continues in FY24. Tax revenue of the center is estimated to grow at a pace of 12%, which is in line with the previous years' mindset to keep tax revenue growth realistic. Moreover, the other heads like non-tax revenue and non-debt capital receipts especially disinvestment has also been revised downwards and indicates a tendency to avoid over-budgeting given the poor track record of disinvestment so far.

The bond markets were expecting a gross borrowing number of Rs. 15.5-16 lakh crore and the budget estimates have been marginally better than market expectations. The gross borrowings for FY24 are estimated at Rs.15.4 lakh crore. This is lower than our expectations of Rs.16.4 lakh crore. This has been possible since the redemptions of the bonds issued for back-to-back loans given to the states are to be funded through the funds available in the GST compensation cess.

The government has been prudent and expansionary both in the same breath by improving the quality of expenditure with a larger thrust on the capital spending. The 33% increment on capital spending will enhance the journey into the "Amrit Kaal" or India@100. This will give a boost to consumption spending and will fuel India's growth in the medium term if the capital spending is achieved in full.



I. Revenues- Realistic estimates

The budget estimates a modest growth of 12% in total receipts which are receipts of the central government excluding the debt capital receipts. The net tax revenue of the central government is the major driver of the receipts. In FY23, the economy witnessed robust tax collections under the Goods and Services Tax (GST) regime with a run rate of around Rs. 1.4-1.5 lakh crore of GST collections. FY23 will likely see an overshooting of the budget target for indirect tax collections, as the GST regime has been tightened by closing various loopholes, and has also stabilized within the economic framework. Hence, in our opinion, the next year will see stable tax revenue growth on the GST front as the economy will face global headwinds, and moderate space for tax revenues to show a significant increment. The net tax revenue growth is estimated in alignment with the growth in total receipts at 12%.

Non-tax revenue of the Centre includes interest receipts, dividends & profits and other receipts like proceeds from railways, communications etc. Estimates for non-tax revenue and non-debt capital receipts also hint at the realism of the government with modest growth expectations of 15% over the revised estimates of FY23 due to lower accrual of dividends and profits from PSBs. These targets are estimated factoring robust dividends from the RBI in FY24 and higher revenues from the various economic services. The total dividends and profits expected in FY23 were at Rs. 1.13 lakh crore and the actual accrual so far is Rs. 0.84 Lakh Crores. This has also led the government the revised non-tax revenue target for FY23 to be revised marginally downward from Rs. 2.7 lakh crore to Rs. 2.6 lakh crore.

Table 1: Government Receipts (in Rs Cr)				
	Actual	BE	RE	BE
	FY22	FY23	FY23	FY24
Revenue Receipts	**21,69,905**	**22,04,422**	**23,48,413**	**26,32,281**
Tax Revenue (Net)	18,04,794	19,34,771	20,86,662	23,30,631
Non-Tax Revenue	3,65,112	2,69,651	2,61,751	3,01,650
Capital Receipts	**16,23,895**	**17,40,487**	**18,38,820**	**18,70,817**
Recovery of loans	24,737	14,291	23,500	23,000
Other Receipts	14,638	65,000	60,000	61,000
Borrowings and Other Liabilities	15,84,520	16,61,196	17,55,320	17,86,817
Total Receipts	**37,93,801**	**39,44,909**	**41,87,232**	**45,03,097**
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. The divestment programme has been lackluster so far and the government too has acknowledged this fact by revising the divestment target lower in FY23, from the budgeted Rs. 65,000 crores to a revised estimate of Rs. 50,000 crores. Also, the target for FY24 has been kept almost flat at Rs. 51,000 crores for divestment. Overall, miscellaneous capital receipts have been kept little changed from Rs. 60,000 crores in FY23 as per revised estimates to Rs. 61,000 crores in FY24.

Table 2: Tax Break - Up (In Rs Cr)				
	Actual	BE	RE	BE
	FY22	FY23	FY23	FY24
Gross Tax Revenue	**27,09,315**	**27,57,820**	**30,43,067**	**33,60,858**
Corporation Tax	7,12,037	7,20,000	8,35,000	9,22,675
Taxes on Income	6,96,243	7,00,000	8,15,000	9,00,575
Wealth Tax	13	-		
Customs	1,99,728	2,13,000	2,10,000	2,33,100
Union Excise Duties	3,94,644	3,35,000	3,20,000	3,39,000
Service Tax	1,012	2,000	1,000	500
Goods and Services Tax	6,98,114	7,80,000	8,54,000	9,56,600
Taxes on Union Territories	7,524	7,820	8,067	8,408
Less - Transfers to Funds	6,130	6,400	8,000	8,780
Less - State's share	8,98,392	8,16,649	9,15,798	10,21,448
Less state's share adjustment	-	-	32,607	-
Centre's Net Tax Revenue	**18,04,794**	**19,34,771**	**20,86,662**	**23,30,631**
Source: Union Budget Documents				

II. Expenditure Side- Crowding in private capex

The theme of reigning in revenue expenditure and pushing up investment has been continued in this budget similar to FY23. The intention of the central government is to provide for and fill the infrastructure gaps that would crowd-in private capital expenditure. Private investment has been lackluster in recent times and especially so during COVID-19 years of FY20-FY22. The government has been vocal about the need for the private sector to step in to provide the natural impetus to growth. In light of these objectives, the budget estimates the revenue expenditure to grow by a modest 1.2% in FY24 over the revised estimates of FY23. As opposed to this, capital expenditure is slated to grow at a significant 33% over previous year's revised estimates. The major curb in expenditure has been on the subsidies with a 28% reduction in overall subsidies in FY24. Overall expenditure has reduced as a percentage of GDP, with FY24 spending at 14.9% as compared to 15.3% in FY23. Among items in the revenue expenditure, interest payments continue to be the biggest head of government spending with total interest payments for FY24 amounting to Rs.10.8 Lakh Crore in FY24, up from Rs. 9.41 Lakh Crore in FY23.

Table 3: Expenditure Break Up in Rs. Crore

	Actuals	BE	RE	BE
	FY22	**FY23**	**FY23**	**FY24**
Revenue Expenditure	32,00,926	31,94,663	34,58,959	35,02,136
Capital Expenditure	5,92,874	7,50,246	7,28,274	10,00,961
Total Expenditure	**37,93,801**	**39,44,909**	**41,87,232**	**45,03,097**
Key Expenditure				
Interest payments	8,05,499	9,40,651	9,40,651	10,79,971
Defence	3,66,546	3,85,370	4,09,500	4,32,720
Pension	1,98,946	2,07,132	2,44,780	2,34,359
Food Subsidy	2,88,969	2,06,831	2,87,194	1,97,350
Fertilizer Subsidy	1,53,758	1,05,222	2,25,220	1,75,100
Education	80,352	1,04,278	99,881	1,12,899
Transport	3,32,238	3,51,851	3,90,496	5,17,034

Source: Union Budget Documents

The government has increased its capital spending by Rs. 2.7 Lakh Crore in this budget i.e from Rs. 7.3 Lakh Crore in FY23 to Rs. 10 Lakh Crore in FY24, with a view to crowd in private investment. The largest increments in terms of capital spending will be seen in Transport with an increase of Rs. 1.3 Lakh Crore, while retaining its share of 1.7% in GDP. IT and Telecom will see an increase of Rs. 0.2 Lakh crore over FY23. Defence expenditure will see an increase of Rs. 0.23 Lakh Crore in FY24 as compared to the previous year. Tax administration is estimated to witness an increase of Rs. 0.17 Lakh

Crore over the previous year, of which the major component is the increase of Rs.0.15 Lakh Crore towards the transfer to states under the GST compensation fund.

Table 4: Expenditure on Major Schemes (in Rs. Cr.)				
	Actual	**BE**	**RE**	**BE**
	FY22	**FY23**	**FY23**	**FY24**
Core of the Core Schemes				
Mahatma Gandhi National Rural Employment Guarantee Program	98,468	73,000	89,400	60,000
National Social Assistance Program	8,152	9,652	9,652	9,636
Core Schemes				
Jal Jeevan Mission	63,126	60,000	55,000	70,000
Pradhan Mantri Awas Yojna	90,020	48,000	77,130	79,590
Pradhan Mantri Gram Sadak Yojana	13,992	19,000	19,000	19,000
Pradhan Mantri Krishi Sinchai Yojana	11,278	12,954	8,085	10,787
Ayushman Bharat - Pradhan Mantri Jan Arogya Yojna	3,116	6,457	6,427	7,200
Swatch Bharat Mission (Gramin)	3,099	7,192	5,000	7,192
National Health Mission	32,958	37,160	33,708	36,785
National Education Mission	25,305	39,553	32,612	38,953
Major Central Sector Schemes				
Crop Insurance Scheme	13,549	15,500	12,376	13,625
Interest Subsidy for short term credit of farmers	-	19,500	22000	23,000
Pradhan Mantri Kisan Samman Nidhi	66,825	68,000	60,000	60,000
Urea Subsidy	1,00,988	63,222	1,54,098	1,31,100
Nutrient Based Subsidy	52,770	42,000	71,122	44,000
Food Subsidy to Food Corporation of India under National Food Security Act	2,08,929	1,45,920	2,14,696	1,37,207
Procurement of Food grains under NFSA	79,790	60,561	72,283	59,793

Source: Union Budget Documents

Subsidies: The major reduction in overall expenditure can be attributed to significant reduction in subsidies. The overall reduction in the subsidies amounts to Rs. 1.6 Lakh Crore, with the largest reduction seen in food subsidy. Subsidy payout underwent significant revisions during FY23 since the Russia-Ukraine conflict spiked prices of food items like wheat and fuel and fertilizers causing much harm to the economy and inflicting a tax on the poor and also the farming community. The budget estimates for subsidies amounted to Rs. 4 Lakh Crore, but was revised to Rs. 5.6 Lakh crore on additional spending on the Prada Mantra Garib Kalyan Anna Yojana (PMGKAY) worth Rs. 0.8 Lakh Crore and additional Fertilizer subsidy payout of Rs. 1.2 Lakh Crore.

Food subsidy has been reduced by ~Rs. 0.9 Lakh Crore over the previous year, followed by a reduction of Rs. 0.5 Lakh Crore in fertilizer subsidy as the risk of another spike in fertilizer prices in FY24 is unlikely as compared to FY23 which was marred by the Russia-Ukraine conflict spiking both fuel and fertilizer prices and also casting a shadow on wheat prices.

III. Sources of Financing Fiscal Deficit

Fiscal deficit for FY24 is estimated at Rs.17.9 Lakh Crore (5.9% of GDP) compared to revised estimate of Rs.17.6 Lakh Crore for FY23 (6.4% of GDP). There has been a revision of the fiscal deficit for the current financial year from a budget estimate of Rs. 16.6 Lakh Crore to Rs. 17.6 Lakh Crore in the revised estimates for FY23. This revision is due to an increase in overall expenditure by Rs.2.4 Lakh Crore due to lower divestment and increased expenditure on food and fertilizer subsidy.

Net market borrowing (G-Sec +T Bills), is estimated to finance 69% of the fiscal deficit as per the budget estimates for FY24, at Rs.12.3 Lakh Crore. This is in line with our expectations as we had estimated roughly a 67% financing of the fiscal deficit through net market borrowings for FY24 keeping in line with past trends. For FY23 there has been little change in the dated borrowings, though T-bills borrowing has been revised upwards to finance the increase in spending in FY23, from Rs.0.5 Lakh Crore to Rs.1.0 Lakh Crore. For FY24 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
		FY22	FY23	FY23	FY24
	Debt Receipts				
1	Market Borrowings (net)	8,14,568	11,58,718	11,95,866	12,30,911
	Dated (net)	7,04,097	11,18,612	11,08,183	11,80,911
	T-Bills (net)	77,438	50,000	1,00,000	50,000
	CMBs (net)	0	0	0	0
	Switch (Less)	28,432	0	-2,423	0

	Net-Post Office Life Insurance	-	-9,894	-9,894	-
2	Securities Against Small Savings	5,51,269	4,25,449	4,38,919	4,71,317
3	State Provident Funds	10,317	20,000	20,000	20,000
4	Other receipts	1,69,677	37,025	79,902	54,258
5	External Debt	36,147	19,251	23,874	22,118
6	Draw down of cash balance	2,543	752	-3,241	-11,787
7	Fiscal Deficit (Sum of 1 to 6)	**15,84,521**	**16,61,195**	**17,55,320**	**17,86,817**
Source: Union Budget Documents					

In other major sources, for FY24 the government expects to finance 26% of the fiscal deficit by issuing securities against small savings accounts. Also, the Government estimates a drawdown of cash of Rs.0.11 Lakh Crore for FY24. For FY23, the securities against small savings are given about 25% of weightage for financing the fiscal deficit, which is almost 1% lower than the budget estimates mostly due to a revision of the fiscal deficit.

IV. Market Borrowings

The gross borrowings of the government were in line and in fact a tad better than what the bond markets had expected in FY24. The gross borrowing number totaled to Rs.15.4 Lakh Crore. 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 FY24, from the anticipated Rs.4.4 Lakh Crore to Rs.3.6 Lakh Crore as the government shall fund the GST compensation cess payment of Rs.0.78 Lakh Crore from the GST Compensation fund. The government has also factored in a switch of Rs.1 Lakh Crore in the budget in line with expectations.

Table 6: Market Borrowings (in Rs Cr)

	Actual	**BE**	**RE**	**BE**
	FY22	**FY23**	**FY23**	**FY24**
Gross Market Borrowings (1+2)	9,68,382	14,95,000	14,21,000	15,43,000
1. Net Market Borrowings	7,04,097	11,18,612	11,08,183	11,80,911
2. Redemption	-2,64,284	-3,76,388	-3,12,817	-3,62,089
Borrowing for providing back to back loan to States and UTs for GST compensation cess shortfall	1,59,000	-	-	-
Source: Union Budget Documents				

The net T-bills issuance is pegged at Rs. 1.00 Lakh Crore in FY23RE and Rs. 0.50 crore FY24BE.

Table 7: T-Bills Issuances and Redemptions (in Rs. Cr.)				
	Actual	**BE**	**RE**	**BE**
	FY22	**FY23**	**FY23**	**FY24**
14 Day				
Gross	44,32,508	40,69,412	49,44,355	58,34,338
Redemptions	-44,21,318	-40,69,412	-49,44,355	-58,34,338
Net	11,190	0	0	0
91 Day				
Gross	8,47,904	8,21,251	7,44,178	7,24,661
Redemptions	-8,02,465	-8,43,271	-7,39,749	-7,11,661
Net	45,439	-22,019	4,429	13,000
182 Day				
Gross	4,65,679	5,04,945	5,59,193	5,86,029
Redemptions	-3,94,426	-4,68,945	-4,96,815	-5,62,558
Net	71,252	36,000	62,377	23,471
364 Day				
Gross	4,07,796	4,35,918	4,40,990	4,57,518
Redemptions	-4,58,240	-3,99,899	-4,07,796	-4,43,990
Net	-50,444	36,019	33,193	13,529
Total T-Bills Net	77,438	50,000	1,00,000	50,000
Source: Union Budget Documents				

The Government has considered both Cash Management Bills (CMB) and Ways and Means Advances (WMA) for FY24. The government has budgeted CMB issuances to the tune of Rs. 1.0 Lakh Crore and WMA at Rs. 5.0 Lakh Crore for FY24. If the Government plans to front load the borrowing by roughly allocating 60% in H1 FY24, the average auction size for dated securities would be ~Rs. 33,000-35,000 Crore.

V. Conclusion

The finance minister has delivered on all fronts with a budget heavy on capital spending and the continuation of the theme of crowding in private capital investment through increased government capital spending on infrastructure and less on dead weight and populist measures like increase in subsidies. Moreover, while the total subsidy payout has been reduced significantly over the previous year exceptional subsidy payout due to the Russia-Ukraine conflict, essential subsidies have been retained especially on food and fertilizer. A realistic and rather conservative estimation on revenue growth, might provide a buffer to the government assuming tax revenues continue to be robust in the coming year. On the expenditure side, the government has been pragmatic and increased revenue expenditure by a measly 1.2%, while increasing capital expenditure by a significant 33%

A fiscal deficit of Rs.17.9 Lakh Crore and consequently a gross borrowing of Rs.15.5-16 Lakh Crore was priced in the market psyche, and hence a gross borrowing number of Rs.15.4 Lakh Crore was better than market expectations and led to a rally of around 8-10 basis points on the 10-year yield. With the additional supply of dated securities more or less flattish for the next financial year, and estimated weekly supply also largely on expected lines, markets should be placated for the coming financial year on the duration front. Although issues like lesser demand from banks and insurance companies for duration products might dent the market sentiment over the year.

The RBI-MPC might comment positively on the overall fiscal stance especially the improvement in the quality of expenditure. Also, likely, is the view of increased inflationary expectations ahead with the surge in capital spending and consequent boost in consumption over the medium term. Nonetheless, the central bank is expected to hike the policy repo rate by 25 basis points in the upcoming RBI-MPC meeting. The 10-year bond is expected to trade within a range of 7.20-7.40% in the near term.

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