STCI
Primary Dealer Ltd

Budget FY2024-25 – A Review

Highlights:

- ***Gross fiscal deficit as a percentage of GDP for FY2024-25 is estimated to be lower at 4.9% as compared to 5.1% estimated in the interim budget.***
- ***Revenue expenditure increases by ₹ 54,744 crore, 0.2% of GDP.***
- ***Gross borrowings to be lesser by ₹ 12,000 crore at ₹ 14.01 lakh crore for FY2024-25, as compared to the interim budget estimate of ₹ 14.13 lakh crore.***
- ***Nominal GDP growth for FY2024-25 is estimated at 10.5% over the previous year.***

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Budget FY2024-25 - Mix of Prudence and Welfare

The Union Budget FY2024-25 was in line with expectations in general but lukewarm for the bond markets in particular. The backdrop of the recent financial events such as the transfer of the RBI's surplus worth ₹ 2.11 lakh crore to the central government had raised the hopes of the bond markets for a sizable reduction of ₹ 40,000-50,000 crore in the year's gross G-sec supply of ₹ 14.1 lakh crore. The budget estimates for FY2024-25 have bellied those expectations and the overall reduction amounts to ₹ 12,000 crore which does not move the needle for interest rate markets. Net T-bill borrowings have been reduced by ₹ 1 lakh crore.

The central government has expectedly mixed some elements of welfare into the equation by handing out transfers to employees and towards skill development, as job creation remains an important agenda on the government's to-do list. This will give a temporary boost to consumption but unless the long-term strategy for employment is in place this will not lead to a structural shift in consumption of households, which was lagging at 4 per cent in FY2023-24. The finance minister has announced nine priority points giving a roadmap for "Viksit Bharat" including 1. Productivity and resilience in Agriculture 2. Employment & Skilling 3. Inclusive Human Resource Development and Social Justice 4. Manufacturing & Services 5. Urban Development 6. Energy Security 7. Infrastructure 8. Innovation, Research and Development 9. Next Generation Reforms.

The direct effect of skill development and job creation will likely be a structural upward shift in consumption, but this will take at least a decade to realize the full effects. While consumption has been sluggish owing to multiple factors, private investment as a consequence has not really picked up as per the government's expectations. The share of capital formation has been at an average of 5 per cent growth since FY2011-12, though recently has shown some pick-up at 9 per cent for FY2023-24, and 7 per cent in the preceding year.

The budget estimates presented in July 2024 for the FY2024-25, are based on a nominal GDP estimate of 10.5 per cent which in our view estimates real GDP at a 7.5 per cent growth rate and the GDP deflator at 3 per cent, taking into consideration the expected trajectory of the WPI inflation going ahead.

Fig 1. Fiscal Snapshot (₹ in crore and %)

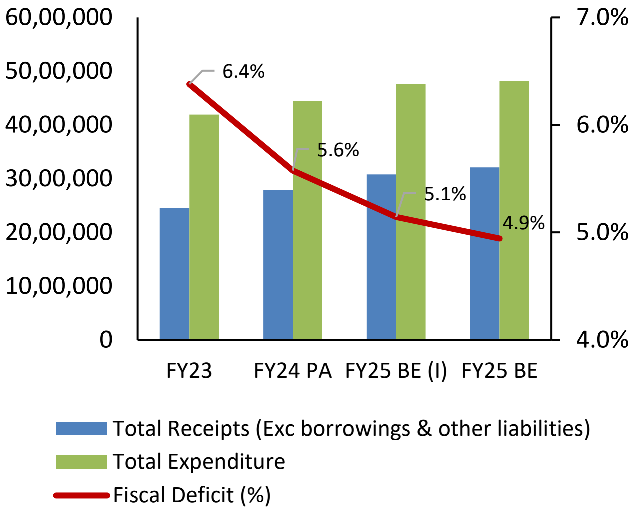


Fig 2. Revenue Receipts (₹ in crore)

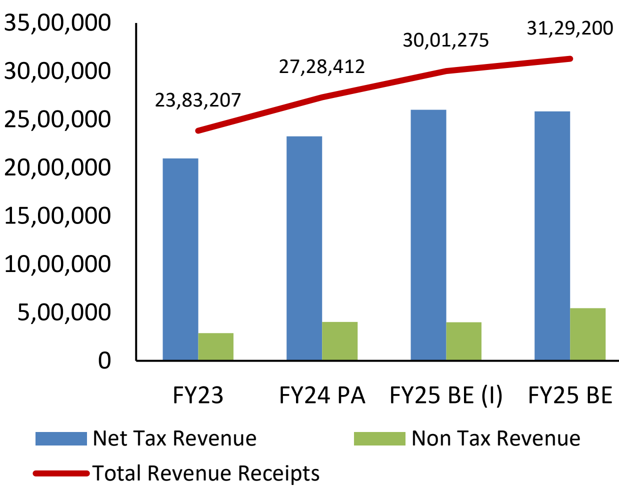
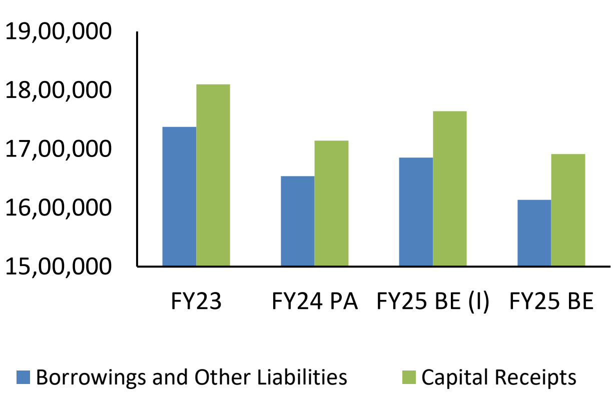


Fig 3. Capital Receipts (₹ in crore)



Note: PA-Provisional Actuals, BE – Budget Estimate; (I) – Interim;
Source: Union Budget Document, STCI PD Research

I. Revenues & Fiscal Deficit-Sticking to Fiscal Consolidation

The gross fiscal deficit has declined by ₹72,181 crore and stands at ₹ 16.13 lakh crore for FY2024-25, as compared to the earlier estimate of ₹ 16.85 lakh crore. The central government is keen to stick to its path of fiscal consolidation and achieve its target of 4.5 per cent of GDP in FY2025-26. The government has achieved a total consolidation of 0.7 per cent from the previous year's gross fiscal deficit of 5.6 per cent.

Assuming that this year monsoons pan out well, and the government in general does not have to contend with the intense effects of geo-political turmoil going on for the past two years or so, the fiscal deficit target for FY2025-26 looks achievable. This should also augur well in terms of improving the credit rating to a rank that India presently does not enjoy despite having strong macroeconomic parameters.

Revenue estimates are higher by 4 per cent as compared to the interim budget estimates as a higher non-tax revenue owing to the RBI dividend. Net tax revenue to the center has been recast lower by ₹ 18,075 crore as states will get a higher allocation from the center's revenue pool at ₹ 12.47 lakh crore as compared to ₹ 12.19 lakh crore in the interim budget, leading to an increase in state's share by ₹ 27,428 crore for FY2024-25. Gross tax revenues remain steady, with a marginal increase of 0.2 per cent over the interim estimates and a 12 per cent increase over the previous year's revised estimates. A net of ₹ 7,000 crore is forgone in terms of tax revenues due to changes made to structures of direct and indirect taxes.

Capital receipts have declined due to a significant fall in the borrowing and other liabilities in FY2024-25. The major reduction in this segment has occurred due to a reduction in short term borrowing especially in T-bills. The net borrowings are estimated at ₹ -50,000 crore for FY2024-25, and over the interim estimates the actual reduction amounts to ₹ 1 lakh crore, since in the interim budget the T-bill net borrowings were ₹ 50,000 crore. The government has also increased switches by ₹ 50,000 crore, and estimated buyback of securities worth ₹ 30,248 crore.

Fig 4. Expenditure Trend (₹ in crore)

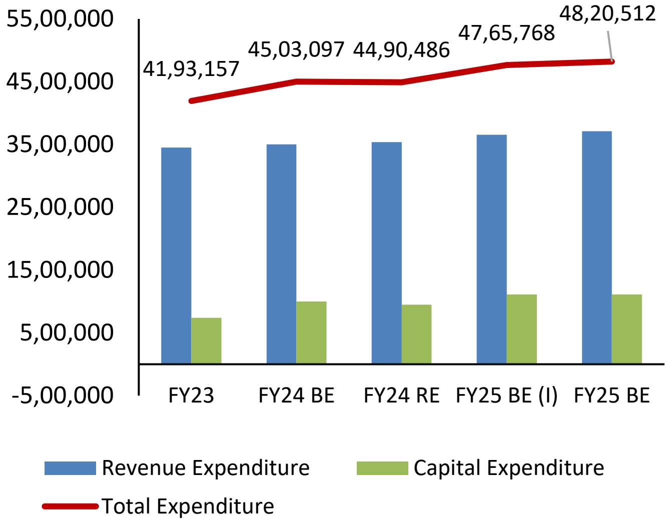
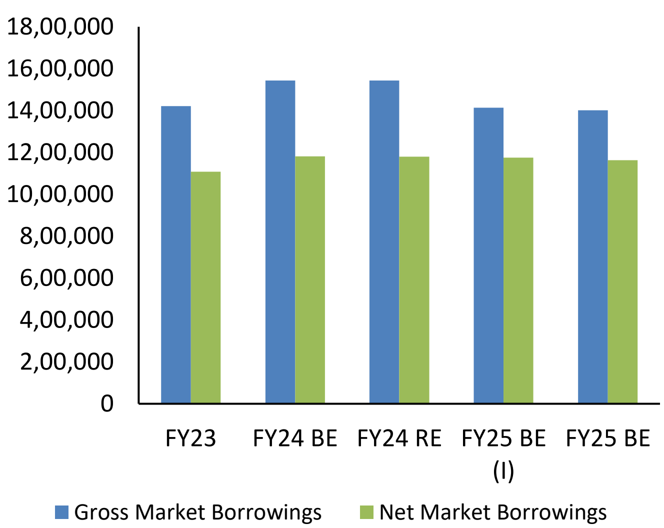


Fig 5. Market Borrowing (₹ in crore)



Note: BE – Budget Estimate, RE – Revised Estimate, (I) – Interim,
Source: Union Budget Document, STCI PD Research

II. Capital Expenditure Remains Unchanged, but Revenue Expenditure Increases by 0.2% of GDP

The mix of welfare along with fiscal prudence has cost the exchequer ₹ 54,744 crore which is 0.2 per cent of nominal GDP. The revenue expenditure has increased from ₹ 47.65 lakh crore in the interim estimates to ₹ 48.20 lakh crore for FY2024-25. The central government has not changed capital expenditure and the amount remains ₹ 11.11 lakh crore which is 3.4 per cent of GDP and remains a record high so far. The government has not altered the metrics for subsidies and the major heads like Food, Fertilizer and Fuel remain unchanged. The government has announced a ₹ 2 lakh crore package for employment and skilling under the Prime Minister’s Employment Linked Scheme.

The reduction in gross market borrowings was a source of disappointment for the interest rate markets, as the reduction in dated borrowings was miniscule, 1 per cent of the total borrowings at ₹ 12,000 crore, from ₹ 14.13 lakh crore to ₹ 14.01 lakh crore and net G-sec borrowing at ₹11.63 lakh crore as compared ₹ 11.75 lakh crore in the interim budget. The borrowings for short term have been reduced and especially for T-bills as noted above. In terms of other liabilities, the finance minister has reduced the securities against small savings by ₹ 46,138 crore.

Bond yields remained weak in the initial phases of the budget and are expected to sustain within a range due to lack of any further data cues. We expect the 10-year G-sec benchmark security to remain within a range of 6.90-7.10 per cent in the medium term.

Table 1: Sources of Financing the Fiscal Deficit (₹ in crore)					
		FY2022-23	FY2023-24 PA	FY2024-25 BE (Interim)	FY2024-25 BE
	Debt Receipts				
1	Market Borrowings (net)	12,17,845	12,30,959	12,25,182	11,13,182
	Dated (net)	11,05,836	11,77,754	11,75,182	11,63,182
	T-Bills (net)	1,12,009	53,205	50,000	-50,000
2	Securities Against Small Savings	3,95,860	4,51,399	4,66,201	4,20,063
3	State Provident Funds	5,089	5,070	5,200	5,000
4	Other receipts	83,460	83,293	-30,591	-81,282
5	External Debt	37,124	55,121	15,952	15,952
6	Draw down of cash balance	-1,622	-1,72,172	3,549	1,40,397
	Fiscal Deficit (Sum of 1 to 6)	**17,37,755**	**16,53,670**	**16,85,494**	**16,13,312**

Note: PA-Provisional Actuals, BE – Budgeted Estimate; Source: Union Budget Document

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