Union Budget Preview

Progressing with consolidation

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Public Finances ▸ Interim Budget Preview ▸ January 23, 2024

The upcoming interim budget would lack any big bang announcements but is likely to be watched for the pace of fiscal consolidation and policy priorities ahead. While economic trade-offs stay challenging amid reducing fiscal impulse for growth, policy prerogatives and spirit will not get derailed, in our view. Although the risk of competitive populism has abated at the central level, we do expect a few relief measures for the rural/farm/welfare sector. That said, the capex/revex mix is likely to further improve, with capex/GDP projected at 3.3%. The gross tax/GDP ratio is set to stay steady at 11.4% despite easing tax growth. Overall, we project FY25E GFD/GDP at 5.4% after 5.9% in FY24E, implying net and gross borrowing at a still-significant Rs11.5trn and Rs15.2trn, respectively. While net borrowing would be 65% of fiscal funding, small savings are likely to fund 25% of the GFD (27% in FY24E).

Interim Budget a non-event, yet an important policy signaling tool

The upcoming budget, being interim in nature, is likely to be a non-event as far as big-bag announcements, new tax or spending pitches are concerned. However, it will still set the stage for policy choices ahead and will be watched for the pace of fiscal consolidation and policy priorities on capex and non-capex spending. We expect the policy direction and prerogatives to remain largely similar to that for the recent budgets, as the trade-offs remain between nurturing growth recovery and the diminishing fiscal space with challenging debt dynamics. Besides, the improving intersection of politics and economics implies that *political capital is no longer as compromised around election cycles as perceived.*

Steady consolidation ahead: FY25E GFD/GDP set to tighten to 5.4% vs 5.9% in FY24

Amid various push and pull factors, FY24 GFD/GDP could just about stay balanced at 5.9%, as budgeted. The positive buffers, such as: 1) robust tax collection, 2) super-normal RBI dividend, 3) mild capex cuts, 4) expenditure jig etc, would offset: i) higher payouts than budgeted on food, fertilizer subsidy, ii) the miss on ambitious divestment targets, and iii) the lower nominal GDP growth. For FY25E, we model steady consolidation of ~0.5-0.6% and see GFD/GDP at 5.4%. The scope of being too populist looks bleak, amid moderating tax revenue growth and high committed revex & heavy market borrowings and, of course, given the budget being interim. The asset sale print is likely to remain at sub-Rs500bn, while RBI dividend would be viewed closely. We assume 10.5% nominal GDP growth. A more aggressive nominal GDP assumption in the budget could make government balances look optically better.

FY25E capex/GDP to further rise to 3.3%; Revex focus on rural, welfare spending

Centre's capex/GDP ratio is likely to rise to 3.3% – almost 1.6pts higher than the pre-pandemic ratio, even as capex growth may normalize to sub-15%. Capex focus will endure, specifically on roads, railways, housing, and rural/urban infra. The Centre may extend capex incentives to States, whose capacity to spend, though, may be nearing the limit. Capex/Revex mix will further improve. Revex/GDP may also ease, to 11.2% vs 12.0% in FY24E, and focus is likely to be on welfare, rural, and MSMEs. The major subsidy burden may hug ~Rs4trn levels, with extension of the free food scheme to be offset by mild dips in fertilizers and oil subsidy outlays.

Tax buoyancy to lose vigor, but tax base stays strong; non-tax rev. stream to ease

We expect gross tax/GDP to stay steady at 11.4% after a robust tax buoyancy in FY24 across segments. India's fiscal profile has become structurally healthy, amid better tax compliance, and resilience in domestic growth. We do not expect any major announcements for tax mobilization and rationalization, but some tinkering with the new concessional tax regime cannot be fully ruled out. Separately, non-tax revenue would still be healthy, led by RBI dividend amid consistent FX sales, but may fall short of last year's bumper surplus. Regarding conventional divestment, the windfall gains may face pressure from stake sales of GoI's large holdings, which are mainly concentrated in commodity companies and the utilities sector.

Net mkt borrowing elevated at Rs11.5trn; gross borrowing may trend at ~Rs15.2trn

We expect FY25E net borrowing at ~Rs11.5trn (Rs11.8trn in FY24), i.e. 65% of the total fiscal funding vs 67.4% in FY24E. Heavy reliance on NSSF (over 25% of GFD) will continue, as deposit rates have barely moved meaningfully in the last 1Y. Gross borrowing would be ~Rs15.2trn, assuming: i) no switch/rollover takes place for G-Sec papers redeeming in FY25; ii) no direct re-investment of proceeds from the maturing G-Sec bonds in FY25 by the RBI.

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Key highlights:

- **FY25E GFD/GDP at 5.4%**
- **Tax/GDP likely steady at 11.4%; Budgeted divestment to be sub-Rs500bn**
- **Capex/GDP robust at 3.3%; Revex/GDP to ease to 11.2%**
- **Net/gross borrowing at Rs11.5trn/15.2trn; Small savings funding ~Rs4trn**

Interim Budget Preview

The upcoming Union budget for FY25, to be presented on 1-Feb-2024, will be an interim one, and the full Budget will be presented after the formation of the new government following the general elections in May 2024. Technically, the interim budget is merely a vote-on-account to run the incumbent's fiscal accounts and seek approvals for essential expenditure outlays till the full budget is presented by the new government. Thus, it technically cannot include any major policy announcements.

However, the interim Budget broadly includes an assessment of the previous year's fiscal receipts, expenditures, and estimates for the year ahead. After the polls in May 2024, the incoming administration will present the regular Budget around mid-2024.

For the upcoming interim budget, we expect the policy direction and prerogatives to remain largely similar to those of recent budgets. The new budget will come on the back of the government largely matching its gross fiscal deficit (GFD) of 5.9% of GDP in FY24, even though the revenue and expenditure outturns are likely to be different. The policymakers are likely to continue signalling fiscal consolidation ahead and over the medium term, while there may not be any big bang reforms on the revenue or expenditure fronts. Some income tax slab tweaks in the direct tax code may still happen, as these would be in line with the continued efforts towards rationalizing DTC. The GFD/GDP for FY25 may be targeted at ~5.4%, depicting a consolidation of ~0.5% of GDP – a tad lower than the ~0.7% needed for two consecutive years ahead, to reach 4.5% by FY26.

The persisting tradeoff between growth and fiscal consolidation

Just as most past budgets, the upcoming interim budget also faces acute policy trade-offs between nurturing a nascent growth recovery and diminishing fiscal space with challenging debt dynamics. The FY25 Budget will be presented against the backdrop of a relatively better global framework, even as there are some renewed geo-political uncertainties and the fear of hard-landing globally has not fully receded.

Amid a solid tax revenue stream this year, the authorities commendably appear determined to meet the budgeted gross fiscal deficit (GFD) target of 5.9% of GDP. Even with the substantial consolidation seen in the headline print since Covid (GFD/GDP down, at near 3.3% by FY24E since FY21), the consolidation path from here remains daunting. However, the policy remains focused on improving growth potential in the medium term, including boosting the investment dynamics while maintaining fiscal discipline. The Centre has laid out a glide path such that the GFD/GDP is brought down to 4.5% by FY26 and, against this backdrop, we expect a 0.5%-0.6% of GDP consolidation in FY24, so that the Centre's fiscal deficit is pegged close to about 5.4% of GDP. The policies would focus on a credible and clearly communicated consolidation, anchored on stronger revenue mobilization and spending efficiency.

The budget, even though interim, will still set the stage for policy choices ahead and will be watched closely:

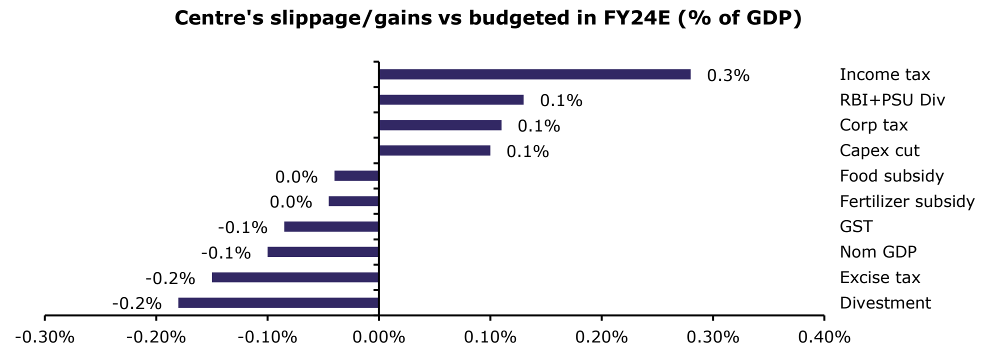
- ✓ The pace of fiscal consolidation,
- ✓ How the policymakers prioritize ahead, on capex and non-capex spending,
- ✓ How they plan to fund it,
- ✓ How they deliver on their strategy to revert to a more medium-term debt sustainability path,
- ✓ How they aim to increase the growth potential over the years.

FY24: Fiscal deficit/GDP to match the targeted 5.9%

The fiscal trends appear just about balanced, with the central government poised to print the budgeted target of 5.9% GFD/GDP, despite various push and pull factors. We expect revenues to surpass budget estimates amid healthy tax buoyancy. Non-tax revenues are looking significantly higher than budget estimates amid RBI dividend, while divestment is likely to still be quite short of expectations. The huge revenue collections seem to have helped fund the mildly higher-than-budgeted overall expenditure.

Overall, i) a nearly 0.2 percentage point slippage in divestment, ii) lower nominal GDP growth of 9% vs. 10.5% BE, and iii) mild slippages in major subsidies, etc. will be offset by: 1) a bumper RBI dividend (+0.2% pts), 2) mild capex cut, 3) robust buoyancy of direct taxes (+0.4%pts), and 4) policy choice of expenditure profile rejig/switch vs. expenditure slippage.

Exhibit 1: Centre to manage to stick to 5.9%, despite various push & pull factors



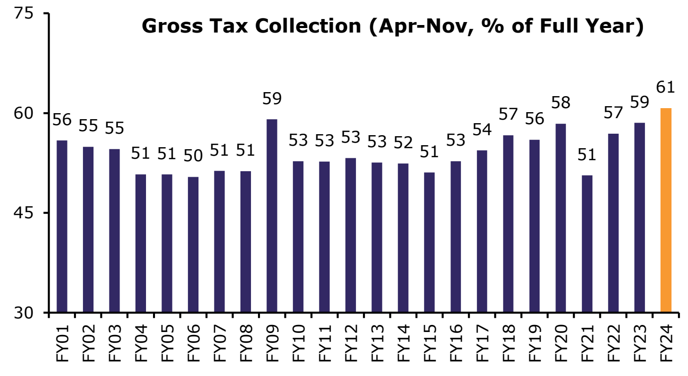
Source: Emkay Research estimates

Tax revenue buoyancy remains strong in FY24; Divestment a big miss

Buoyancy in tax receipts this year, led more by direct taxes, is likely to result in gross tax collections exceeding the FY24BE by nearly Rs550bn. FY24 tax revenue continued to imitate the non-linear relationship between economic activity and taxes, significantly outdoing nominal GDP growth. Net tax revenues are likely to exceed BE by ~Rs250bn, while total net revenue receipts will be higher by ~0.2% of GDP – also helped by higher RBI dividends.

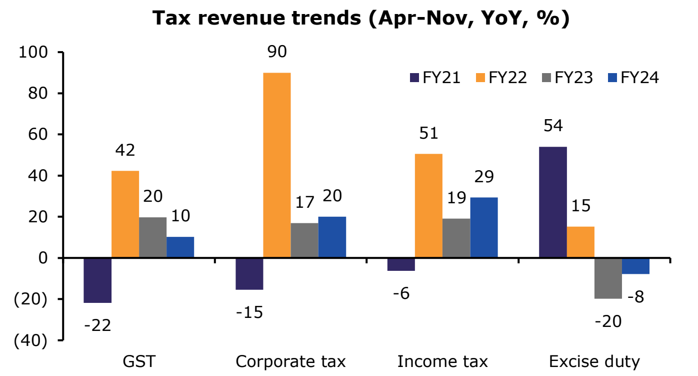
- Almost 61% of the gross tax collection target (vs 58% of FY23P) was already met in the first eight months – one of the strongest seen in years.
- FY24 is seeing massive gains in personal income taxes (PIT) amid increasing formalization, better compliance, and improving growth momentum, followed by higher corporate tax collections due to healthy corporate profitability and stealth benefits of GST-led formalization. We see FY24E gross tax/GDP at 11.5% of GDP (11.1% BE).
- On indirect taxes, the average monthly GST collection rate in FY24 has been healthy and picked up more towards the latter half. Assuming relatively slower growth in the remainder-FY24, the monthly total GST average will still be close to Rs1.55trn, which would imply that total GST collections may match the BE of Rs9.57trn and clock almost 10-12% higher YoY.
- Gross excise duty collections are estimated to be lower than BE by ~Rs300bn, due to unchanged duties on petroleum products and lower windfall tax realization, as crude oil prices trended below USD80/barrel.
- While bumper RBI dividends have been a big support for non-tax revenues, divestment proceeds have been meagre, at Rs100bn (20% of BE of Rs510bn) till Jan-24, collected through minority stake sales, and facing the highest risk of a miss in FY24. New big-ticket proceeds in the rest of the year are unlikely, as 2-3 of the prospective asset sales face procedural and administrative delays. While several offers-for-sale (OFS) in PSUs are expected to raise ~Rs80-100bn in Q4, this will still imply a miss of >50% on the divestment target. With no clarity on when the IDBI Bank stake sale will take place, the FY25 divestment target is likely to be the lowest in nine years, at ~Rs300-350bn (~40% lower than FY24BE)

Exhibit 2: Apr-Nov (FY24) tax collections at a record high, at 61% of full year's



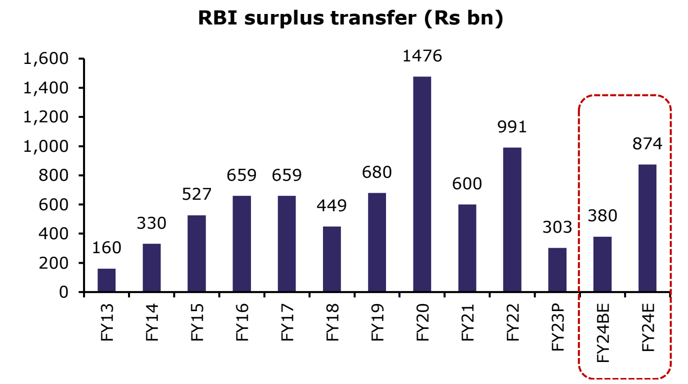
Source: Union Budget documents, CGA, Emkay Research

Exhibit 3: Personal income and corporate tax collections seeing strong growth



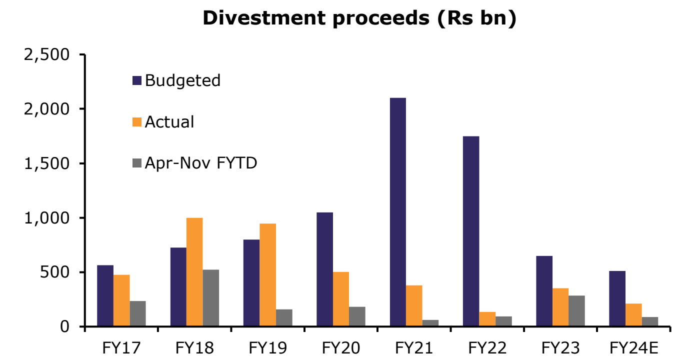
Source: CGA, Emkay Research

Exhibit 4: While bumper RBI dividends have boosted non-tax revenue…



Source: Union Budget documents, Emkay Research estimates

Exhibit 5: …divestment proceeds have been anaemic since the pandemic



Source: Union Budget documents, CGA, Emkay Research estimates

Exhibit 6: The Apr-Nov (FY24) period has seen superb direct tax revenue growth, while indirect taxes are lagging

	FYTD (Apr-Nov)		Chg. (%)	FY24 BE	FY24
	2024	2023	yoy	/FY23 RE	% of BE
Gross tax revenues	**20,420**	**17,807**	**15**	**10**	**61**
Direct taxes	10,818	8,668	25	10	59
Corporate tax	5,144	4,282	20	11	56
Income tax	5,674	4,386	29	11	63
Indirect taxes	9,326	8,901	5	10	61
Customs duty	1,418	1,414	0	11	61
Excise duty	1,762	1,913	(8)	6	52
GST	6,147	5,574	10	12	64
CGST	5,347	4,714	13	12	66
IGST	(128)	35	(462)		
Com cess	928	825	13	12	64
Other taxes	210	155	36	4	250
Net tax revenues	11,577	9,172	26	7	52
Non-tax revenues	1,497	1,491	0	15	50
Non-debt capital receipts	225	165	36	1	27

Source: CGA, Emkay Research

Exhibit 7: Direct taxes are poised to overshoot FY24BE, while indirect taxes need a significant pick-up over last year

	FY24 Budgeted growth (%)	Apr-Nov growth (%)	Monthly run-rate (Apr-Nov, INR bn)	Reqd monthly run-rate (Dec-Mar, INR bn)	Growth needed over last year (%)
Gross tax revenues	**10**	**15**	**2,553**	**3,297**	**4**
Direct taxes	10	25	1,352	1,875	(2)
Corporate tax	11	20	643	1,021	3
Income tax	11	29	709	833	(10)
Indirect taxes	10	5	1,166	1,490	20
Customs duty	11	0	177	228	27
Excise duty	6	(8)	220	407	27
GST	12	10	768	855	15

Source: CGA, Emkay Research

Expenditure growth tracking BE, led by healthy capex

April-November expenditure for FY24 is tracking 59% of BE, higher than the 58% during the same period in the prior year. YoY, total expenditure has grown 9% FYTD24 vs. 8% growth in the budget estimate. The increase is led by the Centre's focus on capex, which is up 31% YoY and has reached 59% of BE. Revenue expenditure growth has been more muted, at 4% YoY vs. the 1% budgeted growth, largely due to higher spending on education even as subsidy payments are 19% lower so far.

The continued prioritization of capex has led to an improvement in the quality of expenditure, with the share of capex in total expenditure at 22% (vs 18% for the same period last year). Ministry-wise expenditure indicates that the capex focus has been on Defence while spending on Railways and Roads so far is marginally lagging budgeted growth. The recent slower capex evokes an inkling that the capex will mildly undershoot the BE – we expect 32% growth in FY24 vs the 36% BE.

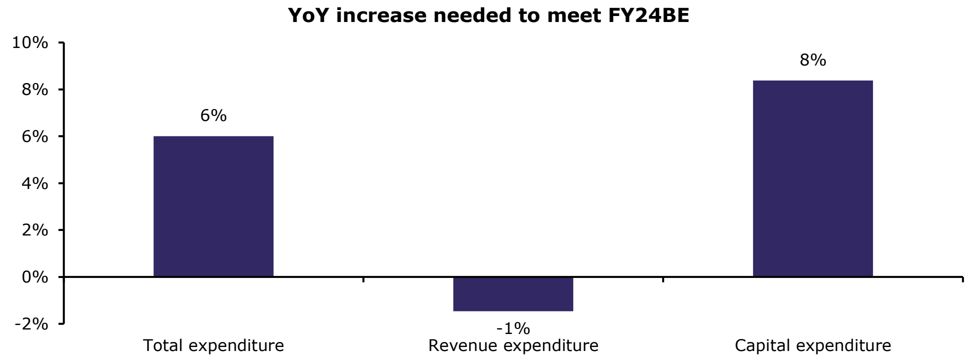
Meanwhile, the first supplementary grant demands have been for Rs1.3trn, but there may have been expenditure savings from ministries who have not applied for extra funds. Additionally, while food subsidies and MNREGA allocation have increased (along with the cost of LPG cuts), fertilizer subsidy payments are likely to meet the budget estimate of Rs1.75trn, as lower global prices and imports have helped curb the subsidy bill in the current fiscal. We expect an expenditure rejig/switch within ministries. Overall, total expenditure may overshoot the budget estimates by only ~Rs200-250bn (0.1% of GDP).

Exhibit 8: FY24 Apr-Nov expenditure in line with BE, led by strong capex growth

	FYTD (Apr-Nov)		FYTD Chg (%)	FY24 BE /	FY24
	2024	2023	yoy	FY23 RE	% of BE
Total receipts	**17,456**	**14,646**	**19**	**10**	**64**
Total expenditure	**26,522**	**24,428**	**9**	**8**	**59**
Revenue expenditure	**20,665**	**19,957**	**4**	**1**	**59**
Interest payments	6,080	5,452	12	15	56
Major subsidies	2,428	3,011	(19)	(28)	65
Food	1,144	1,478	(23)	(31)	58
Fertilizer	1,272	1,519	(16)	(22)	73
Oil	11	14	(19)	(75)	50
Agriculture and farmers' welfare	74	76	(3)	5	6
Education	425	205	108	13	38
Health and family welfare	0	0	30	11	0
Rural development	7	6	9	(12)	0
Capital expenditure	**5,856**	**4,471**	**31**	**37**	**59**
Defence	908	784	16	8	53
Railways	1,696	1,151	47	51	71
Roads and highways	1,746	1,494	17	25	68
Housing and urban affairs	141	114	23	10	54
Transfers to states	668	432	55	71	51
Others	697	497	40	66	40
Fiscal deficit	**9,066**	**9,782**	**(7)**	**2**	**51**
Revenue deficit	3,464	5,725	(39)	(22)	40
Primary deficit	2,986	4,330	(31)	(13)	42

Source: CGA, Emkay Research

Exhibit 9: Expenditure needs to marginally increase in remaining FY24, to meet BE



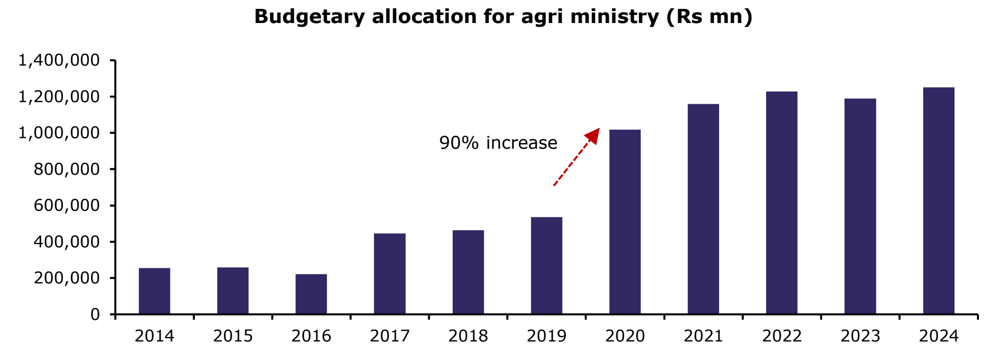
Source: CGA, Emkay Research

The FY25 Budget Math: Balancing act

Markets are understandably obsessed with the headline target to gauge the fiscal policy stance. While the government is likely to meet its fiscal target in FY24, policymakers continue to struggle with the delicate act of maximizing the fiscal impulse while also aiming for consolidation – reflecting the hard choice of managing growth momentum and debt sustainability ahead.

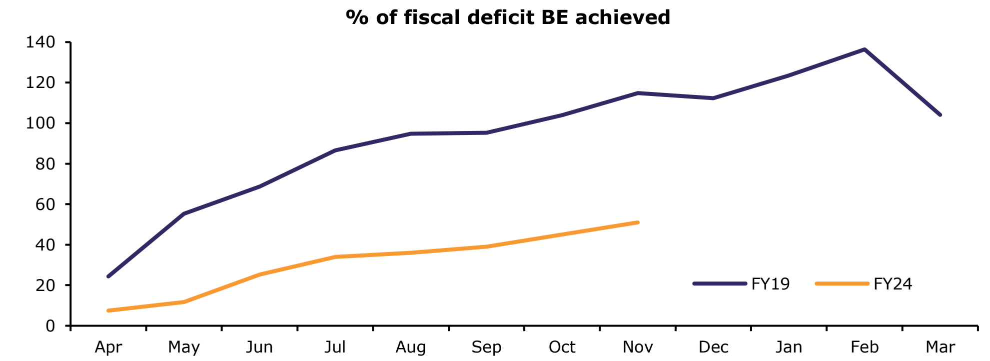
On a broad level, the policy challenges have somewhat evolved from last year, but the pre-election year populist bias may still exist at the margin. Previously, in the Feb-19 interim budget as well, the NDA-I had announced some fiscal concessions and benefits for the farm sector and other vulnerable segments of the economy. That said, our recent study suggests that the changing political landscape and power consolidation have implied that the tendency of policymakers to be pro-cyclical around election cycles has reduced (See: *Macro Strategy: The evolving politics of economics in India*). Therefore, we rule out the likelihood of any aggressive competitive populism.

Exhibit 10: FY20 saw a sharp increase in the budgeted allocation for agri due to PM-KISAN



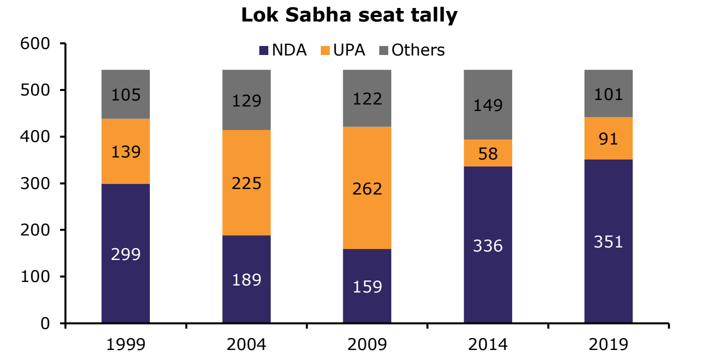
Source: Union Budget documents, Emkay Research

Exhibit 11: FY24 has seen fiscal deficit being much more controlled than in FY19



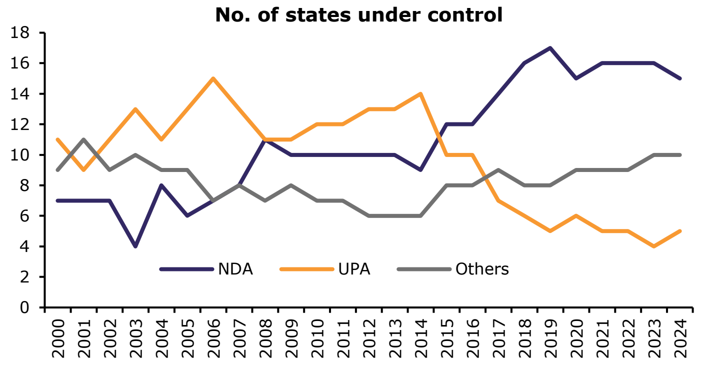
Source: CGA, Emkay Research

Exhibit 12: NDA has gained a stronger mandate at both, the Centre…



Source: Election Commission of India, Emkay Research

Exhibit 13: …and the state levels since 2014



Source: Election Commission of India, Emkay Research

FY25 GFD/GDP likely to be targeted at 5.4%

We expect the the FY25 GFD/GDP to be pegged at ~5.4%, with an assumption of nominal GDP of ~10.3%. That said, the GoI may have to show a sharper pace of consolidation if the FY26 goalpost of 4.5% is to be met amid debt sustainability. Thus, a higher nominal GDP growth assumption by the GoI may add a mild buffer to their fiscal accounting as a % of GDP.

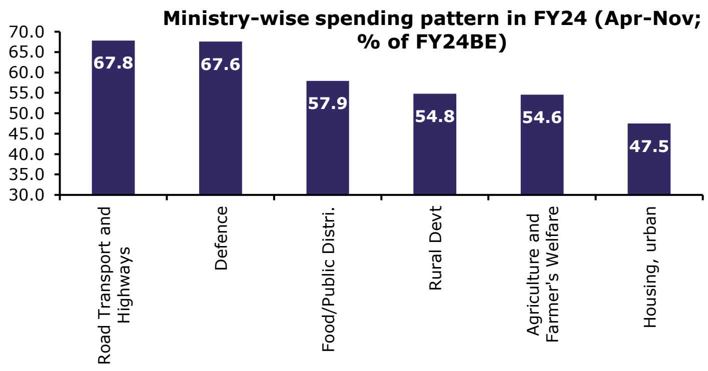
We model FY25E GFD/GDP at 5.4% (Rs17.85trn), following 5.9% (Rs17.4trn) in FY24E, with gross tax revenue growth assumed to be mostly in line with the nominal GPP growth after a robust 12% in FY24E. Non-tax revenues are likely to fall, unless matched by higher RBI dividends similar to FY24, while divestment proceeds are likely to be pegged conservatively at Rs350-400bn. We assume overall expenditure growth at 5.2-5.3%, with the proportion of revex to capex further improving. While the vote-on-account will see policymakers seek permission from the Parliament to cover crucial expenditures until the general elections, a few measures might still be proposed:

The budget this year is likely to see:

(1) Support measures for economic welfare of the rural/farm sector

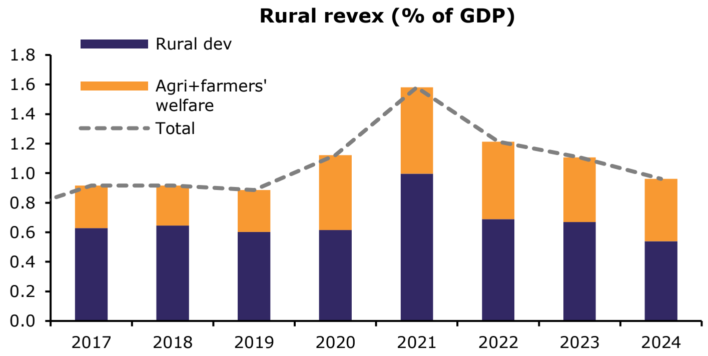
The rural/farm sector faces near-term challenges like unfavourable terms of trade, poor weather conditions, the fallout of climate change, and inflationary pressures (food and fertilizers).

Exhibit 14: Welfare spending run-rate remains strong…



Source: CGA, Emkay Research

Exhibit 15: …but GoI spend on the rural sector has dipped post-Covid



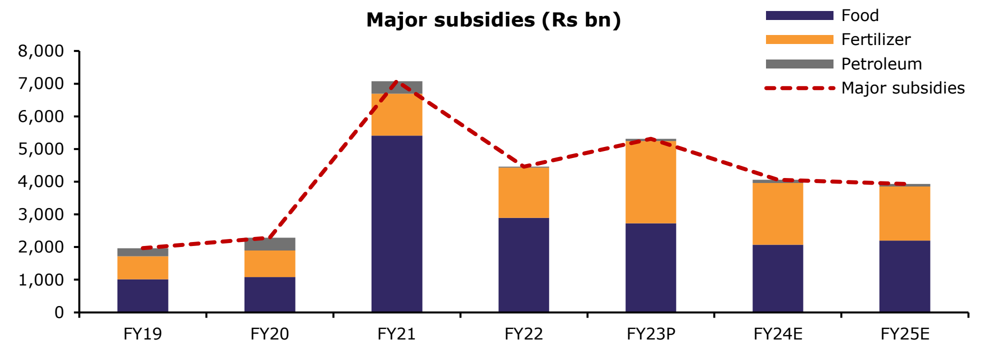
Source: Union Budget documents, Emkay Research

(2) Sticky food (and fertiliser) subsidies

While the extension of the free food scheme (PMGKAY) for five years did not materially alter the fiscal math for the current fiscal year, a floor for food subsidy spending has been created for the years ahead. There may be mild easing in fertilizer subsidies, given the fall in international fertilizer prices, but arrears from past years and the Red Sea cost impact could offset this. The overall major subsidy bill in FY25 is likely to be ~Rs4trn, similar to that in FY24E.

For **(1)** and **(2)**, we will watch for some targeted support with regard to higher farm insurance and irrigation outlays, higher disbursements towards MNREGA, etc. To ease the purchasing cost, the GoI may also suggest export restrictions or sops on fertilizer purchases and farm inputs.

Exhibit 16: Subsidy payouts have stabilized post-pandemic



Source: Union Budget documents, Emkay Research estimates

(3) Expenditure mix to be balanced between revex and capex

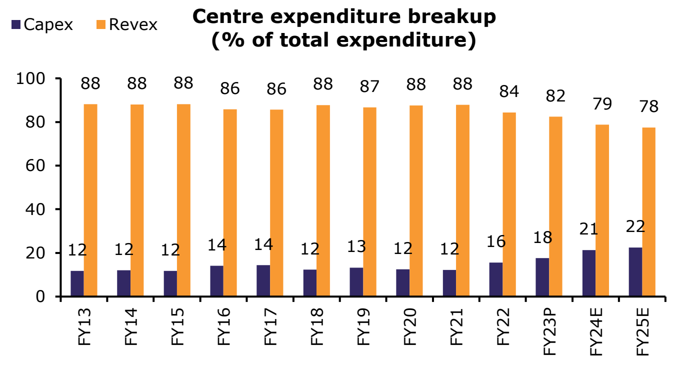
Assuming a modest overall expenditure growth at 5% in FY25E (revex and capex growth at 3.5% and 12%, respectively, after the 3% and robust 30% in FY24E), the scope of going outright populist seems bleak, in our view, amid the moderating tax revenue growth and high committed revex and market borrowings. While within Revex, prioritizing welfare spending toward rural sectors and MSMEs will continue, the revex/GDP is likely to be lower at 11.2% – reverting to the pre-Covid period ratio, after having seen a sharp rise post-Covid to around 14.6% and of 12% in FY24E. The capex/revex ratio is likely to improve to 29% from 26.5% in FY24E, despite this being an election year.

(4) Capex growth to normalize despite the consistent capex focus

The trend of capex-led fiscal spending is likely to continue. We expect the capex/GDP to stay healthy at 3.3% (FY24E: 3.3%). The distribution of capex spend is likely to stay focused towards railways, roads, Defence and civil aviation. That said, the spending pace is likely to relax ~10% after having seen consistent growth of ~32% in the last 3 years.

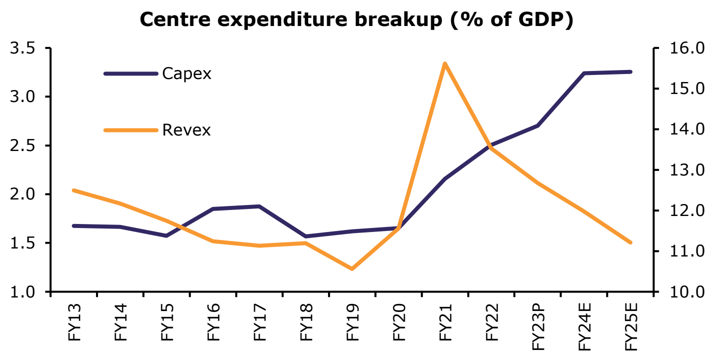
The theme of **Centre-States "convergence in capex"** will endure, and the Centre may continue to incentivize states towards increasing capital spending with the special financial windows. We expect capex-only loans to the states to increase to Rs1.4trn from Rs1.3trn in FY24BE. However, the states are running behind their special capex loan scheme target for FY24. Of the Rs982bn-worth projects approved by the Centre, ~Rs600bn has been disbursed so far; of these states, some did not receive enough funds due to lack of linked reforms and some are yet to exhaust their first instalment. We expect states to fall short by Rs200-300bn in availing this facility. Thus, even with higher allocation next year, states' capacity to undertake more capex and infra spending may be nearing their limit.

Exhibit 17: Capex's share in total expenditure is likely to rise…



Source: Union Budget documents, Emkay Research estimates

Exhibit 18: …while capex/GDP will stay healthy at 3.3%, in our view

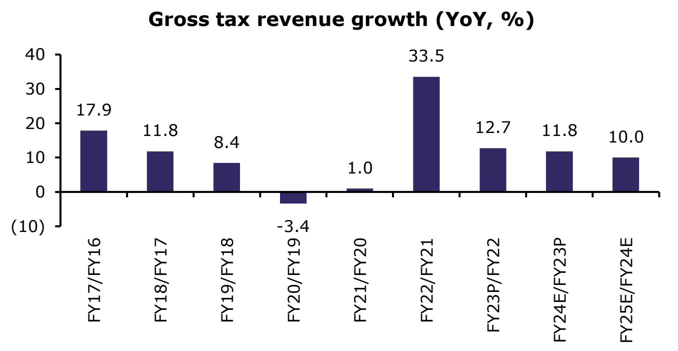


Source: Union Budget documents, Emkay Research estimates

(5) Tax buoyancy to come off

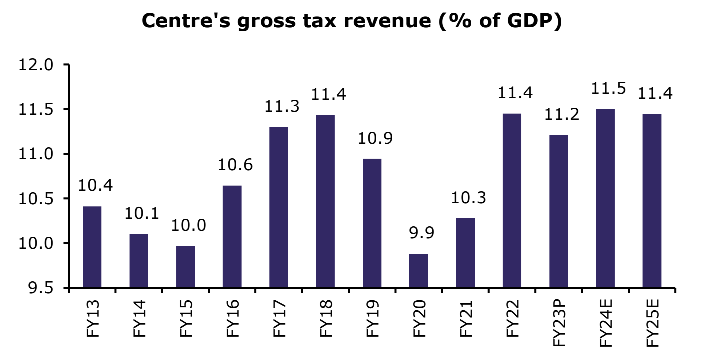
We estimate gross tax revenue growth at 10% (after a robust expected growth rate of >11% in FY24E). Tax buoyancy is likely to come off with the normalizing economic cycle, but the Centre's tax/GDP will stay healthy at 11.4% (FY24E: 11.5%), higher than the average seen in a few pre-pandemic years, amid the improving compliance-led tax base.

Exhibit 19: Gross tax revenue growth to marginally slow down…



Source: Union Budget documents, Emkay Research

Exhibit 20: …but tax/GDP to stay healthy and above pre-pandemic levels



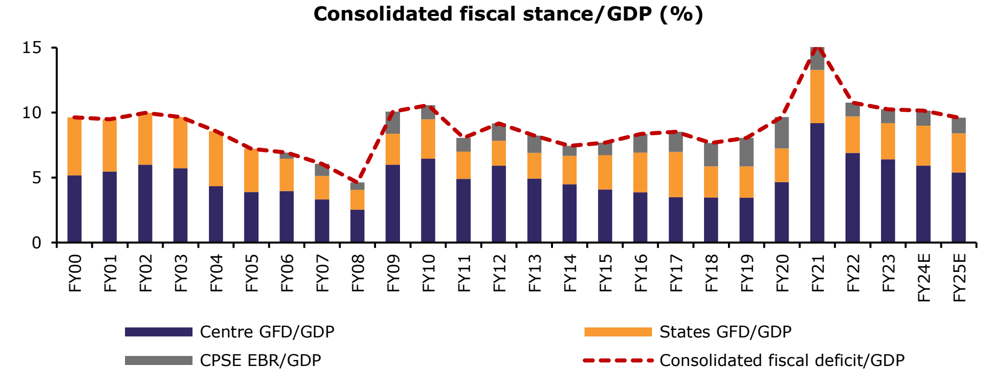
Source: Union Budget documents, Emkay Research estimates

- ✓ We budget corporate taxes to grow ~10% YoY (3.2% of GDP), also helped by earnings growth estimate of 13-14% for the Nifty-50, as per consensus estimates for the year ahead.
- ✓ In line with further rationalization of the direct tax code, the income slabs could be tweaked for tax rebates (which has been happening since the past couple of Budgets). The tweaks around the new tax regime to incentivize more people shifting may be in the offing, although such changes may be introduced in the full budget post-elections. Additionally, there may be tweaks to the old tax regime as well; some of the possible changes are:
  - Increasing the threshold for the highest marginal tax bracket (30%) in the new tax regime to Rs2,000,000 from Rs1,500,000 currently
  - Reducing the highest marginal tax rate to 25% from 30% (both regimes)
  - Increasing the rebate in the old tax regime to Rs700,000, to match that of the new tax regime

(6) Consolidated fiscal stance still large

The combined fiscal deficit is likely to be ~9% in FY24E (States' FD/GDP expected at 3.1%), and we estimate this to narrow, albeit, to a still-whopping 8.4-8.5% in FY25E – significantly higher than that of EM peers.

Exhibit 21: General government fiscal stance to stay at 9.5-9.6% of GDP



Source: Union Budget documents, Emkay Research estimates

Exhibit 22: Centre's GFD/GDP to consolidate at 5.4% in FY25E

% of GDP	FY20	FY21	FY22	FY23P	FY24BE	FY24E	FY25E
Receipts breakdown							
Revenue receipts	**8.3**	**8.3**	**9.2**	**8.7**	**8.7**	**9.2**	**8.8**
Gross tax revenues	9.9	10.3	11.4	11.2	11.1	11.5	11.4
Direct taxes	5.2	4.8	6.0	6.1	6.1	6.5	6.5
Corporation tax	2.7	2.3	3.0	3.0	3.1	3.2	3.2
Income tax	2.4	2.5	2.9	3.0	3.0	3.3	3.3
Indirect taxes	4.7	5.5	5.5	5.1	5.1	5.0	4.9
Goods and Services Tax	2.9	2.8	3.0	3.1	3.2	3.2	3.2
Customs duty	0.5	0.7	0.8	0.8	0.8	0.8	0.8
Excise duty	1.2	2.0	1.7	1.2	1.1	1.0	1.0
Transfers to states, UTs etc	3.2	3.1	3.8	3.5	3.4	3.6	3.5
Net tax revenues	6.7	7.2	7.6	7.7	7.7	7.9	7.9
Non-tax revenues	1.6	1.1	1.5	1.1	1.0	1.2	0.9
RBI transfer of surplus	0.7	0.3	0.4	0.1	0.1	0.3	0.2
Telecommunications	0.3	0.2	0.3	0.3	0.3	0.3	0.2
Non-debt capital receipts	0.3	0.3	0.2	0.3	0.3	0.1	0.2
Disinvestment	0.2	0.2	0.1	0.2	0.2	0.1	0.1
Total Revenue receipts	**8.6**	**8.6**	**9.3**	**9.0**	**9.0**	**9.3**	**9.0**
Expenditure breakdown							
Revenue expenditure	**11.6**	**15.6**	**13.5**	**12.7**	**11.6**	**12.0**	**11.2**
Interest payments	3.0	3.4	3.4	3.4	3.6	3.6	3.7
Major Subsidies	1.3	3.6	1.9	1.9	1.2	1.4	1.2
Capital expenditure	**1.7**	**2.2**	**2.5**	**2.7**	**3.3**	**3.2**	**3.3**
Total expenditure	**13.2**	**17.8**	**16.0**	**15.4**	**14.9**	**15.2**	**14.5**
Deficit summary							
Primary deficit	1.6	5.8	3.3	3.0	2.3	2.3	1.9
Revenue deficit	3.3	7.3	4.4	3.9	2.9	2.8	2.6
Gross fiscal deficit	**4.6**	**9.2**	**6.7**	**6.4**	**5.9**	**5.9**	**5.4**

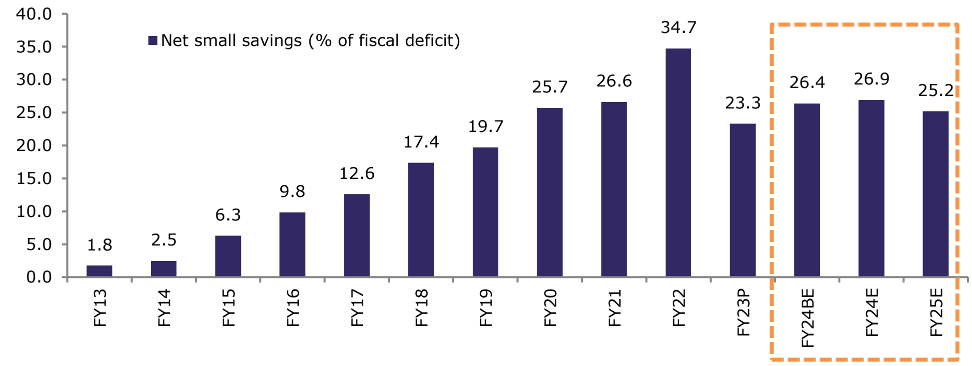
Source: Union Budget documents, Emkay Research estimates

Gross market borrowings to be ~Rs15.2trn in FY25E

We expect FY24E fiscal borrowing to be in line with the budget, at (Rs15.4trn), despite the higher cash surplus with the government and the relatively higher run-rate of small savings so far. We see 67.4% of the fiscal deficit being funded by net market loans, while small savings would be ~26.9% of FY24E fiscal funding (23.3% in FY23).

- For FY25E, we expect gross borrowings to remain elevated (Rs15.2trn), with net borrowing at Rs11.5trn – which is around 65% of the total fiscal funding. The FY25 G-Sec redemption stands at Rs3.61trn, assuming no switch or rollover takes place for G-Sec papers redeeming in FY25. A mild rollover for the FY25 papers, however, is not ruled out, as was seen last year; this could mildly reduce gross borrowing by ~Rs50-80bn.
- We do not assume direct re-investment proceeds by the RBI in FY25, of its maturing G-Sec bonds (estimated ~30% of bonds maturing in FY25).
- We see 35% of fiscal funding from non-market sources, of which 25% will be small savings. We expect small savings to stay healthy, as deposit rates have barely moved meaningfully in the last year, and banks are yet not seen avidly competing for deposits.

Exhibit 23: Funding reliance on NSSF to continue declining after the substantial rise over the years



Source: Union Budget documents, CGA, Emkay Research estimates

Exhibit 24: Net borrowing to register at ~65% of GFD in FY25E

(Rs bn)	FY20	FY21	FY22	FY23P	FY24BE	FY24E	FY25E
Sources of financing deficit							
Gross borrowings (dated securities	7,100	12,601	9,725	14,210	15,430	15,430	15,163
Net market borrowing (dated)	**4,740**	**10,329**	**7,040**	**11,083**	**11,809**	**11,809**	**11,549**
Short-term borrowing (T-bills)	1,501	2,032	774	661	500	500	500
External financing	87	702	364	370	221	100	200
State Provident fund	116	185	103	50	200	200	200
Cash balance drawdown	50	(72)	25	0	(118)	(325)	100
Small Savings	2,400	4,837	5,513	3,959	4,713	4,713	4,500
Others	443	133	(88)	1,307	543	515	800
POLIF repayment	(40)	0	0	(99)	0	0	0
Switch	*1,648*	*1,570*	*1,200*	*1,000*	*1,000*	*1,000*	*1,000*
Repayment to states (GST) borrowing		*1,100*	*1,590*	*0*	*0*	*0*	*0*
Repayment of States back-to-back covid loans					*781*	*780*	*0*
Net market borrowing (% of GFD)	**50.8**	**56.8**	**44.4**	**64.0**	**66.1**	**67.4**	**64.7**

Source: Union Budget documents, Emkay Research estimates

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