CareEdge RATINGS

PRE-BUDGET SURVEY AND EXPECTATIONS

INTERIM BUDGET FY25

No Major Policy Announcements Likely in the Interim Budget

The upcoming pre-election interim budget occurs at a juncture when the overall economic landscape appears stable. This is underpinned by the easing of financial conditions, robust macroeconomic data. Nonetheless, the current budgeting exercise is also confronted by economic headwinds such as the deceleration in the global economy, pressures in the agriculture sector, and strains on the rural economy.

Given that 2024 is a year of general election the FM will present a vote of account or interim budget, rather than a comprehensive annual budget. The Finance Minister's declaration that it will be a vote of account suggests that no significant policy announcements are likely expected in this interim budget. The incoming government is anticipated to unveil its budget in July. With the announcement of the election dates around mid-March, Model Code of Conduct (MCC) is expected to come into effect barring the government from announcing any policy decisions.

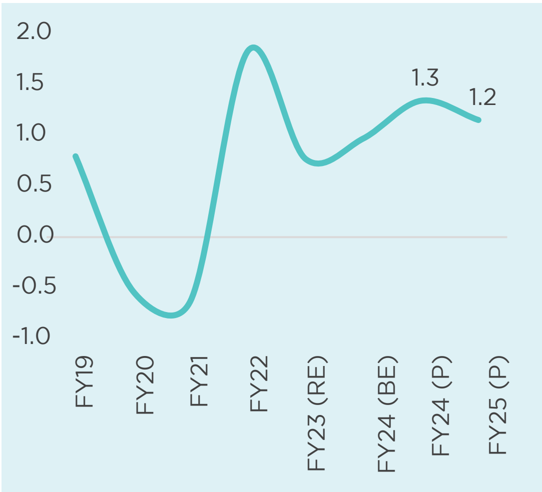
Nevertheless, the significance of this budget should not be understated, as it provides an opportunity for the government to underscore its economic accomplishments in the lead-up to the 2024 general elections. The budgetary presentation serves as a platform for the outgoing government to showcase its fiscal stewardship and economic achievements. Moreover, the fiscal mathematics of the budget will offer valuable insights, providing a comprehensive understanding of the potential trajectory of fiscal policy in the post-election period, assuming a policy continuity.

A Closer Look at the Fiscal Mathematics

Below are the key highlights of the fiscal maths:

1. **Direct Taxes Outperforms Indirect Taxes:** In the fiscal year 2024, the government's tax revenue collections have been buoyed by robust growth in direct tax collections. According to data from the Comptroller and Auditor General (CAG) for the April-November period, direct tax collections have surged at an impressive rate of 24.8% YoY, significantly outpacing the full-year budgeted growth of 10.5%. In contrast, gross indirect tax collections recorded a more modest growth of 5.1% YoY during the same period, falling short of the full-year budgeted growth of 10.5%.

Tax Buoyancy for FY25 is projected at 1.2



Source: CMIE, CareEdge, P: CareEdge Projections

The slowdown in external trade and declining commodity prices has notably impacted custom collections, resulting in nearly stagnant growth at 0.3% YoY in the April-November period. Excise duty collections are anticipated to contract for the entire fiscal year, potentially influenced by the excise duty cut on petrol and diesel announced in the previous fiscal year, coupled with a reduction in special additional excise duty (SAED) on crude oil. Even Goods and Services Tax (GST) collections in the April-November period grew by 10.3%, marginally below the budgeted growth rate of 12.1% for the entire year. Driven by the strong performance of the direct taxes, we expect gross tax collection to rise by 11.9%, higher than the budgeted growth of 10.4%, thereby exceeding the budgeted amount by about Rs 450 billion. While indirect taxes are anticipated to fall short by approximately Rs 490 billion in FY24 from the budgeted amount, the direct tax collections are expected to surpass the budgeted value approximately by a significant Rs 940 billion, reflecting the strong performance of direct tax components.

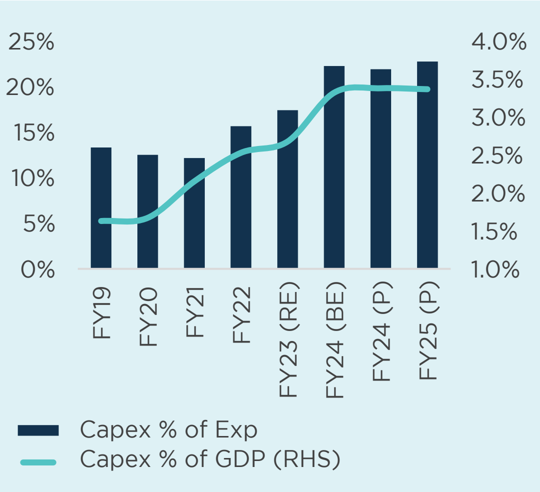
2. **Higher RBI's Transfer, Strong CPSE Dividend and good performance of PSBs to Keeps Non-Tax Revenue Elevated:** While the centre has budgeted a non-tax revenue collection of about Rs 3 trillion, a record dividend transfer of Rs 874.2 billion by the Reserve Bank of India (RBI) has resulted in higher than budgeted collection of non-tax revenue. Concurrently, 12 public sector banks (PSBs) exhibited commendable performance, witnessing a stellar profit growth of 66% YoY in H1 FY23. The robust performance of PSBs is also expected to keep dividend transfers from PSBs elevated.

   In addition to these contributions from RBI and PSBs, the dividends from CPSEs are expected to surpass the budgeted value in FY24. According to the latest data from the Department of Investment and Public Asset Management (DIPAM), CPSE dividends stand at Rs 439.8 billion, surpassing the FY24 budgeted value of Rs 430 billion. Our projections suggest an estimated Rs 550 billion in dividends from Public Sector Undertakings (PSUs).

   The higher surplus transfer from the RBI, higher CPSE dividends, and the robust performance of PSBs collectively indicate an additional collection of Rs 650 billion over and above the FY24 budgeted non-tax revenue.

3. **Tax and Non-Tax Revenue to Make up for Disinvestment Shortfall**: Although the Union Budget has allocated Rs 510 billion for disinvestments in the fiscal year 2024, the latest data from the DIPAM reveals that the government has garnered only Rs 100.5 billion through disinvestments so far. With the upcoming lection and the imminent implementation of the Model Code of Conduct (MCC) just months away, there appears to be limited scope for advancement in big-ticket divestment initiatives. Consequently, our projection for FY24 divestment stands at approximately Rs 150 billion. The big-ticket divestment initially planned for this year involving IDBI Bank now appears uncertain. Previous attempts to divest from BPCL and Pawan Hans were unsuccessful, and stake sales in the Shipping Corporation of India are currently hindered by the demerger of land assets. The projected Rs 360 billion shortfall in the non-debt capital receipts due to slow progress on divestment is expected to be covered by better-than-budgeted performance of tax and non-tax revenues.

4 **Focus on Capex to Continue:** We expect the government to stick to its capex target of Rs 10 trillion in FY24 and raise it further by ~10% to Rs 11 trillion in FY25. The capex to total expenditure ratio is expected to inch up marginally to around 23% in FY25. The government has been focussing on public infrastructure to drive capex growth.



5. **Revex to Exceed Budgeted Value in FY24:** While the government is expected to meet its capital expenditure target of Rs 10 trillion, we project some slippages in the revenue expenditure to the tune of about Rs 734 billion. On December 6, 2023, the central government approved the first supplementary demand for grants, amounting to Rs. 1.29 trillion. Taking into consideration the savings from another scheme worth Rs 709 billion, the net additional outlay would be Rs 584 billion. The additional funds were directed towards food subsidy, fuel subsidies, fertilizer subsidies and MNREGA. Given that the actual expenditure on the Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA) has already surpassed the budgeted allocation, and with persistent high subsidy spending, particularly on fertilizers, we anticipate an additional requirement of funds for expenditure.

6. **Lower Nominal Growth to Result in Minor Slippage in FY24:** Despite higher expenditure and lower non-debt capital receipts, the actual fiscal deficit is anticipated to closely align with its budgeted value. In fact, in nominal terms slippage is largely benign. This resilience is attributed to the robust performance of both tax and non-tax revenue streams. Nevertheless, the projection for nominal GDP growth indicates a slowdown from the budgeted 10.5% YoY of the previous year to 8.9%, as per the first advanced estimate. This deceleration is primarily attributed to deflation in WPI.

   Consequently, a slight slippage of 10 basis points, when viewed as a proportion of nominal GDP, is anticipated. This adjustment prompts a revision in our FY24 fiscal deficit projection to 6% of GDP. Despite this fiscal deficit slippage, the revenue deficit is expected to decline to 2.8% of GDP from the initially budgeted estimate of 2.9% in FY24.

7. **Focus on Fiscal Consolidation to Continue:** Adhering to its glide path to attain a fiscal deficit of 4.5% by FY26, the projected fiscal deficit for FY25 is set at 5.3% of the GDP. We anticipate a nominal GDP growth of 10.7% in FY25, coupled with a tax buoyancy of 1.2. In FY25, total expenditure is expected to rise by 6%, primarily fuelled by a 10% increase in capital expenditure, complemented by a more modest 5% growth in revenue expenditure.

8. **Borrowing of around Rs 15 trillion i.e. 86.2% of FD:** In FY24, the central government announced gross market borrowing amounting to Rs 15.4 trillion, with a net borrowing of Rs 11.8 trillion. Maintaining its share at ~86% of the fiscal deficit even in FY25, gross borrowing in the range of Rs 15-15.25 trillion is anticipated. According to RBI's data on outstanding Government Securities (G-secs), redemptions worth Rs 3.68 trillion are expected in FY25, with 52.7% scheduled in the second half of the fiscal year. Consequently, a net borrowing of approximately Rs 11.3-11.6 trillion is expected in FY25.

   Consistent with previous practices, government borrowing is likely to be frontloaded in the first half, allowing states/corporates room to borrow in the latter half of the fiscal year. Overall, a lower supply of G-secs in FY25, combined with increased demand resulting from passive inflows following India's inclusion in global bond indices, is expected to ease G-sec yields in the next fiscal. A lower G-sec yield is likely to transmit to corporate issuances as well. Additionally, an anticipation of the RBI initiating policy rate cuts after the first quarter of the next fiscal year may further exert downward pressure on borrowing costs.

Overview of Fiscal Mathematics

Receipt Profile of Union Budget (Rs. Billion)

	FY22	FY23 (RE)	FY24 (BE)	FY24 (P)	FY24 (P) Growth (YoY%)	FY25 (P)	FY25 (P) Growth (YoY%)
Revenue Receipts	**21699**	**23484**	**26323**	**27497**	**17.1**	**30475**	**10.8**
Net Tax Revenue	**18048**	**20867**	**23306**	**23830**	**14.2**	**26725**	**12.1**
Gross tax revenue	**27093**	**30431**	**33609**	**34060**	**11.9**	**38235**	**12.3**
Corporate tax	7120	8350	9227	9500	13.8	10850	14.2
Income tax	6962	8150	9006	9675	18.7	10800	11.6
Goods & service tax	6981	8540	9566	9575	12.1	10800	12.8
Customs	1997	2100	2331	2150	2.4	2300	7.0
Union excise duty	3908	3200	3390	3075	-3.9	3400	10.6
Non-Tax Revenue	**3651**	**2618**	**3017**	**3667**	**40.1**	**3750**	**2.3**
Dividends & profits	1606	840	910	1560	85.8	1450	-7.1
Dividend/Profits of PSUs	593	430	430	550	27.9	600	9.1
Dividend/Profits of RBI and PSB	1014	410	480	1010	146.6	650	-35.6
Non-debt Capital Receipts	**394**	**835**	**840**	**380**	**-54.5**	**700**	**84.2**
Disinvestment	146	600	510	150	-75.0	450	200.0

P: CareEdge Projections

Expenditure and Deficit Profile of Union Budget (Rs. Billion)

	FY22	FY23 (RE)	FY24 (BE)	FY24 (P)	FY24 (P) Growth (YoY%)	FY25 (P)	FY25 (P) Growth (YoY%)
Total Non Debt Receipts	**22093**	**24319**	**27163**	**27877**	**14.6**	**31175**	**11.8**
Revenue Receipts	21699	23484	26323	27497	17.1	30475	10.8
Non-debt Capital Receipts	394	835	840	380	-54.5	700	84.2
Total Expenditure	**37938**	**41872**	**45031**	**45765**	**9.3**	**48500**	**6.0**
Revenue Expenditure	**32009**	**34590**	**35021**	**35755**	**3.4**	**37500**	**4.9**
Interest Payments	8055	9407	10800	10800	14.8	11500	6.5
Subsidies	5039	5621	4031	4156	-26.1	3600	-13.4
Capital Expenditure	**5929**	**7283**	**10010**	**10010**	**37.4**	**11000**	**9.9**
Fiscal Deficit	**15845**	**17553**	**17868**	**17889**		**17325**	
Fiscal Deficit (% of GDP)	6.8	6.4	5.9	6.0		5.3	
Revenue Deficit	**10310**	**11105**	**8699**	**8259**		7025	
Revenue Deficit (% of GDP)	4.4	4.1	2.9	2.8		2.1	
Nominal GDP	234710	272407	301751	296651	8.9	328248	10.7

P: CareEdge Projections

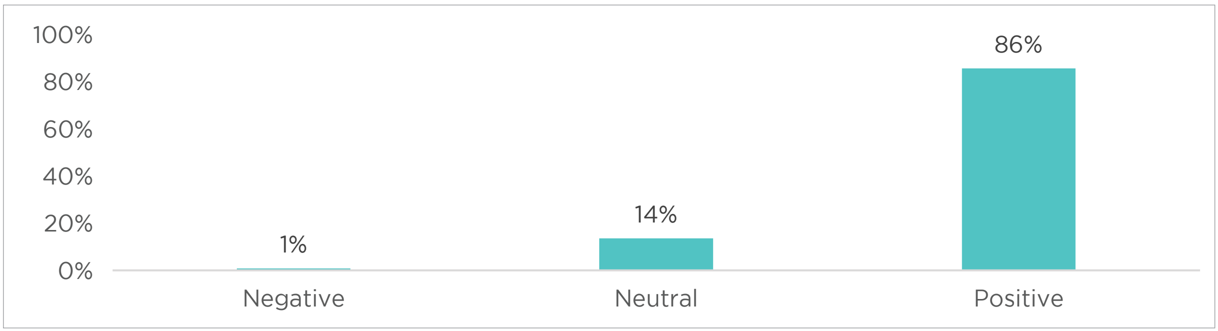
Key Highlights of the CareEdge Survey on Interim Budget FY25:

Ahead of the interim budget, CareEdge conducted a survey comprising 120 respondents from key industries to gauge their expectations. Below are the key results of the survey.

Note that in some questions respondents could tick on more than one option, hence the total may not add up to 100%. Also, the decimals are rounded up in the charts below.

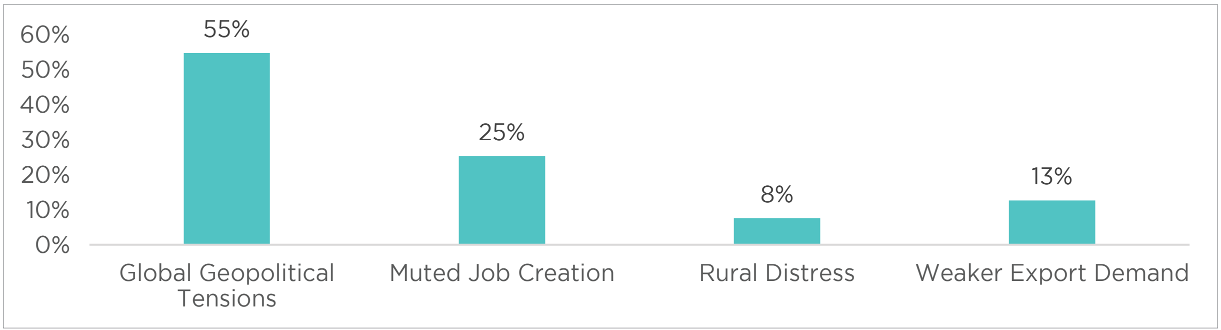
86% of the participants are positive on India's economic growth outlook

Q1. What is your outlook for India's economic growth ahead of budget FY25?



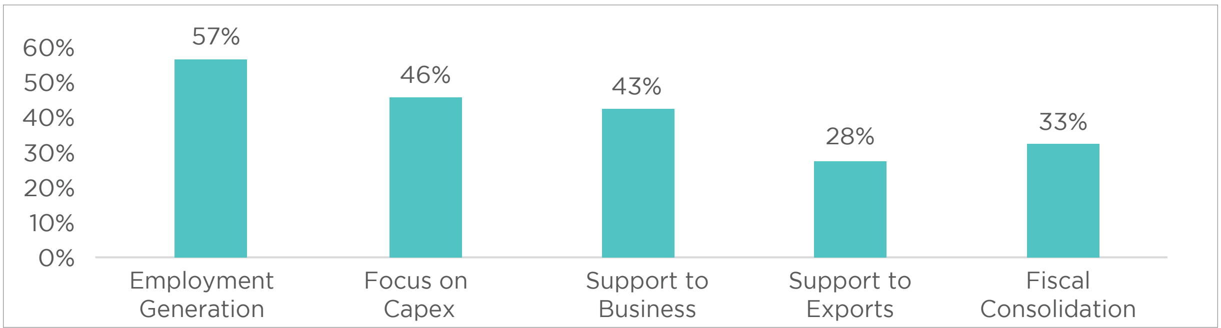
Rising geopolitical tensions and muted job creation remain major risk to economy

Q2. What constitutes the most substantial downside risk to the Indian economy among the following options?



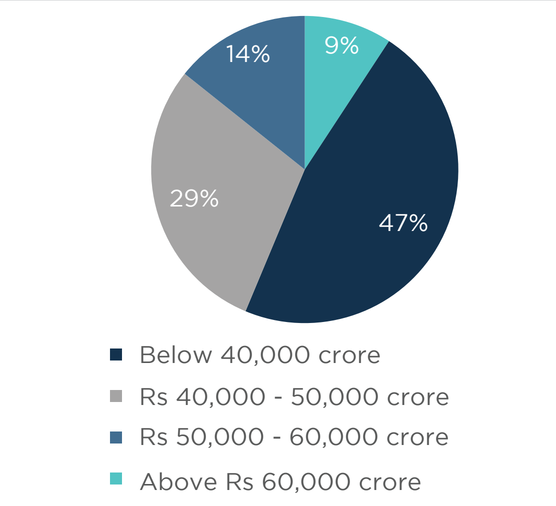
Most of the survey participants would want the budget to focus on job creation and capex

Q3. What should be the focus areas of the budget?
(Multiple answered allowed. Hence, total may not add up to 100)



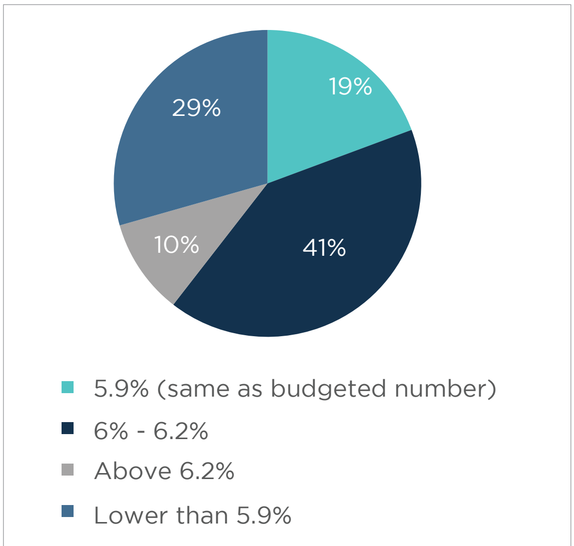
After a likely miss of divestment target this year, most participants see FY25 divestment target to remain below Rs 400 billion

Q4. In the FY24 Budget, the government has set a disinvestment target of Rs 51,000 crore with a receipt of only Rs 10,000 crore till date. What is your expectation of divestment target for the next fiscal year?



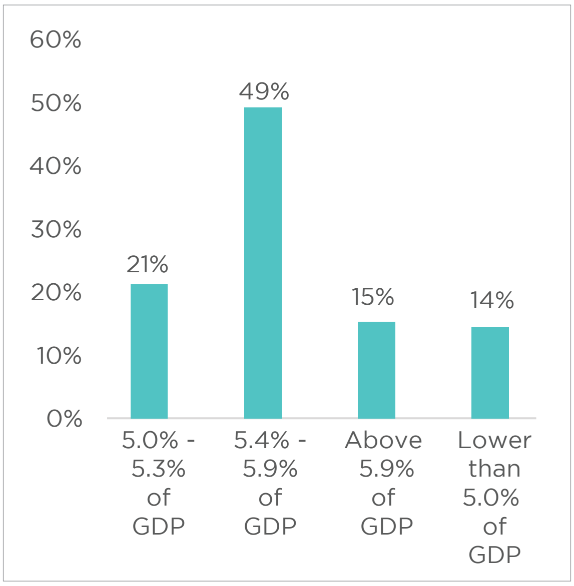
41% of the respondents expect a minor slippage from the fiscal deficit target in FY24. Interestingly, a large 29% feel that it could be below 5.9%

Q5. Where do you see fiscal deficit this fiscal i.e. FY24 (Centre's fiscal deficit target is 5.9% of GDP in FY24)



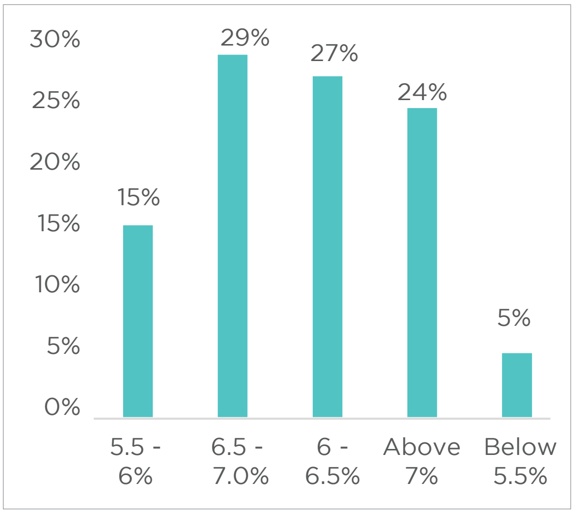
Most respondents expect fiscal deficit to range between 5.4-5.9% of GDP in FY25

Q6. What can be the fiscal deficit target for the next fiscal i.e. FY25? (FY24 target was 5.9% of GDP)



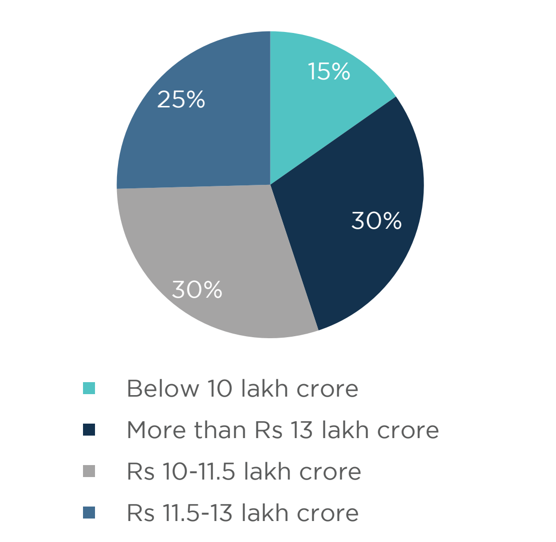
Most respondents expect FY25 growth to range between 6.5-7%

Q7. What is your growth projection for Indian economy for FY25?



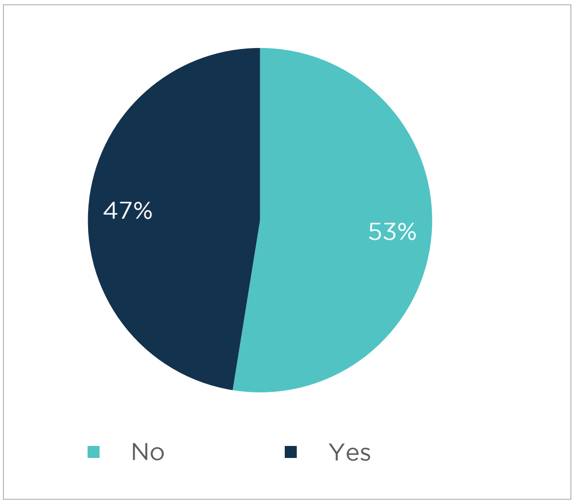
Most respondents see a higher capex in FY25 compared to FY24

Q8. The government had budgeted Rs 10 lakh crore target for capital expenditure for the current fiscal. What is your expectation of capex for the next fiscal?



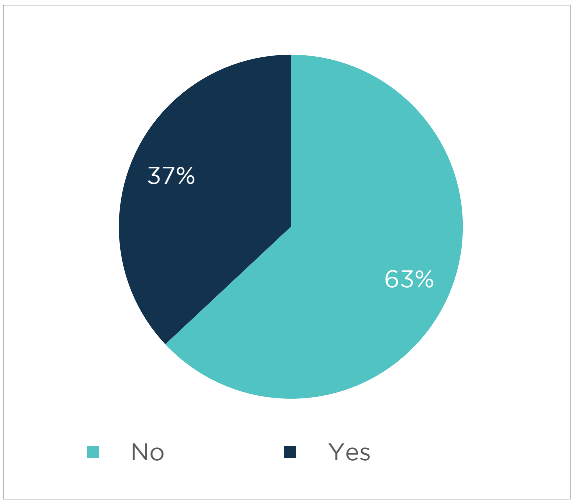
Survey opinion is divided on budgetary subsidy layout

Q9. Do you expect a higher subsidy layout in the pre-election budget?



Most respondents do not expect a reduction in income tax rates this year

Q10. Do you expect any reduction in income tax rates this year?



Contact

Rajani Sinha	Chief Economist	rajani.sinha@careedge.in	+91 - 22 - 6754 3525
Sarbartho Mukherjee	Senior Economist	sarbartho.mukherjee@careedge.in	+91 - 22 - 6754 3493
Mradul Mishra	Media Relations	mradul.mishra@careedge.in	+91 - 22 - 6754 3596

CARE Ratings Limited

Corporate Office:

4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway,
Sion (East), Mumbai -400 022

Phone: +91-22-6754 3456 I CIN: L67190MH1993PLC071691

Connect :

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