ICRA

Government of India Finances

FY2024 fiscal deficit restricted to 5.6% of GDP; 10-year G-sec yield expected to trade between 6.80-7.15% in H1 FY2025

JUNE 2024

Highlights

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The GoI's fiscal deficit of Rs. 16.5 trillion in FY2024 Prov. was lower than the revised target by Rs. 0.8 trillion

This was attributed to higher-than-indicated non-tax revenues and lower revenue spending vis-à-vis the target

While the fiscal deficit in April 2024 surged to Rs. 2.1 trillion from Rs. 1.3 trillion in April 2023, it will moderate over the coming months owing to larger-than-budgeted RBI dividend

10-year G-sec yield is likely to trade between 6.80-7.15% in H1 FY2025

- The provisional estimates (Prov.) for FY2024 released by the Controller General of Accounts (CGA) placed the Government of India's (GoI's) fiscal deficit at Rs. 16.5 trillion in the fiscal (5.6% of GDP), a considerable Rs. 0.8 trillion lower than the Rs. 17.3 trillion (5.8% of GDP) indicated in the revised estimates (RE). This was mainly on account of higher-than-estimated non-tax revenues (+Rs. 0.3 trillion over RE) and lower revenue expenditure (-Rs. 0.5 trillion) vis-à-vis the target.

- The gross tax revenues (GTR) expanded by a healthy 13.4% YoY to Rs. 34.6 trillion in FY2024 Prov., driven by personal income tax (+21.3%) and CGST (+14.2%) inflows. The upside of Rs. 0.3 trillion in GTR in FY2024 Prov. over the RE stemmed from "other tax" component (+Rs. 0.3 trillion) and customs duty (+Rs. 0.1 trillion) collections, which outweighed the shortfall in direct taxes (-Rs. 0.2 trillion).

- The fiscal deficit for April 2024 has spiked to Rs. 2.1 trillion from Rs. 1.3 trillion in April 2023, on account of an unexpected surge in revex (+43.7%, led by interest payments), in spite of healthy gross tax revenues (+16.9%). However, the higher-than-budgeted dividend pay-out by the Reserve Bank of India (RBI; Rs. 2.1 trillion vs. the BE of Rs. 1.0 trillion) is likely to dampen the fiscal deficit in the rest of this quarter.

- The fiscal dynamics appear favourable for FY2025, amid continued resilience in GST collections and the unexpectedly large dividend pay-out by the RBI. The windfall arising from the latter is likely to provide additional leeway of ~Rs. 1.0 trillion to the GoI for enhanced expenditures or a sharper fiscal consolidation than what was pencilled in the Interim Budget for FY2025 (ICRA exp: 4.9-5.1% of GDP vs. BE of 5.1% of GDP).

- While increasing the funds available for capex would certainly boost the quality of the fiscal deficit, the additional spending on this account may be difficult to be incurred within the eight-odd months left after the Final Budget is presented and approved by Parliament.

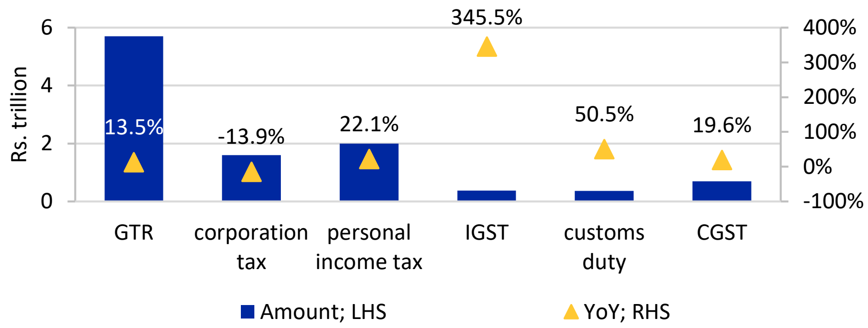
- A smaller fiscal deficit target would likely imply lower G-sec issuances in H2 FY2025, compared to what was anticipated after the Interim Budget for FY2025 was presented. As a result, G-sec yields are likely to soften, particularly as the demand related to the bond index inclusion manifests over the next few months. ICRA expects the 10-year G-sec yield to trade between 6.80-7.15% in the remainder of H1 FY2025.

FY2024 Provisional Fiscal Balances of the Government of India

GoI’s fiscal deficit in FY2024 Prov. was Rs. 0.8 trillion below the revised target, owing to higher-than-expected non-tax revenues and lower revex

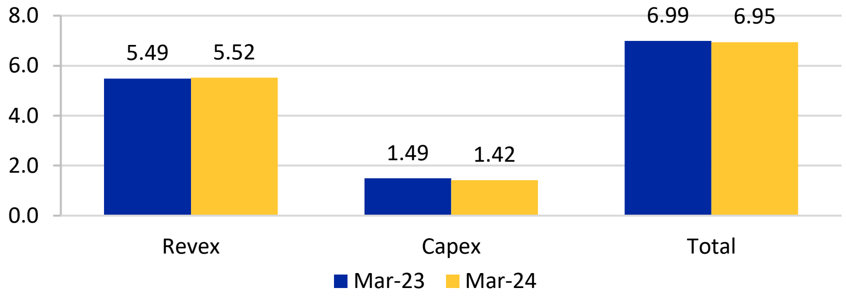
GTR rose by 13.5% in March 2024, owing to robust growth in IGST, customs duty and personal income tax inflows; total expenditure eased marginally

EXHIBIT: GTR and its components in March 2024 (Rs. trillion and YoY growth)



Source: CGA; ICRA Research

EXHIBIT: Revex, capex and total expenditure



Source: CGA; ICRA Research

- The gross tax revenues of the GoI rose by a healthy 13.5% YoY to Rs. 5.7 trillion in March 2024 from Rs. 5.1 trillion in March 2023. This was driven by higher Central and Integrated GST inflows (+59.7%), personal income tax (+22.1%), and customs duty collections (+50.5%) in the month, which outweighed the dip in corporation tax (-13.9%) revenues. With the CTD to the states declining by a sharp 31.5% YoY in March 2024, net tax revenues surged by 30.5% in the month.
- On the expenditure front, the GoI's total spending eased by 0.6% YoY to Rs. 6.95 trillion in March 2024, led by a 4.6% decline in capex, albeit on a high base (Rs. 1.5 trillion), which was partly offset by the mild 0.5% rise in revenue expenditure. Nevertheless, the absolute amount of capex was sizeable at Rs. 1.4 trillion in March 2024, despite the enforcement of the Model Code of Conduct from the middle of the month.
- Overall, the revenue deficit shrunk to Rs. 0.3 trillion in March 2024 from 1.5 trillion in the year-ago month, led by robust growth in revenue receipts (+29%). Amid the dip in capex and a surprising YoY uptick in other capital receipts, the fiscal deficit narrowed to Rs. 1.5 trillion in March 2024 from Rs. 2.8 trillion in March 2023.

Revenue receipts overshot the FY2024 RE by Rs. 287 billion, mainly led by non-tax revenues

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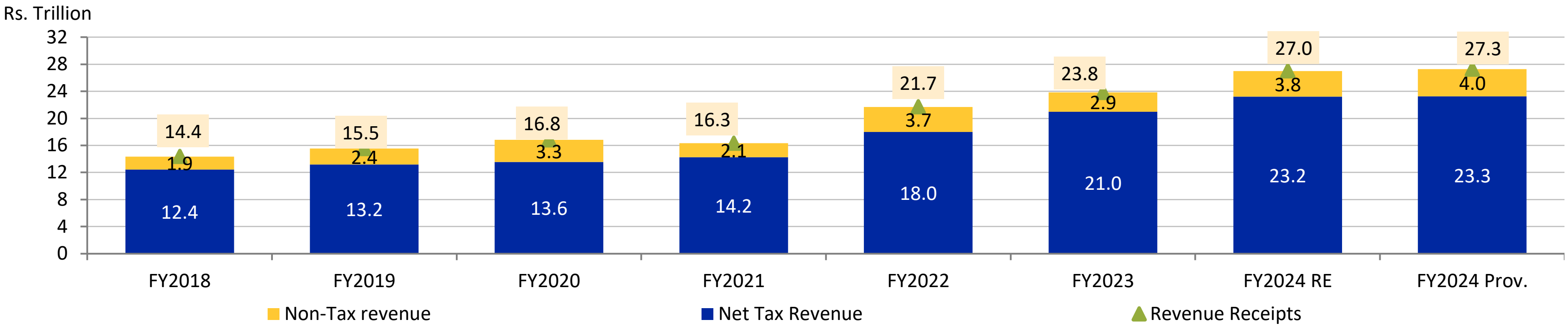
EXHIBIT: GoI's revenue receipts, net tax revenues and non-tax revenues



Source: CGA, Ministry of Finance, GoI; ICRA Research

- Provisional data released by the CGA indicates that the GoI's revenue receipts stood at Rs. 27.3 trillion in FY2024, a healthy 14.5% higher than the Rs. 23.8 trillion in FY2023 Actuals.
  - The YoY expansion in non-tax revenues was sharper at 40.8% in FY2024 Prov. (to Rs. 4.0 trillion in FY2024 Prov. from Rs. 2.9 trillion in FY2023 Actuals), compared to the net tax revenues (+10.9%; to Rs. 23.3 trillion from Rs. 21.0 trillion), with the latter being partly impacted by the sharp 19.1% increase in tax devolution released to the state governments (Rs. 11.3 trillion) relative to FY2023 (Rs. 9.5 trillion).
- Overall, the provisional revenue receipts in FY2024 exceeded the RE of Rs. 27.0 trillion by Rs. 287 billion, with 90% of this upside stemming from non-tax revenues (Rs. 261 billion higher than RE) and the remaining from net tax revenues (Rs. 26 billion higher than RE).

Gross tax revenues of Rs. 34.6 trillion in FY2024 mildly surpassed the RE; tax buoyancy rose to 1.4 amid sharper growth in GTR vis-à-vis nominal GDP

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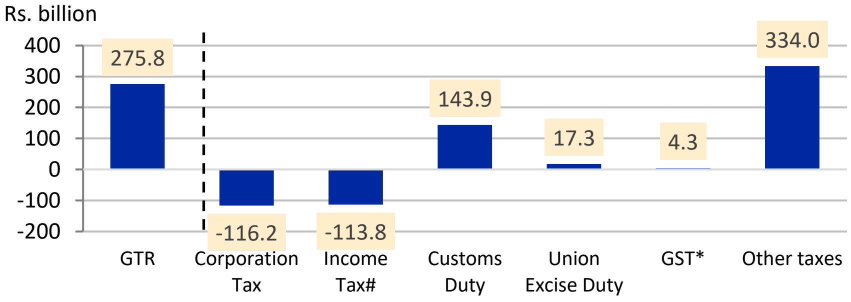
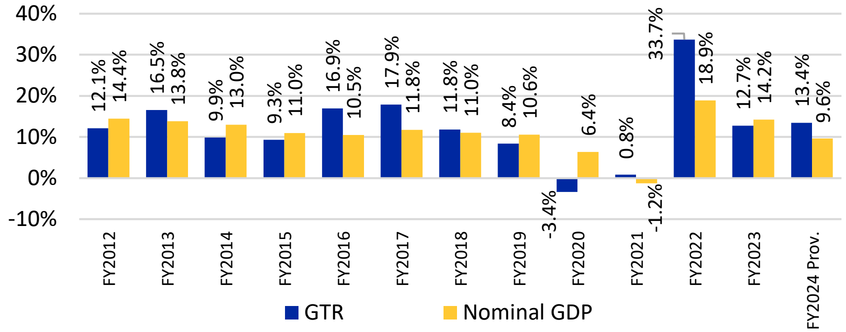
EXHIBIT: Upside to GTR and components in FY2024 Prov. over RE



*#excluding Security transaction tax since that head is included under other taxes in the CGA data; *includes CGST, IGST and GST compensation cess; Source: CGA, Ministry of Finance, GoI; ICRA Research*

EXHIBIT: Annual trends in GTR and nominal GDP

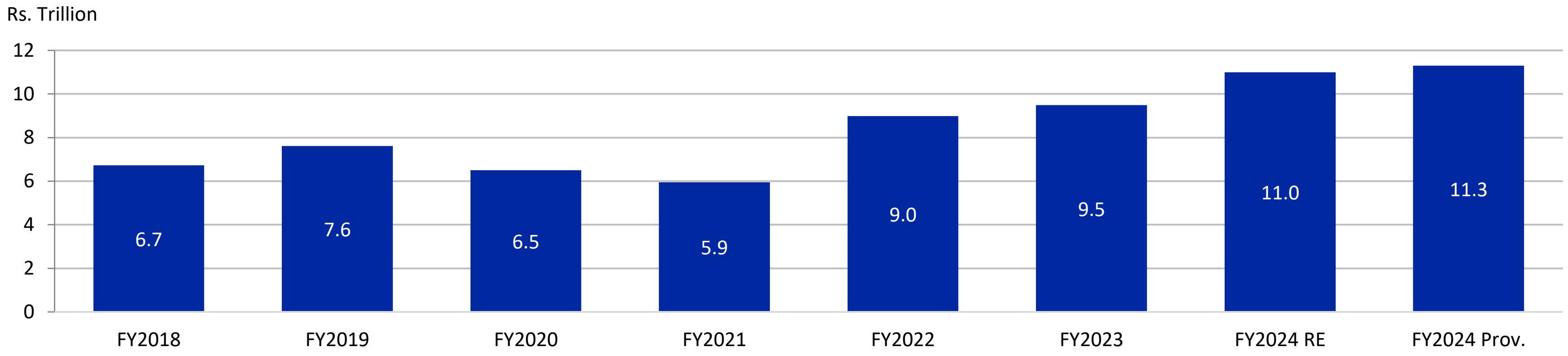


Source: CGA, NSO; Ministry of Finance, GoI; ICRA Research

- Net of refunds (gross of devolution to States), the GoI's tax revenues increased by 13.4% YoY to Rs. 34.6 trillion in FY2024 Prov. from Rs. 30.5 trillion in FY2023 Actuals. In YoY terms, inflows under personal income tax (+21.3%), CGST (+14.2%), and corporation tax (+10.3%) supported the 13.4% expansion in GTR in FY2024.
- With the stronger growth in GTR (+13.4%) relative to the nominal GDP (+9.6%), the tax buoyancy rose to 1.4 in FY2024 Prov. from 0.9 in FY2023 and exceeded the historical average of 1.0 during FY2008-19.
- The GoI's net tax revenues exceeded the revised target for FY2024 by Rs. 275.8 billion, mainly driven by other taxes (+Rs. 334.0 billion) and customs duty (+Rs. 143.9 billion). This more-than-offset the modest undershooting in direct tax revenues, including corporation tax (-Rs. 116.2 billion over RE) and personal income tax (excluding STT; -Rs. 113.8 billion) in FY2024 Prov.

CTD to state governments rose by ~19% YoY in FY2024, while exceeding RE by Rs. 250 billion; net tax revenues increased by a shallower ~11% in the fiscal

EXHIBIT: Annual trends in Central tax devolution

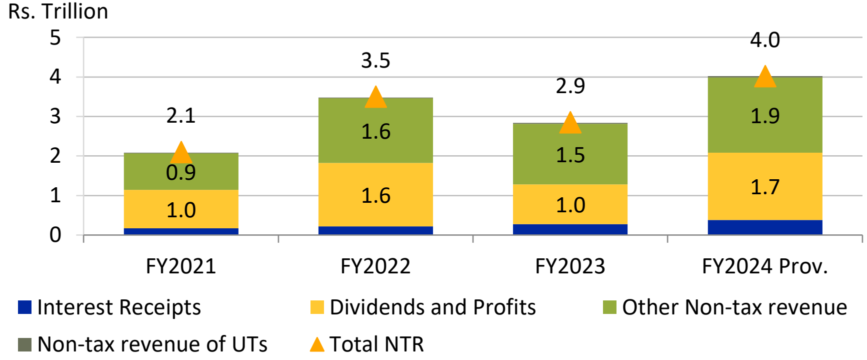


Prov: Provisional; Source: CGA, Ministry of Finance, GoI; ICRA Research

- The CTD amount released to the states stood at Rs. 11.3 trillion in FY2024 Prov. (+19.1% YoY), Rs. 250 billion higher than the FY2024 RE. Surprisingly, the upside to the CTD amount in FY2024 Prov. over the RE is only mildly lower than the overshooting of Rs. 275.8 billion in overall gross tax revenues of the GoI.
- Consequently, compared to the growth seen in the GTR (+13.4%), tax revenues (net of devolution to States) rose by a relatively shallower 10.9% to Rs. 23.3 trillion in FY2024 from Rs. 21.0 trillion in FY2023 actuals.

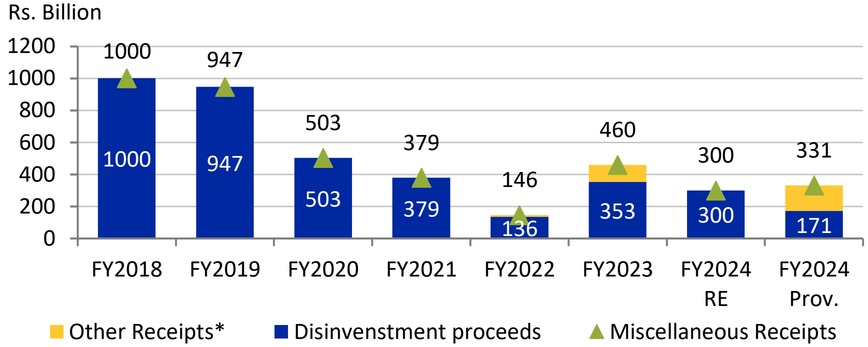
Non-tax revenues overshot FY2024 RE by Rs. 261 billion amid higher dividend pay-outs by PSUs; miscellaneous capital receipts mildly exceeded RE

EXHIBIT: Annual trends in Non-tax revenues and its constituents



Source: CGA, Ministry of Finance, GoI; ICRA Research

EXHIBIT: Annual trends in miscellaneous receipts



**Includes monetisation and other receipts; Source: CGA, Ministry of Finance, GoI; ICRA Research*

- Non-tax revenues (NTR) expanded by a robust 40.8% to Rs. 4.0 trillion in FY2024 Prov. from Rs. 2.9 trillion in FY2023 Actuals. This was led by a considerable 70.6% expansion in dividends and profits, followed by robust growth in interest receipts (+37.5%), and other non-tax revenues (+23.8%).
- Notably, non-tax revenues in FY2024 exceeded the amount included in the FY2024 RE by Rs. 261 billion, owing to dividends and profits (Rs. 160.4 billion, led by higher dividend pay-outs from PSUs), interest receipts (Rs. 65.2 billion) and other NTR (Rs. 44.8 billion).
- Miscellaneous capital receipts (disinvestment proceeds + other receipts) aggregated to Rs. 331.2 billion in FY2024 Prov., lower than the LIC-led IPO inflows of Rs. 460.3 billion in FY2023. However, such proceeds surprisingly exceeded the revised target of Rs. 300 billion, led by other receipts component (Rs. 160 billion vs. nil included in the RE).

Total expenditure in FY2024 was Rs. 0.5 trillion lower than RE, mainly on account of undershooting in revex

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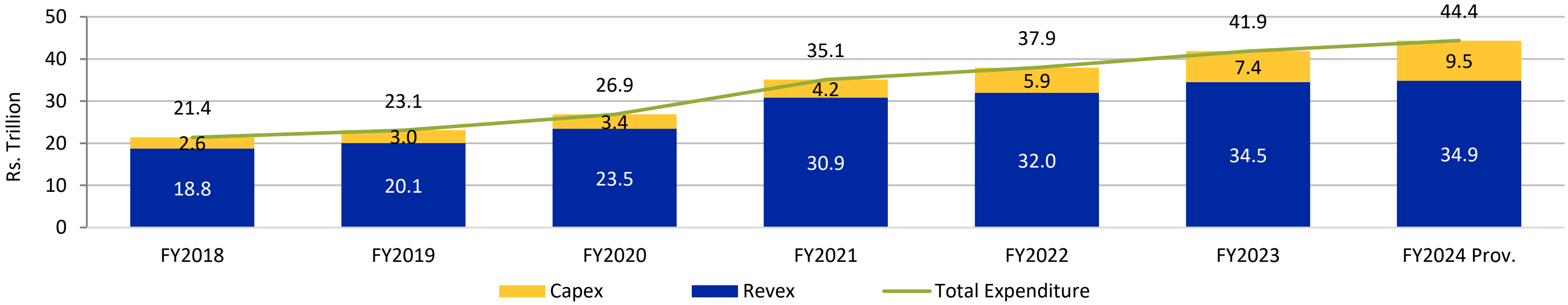
EXHIBIT: Annual Trends in Centre's total expenditure, revex and capex

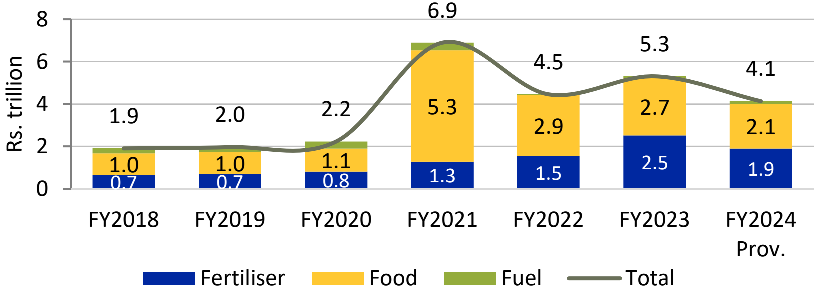


Actuals till FY2023; Prov: Provisional; Source: CGA, Ministry of Finance, GoI; ICRA Research

- Boosted by the capital spending (+28.2%), the GoI's total expenditure rose by 5.9% YoY to Rs. 44.4 trillion in FY2024 Prov., dampened by a muted 1.2% rise in revenue expenditure amid a sharp fall in the subsidy outgo during the fiscal.
- In absolute terms, the Centre's total spending trailed the FY2024 RE of Rs. 44.9 trillion by ~Rs. 0.5 trillion. This was majorly led by lower revenue expenditure in FY2024 Prov. (Rs. 34.9 trillion), relative to the revised target (Rs. 35.4 trillion) amid expenditure savings generated by Ministries/departments, notwithstanding the cumulative net cash outgo announced by the way of supplementary demand for grants during the year (Rs. 1.4 trillion). Capex amounted to Rs. 9.48 trillion in FY2024 Prov. and was only a shade lower than the RE of Rs. 9.50 trillion.
- Interestingly, the GoI's total expenditure contracted by 1.8% YoY in H2 FY2024, as against the 16.2% growth seen during H1 FY2024, mirroring the trends in both revex (to -5.4% from +10.0%) and capex (to +16.4% from +43.1%).

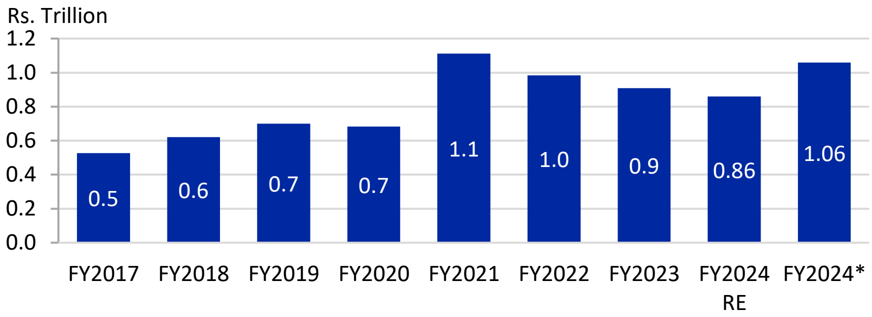
Subsidy outgo printed in line with FY2024 RE, while expenditure on MGNREGS exceeded the same

EXHIBIT: Annual outgo under major subsidies



Source: CGA, Ministry of Finance, GoI; ICRA Research

EXHIBIT: Annual expenditure made under MGNREGS

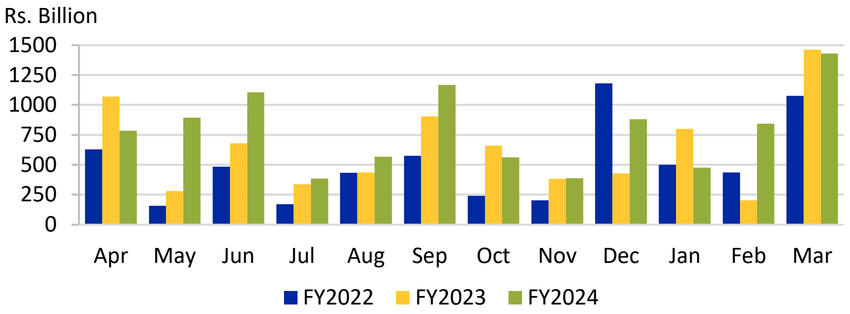


Outgo in FY2024 also includes Rs. 162 billion of liability paid for previous years; excluding the same, outgo stands at Rs. 896 billion; Source: NREGA portal; ICRA Research

- **Fertiliser Subsidy:** Against the revised target of a 24.8% decline in FY2024 RE (over FY2023 A), the amount of fertiliser subsidy released in FY2024 contracted by a similar 24.6% to Rs. 1.9 trillion as per the provisional data released by the CGA, from Rs. 2.5 trillion in FY2023 Actuals.
- **Food Subsidy:** The food subsidy outgo amounted to Rs. 2.1 trillion in FY2024 Prov., a decline of 22.4% over Rs. 2.7 trillion in FY2023 Actuals, while printing largely in line with the FY2024 RE.
- **Fuel subsidy:** The outgo rose to Rs. 122.4 billion in FY2024 Prov. from Rs. 68.2 billion in FY2023 Actuals, while remaining in line with the RE for the fiscal. The YoY rise was largely led by the increase in the LPG subsidy by Rs. 100/cylinder to Rs. 300/cylinder in October 2023.
- **Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS):** As per data released on the NREGA portal, a cumulative amount of Rs. 1.06 trillion has been spent in FY2024, which exceeds the revised outlay (Rs. 860 billion). This also includes an amount of Rs. 162 billion that was paid in FY2024 to cover for the liability of past years.

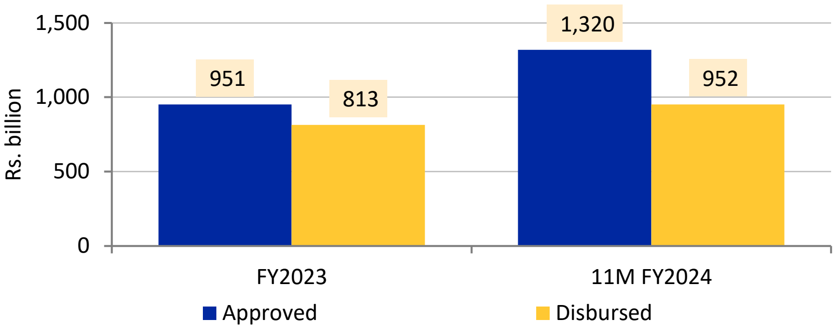
Capex of Rs. 9.48 trillion in FY2024 ended up only a shade lower than RE

EXHIBIT: Monthly trends in capital expenditure



Source: CGA, Ministry of Finance, GoI; ICRA Research

EXHIBIT: Special Assistance to States for Capital Investment



FY2024 does not include March 2024 data because it is not available in public domain; Source: DOE, Ministry of Finance, GoI; ICRA Research

- The GoI's capex rose by 28.2% to Rs. 9.48 trillion in FY2024 Prov. from Rs. 7.40 trillion in FY2023, a shade lower than the RE of Rs. 9.50 trillion included for the fiscal. The capital spending averaged around Rs. 790.4 billion/month in FY2024, much higher than Rs. 616.7 billion/month seen in FY2023.
- Under the capex scheme, Rs. 1.3 trillion was approved to the eligible states by end-Feb 2024, and the GoI released ~72% of this or Rs. 952 billion during 11M FY2024 (against Rs. 480 billion in 11M FY2023). However, the data for March 2024 has not been released in the public domain so far, even as it is likely to have exceeded the FY2024 RE, as per comments by the Ministry of Finance. According to the CGA data, combined capital transfers to states (which includes transfers under the capex scheme) stood at Rs. 1.23 trillion in FY2024 Prov, higher than the amount indicated in the RE (Rs. 1.16 trillion), which also suggests that the entire capex loan amount was released to the state governments.

Total spending in FY2024 was curtailed below RE despite modest net cash outgo under SDGs, implying expenditure savings to the tune of Rs. 2.0 trillion

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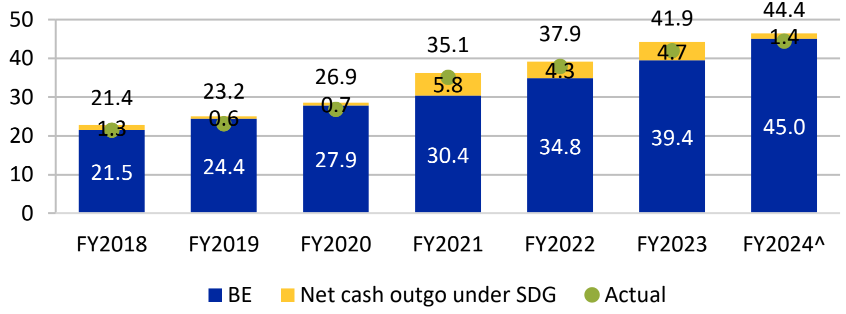
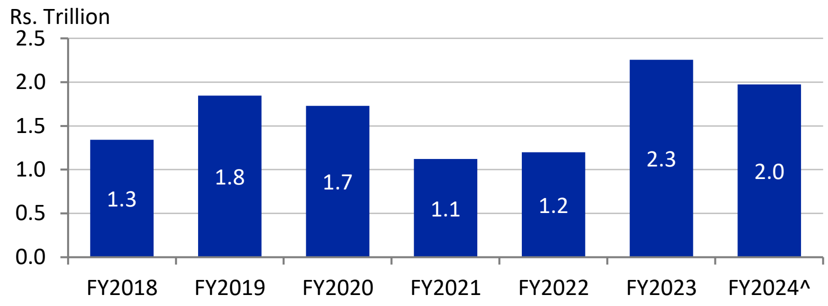
EXHIBIT: Budgeted and Actual Total Expenditure with Net Cash Outgo announced under Supplementary Demand for Grants (Rs. trillion)



**Second batch of SDG for FY2019 is not available in the public domain and hence savings might be modestly lower than Rs. 1.8 trillion; ^Based on Provisional estimate for FY2023; Source: Union Budget; ICRA Research*

EXHIBIT: Estimated Expenditure Savings (BE + NSDG – Actual; Rs. trillion)



*Actuals for FY2018-23; Aggregate expenditure savings of the GoI are computed by adding net cash outgo under the SDG to the budgeted total expenditure and subtracting actual spending incurred in each fiscal; *Second batch of SDG for FY2019 is not available in the public domain and hence savings might be modestly lower than Rs. 1.8 trillion; ^Based on Provisional Estimate for FY2024; Source: Union Budget; ICRA Research*

- The total expenditure of the GoI stood at Rs. 44.4 trillion in FY2024 Prov., slightly lower than the revised target of Rs. 44.9 trillion by Rs. 479 billion. This was also Rs. 606 billion lower than the BE of Rs. 45.0 trillion for the fiscal despite the net cash outgo on account of the two supplementary demand for grants announced during the year (Rs. 1.4 trillion).
- **This implies that Ministries/Departments generated expenditure savings to the tune of Rs. 2.0 trillion in FY2024, higher than the yearly average seen during FY2018-23 (Rs. 1.6 trillion/year).**

FY2024 fiscal deficit printed at 5.6% of GDP, lower than RE of 5.8%

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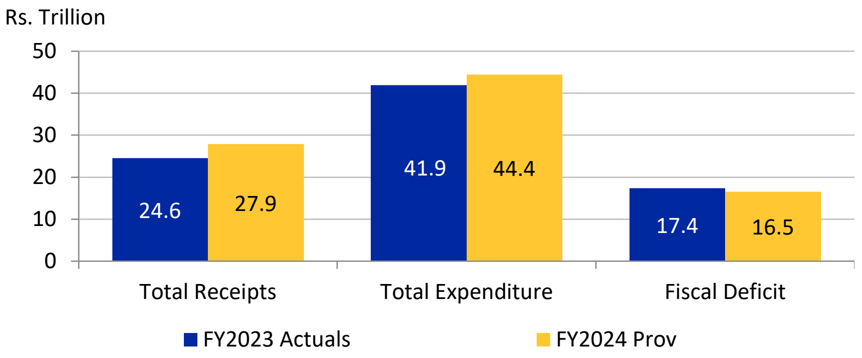
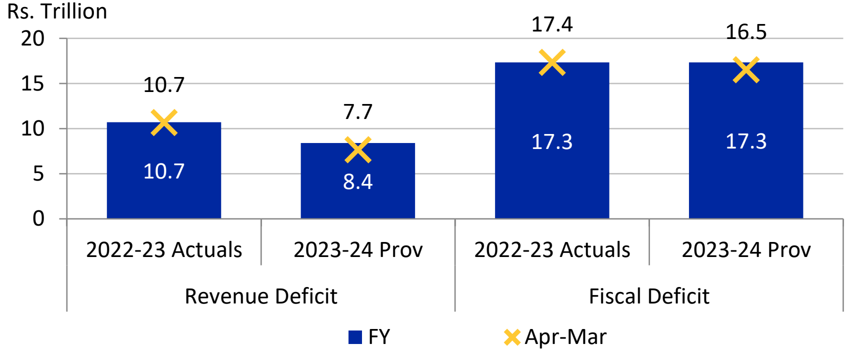
EXHIBIT: Trends in Revenues and Expenditure of the GoI



Source: CGA, Ministry of Finance, GoI; ICRA Research

EXHIBIT: Revenue and Fiscal Deficits



Source: CGA, Ministry of Finance, GoI; ICRA Research

- Benefiting from the higher-than-anticipated revenue receipts and lower-than-estimated revenue spending, the GoI's revenue deficit was curtailed at Rs. 7.7 trillion in FY2024 Prov., lower than Rs. 8.4 trillion in the FY2024 RE. As a proportion of GDP, it amounted to 2.6% in FY2024 Prov. lower than the 2.8% in the FY2024 RE, while entailing a sharp cut vis-à-vis 3.9% in the FY2023 Actuals.
- Owing to the lower-than-expected revenue deficit, a marginal undershooting in capex and a slight overshooting in non-debt capital receipts, the GoI's fiscal deficit was contained at Rs. 16.5 trillion in the FY2024 Prov. as against Rs. 17.3 trillion in FY2024 RE. Consequently, as a proportion of GDP, it was pegged at 5.6% in FY2024 Prov., lower than the target of 5.8% included in the RE, even as the nominal GDP was somewhat lower than that assumed in the interim budget (Rs. 295.4 trillion as per PE vs. Rs. 296.6 trillion as per FAE).
- Notably, the inflows from small savings scheme (savings deposits and certificates and public provident funds), amounted to Rs. 4.2 trillion in FY2024, slightly lower than the revised target of Rs. 4.4 trillion.

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Fiscal Trends for April 2024 and ICRA’s Outlook for FY2025

Fiscal deficit surged in April 2024 vis-à-vis year-ago levels, amid sharp uptick in expenditure; FY2025 fiscal deficit to print at par or slightly lower than BE

Revenue receipts rose sharply by ~25% in April 2024, amidst healthy expansion in net tax and non-tax revenues

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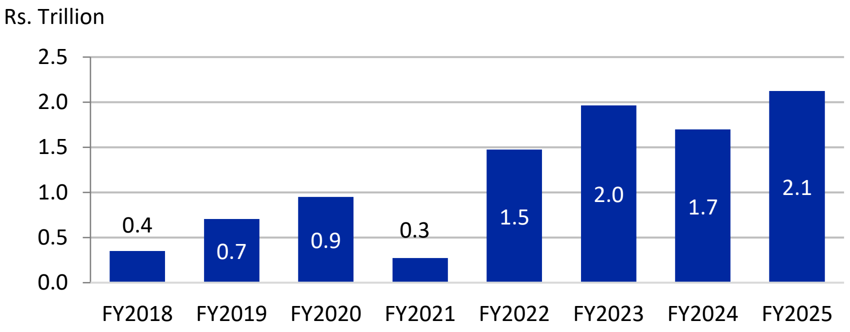
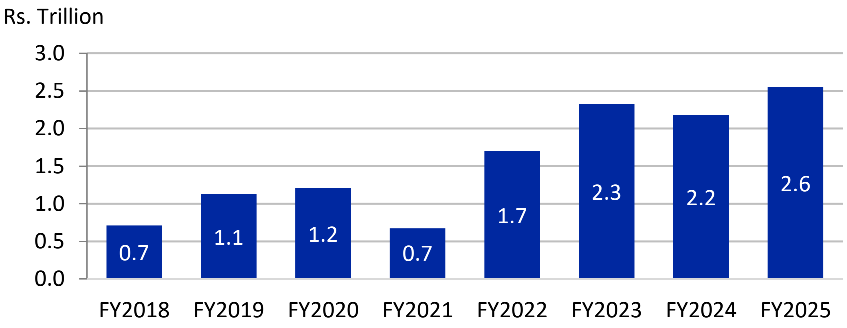
EXHIBIT: Revenue receipts in April of FY2018-25



Source: CGA, Ministry of Finance, GoI; ICRA Research

EXHIBIT: Gross tax revenues in April of FY2018-25

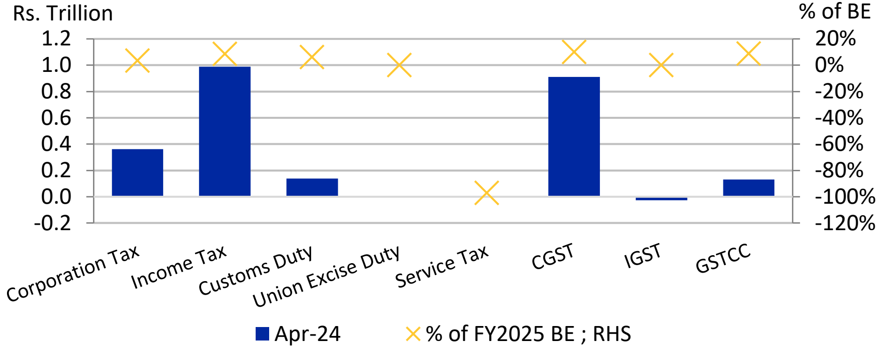


Source: CGA, Ministry of Finance, GoI; ICRA Research

- The provisional data indicates that the GoI's revenue receipts rose sharply by 25.0% to Rs. 2.1 trillion (7.1% of FY2025 BE) in April 2024 from Rs. 1.7 trillion in April 2023 (6.2% of FY2024 Prov.), driven by net tax revenues (+16.4%; to Rs. 1.8 trillion from Rs. 1.6 trillion; 7.1% of FY2025 BE) and non-tax revenues (more-than-doubling to Rs.273.0 billion from Rs. 109.6 billion; 6.8% of FY2025 BE).
- The GoI's gross tax revenues rose by a healthy 16.9% YoY to Rs. 2.6 trillion in April 2024 (6.7% of FY2025 BE) from Rs. 2.2 trillion in April 2023 (6.3% of FY2024 Prov.), led by a robust uptick in indirect taxes (+21.2%; to Rs. 1.0 trillion in April 2024 from Rs. 0.8 trillion in April 2023), followed by a relatively lower, albeit healthy rise in direct taxes (+12.1%; to Rs. 1.4 trillion from Rs. 1.2 trillion).
- **Given that gross tax revenues in FY2024 turned out to be higher than the RE, the embedded growth target for FY2025 is pegged at a shallower 10.6% vs. the budgeted 11.5% included in the Interim Budget estimates. The same is likely to be revised in the final budget, which will be presented in July 2024.**

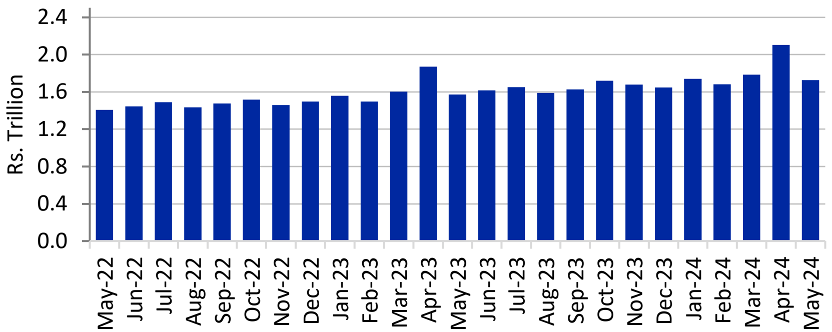
Sharp uptick in gross tax revenues largely driven by healthy collections from income taxes and customs duty

EXHIBIT: Direct and Indirect tax revenues in April 2024 and % of FY2025 BE



GSTCC: GST Compensation cess; Source: CGA, Ministry of Finance, GoI; Budget documents; ICRA Research

EXHIBIT: Month-wise GST collections

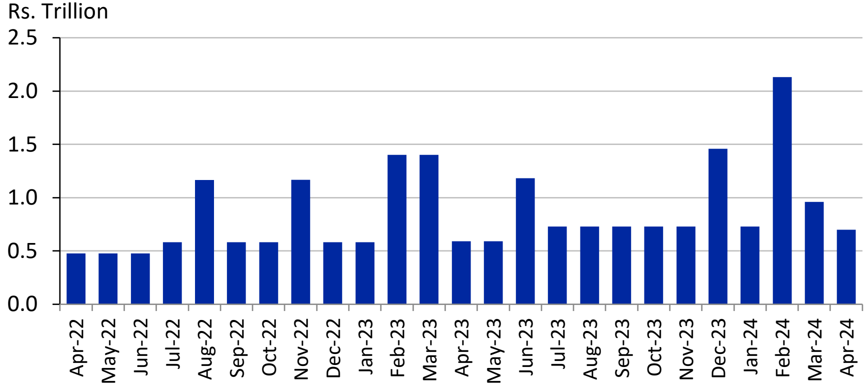


Source: Ministry of Finance, GoI; ICRA Research

- The YoY expansion of 16.9% in GTR in April 2024 was driven by income tax collections (+20.6%), CGST (+12.7%), and customs duty (+18.8%). In contrast, the receipts from excise duty (-92.7%) contracted sharply during that period, while there was a lower IGST settlement of Rs. 26.5 billion, relative to Rs. 93.0 billion seen in April 2023. Additionally, the GST compensation cess inflows increased to Rs. 130.4 billion in April 2024 from Rs. 118.6 billion in April 2023.
- Moreover, in line with the robust generation of GST e-way bills in April 2024 (3.22 million vs. 2.81 million in April 2023), the GST collections in May 2024 remained healthy at Rs. 1.7 trillion, while entailing a typical MoM moderation from collections in April 2024 (-17.8%). **Going ahead, expectations of a sustenance of healthy momentum of domestic activity in FY2025, some recovery in external demand in the latter part of the fiscal, and the GoI's focus on anti-tax evasion activities would augur well for the GST collections during the year.**

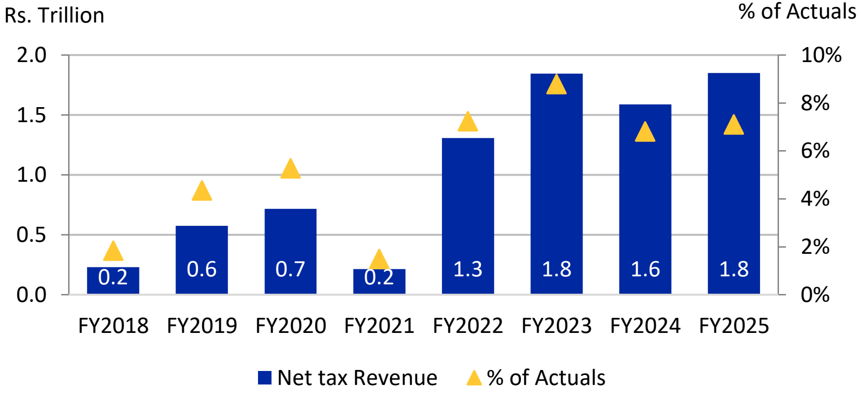
CTD surged by ~18% YoY in April 2024; net tax revenues up by relatively lower, albeit healthy ~16%

EXHIBIT: Monthly trends in Central tax devolution



Source: CGA, Ministry of Finance, GoI; ICRA Research

EXHIBIT: Net tax revenues in April of FY2018-25



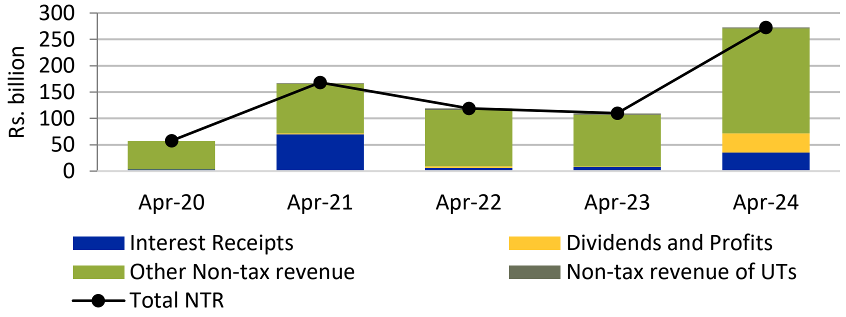
Source: CGA, Ministry of Finance, GoI; ICRA Research

- As per the CGA, the amount of taxes devolved to the states rose by a sharp 18.2% to Rs. 698.8 billion in April 2024 (5.7% of FY2025 BE) from Rs. 591.4 billion in April 2023 (5.2% of FY2024 Prov.). The GoI has budgeted tax devolution at Rs. 12.2 trillion in the Interim Budget for FY2025, implying an 8.0% growth over the FY2024 Prov., lower than the growth assumed for gross tax revenues (+10.6%).
- With an uptick in gross tax revenues (+16.9%) and the sharp rise in CTD in April 2024, net tax revenues of the GoI rose by a marginally lower 16.4% to Rs. 1.8 trillion in the month from Rs. 1.6 trillion in April 2023.

Non-tax revenues more-than-doubled in April 2024; unexpectedly large dividend pay-out by RBI in May 2024 augurs well for fiscal consolidation

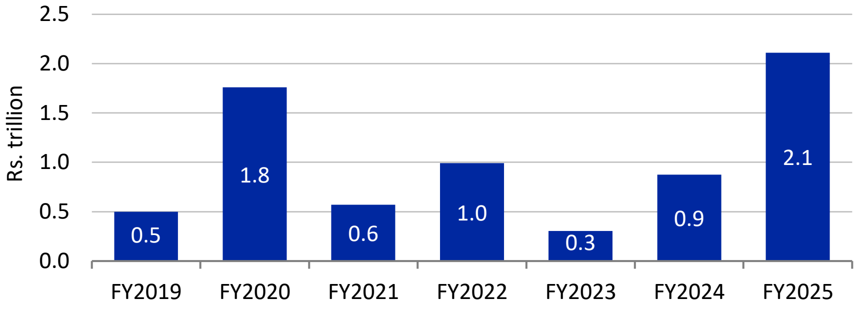
ICRA

EXHIBIT: Apr trends in Non- tax revenues and its constituents



Source: CGA, Ministry of Finance, GoI; ICRA Research

EXHIBIT: Trends in RBI's surplus transfer to the GoI



Source: RBI; ICRA Research

- In April 2024, the GoI's non-tax revenues more-than-doubled to Rs. 273.0 billion, largely driven by the surge in other non-tax revenues (+102.4% to Rs. 198.9 billion in April 2024), interest receipts (+341.7% to Rs. 35.3 billion from Rs. 8.0 billion) and dividends and profits (to Rs. 36.4 billion from Rs. 0.8 billion).
- On May 22, 2024, the RBI announced a dividend pay-out of Rs. 2.11 trillion to the GoI in FY2025 (highest till date; Rs. 0.9 trillion in FY2024), more-than-double the amount transferred in the previous fiscal, stemming from a steep YoY fall of 56.3% in RBI's expenditure in FY2024 combined with a robust growth of 31.8% in the interest income. This amount is well above the Rs. 1.02 trillion budgeted for the dividends from RBI, nationalised banks and FIs for FY2025. **This large RBI dividend pay-out can enable a faster fiscal consolidation in FY2025 than what was pencilled in the Interim Budget (5.1% of GDP), provided that the GoI's expenditure is not revised upwards in the Final Budget.**
- As per the CGA data, disinvestment receipts have remained nil in April 2024 (Rs. 5.0 billion in April 2023), in line with the data provided by the DIPAM.

GoI's revenue expenditure surged by ~44% YoY in April 2024, owing to sharp uptick in interest payments

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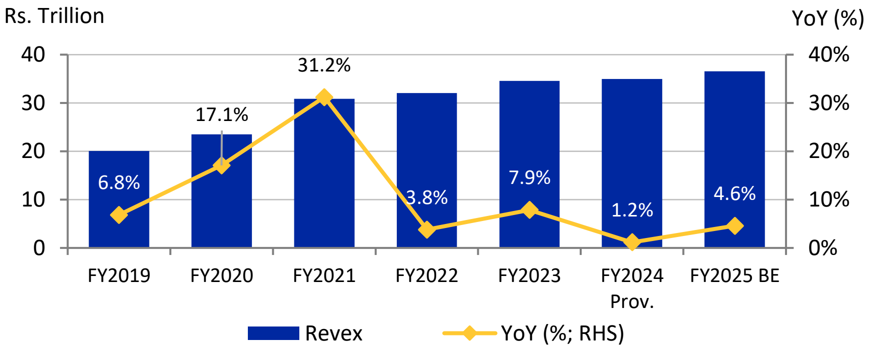
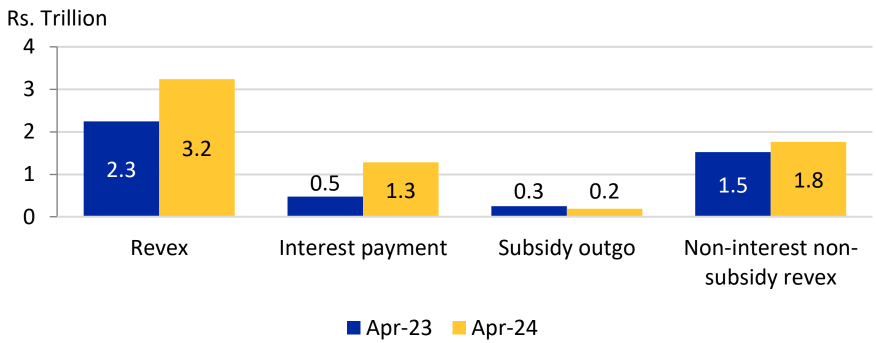
EXHIBIT: Annual Trends in Revenue expenditure



Actuals for FY2019-23; BE: Budget Estimates; Source: Union Budget, GoI; ICRA Research

EXHIBIT: Monthly trends in revenue expenditure and its components



Source: CGA, Ministry of Finance, GoI; ICRA Research

- The GoI's total expenditure rose by an unexpectedly sharp 39.3% YoY to Rs. 4.2 trillion in April 2024 (8.9% of FY2025 BE) from Rs. 3.0 trillion in April 2023 (6.8% of FY2024 Prov.), despite the enforcement of the Mode Code of Conduct for the Parliamentary Elections, wherein necessary funds are approved by the Parliament for a period of four months by the existing Government to incur committed expenses such as interest outgo, salaries and pensions, etc.
- This was driven by a 43.7% surge in revex, to Rs. 3.2 trillion in April 2024 (8.9% of FY2025 BE) from Rs. 2.3 trillion in April 2023 (6.5% of FY2024 Prov.), led by an unexpected surge in interest payments (YoY: +167.6%), even as outgo towards major subsidies declined (-22.9%). The subsidy outlay for fertilisers (-56.5%; to Rs. 65.9 billion in April 2024 from Rs. 151.6 billion in April 2023) declined, even as that for food (+28.1%; to Rs. 128.1 billion from Rs. 100 billion) rose in April 2024, while the fuel subsidy outgo remained nil similar to the year-ago level. The non-interest non-subsidy revex expanded by a relatively lower 15.7% YoY to Rs. 1.8 trillion in April 2024.
- **The reduction in the planned T-bill issuances in Q1 FY2025 and the G-sec buybacks suggest that the GoI's spending pace could be sluggish in the rest of the quarter, amid the Model Code of Conduct and the Parliamentary Elections.**

Capital expenditure up by ~27% in April 2024, despite implementation of Model Code of Conduct

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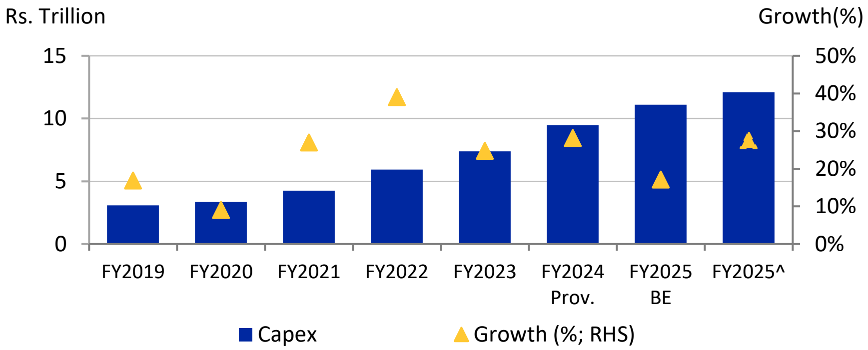
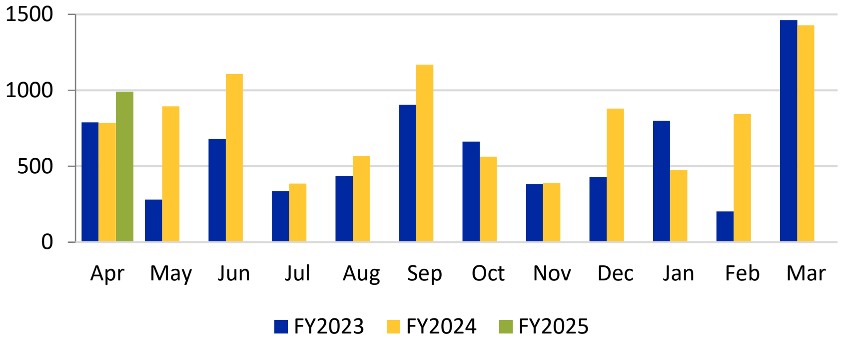
EXHIBIT: Annual Trends in Gross Capital Expenditure



^If additional leeway of Rs. 1.0 trillion from RBI dividend is included in capex target for FY2025; BE: Budget Estimates; Source: Union Budget, ICRA Research

EXHIBIT: Monthly Trends in Gross Capital Expenditure (Rs. Billion)



Source: CGA, ICRA Research

- While exceeding the 17.1% growth embedded for FY2025 BE (over FY2024 Prov.), capital expenditure posted a 26.5% YoY expansion to Rs. 1.0 trillion in April 2024 (8.9% of FY2025 BE) from Rs. 0.8 trillion in April 2023 (8.3% of FY2024 Prov.), despite the implementation of the Model Code of Conduct.
- Out of the YoY uptick of Rs. 208 billion in gross capex, nearly ~74% was driven by the surge in capex by the MoRTH (+Rs. 154.1 billion), followed by a relatively lower uptick in the capital outlay towards defence services (+Rs. 10.3 billion). In contrast, the capital spending by the Ministry of Railways declined in April 2024, compared to the year-ago month.
- **While increasing the funds available for capex after the larger-than-budgeted RBI dividend pay-out would certainly boost the quality of the fiscal deficit, the additional spending on this account may be difficult to be incurred within the eight-odd months left after the Final Budget is presented and approved by Parliament.**

Additional leeway of Rs. 1.0 trillion from RBI's dividend can facilitate higher spending or a sharper fiscal consolidation in FY2025 vs. budgeted 5.1% of GDP

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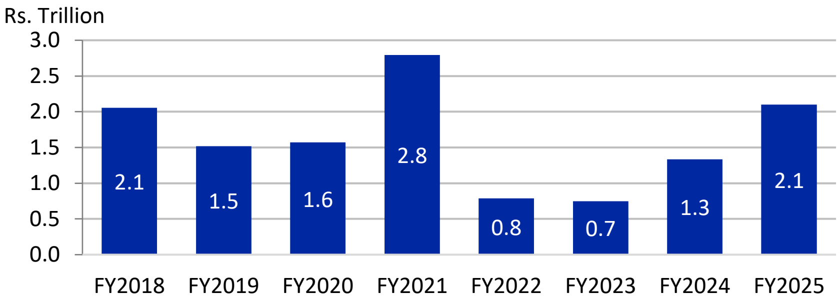
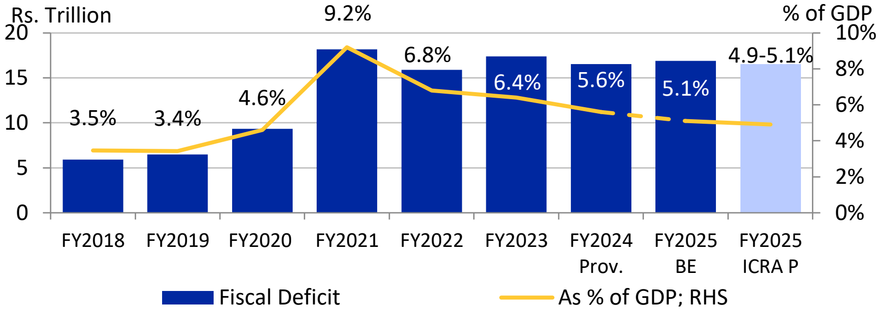
EXHIBIT: Trends in fiscal deficit in April of FY2018-25



Source: CGA, GoI; ICRA Research

EXHIBIT: GoI's fiscal deficit (Rs. trillion and as % of GDP)



Actuals are available up to FY2023; BE: Budget Estimates; P: Projected, based on ICRA's proj. of nominal GDP growth; Prov: Provisional; Source: Union Budget Documents; GoI; NSO; ICRA Research

- With a 25.0% rise in revenue receipts and a 43.7% surge in revenue expenditure, the GoI reported a revenue deficit of Rs. 1.1 trillion in April 2024, nearly double the deficit of Rs. 0.6 trillion (17.1% of FY2025 BE) recorded in April 2023 (7.3% of FY2024 Prov.). Additionally, with a 26.5% expansion in capital spending, the GoI's fiscal deficit spiked to Rs. 2.1 trillion in April 2024 (12.5% of FY2025 BE) from Rs. 1.3 trillion in April 2023 (8.1% of FY2024 Prov.).
- **Overall, the fiscal dynamics appear favourable for FY2025, amid continued resilience in GST collections and a large dividend payout by the RBI. The windfall arising from the latter is likely to provide additional leeway of ~Rs. 1.0 trillion to the GoI for enhanced expenditures or a sharper fiscal consolidation than what was pencilled in the Interim Budget for FY2025 (ICRA exp: 4.9-5.1% of GDP vs. BE of 5.1% of GDP). Moreover, the target for tax revenues for FY2025 could be revised upwards following the better-than-estimated collections in FY2024.**

GoI cash balances soared to Rs. 2.7 trillion by mid-May 2024

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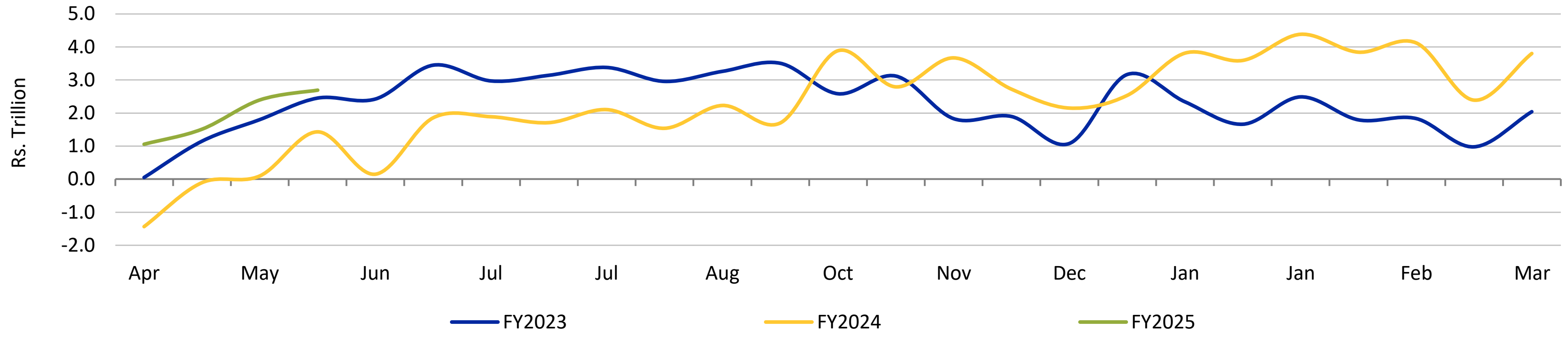
EXHIBIT: GoI cash balances with the RBI



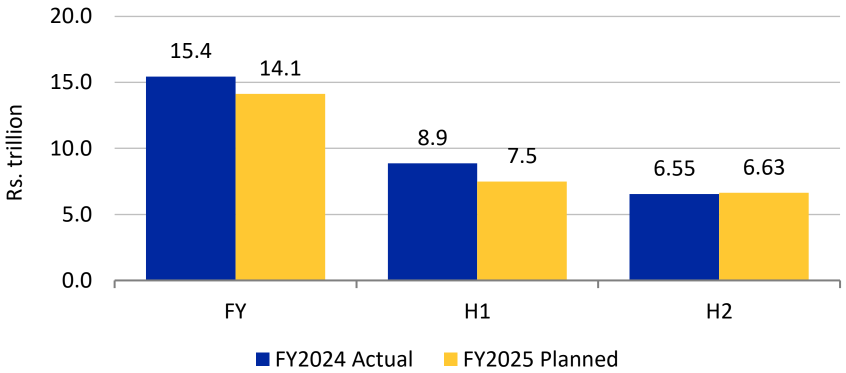
Note: Cash balances have been computed by adding systemic liquidity to durable liquidity; We have taken similar time periods for each month during FY2021-23; Source: RBI; CEIC; ICRA Research

- The liquidity conditions of the GoI appear to be comfortable in FY2025 so far; the cash balances of the GoI had surged from Rs. 1.1 trillion as on April 5, 2024, to Rs. 1.5 trillion by April 19, 2024. Thereafter, sizeable GST collections pushed this amount upwards to Rs. 2.4 trillion by May 3, 2024.
- Subsequently, the GoI's cash balances rose further to Rs. 2.7 trillion as on May 17, 2024 (Rs. 1.4 trillion as on May 19, 2023), suggesting that spending may have been tepid in that month.

GoI net market issuances surged by 60% YoY in Apr-May 2024; expansion set to moderate in June 2024

ICRA

EXHIBIT: Planned GoI market borrowings for FY2025



Source: RBI; ICRA Research

EXHIBIT: Progress of GoI market borrowings in FY2024-25 so far

Rs. Trillion	FY2024	FY2025	Growth
Gross Borrowings - Planned	15.4	14.1	-8.4%
Gross Borrowings Completed by May 31	3.1	2.6	-16.4%
% of Gross Borrowings completed	19.8%	18.0%	
Devolvement by May 31	0.00	0.00	
Cancellations by May 31	0.00	0.06	
Redemptions	3.6	2.4	-34.4%
Redemptions by May 31	1.5	-	-100.0%
Net Borrowings	11.80	11.75	-0.4%
Net Borrowings Completed by May 31	1.6	2.6	60.0%
% of Net Borrowings completed	13.5%	21.7%	

Source: RBI; ICRA Research

- In the Interim Budget 2024-25, the GoI estimated its gross and net market borrowings to decline by 8.4% to Rs. 14.1 trillion and 0.4% to Rs. 11.8 trillion, respectively, in FY2025. In the market borrowing calendar for H1 FY2025, the GoI had indicated to raise Rs. 7.5 trillion (53.1% of FY2025 BE), which is 15.5% lower than the actual issuances in H1 FY2024 (Rs. 8.9 trillion). Accordingly, the borrowings are relatively more back-ended in FY2025, with 46.9% of the gross issuances scheduled for H2 FY2025 against 42.4% in H2 FY2024, in line with the expected ramping up of capex after the final Budget and monsoons.
- Up to May 31, 2024, the GoI has raised gross borrowing of Rs. 2.6 trillion, which entails a moderation of 16.4% over the Rs. 3.1 trillion raised in the corresponding period of last year. However, G-sec redemptions were nil during this period, against Rs. 1.5 trillion seen in the year-ago period. This has resulted in a YoY surge of ~60% in net market borrowings to Rs. 2.6 trillion till May 31, 2024 from Rs. 1.6 trillion seen in the same period of FY2024.
- **However, the YoY growth in net market issuances is set to moderate in June 2024, with impending redemptions of G-secs worth Rs. 1.1 trillion in the month.**

Planned T-bill issuances were pared by Rs. 600 billion for Q1 FY2025

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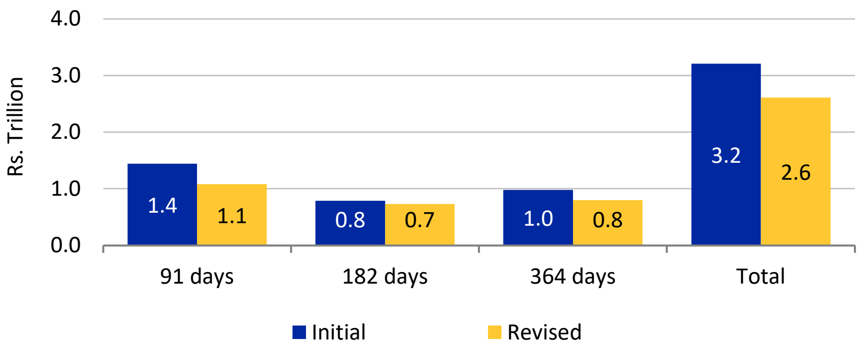
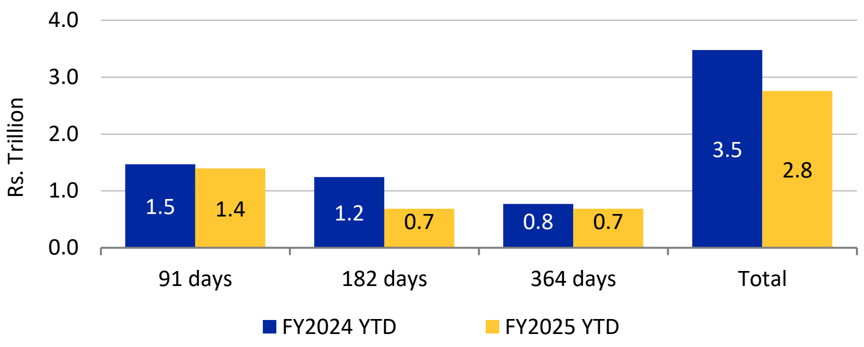
EXHIBIT: Planned gross T-bill issuances for Q1 FY2025 – initial vs. revised



Source: RBI; ICRA Research

EXHIBIT: Trends in T-bill borrowings completed in FY2025 so far

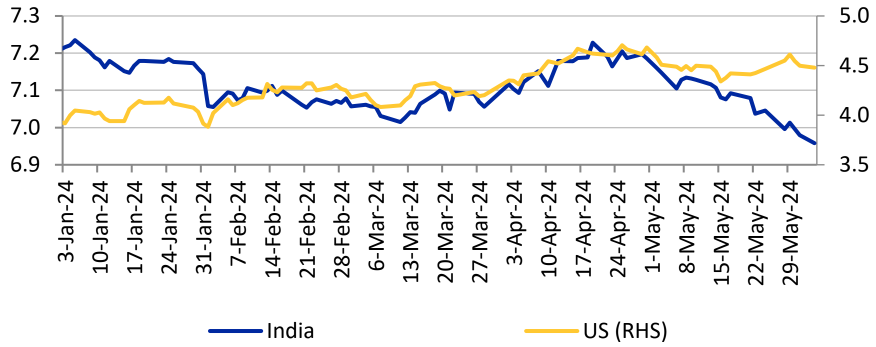


**Up to May 29, 2024; Source: RBI; ICRA Research*

- The gross T-bill issuances (91-day, 182-day, 364-day) were pegged at Rs. 16.3 trillion in FY2025 BE, lower than the actual Rs. 17.2 trillion issued in FY2024. For Q1 FY2025, the GoI has reduced the planned gross borrowings of Rs. 3.2 trillion by Rs. 600 billion on May 17, 2024, given the build-up in the GoI's cash balances.
- Half or Rs. 300 billion of the total reduction in planned T-bill amount has been announced in the 91-day tenure category, followed by Rs. 200 billion in 364-day and the remaining Rs. 100 billion in the 182-day maturity for Q1 FY2025.
- Up to May 29, 2024, the GoI has raised Rs. 2.8 trillion through T-bill issuances, higher than the notified amount of Rs. 2.1 trillion, while being ~21% lower than the amount raised in the year-ago period. This was mainly led by a dip in issuances in the 182-day category, even as the borrowings in the other two tenures are largely similar to the year-ago levels. In the remaining period of Q1 FY2025, a notified amount of Rs. 0.5 trillion is left to be raised.

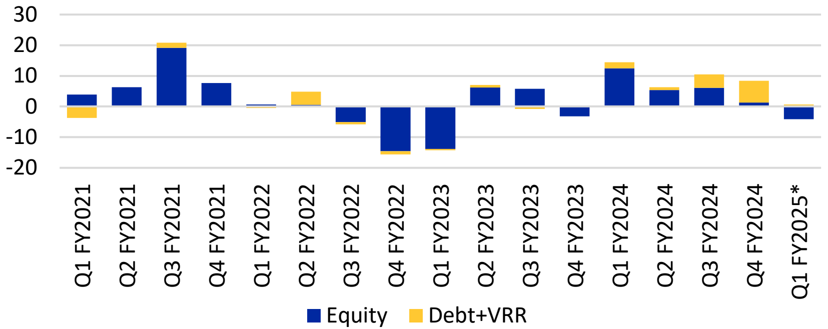
India's 10-year yield to trade between 6.80-7.15% in rest of H1 FY2025, led by favourable fiscal dynamics, impending inflows from bond index inclusion

EXHIBIT: Trends in India's and US's 10-year yield



Source: Bloomberg; ICRA Research

EXHIBIT: Trends in FPI flows under equity and debt segments ($ Billion)



**Up to May 31, 2024; Source: NDSL; ICRA Research*

- After witnessing an uptick in April 2024, India's 10-year G-sec (7.10 GS 2034) softened by 21 bps to 6.98% as on May 31, 2024, over the levels seen at end-April 2024, benefitting from the downtrend in 10Y UST yield (to 4.50% by end-May 2024 from 4.68% by end-Apr 2024), as well as recent domestic developments like reduction in planned T-bill issuances, buyback of G-secs and the large dividend pay-out by the RBI. On June 3, 2024, the yield has traded below the 7.0% mark intraday, amid the appreciable reduction in the GoI's fiscal deficit in FY2024 compared to the revised target.
- **ICRA expects the 10-year G-sec yield to ease further in the run up to the inclusion of IGBs in the J.P. Morgan Government Bond Index, amid the possibility of a cut in the budgeted market borrowings for FY2025.**
- Looking ahead, **ICRA expects the 10-year G-sec yield to trade between 6.80-7.15% in the remainder of H1 FY2025. Yields may harden close to the upper limit of this range, if the expectations about the timing of rate cuts by the US Fed and MPC are pushed out beyond Q3 FY2025.**

Annexure A.1

Table A.1: Trends in Tax Revenue Receipts in FY2023 actuals and FY2024 Prov.

	FY2023 Actuals	FY2024 RE		FY2024 Prov.		
	Rs. Billion	Rs. Billion	Growth % ~	Rs. billion	% of RE	Growth % ~
Gross Tax Revenues^	**30,541.9**	**34,372.1**	**12.5%**	**34,647.9**	**100.8%**	**13.4%**
Direct Taxes	**16,590.9**	**19,450.0**	**17.2%**	**19,220.0**	**98.8%**	**15.8%**
Corporation Tax	8,258.3	9,226.8	11.7%	9,110.6	98.7%	10.3%
Income Tax*	8,332.6	10,223.3	22.7%	10,109.5	98.9%	21.3%
Indirect Taxes	**12,608.4**	**13,387.1**	**6.2%**	**13,594.5**	**101.5%**	**7.8%**
Central GST (CGST)	7,185.2	8,116.0	13.0%	8,206.2	101.1%	14.2%
Union Territory GST (UTGST)	47.7	43.3	-9.2%	50.3	116.2%	5.5%
IGST	47.5	0.0	-100.0%	-50.3	---	-205.8%
Customs Duty	2,133.7	2,186.8	2.5%	2,330.7	106.6%	9.2%
Excise Duty	3,190.0	3,036.0	-4.8%	3,053.3	100.6%	-4.3%
Service Tax	4.3	5.0	16.0%	4.2	84.8%	-1.6%
GST Compensation Cess	1,258.6	1,450.0	15.2%	1,414.4	97.5%	12.4%

*^Net of Refunds, Gross of States' share in Central Taxes; *excluding security transaction tax; ~Relative to FY2023 Actuals; Source: CGA; Union Budget; ICRA Research*

Annexure A.2

Table A.2: Trends in Key fiscal metrics in FY2023 actuals and FY2024 Prov.

	FY2023 Actuals	FY2024 RE		FY2024 Prov.		
	Rs. billion	Rs. billion	Growth~	Rs. billion	% of RE	Growth~
Revenue Receipts	23,832.1	26,997.1	13.3%	27,284.1	101.1%	14.5%
Tax Revenues$	20,977.9	23,239.2	10.8%	23,265.2	100.1%	10.9%
Non-Tax Revenues	2,854.2	3,758.0	31.7%	4,018.9	106.9%	40.8%
Revenue Expenditure	34,531.3	35,402.4	2.5%	34,940.4	98.7%	1.2%
Revenue Balance	**-10,699.3**	**-8,405.3**		**-7,656.2**	**91.1%**	
Capital Receipts	460.3	300.0	-34.8%	331.2	110.4%	-28.1%
Capital Expenditure, Net Lending	7,138.6	9,242.5	29.5%	9,211.7	99.7%	29.0%
Fiscal Balance	**-17,377.5**	**-17,347.7**		**-16,536.7**	**95.3%**	

$Net of Refunds, Net of States' share in Central Taxes; ~Relative to FY2023 Actuals; Source: CGA; Union Budget; ICRA Research

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