ICRA

Government of India Finances

Tepid capex in H1 FY2025 limits risk of fiscal deficit overshoot in FY2025

OCTOBER 2024

Highlights

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GoI's fiscal deficit narrowed to Rs. 4.7 trillion in H1 FY2025, amid healthy uptick in revenue receipts, modest rise in revex and contraction in capex

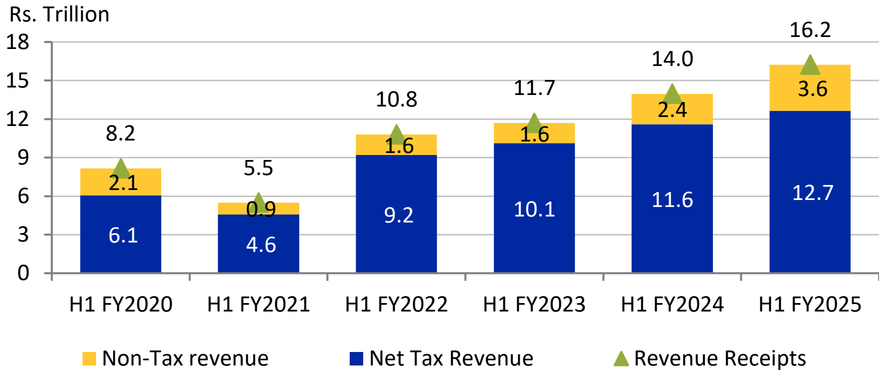
After contracting sharply in Q1, GoI's capex rose by 10.3% YoY in Q2 FY2025, which is likely to support economic growth in that quarter

Fiscal deficit is expected to print in line with or trail the FY2025 BE of Rs. 16.1 trillion or 4.9% of GDP

- With a 9% year-on-year (YoY) growth in net tax revenues, 51% uptick in non-tax revenues, and a modest 4% rise in revex, amidst a 15% contraction in capex, the Government of India's (GoI's) fiscal deficit narrowed substantially to Rs. 4.7 trillion in H1 FY2025 from Rs. 7.0 trillion in H1 FY2024.
- Gross tax revenues (GTR) rose by 12.0% YoY in H1 FY2025, with the uptick in direct taxes (+13.6%) outpacing that in indirect taxes (+8.5%). In H2 FY2025, GTR needs to grow by 9.8% YoY to meet the FY2025 BE of Rs. 38.4 trillion, which seems plausible at the current juncture. Among non-tax items, the disinvestment target of Rs. 500 billion for FY2025 may be missed by ~Rs. 200 billion.
- After the lacklustre Q1 (YoY: -35%) amid the General Elections, the GoI's capex expanded sharply in July (+108%), but the momentum did not sustain in the subsequent two months (-11%). Overall, capex rose by 10.3% YoY in Q2 FY2025, which should support economic growth in that quarter.
- To meet the FY2025 BE (Rs. 11.1 trillion), the GoI needs to incur a capex of ~Rs. 1.16 trillion per month during H2 FY2025, which entails a considerable YoY expansion of ~52%. This appears rather challenging at this juncture and ICRA expects the capex target of Rs. 11.1 trillion for FY2025 to be missed by a margin of at least Rs. 0.5 trillion.
- Overall, we believe that the miss in the capex target is expected to provide some cushion to absorb the shortfall on account of disinvestments. Accordingly, ICRA expects the fiscal deficit to print in line with or trail the FY2025 BE of Rs. 16.1 trillion or 4.9% of GDP, at the current juncture.
- The demand-supply dynamics for G-Secs remain favourable, amid limited risks related to fiscal slippage, marginal increase in supply of G-Secs in H2 FY2025 vs. H2 FY2024, and continued FPI inflows into G-Secs owing to the bond index inclusion. ICRA expects the 10-year yield to trade between 6.65-6.90% in the near term.

Revenue receipts increased by ~16% in H1 FY2025, led by non-tax revenues; GTR rose by ~12%, aided by direct taxes

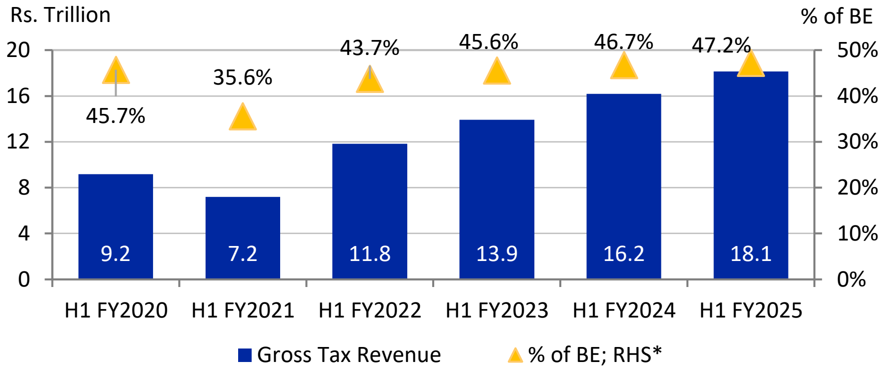
EXHIBIT: GoI's revenue receipts, net tax revenues and non-tax revenues



Source: Controller General of Accounts (CGA), Ministry of Finance, GoI; ICRA Research

- The provisional data released by the CGA indicates that the GoI's revenue receipts expanded by a healthy 16.1% to Rs. 16.2 trillion (51.8% of FY2025 BE) in H1 FY2025 from Rs. 14.0 trillion (51.2% of FY2024 Prov.) in H1 FY2024.
- This was led by the 50.9% YoY surge in non-tax revenues in H1 FY2025 (to Rs. 3.6 trillion from Rs. 2.4 trillion; 65.5% of FY2025 BE), owing to the higher-than-budgeted dividend surplus transfer by the RBI for FY2025. This was followed by a relatively lower YoY growth of 9.0% in net tax revenues (to Rs. 12.7 trillion from Rs. 11.6 trillion; 49.0% of FY2025 BE).

EXHIBIT: GoI's Gross Tax Revenues

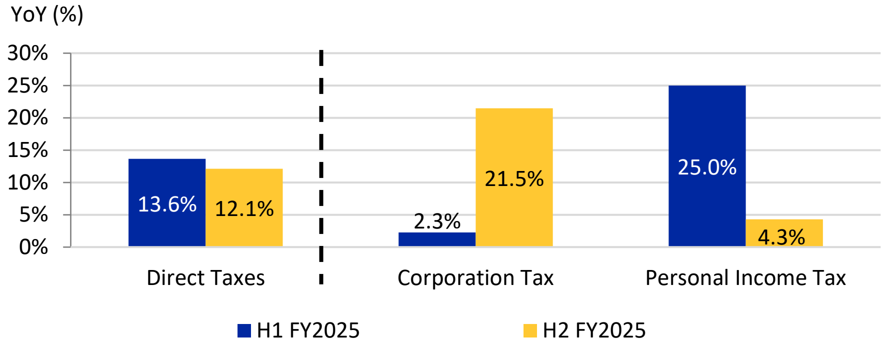


**Actuals have been used for FY2020-23, Prov. for FY2024 and BE for FY2025; Source: CGA, Ministry of Finance, GoI; ICRA Research*

- The GoI's gross tax revenues rose by a healthy 12.0% YoY in H1 FY2025 (vs. the annual growth target of 10.8% for the FY2025 BE) to Rs. 18.1 trillion (47.2% of FY2025 BE) from Rs. 16.2 trillion in H1 FY2024 (46.7% of FY2024 Prov.).
- This was led by a robust YoY expansion in direct (+13.6%), followed by a relatively lower growth in indirect (+8.5%) taxes in H1 FY2025.
- While gross tax collections had contracted sharply in August 2024 (-15.8%), they reverted to a YoY expansion of 11.9% in September 2024.

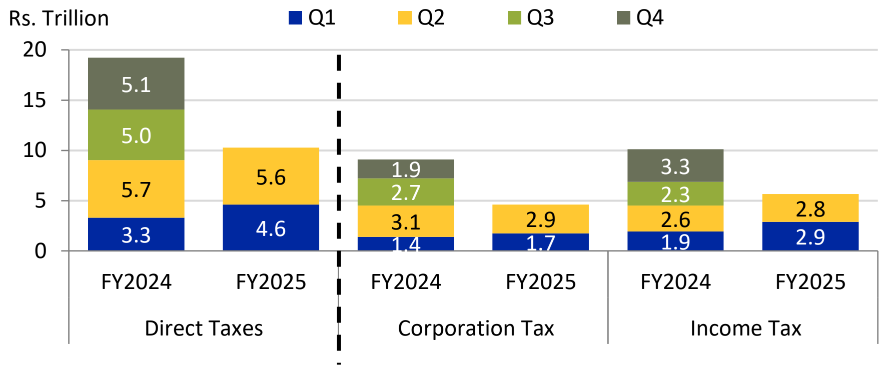
Direct taxes up by ~14% YoY in H1 FY2025, mainly led by PIT collections; expect mild upside to income tax collections in FY2025

EXHIBIT: YoY growth for major direct taxes in H1 FY2025 and implied growth for H2 FY2025*



**YoY growth required in H2 FY2025 to meet the FY2025 RBE; Source: CGA, Ministry of Finance, GoI; ICRA Research*

EXHIBIT: Quarterly trends in direct tax collections



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

- Direct tax collections rose by a healthy 13.6% to Rs. 10.3 trillion in H1 FY2025 (47.3% of FY2025 BE) from Rs. 9.0 trillion in H1 FY2024 (47.0% of FY2024 Prov.). This was driven by the surge in income tax collections (YoY: +25.0%), even as the growth in corporation tax (+2.3%) was muted. Notably, monthly corporate tax collections reverted to a YoY expansion in September 2024 (+11.6%) after contracting in July 2024 (-74.0%) and August 2024 (-36.2%), partly led by the timing of refunds.
- Thereafter, as per the press release by the Income Tax Department, Ministry of Finance, the GoI has garnered direct tax collections (net of refunds) of Rs. 11.3 trillion in FY2025 so far (till October 10, 2024), a healthy YoY growth of 18.4%. The YoY expansion in net personal income tax (+22.6%) outpaced that in corporation tax (+11.2%) collections, with the latter being dampened by the sharp uptick in refunds (to Rs. 1.2 trillion from Rs. 0.7 trillion).
- **Based on the CGA data, corporation tax collections need to grow by ~21% YoY in H2 FY2025 to meet the FY2025 BE (Rs. 10.2 trillion), albeit on a low base (+2% in H2 FY2024). ICRA expects such collections to print in line with or slightly lower than the FY2025 BE, amid downside risks owing to an escalation in commodity prices.**
- **Moreover, income tax collections need to rise by a modest ~4% in H2 FY2025 to meet the full year target (Rs. 11.5 trillion). Based on the resilience seen in personal income tax flows in H1 FY2025, ICRA believes that PIT collections may surpass the FY2025 BE, unless large refunds are released in the latter part of the fiscal.**

Indirect taxes rose by ~9% in H1 FY2025 amid uptick in CGST, customs and excise duty collections

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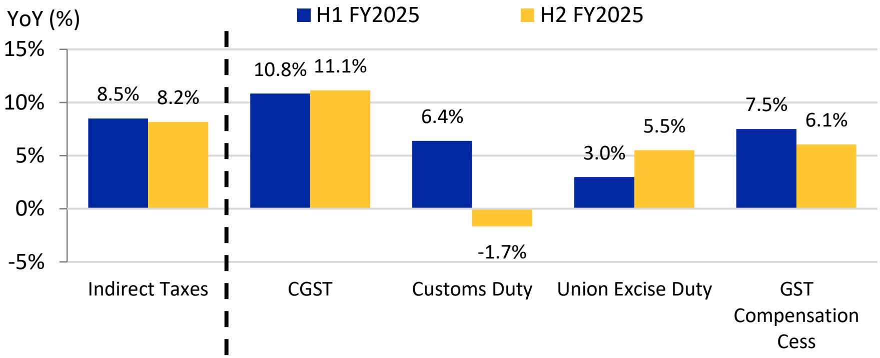
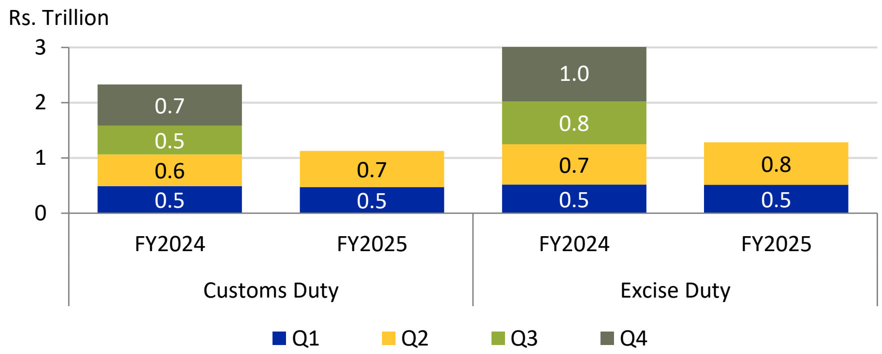
EXHIBIT: YoY growth in indirect taxes in H1 FY2025 and implied growth for H2 FY2025*



**YoY growth required in H2 FY2025 to meet the FY2025 RBE; Source: CGA, Ministry of Finance, GoI; ICRA Research*

EXHIBIT: Quarterly trends in customs, excise and service tax collections

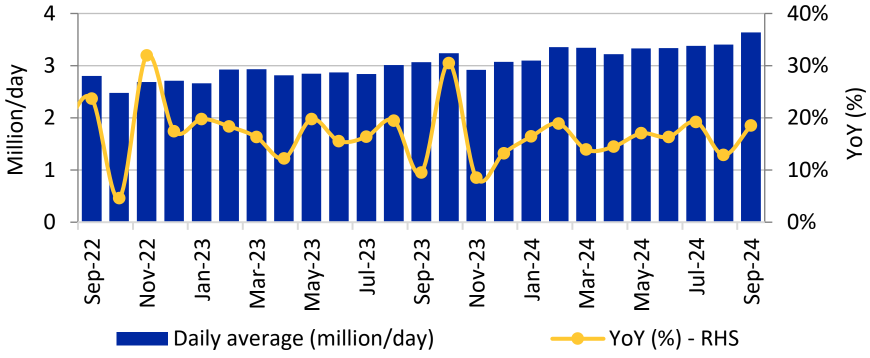


Source: CGA, Ministry of Finance, GoI; ICRA Research

- Indirect taxes rose by 8.5% to Rs. 6.8 trillion in H1 FY2025 (46.4% of the FY2025 BE) from Rs. 6.3 trillion in H1 FY2024 (46.3% of FY2024 Prov.). This was driven by higher inflows from CGST (YoY: +10.8%; to Rs. 4.4 trillion), amidst a more modest growth in customs duty (+6.4%; to Rs. 1.1 trillion), and union excise duty (+3.0%; to Rs. 1.3 trillion) as well as lower IGST settlement (to Rs. 8.5 billion in H1 FY2025 vs. Rs. 12.1 billion in H1 FY2024) in H1 FY2025, relative to H1 FY2024.
- **In order to meet the FY2025 BE (Rs. 3.2 trillion), excise duty collections are required to grow by ~6% in H2 FY2025, which appears likely to be achieved at the current juncture.**
- **In addition, customs duty collections can contract by 1.7% in H2 FY2025 (Rs. 1.2 trillion) and still meet the FY2025 target (Rs. 2.4 trillion). The reduction in the customs duty on gold to 6.0% from 15.0% is likely to provide a fillip to gold import volumes, which may partly offset the loss in collections on account of the cut in the duty. Besides, such volumes are expected to be supported by the impending demand during the festive season and a likely recovery in rural demand in H2 FY2025. Consequently, at the current juncture, ICRA does not expect any undershooting in customs duty revenues in FY2025 compared to the BE.**

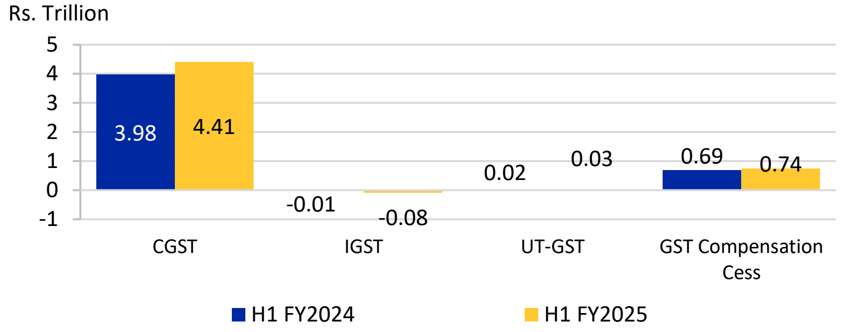
CGST collections up by ~11% in H1 FY2025; GTR needs to rise by ~10% in H2 to meet FY2025 target

EXHIBIT: Trends in GST e-way bills generation (daily average and YoY; %)



Source: GSTN; CEIC; ICRA Research

EXHIBIT: Trends in CGST, IGST, UT-GST and GST compensation cess collections in H1 FY2024 and FY2025 (Rs. Trillion)

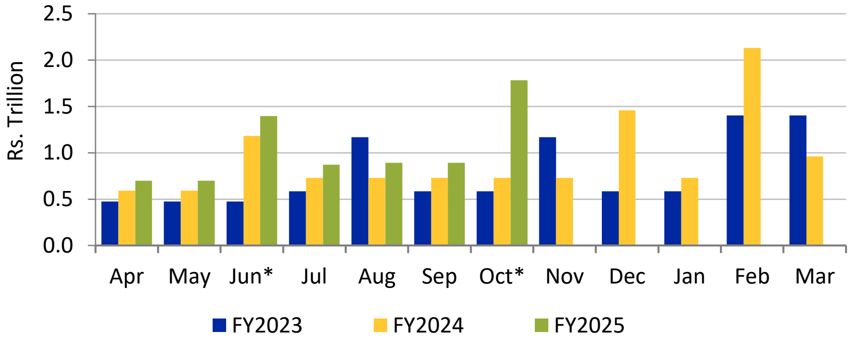


BE: Budget Estimate; Prov: Provisional; Source: CGA, Ministry of Finance, GoI; ICRA Research

- The CGST collections rose by 10.8% YoY to Rs. 4.4 trillion in H1 FY2025 (48.4% of FY2025 BE) from Rs. 4.0 trillion (48.5% of FY2024 Prov.). In addition, the IGST settlement amounted to Rs. 8.5 billion in H1 FY2025, relative to Rs. 12.1 billion seen in H1 FY2024. Besides, the GST compensation cess inflows rose by 7.5% to Rs. 743.2 billion in H1 FY2025 from Rs. 691.3 billion in H1 FY2024.
- **In H2 FY2025, CGST collections are required to grow by ~11% to meet the FY2025 BE of Rs. 9.1 trillion. ICRA believes that the budgeted growth for CGST collections at 11.0% for FY2025 is reasonable, and the target is likely to be met.**
- Moreover, the generation of GST e-way bills rose by a healthy 18.5% to a record-high of 3.64 million/day in September 2024 from 3.40 million/day in August 2024. This suggests that the GST collections are likely to remain robust in October 2024.
- **Based on the data for H1 FY2025, the GoI's gross tax revenues would need to grow by 9.8% YoY in H2 FY2025 to meet the FY2025 BE of Rs. 38.4 trillion, which seems plausible at the current juncture.**

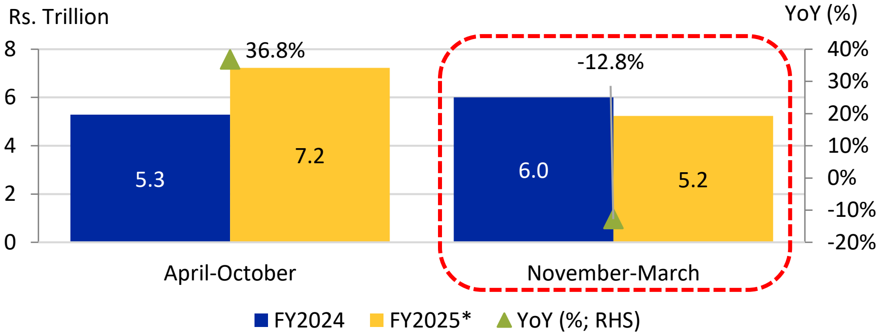
CTD to states to contract by ~13% YoY during November-March FY2025 to meet full-year target

EXHIBIT: Monthly trends in tax devolution



**Data for June and October 2024 includes one additional CTD instalment of Rs. 699 billion and Rs. 891 billion, respectively, based on press release by Ministry of Finance; Source: CGA, Ministry of Finance, GoI; ICRA Research*

EXHIBIT: Trends in central tax devolution



**November-March FY2025 is based on the data for FY2025 BE and April-October FY2025; Source: CGA, Ministry of Finance, GoI; ICRA Research*

- The central tax devolution (CTD) to states stood at Rs. 5.4 trillion in H1 FY2025, 19.6% higher than the year ago level (Rs. 4.6 trillion). Thereafter, the GoI released an additional CTD tranche on October 10, 2024, with the total amount devolved in that month at Rs. 1.8 trillion (YoY: +144%). Including this, it has devolved a total of Rs. 7.3 trillion to the states during April-October FY2025, 36.8% higher than the year ago level (Rs. 5.3 trillion).
- **Based on this, the GoI needs to transfer Rs. 5.2 trillion as CTD to states during November-March FY2025 to meet the FY2025 BE (Rs. 12.5 trillion); this is ~13% lower than Rs. 6.0 trillion devolved in the corresponding year ago period.**
- With the growth in gross tax revenues (+12.0%) trailing that in CTD (+19.6%), net tax revenues of the GoI rose by a relatively lower 9.0% to Rs. 12.6 trillion in H1 FY2025 from Rs. 11.6 trillion in the corresponding year ago period.
- Based on this, the GoI's net tax revenues needs to rise by ~13% in H2 FY2025 to meet the FY2025 BE of Rs. 25.8 trillion. This is likely to be achieved given the sharp YoY contraction implicitly estimated for CTD during November-March FY2025.

Non-tax revenues surged by 51% YoY during H1 FY2025 led by RBI surplus, healthy CPSE dividend flows; disinvestment proceeds may miss FY2025 target

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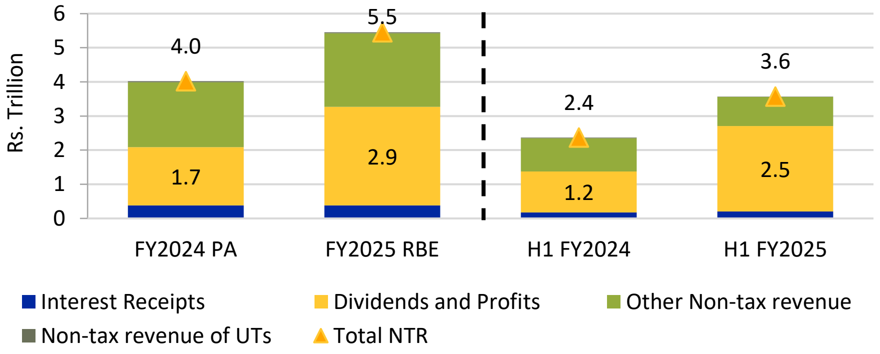
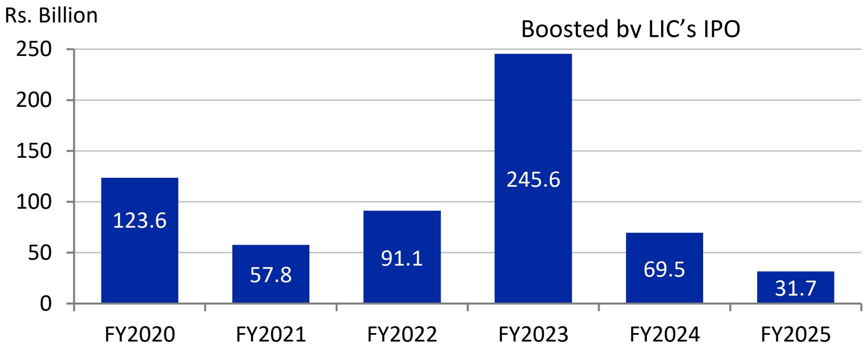
EXHIBIT: Trends in Non-tax revenues and its constituents



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

EXHIBIT: Trends in disinvestment proceeds in H1 FY2020-25



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

- Non-tax revenues increased to Rs. 3.6 trillion in H1 FY2025 from Rs. 2.4 trillion in H1 FY2024, a robust YoY expansion of 50.9%. This was mainly led by dividends and profits (+107.7%) amid record dividend pay-out released by the RBI (Rs. 2.1 trillion vs. Rs. 0.9 trillion released in FY2024). While interest receipts (+17.6%) recorded a relatively lower, albeit healthy, growth in H1 FY2025, other non-tax revenues (-12.5%) and non-tax revenues of UTs (-23.3%) contracted on a YoY basis in this period.
- As per the DIPAM website, the GoI's dividend receipts from CPSEs amounted to Rs. 297 billion up to October 30, 2024, over 50% of the Rs. 500 billion budgeted for the fiscal, suggesting that the actuals receipts may surpass the FY2025 RBE by ~Rs. 100-150 billion, even as ICRA remains circumspect around the target for telecom receipts (Rs. 1.2 trillion vs. ICRA exp: Rs. 650-700 billion). **To meet the FY2025 RBE, aggregate non-tax receipts are implicitly expected to grow by ~14% YoY in H2 FY2025**.
- Disinvestment receipts fell to Rs. 31.7 billion during H1 FY2024 (6.3% of FY2025 RBE) from Rs. 69.5 billion in H1 FY2024 (21.0% of FY2024 PA), amidst slack during the election period. According to the DIPAM data, such proceeds remain lacklustre at Rs. 51.8 billion as on October 30, 2024. The financial bidding for disinvestment of IDBI Bank is likely to begin from Q4 FY2025 onwards. We are apprehensive that **the disinvestment target of Rs. 500 billion for FY2025 may be missed by ~Rs. 200 billion.**

Total spending dipped by 0.4% YoY in H1 FY2025, amid sharp fall in capex; revex needs to rise by ~8% in H2 FY2025 to meet full year target

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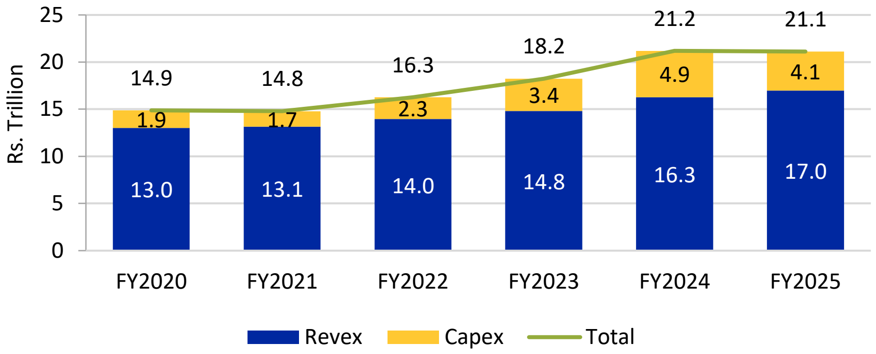
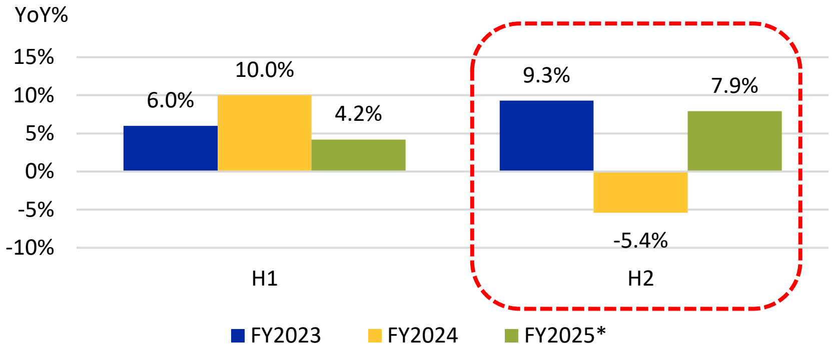
EXHIBIT: H1 trends in Centre's total, revex and capex for FY2020-25



Source: CGA, GoI; ICRA Research

EXHIBIT: YoY growth in GoI's revex in H1 and implied growth required in H2 FY2025 to meet the BE



**Imputed value for H2 FY2025 to meet the FY2025 target; Source: CGA, GoI; ICRA Research*

- Against the 8.5% growth target included in FY2025 RBE over FY2024 PA, the total expenditure of the GoI declined by 0.4% YoY to Rs. 21.1 trillion in H1 FY2025 (Rs. 21.2 trillion in H1 FY2024), led by the sharp contraction in capex (+17.1% growth target vs. -15.4% YoY in H1), even as revex expanded mildly during this period (+6.2% vs. +4.2%).
- Within revex, interest payments increased by 6.3% YoY in H1 FY2025, while there was a muted growth of 4.0% in the total outgo towards major subsidies during this period. The non-interest non-subsidy revex grew by a sluggish 3.1% during H1 FY2025 vs. the full-year target of 7.4%.
- **To meet the FY2025 RBE of Rs. 37.1 trillion, revex is implicitly pegged to grow by 7.9% YoY in H2 FY2025, which seems quite plausible. At present, there is limited risk of an overshooting in the revex vis-à-vis the FY2025 target.**

Total outgo towards major subsidies rose by 4.0% YoY in H1 FY2025

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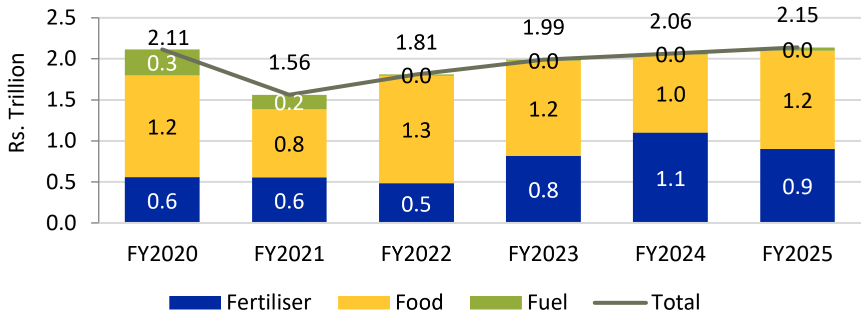
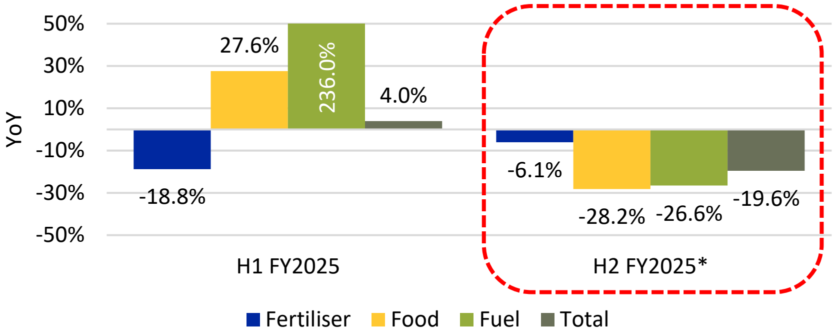
EXHIBIT: H1 trends for major subsidies in FY2020-25



Source: CGA, GoI; ICRA Research

EXHIBIT: H1/H2 growth trends for major subsidies

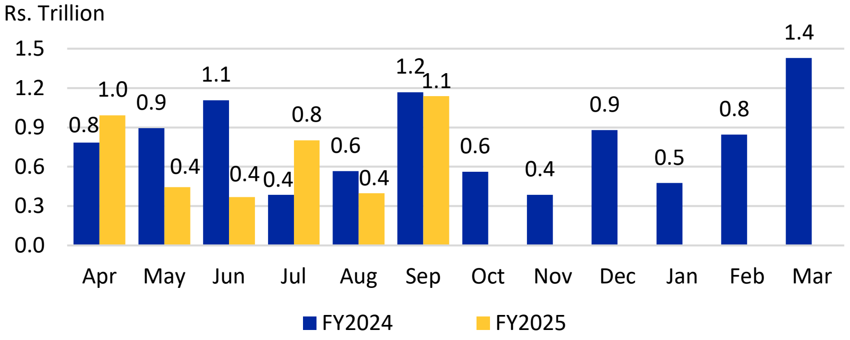


**Imputed value for H2 FY2025 to meet the FY2025 target; Source: CGA, GoI; ICRA Research*

- The outgo for major subsidies rose to Rs. 2.15 trillion in H1 FY2025 (56.3% of FY2025 RBE) from Rs. 2.06 trillion in H1 FY2024 (~50% of FY2024 PA), led by the 27.6% growth in food subsidy (to Rs. 1.2 trillion from Rs. 1.0 trillion). The latter can be attributed to the compressed base of H1 FY2024 (-18.1%). In H2 FY2025, food subsidy outgo needs to decline by ~28% on a YoY basis to meet the FY2025 target of Rs. 2.1 trillion (-25.5% in H2 FY2024), which suggests some extra allocation may be needed.
- The fuel subsidy tripled to Rs. 37.6 billion in H1 FY2025 from Rs. 11.2 billion in H1 FY2024, on a muted base. In H2 FY2025, a YoY contraction of 27% is required to meet the full-year target of Rs. 119.3 billion.
- In contrast, the fertiliser subsidy moderated by ~19% to Rs. 0.9 trillion in H1 FY2025 from Rs. 1.1 trillion in the same period of last fiscal, amid softening in raw material prices. In H2 FY2025, such outgo needs to fall by ~6% on a YoY basis to achieve the FY2025 RBE. In September 2024, the GoI announced a one-time special package for providing a subsidy of maximum Rs. 3500/MT over and above the NBS scheme for 9M FY2025 on the point of sale of both indigenous and imported DAP, which is expected to cost a modest ~Rs. 50 billion to the GoI, as per ICRA's estimates. Hence, the fertiliser subsidy outlay of Rs. 1.6 trillion remains largely adequate for FY2025.

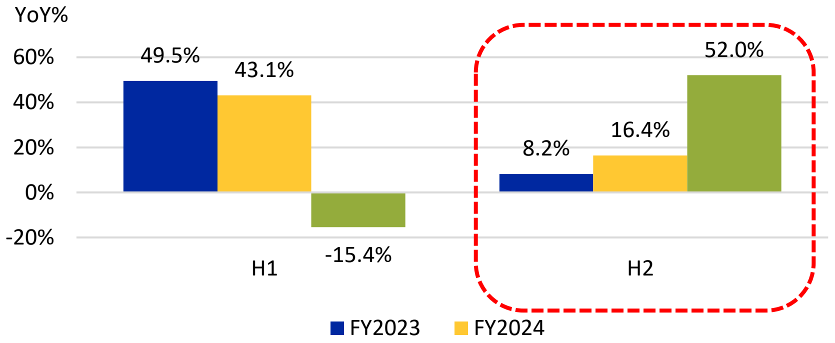
Centre's capex contracted by ~15% YoY in H1 FY2025; expected to miss target by at least Rs. 500 billion

EXHIBIT: Centre's capital expenditure



Source: CGA, GoI; ICRA Research

EXHIBIT: YoY growth in capex by Centre in H1 and implied growth required in H2 FY2025 to meet the BE

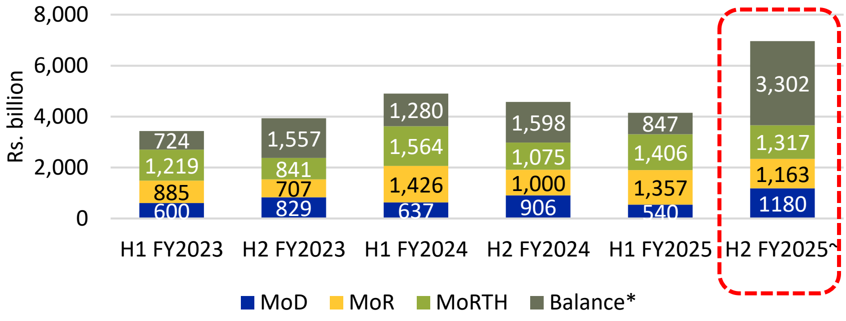


Source: CGA, GoI; ICRA Research

- As against the growth target of 17.1% for FY2025 (Rs. 11.1 trillion), the gross capital expenditure of the GoI moderated by 15.4% YoY to Rs. 4.1 trillion (37% of FY2025 RBE) from Rs. 4.9 trillion in H1 FY2024 (52% of FY2024 PA), owing to the lull seen during the General Elections followed by sluggish momentum seen during the monsoon months.
- In particular, gross capex rose from the average of Rs. 603.5 billion seen during Q1 FY2025 to Rs. 802.0 billion in July 2024 (YoY: +108%). Thereafter, it moderated to Rs. 397.3 billion in August 2024 (-30%), before improving sharply to Rs. 1.1 trillion in September 2024 (-2%), while trailing the respective year-ago levels in both of these months. **Overall, capex rose by 10.3% YoY in Q2 FY2025, which should support economic growth in that quarter. However, this was not enough to offset the YoY decline in Q1 FY2025.**
- **To meet the FY2025 BE, the GoI needs to incur a capex of ~Rs. 1.16 trillion per month during H2 FY2025, which entails a considerable expansion of 52% relative to H2 FY2024. This appears rather challenging, and at this juncture ICRA expects the capex target of Rs. 11.1 trillion for FY2025 to be missed by a margin of at least Rs. 0.5 trillion. Nevertheless, capex would be back ended in H2 FY2025, unlike the trend seen in the previous fiscal.**

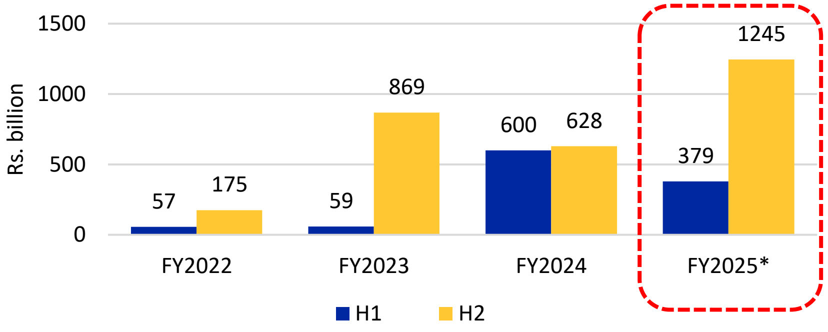
YoY moderation in capex in H1 FY2025 was driven by defence, MoRTH and slow offtake by states under interest free capex loan scheme

EXHIBIT: Capex by Ministry of Road Transport and Highways (MoRTH), Ministry of Railways (MoR) and capital outlay on Defence services (MoD)



**Balance includes capex by other ministries including Communication, Housing and urban affairs, etc.; ~Remaining capex required to meet FY2025 RBE; Source: CGA; ICRA Research*

EXHIBIT: Capital transfer to states by the Ministry of Finance

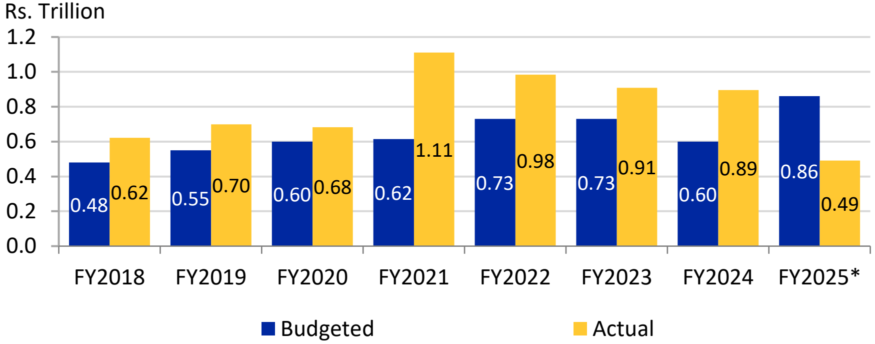


**Imputed value for H2 FY2025 to meet the FY2025 target; Source: CGA; ICRA Research*

- The YoY moderation in gross capex in H1 FY2025 stemmed from the decline in capital outlay on defence services (-15.2%), capex by MoRTH (-10.1%), even as capex by the Ministry of Railways witnessed a narrower contraction of 4.8% in this period. In H2 FY2025, capex by all these ministries need to grow in double digits on a YoY basis (MoD: +30.2%; MoR: +16.3%; and MoRTH: +22.5%) to meet the respective targets for FY2025.
- The balance portion of capex, i.e. gross capex minus capex incurred by aforesaid three ministries, has fallen by a steeper 33.9% on a YoY basis in H1 FY2025, partly led by the lower offtake by states under the interest free capex loan scheme, as previously discussed. **To meet the FY2025 RBE, balance capex needs to double to Rs. 3.3 trillion in H2 FY2025 from Rs. 1.6 trillion in H2 FY2024, which seems quite ambitious and therefore, we expect a shortfall on this account.**
- The amount transferred to states under the capital head (FY2025 RBE: Rs. 1.6 trillion) eased to Rs. 379 billion in H1 FY2025 from Rs. 600 billion in H1 FY2024, mainly due to the slow progress of disbursals under the interest free capex loans to the state governments, the target of which was set at Rs. 1.5 trillion in FY2025 RBE (Rs. 1.3 trillion in FY2024 RE). **Given the large headroom in H2 FY2025 (Rs. 1.2 trillion), ICRA expects a shortfall under this head.**

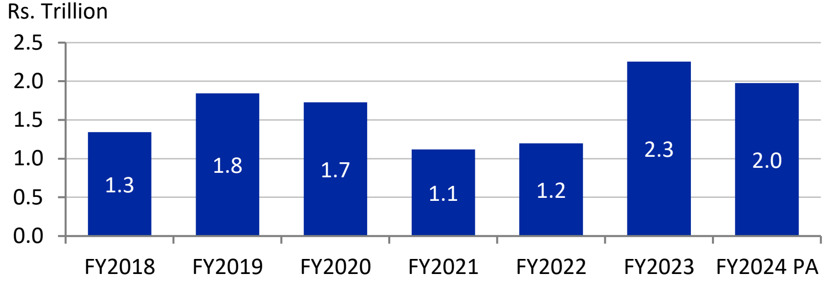
Total expenditure may trail the FY2025 RBE, amid a likely miss on capex target, other expenditure savings

EXHIBIT: Annual budgeted and actual outgo under Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS)



Till October 28, 2024; Source: Union Budget; NREGA; ICRA Research

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

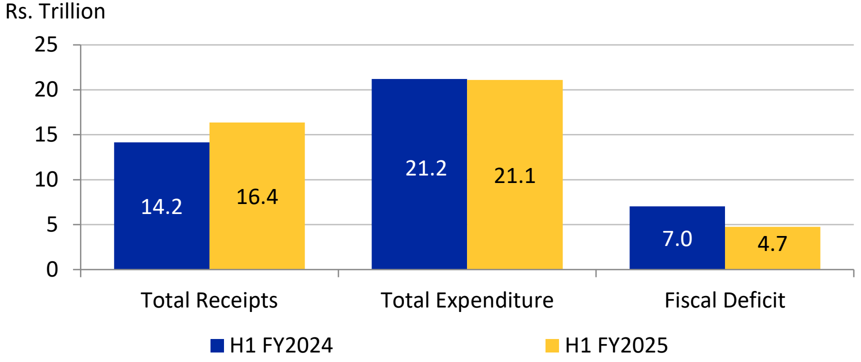


*Actuals for FY2018-22; Aggregate expenditure savings of the GoI are computed by adding net cash outgo under the SDG to the budgeted total expenditure and subtracting actual spending incurred in each fiscal; *Second batch of SDG for FY2019 is not available in the public domain and hence savings might be modestly lower than Rs. 1.8 trillion; Data for FY2024 is based on provisional actuals; Source: Union Budget; CGA; ICRA Research*

- The difference between the budgetary outlays and actual outgo under MGNREGS widened from sub-Rs. 0.15 trillion in the pre-Covid era, to Rs. 0.5 trillion in FY2021, which, later on, narrowed to Rs. 0.24 trillion on an average between FY2022-24. In FY2025, the GoI has indicated annual outlay at Rs. 860 billion, of which 57% has been exhausted till the end of October 2024. **Given the trends seen so far, and the yearly moderation in work demanded by people during April-October FY2025 (-15.3%), the likelihood of additional allocation required under this scheme over and above the FY2025 target of Rs. 860 billion appears to be low.**
- The GoI relaxed the guidelines for facilitating big releases of expenditure by the ministries from September 2024 onwards until further order, which will aid in increasing the growth momentum for expenditure in H2 FY2025, especially for capex. Nevertheless, based on historical trends, the GoI is likely to garner some expenditure savings in FY2025, which have typically averaged at Rs. 1.6 trillion/year between FY2018 and FY2024. This would aid in financing the extra allocation that may be needed for a few sectors, like food subsidy, under the supplementary demand for grants. The proposals for the first batch are to be submitted by the ministries by November 6, 2024. **Amid the likely expenditure savings from capex and other heads, ICRA currently projects the total expenditure to trail the FY2025 target of Rs. 48.2 trillion.**

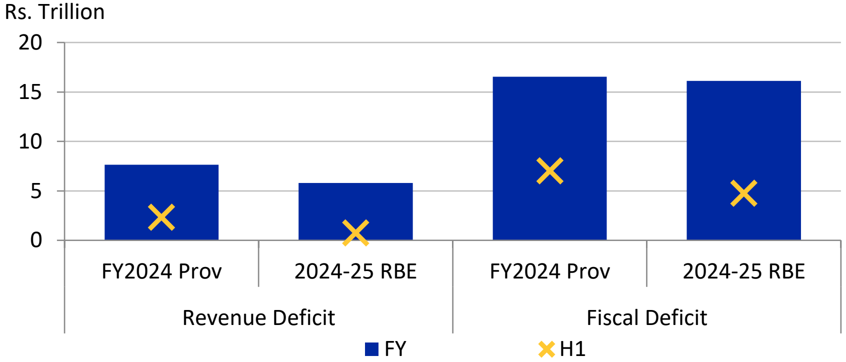
Revenue and fiscal deficit both eased in H1 FY2025; fiscal dynamics for FY2025 appear favorable

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

- With the YoY growth in revenue receipts (+16.1% YoY; led by direct taxes, particularly PIT) outpacing that in revenue expenditure (+4.2%; supported by lower disbursements of major subsidies, particularly fertilisers), the GoI's revenue deficit narrowed sharply by 68.0% YoY to Rs. 0.7 trillion in H1 FY2025 from Rs. 2.3 trillion in H1 FY2024.
- Likewise, the GoI's fiscal deficit declined to Rs. 4.7 trillion in H1 FY2025 from Rs. 7.0 trillion in the year-ago period, aided by the RBI's dividend payment in the early part of the fiscal (non-tax revenue: +50.9% YoY to Rs. 3.6 trillion) as well as the continuing YoY contraction in the capital expenditure (-15.4% YoY to Rs. 4.1 trillion).
- The GoI's revenue deficit stood at 12.8% of the FY2025 RBE in H1, significantly lower than 30.2% in H1 FY2024. Similarly, the GoI's fiscal deficit was significantly lower in H1 FY2025 vis-à-vis H1 FY024 as a proportion of the full year levels (29.4% of FY2025 BE in H1 FY2025 vs. 42.4% of FY2024 Prov. in H1 FY2024). **At the current juncture, ICRA expects the fiscal deficit to print in line with or undershoot the FY2025 RBE of Rs. 16.1 trillion or 4.9% of GDP.**

GoI's gross and net market borrowings declined on a YoY basis till October 25, 2024

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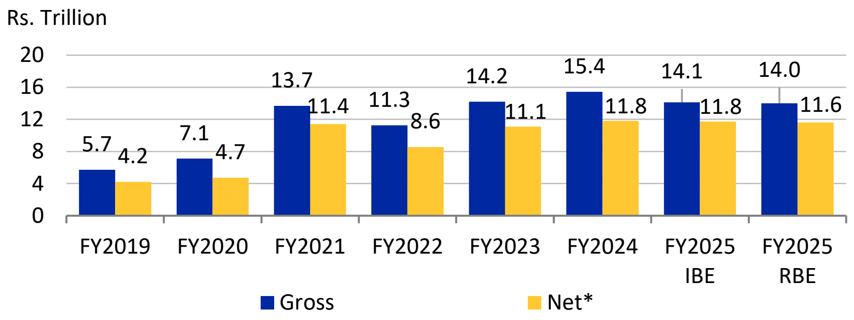
EXHIBIT: GoI's Gross and Net Market Borrowings



**Net borrowings in FY2024 and FY2025 RBE are adjusted for recovery of Rs. 0.78 trillion and Rs. 1.2 trillion, respectively, from GST Compensation Fund and buy back of Rs. 302.5 billion by the Government in FY2025 RBE; Source: Union Budget, GoI; ICRA Research*

EXHIBIT: Progress of GoI's market borrowing

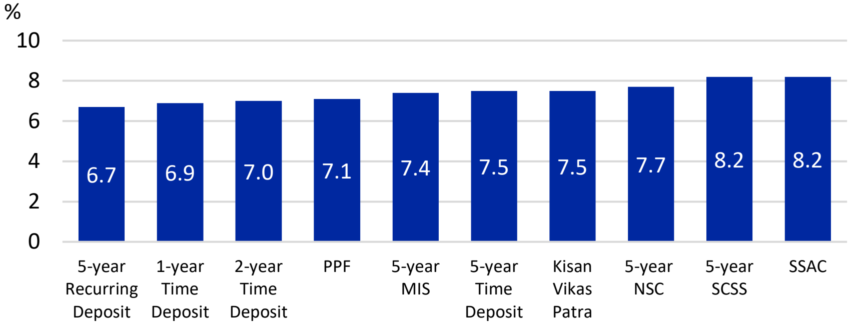
Rs. Trillion	FY2024	FY2025 BE	Growth (%)
Gross Borrowings - Planned	15.4	14.0	-9.2%
Gross Borrowings Completed by Oct 25	10.1	8.7	-13.8%
% of Gross Borrowings completed	65.6%	62.3%	
Devolvement by Oct 25	0.00	0.00	
Cancellations by Oct 25	0.00	0.10	
Redemptions	3.6	2.4	-34.4%
Redemptions by Oct 25	1.6	1.7	9.0%
Net Borrowings	11.80	11.63	-1.5%
Net Borrowings Completed by Oct 25	8.5	7.0	-18.0%
% of Net Borrowings completed	72.3%	60.1%	

Source: GoI; RBI; ICRA Research

- The GoI planned to raise gross market borrowing of Rs. 14.0 trillion in the RBE for FY2025, a shade lower than the level indicated in the Interim Budget, while entailing a moderation of 9.2% over the amount raised in FY2024. After the adjustment of the GST compensation fund recovery of Rs. 1.2 trillion, the redemptions for FY2025 RBE are projected at Rs. 2.4 trillion (Rs. 3.6 trillion in FY2024). Accordingly, the net borrowing is estimated to fall by a relatively milder 1.5% YoY to Rs. 11.6 trillion in FY2025.
- In FY2025 YTD (till October 25, 2024), the GoI has raised 62.3% of total gross borrowings or Rs. 8.7 trillion, which is 13.8% lower than the amount raised in the year-ago period. This coupled with increased redemption so far (+9.0%), has led to a sharp fall of 18.0% YoY in net issuances to Rs. 7.0 trillion during April 1-October 25, 2024. In the remaining period of this fiscal, redemptions are estimated to fall on a YoY basis (Rs. 0.7 trillion vs. 2.0 trillion in FY2024), implying that net issuances are set to implicitly surge by ~42%.
- **Notwithstanding the likelihood of a lower fiscal deficit print, ICRA believes that the GoI may not opt to reduce its gross market borrowing for FY2025 and instead carry forward the cash balances into the next fiscal.**

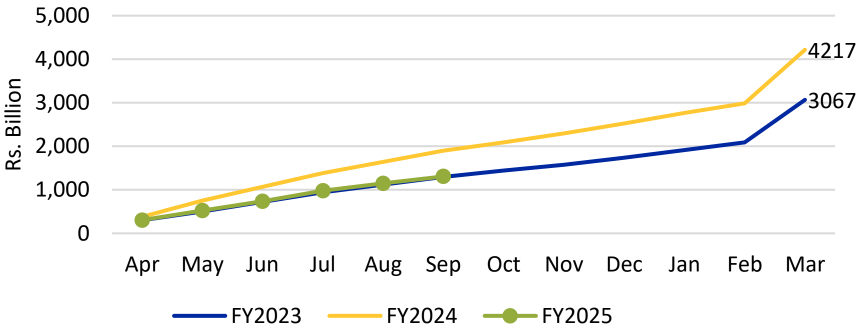
Rates on small savings schemes left unchanged for Q3 FY2025

EXHIBIT: Small saving rates in Q3 FY2025 (%)



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

EXHIBIT: Cumulative inflows in saving deposits and certificates, and PPF



Source: CGA; ICRA Research

- The rates on all schemes were kept unchanged for the third consecutive quarter in Q3 FY2025. Among the schemes without pre-defined spreads, the 1Y and 2Y term deposit exceeded the respective G-sec yield by 4 bps and 12 bps respectively in Q3 FY2025 after trailing the same in the previous four quarters. Further, the spread between the interest rate for the Kisan Vikas Patra (KVP) and the 5-year G-sec yield sharply widened further to (+) 58 bps in Q3 FY2025 (from +39 bps in Q2 FY2025). Additionally, though the 5Y RD rate continued to trail the respective G-sec yield, the gap between the two narrowed in Q3 FY2025 vs. Q2 FY2025.
- The spreads on all schemes with pre-defined spreads, namely, 5Y NSC (actual spread for Q3 FY2025: +78 bps vs. assigned: +25 bps), 5Y SCSS (+128 bps vs. +100 bps), 5Y TD (+58 bps vs. +25 bps), 5Y MIS (+48 bps vs. +25 bps), and SSAC (+118 bps vs. +75 bps), have risen above the standard levels indicated by the GoI. Though the spread between PPF and 15-year G-Sec yield trailed the acceptable spread of 25 bps, it turned positive after a gap of nine quarters (+10 bps in Q3 FY2025).
- As per the provisional data provided by the CGA, the cumulative inflows under savings deposit and certificates, and PPF fell by 31.0% YoY to Rs. 1.3 trillion in H1 FY2025 (34% of FY2025 BE) from Rs. 1.9 trillion in H1 FY2024 (45% of FY2024 PA). **To meet the FY2025 BE, inflows under savings deposits and certificates, and PPF are required to grow by 10.9% YoY to Rs. 2.6 trillion in October-March FY2025.**

10-year G-sec yield hardened to 6.85% by end-October 2024; likely to trade between 6.65-6.90% in near term

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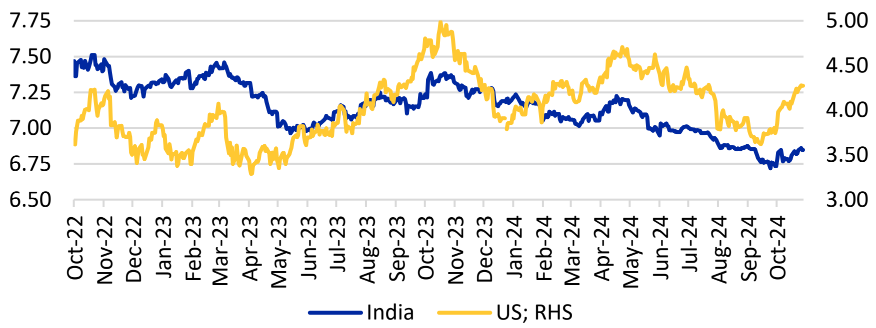
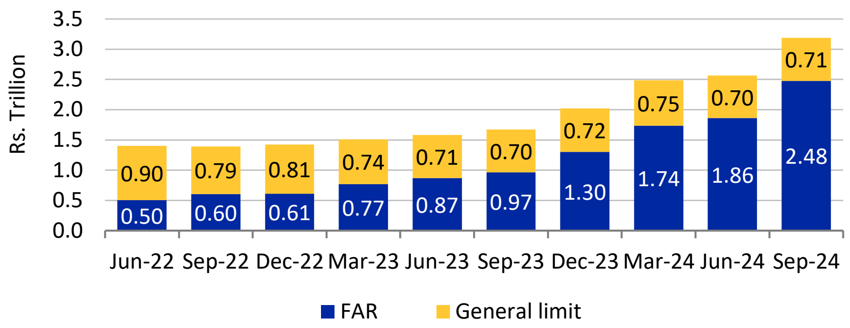
EXHIBIT: Trend in India G-sec and UST 10-year yield (%)



Source: Refinitiv; ICRA Research

EXHIBIT: Central government securities held by FPIs under Fully Accessible Route (FAR) and General Investment Route (GIR)



Source: NSDL; ICRA Research

- India's 10-year yields have softened from the peak of 7.23% on April 19, 2024 to 6.72% on September 26, 2024, supported by bond inflows from the index inclusion, and benign outlook for the fiscal deficit, while also factoring in moderation in crude oil prices and the downtrend in 10Y UST yield (from 4.62% to 3.79%, respectively) during this period. Following the upswing in crude prices amid the escalation of tensions in West Asia, the current benchmark yield (6.79 GS 2034) surged by 11 bps in the first week of October 2024 to 6.85% on October 7, 2024. Thereafter, it briefly eased to 6.77% -6.79% between October 9-17, 2024 (aided by the change in policy stance to neutral by the MPC), before rising to 6.85% by end-October 2024, amid the uptrend in the 10Y UST yield (to 4.27% end-October 2024 from 3.80% end-September 2024).
- The inclusion of Indian G-secs in the J.P. Morgan Government Bond Index-Emerging Markets (GBI-EM) Global Index suite has contributed to inflows amounting to $7.7 billion into Indian bond markets since July 2024 and $20.7 billion since the announcement was made in September 2023. Moreover, the FAR holdings of G-secs rose to Rs. 2.48 trillion at end-September 2024 from Rs. 1.86 trillion at end-June 2024, while entailing an increase of more than 2.5 times over the end-September 2023 level.
- **The possibility of a rate cut in the MPC's December policy appears dim after the higher-than-expected CPI print for September 2024. We expect a fairly shallow rate cut cycle of sub-50 bps commencing from Q4 FY2025. In ICRA's view, India's 10-year yield will likely trade between 6.65-6.90% in the near term.**

Annexure A.1

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Table A.1: Trends in Tax Revenue Receipts in FY2024 Prov. and H1 FY2025

	FY2024 Prov.	FY2025 BE		H1 FY2025		
	Rs. Billion	Rs. Billion	Growth~	Rs. billion	% of BE	Growth#
Gross Tax Revenues^	**34,647.9**	**38,401.7**	**10.8%**	**18,138.4**	**47.2%**	**12.0%**
Direct Taxes	**19,220.0**	**21,700.0**	**12.9%**	**10,260.2**	**47.3%**	**13.6%**
Corporation Tax	9,110.6	10,200.0	12.0%	4,615.1	45.2%	2.3%
Income Tax	10,109.5	11,500.0	13.8%	5,645.2	49.1%	25.0%
Indirect Taxes	**13,594.5**	**14,726.4**	**8.3%**	**6,835.2**	**46.4%**	**8.5%**
Central GST (CGST)	8,206.2	9,108.9	**11.0%**	4,412.2	48.4%	10.8%
Union Territory GST (UTGST)	50.3	49.0	-2.6%	16.2	33.1%	-2.7%
IGST	-50.3	0.0	---	-8	---	-30.0%
Customs Duty	2,330.7	2,377.5	2.0%	1,129.6	47.5%	6.4%
Excise Duty	3,053.3	3,190.0	4.5%	1,284.7	40.3%	3.0%
Service Tax	4.2	1.0	-76.4%	0.9	94.0%	-80.3%
GST Compensation Cess	1,414.4	1,510.1	6.8%	743.2	49.2%	7.5%

^Net of Refunds, Gross of States' share in Central Taxes; ~Relative to FY2024 Prov.; #As compared to the corresponding period of FY2024 Prov.; Source: CGA; Union Budget; ICRA Research

Annexure A.2

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Table A.2: Trends in Key fiscal metrics in FY2024 Prov. and H1 FY2025

	FY2024 Prov.	FY2025 BE		H1 FY2025		
	Rs. billion	Rs. billion	Growth~	Rs. billion	% of BE	Growth#
Revenue Receipts	27,284.1	31,292.0	14.7%	16,223.7	51.8%	16.1%
Tax Revenues$	23,265.2	25,835.0	11.0%	12,651.6	49.0%	9.0%
Non-Tax Revenues	4,018.9	5,457.0	35.8%	3,572.1	65.5%	50.9%
Revenue Expenditure	34,940.4	37,094.0	6.2%	16,965.3	45.7%	4.2%
Revenue Balance	**-7,656.2**	**-5,802.0**		**-741.5**	**12.8%**	
Capital Receipts	331.2	500.0	51.0%	31.7	6.3%	-54.4%
Capital Expenditure, Net Lending	9,211.7	10,831.1	17.6%	4,035.3	37.3%	-15.5%
Fiscal Balance	**-16,536.7**	**-16,133.1**		**-4,745.2**	**29.4%**	

$Net of Refunds, Net of States' share in Central Taxes; ~Relative to FY2024 Prov.; #As compared to the corresponding period of FY2024 Prov.; Source: CGA; Union Budget; ICRA Research

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Thank You!