Analysis of Union Budget 2024-25

1 Feb 2024

Budget assumptions

In order to arrive at budget ratios, government makes some critical assumptions.

- Government expects nominal GDP to rise by 10.5% in FY25, driven by consumption and investment. We believe real GDP growth to average ~6.75% and inflation to average between 3.5-4%.

- Tax structure shows that ratio of direct tax collections to GDP surpassed expectations in FY24, as it jumped from targeted 6% (FY24BE) to 6.6% as per FY24RE. It is expected to be maintained around similar levels (6.7%) in FY25BE as well.

- Indirect tax-GDP ratio on the other hand is estimated to remain broadly stable at 5% as per FY24RE (5.1%as per FY24BE), and settle at 4.9% in FY25BE

- Capex spend continues to maintain momentum, with support to states also being maintained.

- Overall size of the budget increased marginally to 15.1% of the GDP as per FY24RE (14.9% as per FY24BE), but is expected to be brought down to 14.5% in FY25BE.

Trends in deficit ratios

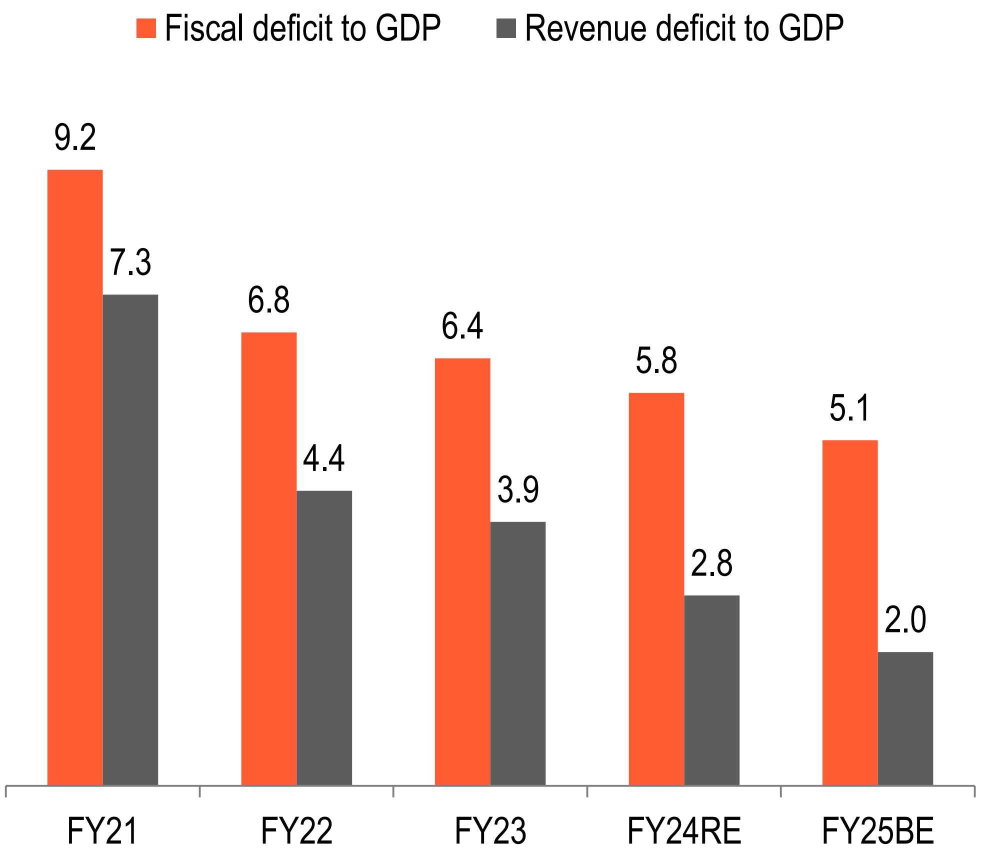
- Interim Budget for FY25 acknowledged government's role in nudging private investment, and increased the importance given to targeted welfare schemes. This has been achieved without compromising on fiscal health of the government.

- As result, Fiscal Deficit (as % of GDP) is estimated to be lower (5.8%) than targeted (5.9%)in FY24. In FY25BE it will be brought down more significantly, to 5.1%.

- As quality of expenditure improves, level of revenue expenditure has been maintained at Rs 35-36 lakh crores. At the same time revenue receipts have seen sharp improvement owing to compliance and consumption boost.

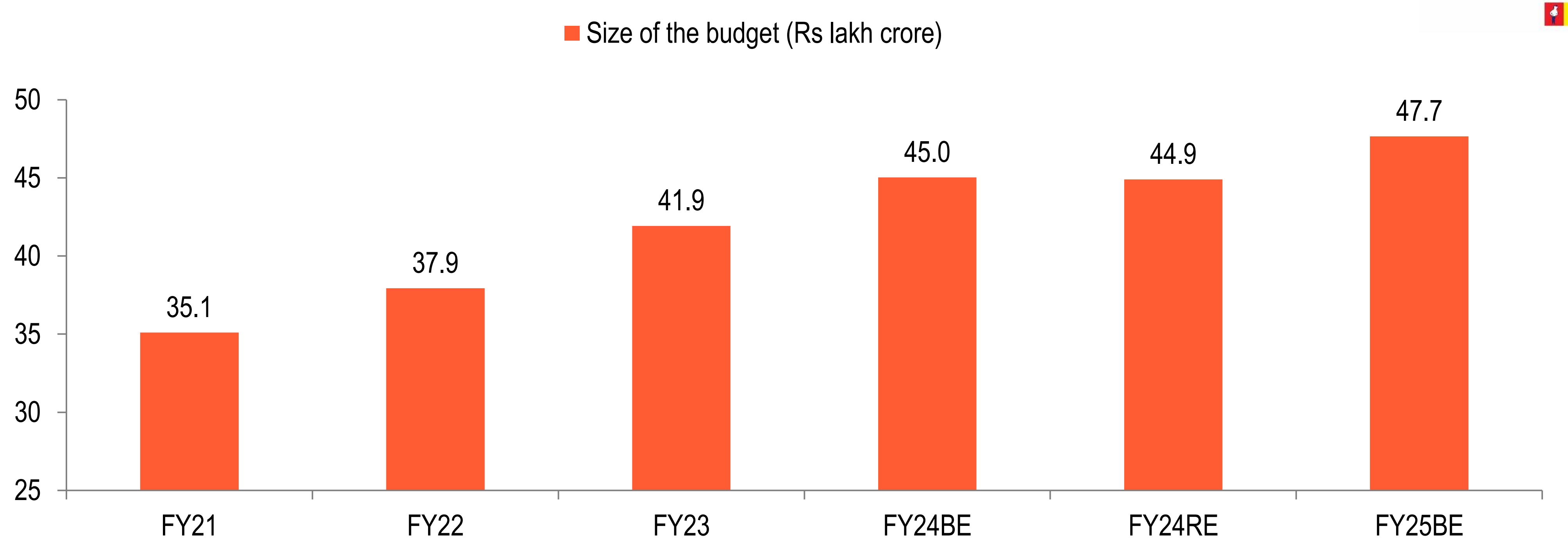
- This has allowed Revenue Deficit-GDP ratio to decline from 2.9% as per FY24BE to 2.8% as per FY24RE and further to 2% in FY25BE.

We believe government will attain FD ratio of 4.5% by FY26.



Source: Union Budget documents, Bank of Baroda Research | BE: Budget Estimates, RE: Revised Estimates

Size of the Budget



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- Size of the budget has seen considerable increase over the past five years, with growth averaging ~12%. However, as a % of GDP, it has come down gradually from 17.7% in FY21 to now 14.5% in FY25.

- While previous years show the impact of Covid-19, the size seems to be stabilizing now, in line with government's objective to adhere to the path of fiscal consolidation.

Tax collections

- Centre's net revenue collections are estimated to come in line with growth in nominal GDP.
- Gross tax collections are estimated to moderate only slightly, dragged by direct tax collections.
- In FY25, direct tax collections are expected to moderate, on account of income tax collections. On the other hand, corporate tax collections are expected to accelerate, accounting for improved corporate profits in the coming year as well.
- Moderation in income tax collection growth in FY25 is owing to high base. In FY24RE collections are estimated to surpass targeted numbers.

Rs lakh crore	FY24 BE	FY24 RE	FY25 BE	FY24RE (% chg)	FY25BE (% chg)
Gross tax collections	33.6	34.4	38.3	12.5	11.5
Centre's net revenue	26.3	27.0	30.0	13.3	11.2
Total direct tax	18.2	19.5	22.0	17.2	13.1
Corporate tax	9.2	9.2	10.4	11.7	13.0
Income tax	9.0	10.2	11.6	22.7	13.1

Source: Union Budget documents, Bank of Baroda Research | BE: Budget Estimates, RE: Revised Estimates

Indirect tax collections

- Indirect tax collections are projected to record a more robust growth (+9.4% from 7.1% in FY24RE) than direct tax collections.
- Amongst them, Customs and Union excise duties are expected to be the main drivers of growth.
- Growth in GST collections is expected to stabilize.
- With no change in custom duties announced, collection expectations indicate moderation in imports.
- Increase in excise duty collections suggests that no tax cuts can be expected in fuel prices.

Rs lakh crore	FY24 BE	FY24 RE	FY25 BE	FY24RE (% chg)	FY25BE (% chg)
Total indirect tax	15.29	14.79	16.18	7.1	9.4
Customs	2.33	2.19	2.31	2.5	5.8
Union excise duties	3.39	3.04	3.19	(4.8)	5.0
Service tax	0.005	0.005	0.001	16.0	(80.0)
GST	9.57	9.57	10.68	12.7	11.6

Source: Union Budget documents, Bank of Baroda Research | BE: Budget Estimates, RE: Revised Estimates

Non-tax revenue collections

- Non tax revenue growth is expected to come off a high base, from 31.7% in FY24RE to 6.4% in FY25BE.
- This is due to softening growth in both interest receipts and dividends and profits.
- As a % of GDP as well, non-tax to GDP ratio is expected to ease from 1.3% in FY24RE to 1.2% in FY25BE.
- In absolute terms however, collections are expected to be broadly stable at Rs 4 lakh crore.
- Notably, dividend and profits are estimated to remain around Rs 1.5 lakh crore, thus signaling expectation of higher dividend from RBI and continued improvement in profits of PSEs.

Rs lakh crore	FY24BE	FY24RE	FY25BE	FY24RE (% chg)	FY25BE (% chg)
Total non-tax revenue	3.02	3.76	4.00	31.7	6.4
Interest receipts	0.25	0.32	0.33	14.1	4.2
Dividends and Profits	0.91	1.54	1.50	54.5	(2.9)
Other non-tax revenue	1.81	1.86	2.13	20.9	14.5

Source: Union Budget documents, Bank of Baroda Research | BE: Budget Estimates, RE: Revised Estimates

Non-Tax revenue collections

Rs lakh crore	FY25BE	Share of Non tax revenue (%)
Petroleum	0.16	6.6
Roads and Bridges	0.31	12.2
Other communication	1.20	28.3
Total non-tax revenue	4.0	

Source: Union Budget documents, Bank of Baroda Research │BE: Budget Estimates, RE: Revised Estimates

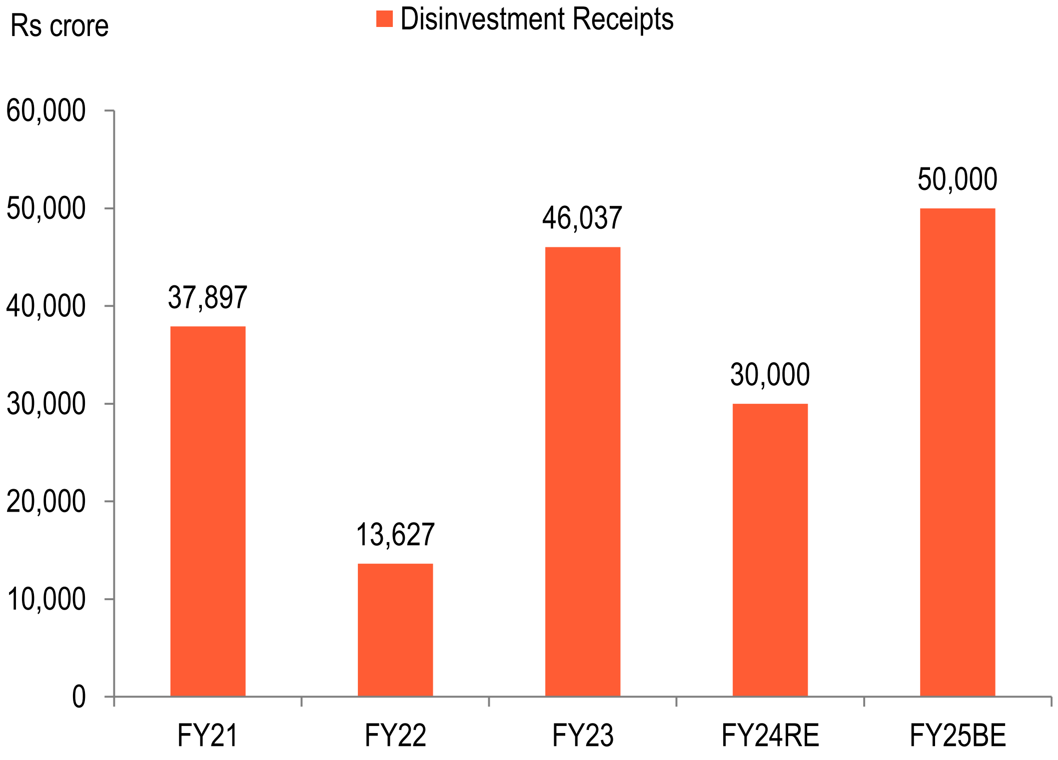
- Non tax revenue is estimated to increase in FY25 to Rs 4 lakh crore from Rs 3.8 lakh crore in FY24.
- The increase mainly due to rise in “other non-tax” revenue.
- Growth in other non-tax revenue (14.5% in FY25) will be due to higher other communication (Rs 1,20,267 crore in FY25 versus Rs 93,541 crore in FY23). The revised number is on account of pre-payment of spectrum auction instalment.
- Additionally, increase in petroleum revenue has been significant at 6.6% in FY25 (declined by 24.3% in FY24).

The sell-off landscape (Disinvestment)

- Disinvestment receipts have been pegged higher at Rs 50,000 crore as per FY25BE, with preference towards asset monetisation.

- In FY24RE, the number is kept at Rs 30,000 crore. However as per latest data, till now (Apr-Jan'24) Rs 12,504 crore has been received.

- However, it will be challenge to do it in 2-months period.
    - *Successful completion of this programme will provide major boost to the capital market*



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Expenditure Budget: major schemes and Outlay

Ministry (Rs bn)	FY24BE	FY24RE	FY25BE
Pension	2,34,359	2,38,049	2,39,612
Defence	4,32,720	4,55,897	4,54,773
Food subsidy	1,97,350	2,12,332	2,05,250
Petroleum Subsidy	2,257	12,240	11,925
Fertilizer subsidy	1,75,100	1,88,894	1,64,000
Urea	1,31,100	1,28,594	1,19,000
Nutrient Based subsidy	44,000	60,300	45,000
Road Works	1,07,713	1,08,520	1,09,093
NHAI	1,62,207	1,67,400	1,68,464
Health	88,956	79,221	90,171
PMAY	79,590	54,103	80,671
Jal Jeevan Mission	70,000	70,000	70,163
MGNREGA	60,000	86,000	86,000
PM-Kisan	60,000	60,000	60,000

Source: Union Budget, Bank of Baroda Research | BE: Budget Estimates, RE: Revised Estimates

Outlay on major Schemes

- Total subsidy including food , fertilizer and petroleum is likely to decline by 7.8% in FY25.
- The total subsidy bill is pegged at Rs 3.81 lakh crore in FY25 compared with Rs 4.13 lakh crore in FY24RE. This number could possible change in the full budget in the coming months.
- For the sectors such as Defence, MGNREGA, Jal Jeevan Mission and PM-Kisan the outlay for FY25BE aligns with the FY24RE.
- However, outlay for schems such as health and PM-Awas yojana has been higher in FY25BE against FY24RE.

Revenue Account

	FY24BE	FY24RE	FY25BE
Revenue Expenditure (Rs Lakh crore)	35.0	35.4	36.5
Revenue Deficit (%)	2.9	2.8	2.0
Subsidy to Revenue Receipt	0.14	0.15	0.13
Interest to Revenue Receipt	0.41	0.39	0.40
Pension to Revenue Receipt	0.09	0.09	0.08

Source: Union Budget documents, Bank of Baroda Research | BE: Budget Estimates, RE: Revised Estimates

- Revenue Expenditure is expected to increase in FY25 by 3.23% to Rs 36.5 lakh crore from 2.52% in FY24.
- Revenue deficit is estimated to be lower at 2% (of GDP) in FY25 from 2.8% in FY24.

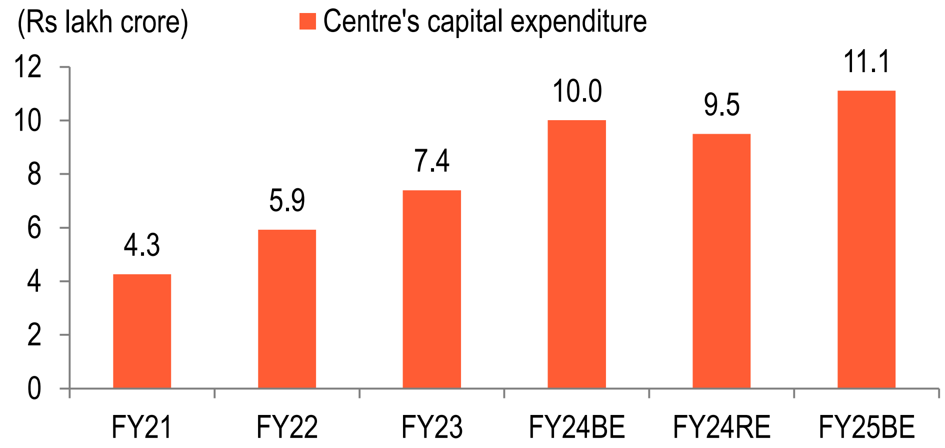
Capex to be prime driver

- In FY25, Centre's capex spending is expected to increase to Rs 11.1 lakh crore from Rs 9.5 lakh crore as per FY24RE.

- States contribution in capex is expected to pick pace with continuation of the scheme of fifty-year interest free loan for capital expenditure with total outlay pegged at Rs 1.3 lakh crore compared to Rs 1.1 lakh crore as per FY24RE.

- As a percentage of GDP, capital expenditure is expected to rise to 3.4% of GDP as per FY25BE compared to 3.2% of GDP as per FY24RE.

Interestingly, the capital allocation for major ministries such as Road, transport and highways, Railways, Telecommunication and Housing, have been increased in FY25BE. Even the RE numbers of FY24 for these ministries are higher than budgeted last year.



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Centre's boost towards infrastructure spending

Ministry (Rs '100 crore)	Current Share in capital expenditure	FY22	FY23	FY24BE	FY24RE	FY25BE
Telecommunications	7.6%	33	547	617	701	845
Defence	0.9%	68	80	88	105	102
Housing and Urban Affairs	2.6%	259	269	260	265	286
Railways	22.7%	1,173	1,593	2,400	2,400	2,520
Road Transport and Highways	24.5%	1,133	2,060	2,586	2,645	2,722
Total capital expenditure		**5,929**	**7,400**	**10,010**	**9,502**	**11,111**

Note: Ministry-wise data shows allocation for capital expenditure. Total is not adding up because of the 'others' component.

Railways and roads account for 47% of total capex and have been prime drivers in last few years

Source: Union Budget, Bank of Baroda Research | BE: Budget Estimates, RE: Revised Estimates

Liabilities and rates

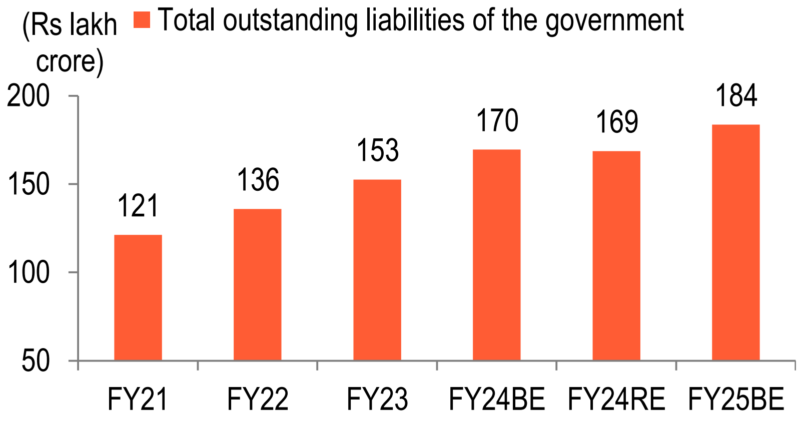
- Total liabilities are likely to go up to Rs 183.7 lakh crore as per FY25BE from Rs 168.7 lakh crore in FY24RE.

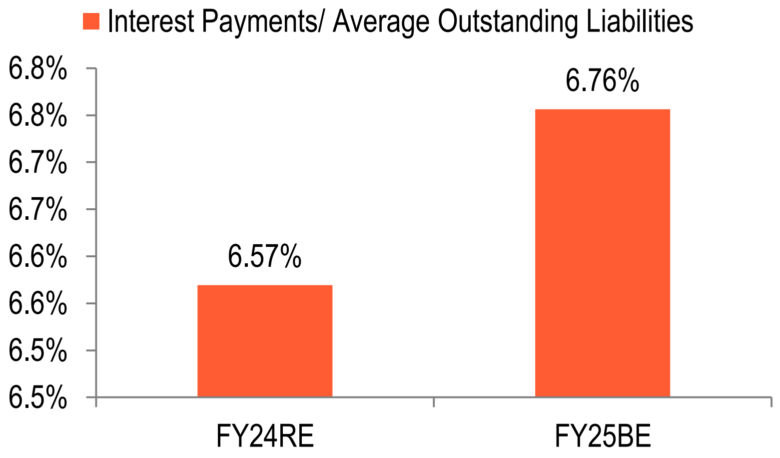
- Interest cost is pegged higher at Rs 11.9 lakh crore in FY25BE compared to Rs 10.6 lakh crore in FY24RE.

- Effective interest rate (interest payment/average outstanding liabilities) is expected to go up by only 19bps to 6.76% in FY25 from 6.57% in FY24.
  - Higher effective interest rate implies that preference should be towards long part of the curve.

- *As % of GDP o/s debt remains at ~56%. There is still a long way to go to meet the FRBM target, which is pegged to be at 40% by 2024-25.*

- *However, the budget has maintained a correct mix while financing fiscal deficit, as there has been less reliance on market borrowing and more towards small savings instruments.*





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Centre's Financing of Fiscal deficit

(Rs lakh crore)	FY21	FY22	FY23	FY24BE	FY24RE	FY25BE
Gross Borrowings	12.60	9.70	14.21	15.40	15.40	14.13
Repayments	-2.30	-2.60	-3.13	-3.60	-3.60	-2.38
Net-Market Loans	10.30	7.00	11.08	11.80	11.80	11.75
Net-Short Term Borrowings	2.00	0.80	1.12	0.50	0.01	0.50
Net-Securities against Small Savings (NSSF)	4.80	5.50	3.96	4.70	4.70	4.66
Fiscal Deficit (FD)	**18.18**	**15.84**	**17.33**	**17.87**	**17.34**	**16.85**
Gross Borrowings/FD	**69.23%**	**61.39%**	**81.67%**	**86.03%**	**89.02%**	**83.61%**
Net Borrowing/FD	**56.59%**	**44.30%**	**63.69%**	**65.92%**	**68.21%**	**69.54%**
Net-Short Term Borrowings/FD	**10.99%**	**5.06%**	**6.44%**	**2.79%**	**0.06%**	**2.96%**
NSSF/FD	**26.37%**	**34.81%**	**22.75%**	**26.26%**	**27.17%**	**27.59%**

Source: Union Budget, Bank of Baroda Research | BE: Budget Estimates, RE: Revised Estimates
Note: The repayment number for FY24RE and FY25BE is net of recovery of Rs 78,104 crore and Rs 1,23,604 crore from GST compensation fund

Impact on Yields

- The share of gross market borrowing in financing overall fiscal deficit has gone down to 83.6% as per FY25BE from 89% in FY24RE.

- *This is indeed comforting for yields. As excess supply of papers tend to put pressure on yields.*

- *We expect downside pressure on yields and even yields may touch below the 7% mark.*

- Further, Fed's rhetoric of an easing financial conditions in the medium term based on the data dynamics also supports our view.

- Yields will also get support once flows start picking up in the debt market due to inclusion in JP Morgan's EM Index and also talks of inclusion in the Bloomberg EM Local Currency Index.

- *This is also positive for banks which are the major holders of government securities. As more players participate in the market, it will lead to freeing of more funds on part of the banks which in turn would support credit demand.*

Agriculture

- Overall allocation for agriculture has increased marginally to Rs. 1.5 lakh crores in FY25BE from Rs. 1.4 lakh crores in FY24RE

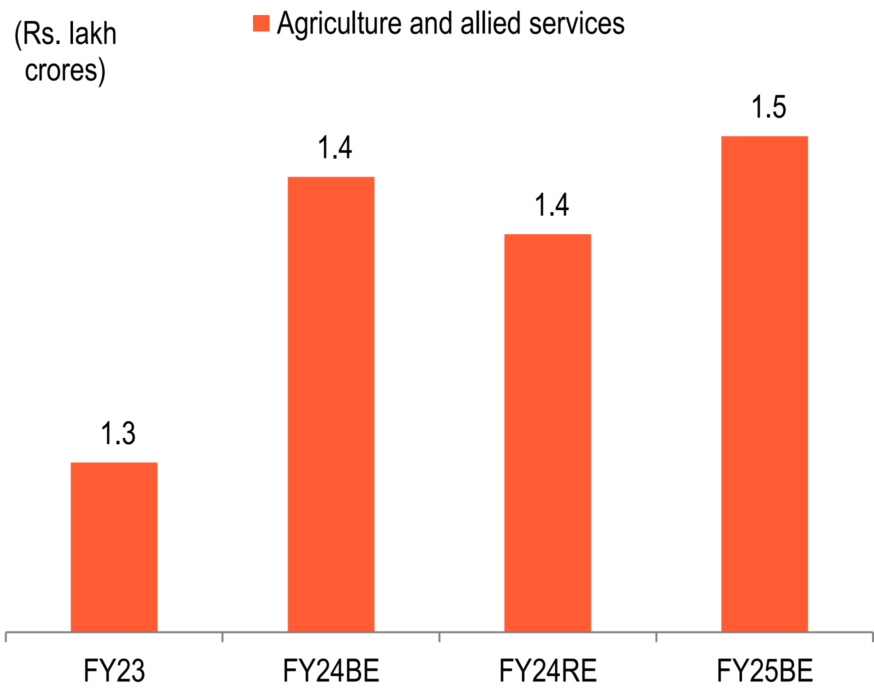
- Schemes focusing on enhancing value added for the agri sector to be continued and to be supplemented by public private partnerships.

- Use of Nano DAP fertilizer to be adopted

- Government to launch a scheme to ensure self sufficiency in production of oilseeds

- To improve productivity in the dairy sector, an inclusive programme to be launched

- Allocation under PM-Matsya Sampda Yojana has been increased to Rs. 2,352 crores in FY25BE (Rs. 1,500 crores in FY24RE) with the aim of improving productivity, promoting exports and generating employment.



Source: Union Budget documents, Bank of Baroda Research

Despite a marginal increase in allocation, the Budget has largely been neutral for the agri sector as the government has refrained from announcing any significant programmes to alleviate the stress in rural economy.

Rural housing

- Government is poised to achieve its target of building 3 crores houses under the Pradhan Mantri Grameen Awas Yojana

- In the next phase, government has committed to building 2 crores more houses

- Consequently, allocation under the PM-AWAS Yojana has increased from Rs. 54,103 crores in FY24RE to Rs. 80,761 crores in FY25BE.

Higher allocation for rural housing and proposed scheme for housing for middle-class will provide a boost to allied sectors such as cement, steel etc.

Production Linked Incentive (PLI) scheme

- Apart from this, government has increased allocation for specific sectors under its Production Linked Incentive Scheme.

- This will promote domestic manufacturing in these sectors and hence may lead to higher credit demand.

In Rs. crores	FY23	FY24BE	FY24RE	FY25BE
Pharmaceuticals	1,425	1,200	1,696	2,143
MEITY	-	4,645	4,560	6,200
Food processing	490	1,530	1,150	1,444
Automobiles and auto components	6	604	484	3,500
Total	**1,921**	**7,979**	**7,890**	**13,287**

Source: Union Budget documents, Bank of Baroda Research | BE: Budget Estimates, RE: Revised Estimates

Green energy

- As announced by the PM earlier, rooftop solarization will enable 1 crore households to consume upto 300 units of free electricity per month
    - Savings of Rs. 15,000-18,000 per month expected by each household; surplus can be sold to DISCOMs
    - This will also provide employment opportunities in allied activities such as manufacturing, installation and maintenance
- EV infrastructure to get a boost; use of E-buses to be encouraged by providing payment security
- New scheme for bio-manufacturing and bio-foundry to be launched
- Schemes to meet the government's net zero target by 2070 focusing on harnessing wind energy, coal gasification and liquefaction and blending of compressed bio gas in CNG and LPG

Domestic manufacturing of solar equipment and electronic vehicles will get a boost which in turn will lead to employment generation
Dependence on coal imports is also likely to reduce

Health and education

- New medical colleges to be set up by utilizing the existing hospital infrastructure
- Promotion of cervical cancer vaccination for girls aged between 9 to 14 years
- Focused scheme on maternal and child care to be launched
- Anganwadi centres to be upgraded to “Saksham Anganwadi and Poshan 2.0” in an expedited manner
- Rolling out of U-WIN platform across country also to be accelerated
- Ayushman Bharat scheme cover all ASHA workers, Anganwadi Workers and Helpers as well

Overall, allocation towards health expenditure has been increased to Rs. 90,171 crores in FY25 from Rs. 79,221 crore in FY24RE

Railways

- Allocation for railways has been increased from Rs. 2.43 lakh crores in FY24RE to Rs. 2.55 lakh crores in FY25BE.

- Government plans to introduce 3 new corridors under the PM-Gati Shakti scheme:
  - Energy, mineral and cement
  - Port connectivity
  - High traffic density

- The government also plans to transform 40,000 coaches by modeling them on Vande Bharat coaches, which ensure convenience and safety of passengers

Planned corridors will improve connectivity and also help ease traffic congestion while also giving an impetus to employment

Tourism

- Government to partner with States for promotion of tourist centers through efficient marketing and branding to cater to global tourists

- Apart from developing a comprehensive rating system for States, the central government will also provide long-term interest free loans for this purpose

- To promote domestic island tourism, it is proposed to undertake projects to improve port connectivity, tourism infrastructure, and other amenities

Apart from generating employment, promotion of domestic and international tourism will help in bringing much needed revenue for the government as well as more tourism receipts

Budget Impact

Overall impact

- Higher capex spending by the government is likely to boost growth through the multiplier effect.

- Focus on green-energy will reduce dependence on imports and also promote domestic production of EVs, solar equipment etc.

- Tourism sector will get a boost which will increase forex reserves and also generate employment.

- Impetus on rural housing bodes well for the construction and allied sectors

- With fiscal deficit expected to moderate sharply in FY25, demand-pull inflation is likely to remain contained
  - Excise collections are pegged higher suggesting that excise on fuel products is unlikely to be reduced

Positive for market sentiments

- Fiscal deficit target for FY24 was lower at 5.8% and for FY25, the government aims to bring it sharply lower to 5.1%.
- Apart from this, government has also reiterated its commitment to bring down the fiscal deficit ratio to below 4.5% by 2025-26.
- Commitment on fiscal prudence while also prioritizing capex will boost investor sentiments.
- Lower than expected market borrowings in FY25 will also boost investor confidence.
- Sustained disinvestment programme of government will provide boost to capital market

Opportunities for banking sector

- Demand for credit from sectors such as electric vehicles (allocation under FAME at Rs. 2,671 crores), solar equipment (allocation under solar grid at Rs. 10,000 crores) and tourism infrastructure expected to increase

- Demand for housing loans from rural areas can also get a boost (allocation under PMAY at Rs. 80,761 crores)

- Lower market borrowings along with inflows related to inclusion in JP Morgan's bond index will help ease liquidity pressure on banks, freeing up resources to fund credit demand

Thank You

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