Union Budget Analysis

23 July 2024

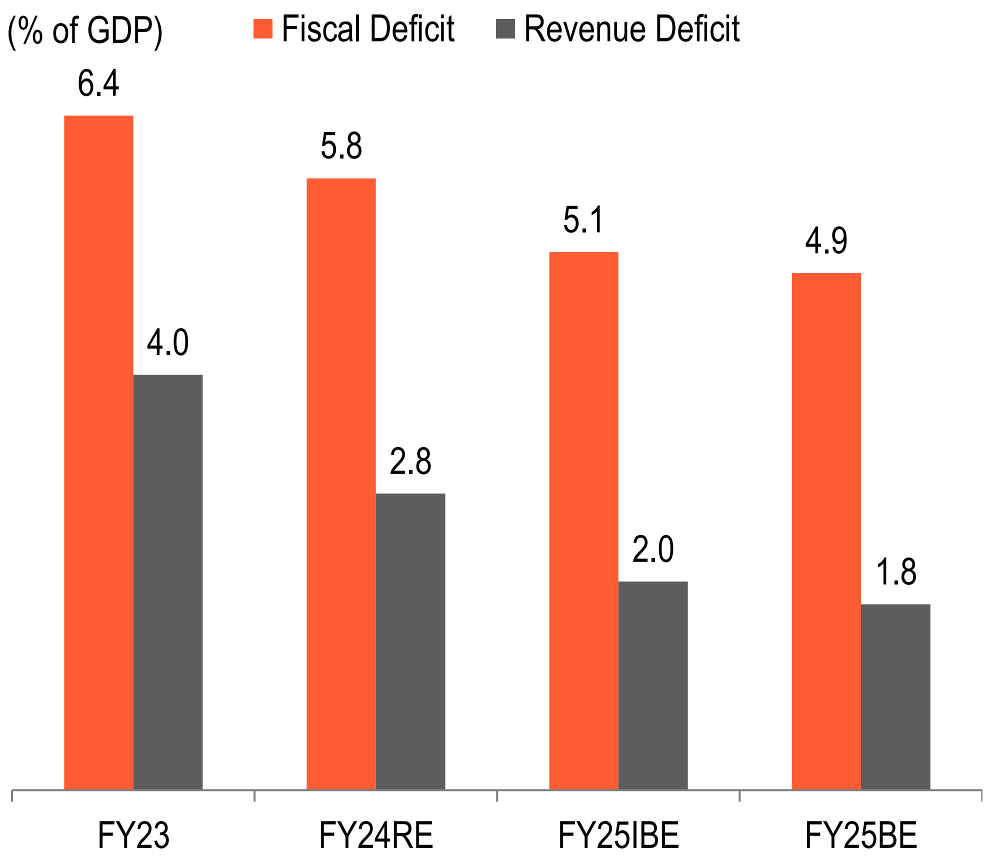
Budget assumptions

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

- Government continues to expect nominal GDP to rise by 10.5% in FY25, unchanged from interim budget. We believe real GDP growth to average ~7.3-7.4% and inflation to average between 4-4.5%.
- Tax structure shows that, taking into account the changes announced in direct taxes, the direct tax-GDP ratio is expected to increase from 6.6% as per FY24RE to 6.8% in FY25BE.
- Indirect tax-GDP ratio on the other hand is estimated to remain broadly stable at 5% in FY25BE, unchanged from FY24RE.
- Capex spend continues to maintain momentum, with support to states also being maintained.
- Overall size of the budget, as % of GDP, has been brought down to 14.8% in FY25BE from 15.1% in FY24RE.

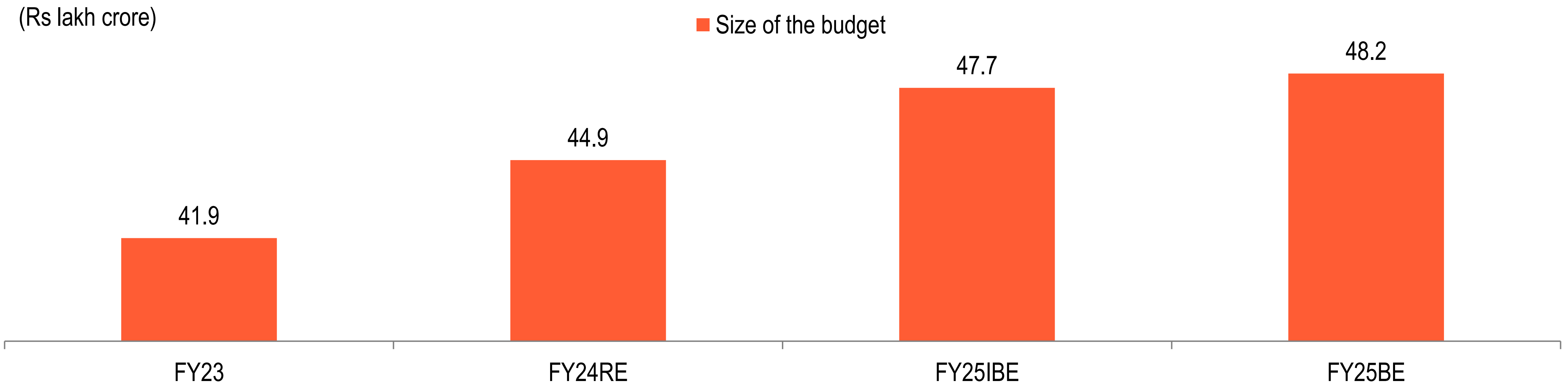
Trends in deficit ratios

- Union Budget for FY25 outlined key areas where government will be focusing in the next five years.
- These include: employment, education and skilling, focus of manufacturing, agriculture sector, MSMEs, infra, innovation/R&D, energy, and social justice.
- Government is also committed to stick to the path of fiscal consolidation. Thus, fiscal deficit (as % of GDP) is estimated to be lower at 4.9% in FY25BE.
- Revenue deficit (% of GDP) will also be brought down to less than 2% in FY25BE.
- Government is also set to lower its debt-GDP ratio to 56.8% in FY25BE from 58.1% as per FY24RE.
- Government is on track to attain FD ratio of <4.5% in FY26.



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

Size of the budget



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- Size of the budget has seen considerable increase over the past two years, with growth averaging ~8.7%. However, as a % of GDP, it has come down gradually from 15.6% in FY23 to now 14.8% in FY25BE.

- The increased size is also reflective of greater focus on improving the quality of spending, by increasing attention to capital spending, and support to states.

Tax collections

- Centre's net revenue collections are estimated to come in line with growth in nominal GDP.
- On net basis, revenue collections are estimated to increase by Rs 2.6 lakh cr this year.
- Gross tax collections are estimated to register significant improvement in FY25BE (Rs 38.4 lakh cr) compared with last year (Rs 34.4 lakh cr).
- This is driven by increase in both direct and indirect tax collections.
- Direct tax collections are expected to improve, even as government has announced relief measures for both corporates and individuals.

Rs lakh crore	FY24 RE	FY25 IBE	FY25 BE	FY24 (%YoY)	FY25BE (%YoY)
Gross tax collections	34.4	38.3	38.4	12.5	10.8
Centre's net revenue	23.2	26.0	25.8	10.8	11.0
-Total direct tax	19.5	22.0	22.1	17.2	12.8
---Corporate tax	9.2	10.4	10.2	11.7	12.0
---Income tax	10.2	11.6	11.9	22.7	13.6

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Indirect tax collections

- Indirect tax collections are also projected to increase, albeit slightly at a slower pace compared with direct taxes.
- Of the incremental Rs 1.4 lakh cr increase expected compared with FY24RE, Rs 1 lakh cr will be on account of GST collections.
- Increased compliance and steadiness in consumption demand will drive this growth.
- Remaining 0.4 lakh cr increase will be contributed by increase in custom and excise collections.
- Changes made in custom duty structures will help government surpass its interim budget target also.

Rs lakh crore	FY24 RE	FY25 IBE	FY25 BE	FY24 (%YoY)	FY25BE (%YoY)
Total indirect tax	14.8	16.2	16.2	7.1	8.2
Customs	2.2	2.3	2.4	2.5	5.0
Union excise duties	3.0	3.2	3.2	(4.8)	5.0
GST	9.6	10.7	10.6	12.7	11.0

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Non-tax revenue collections

- Non-tax revenue growth is expected to improve sharply FY25BE, compared with both FY24RE and the interim budget target.
- This is due to higher-than-expected dividend received from RBI.
- This was nearly Rs 1 lakh crore more than government's projections.
- In addition, given sustained momentum in corporates' performance, government has also budget higher dividend on their account.
- As a % of GDP as well, non-tax to GDP ratio is expected to jump from 1.3% in FY24RE to 1.7% in FY25BE.

Rs lakh crore	FY24 RE	FY25I BE	FY25 BE	FY24 (%YoY)	FY25BE (%YoY)
Total non-tax revenue	3.8	4.0	5.5	31.7	35.8
Interest receipts	0.32	0.33	0.38	14.1	(0.2)
Dividends and profits	1.5	1.5	2.9	54.5	50.0
Other non-tax revenue	1.9	2.1	2.1	20.9	11.6

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Spending thrust

- Centre's overall expenditure is estimated to increase from Rs 44.9 lakh crore in FY24RE to Rs 48.2 lakh crore in FY25BE.
- This increase is almost equally distributed between revenue and capital spending.
- **Within this, revenue spending is set to increase to Rs 37.1 lakh crore in FY25BE, from Rs 35.4 lakh crore last year**, mainly on account of interest repayment and servicing of debt (Rs 1.08 lakh crore).
- Subsidies have seen rationalization compared with last year.

Rs lakh crore	FY23	FY24RE	FY25BE
Pension	2.42	2.38	2.43
Defence	3.19	4.56	4.55
Subsidy	5.31	4.13	3.81
Education	0.99	1.09	1.26
Home Affairs	1.21	1.33	1.51
Interest repayment	9.29	10.55	11.63
Transfer to states	2.73	2.74	3.23
Transport	3.91	5.25	5.44

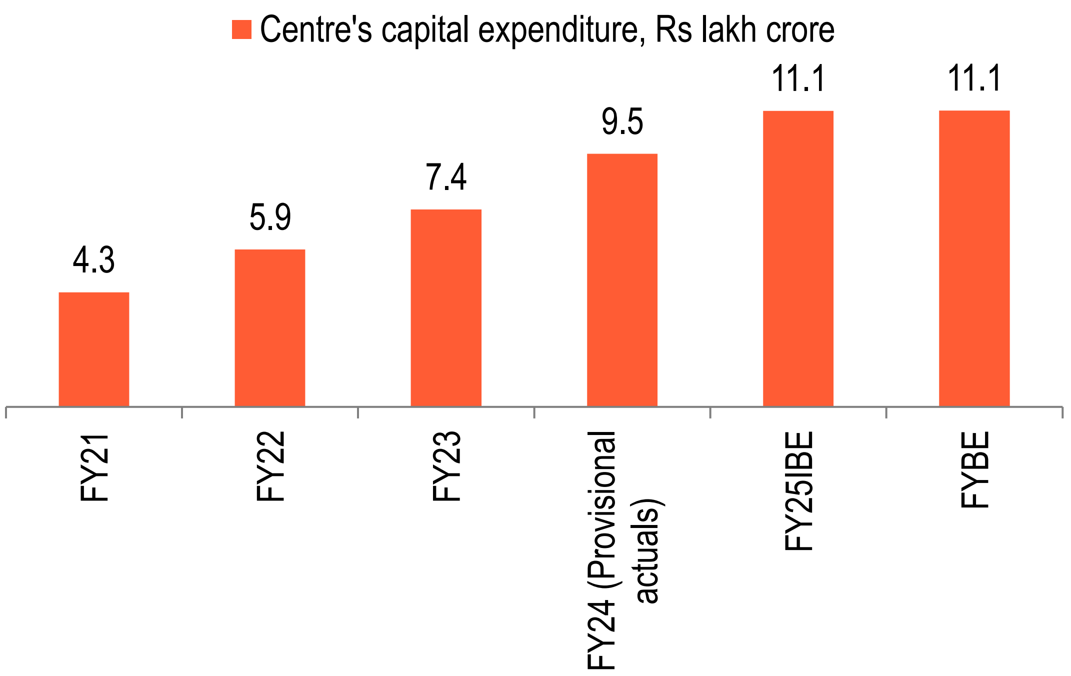
Source: Union Budget documents, Bank of Baroda Research | RE: Revised Estimates, IBE: Interim Budget Estimates, BE: Budget Estimates

Revenue spending increased sharply for home affairs, ministry of agri and farmers welfare and labour, thus focusing on spurring consumption demand, keeping a hawk eye on increasing employment opportunities.

Thrust on capex continues

- In FY25, Centre's capex spending is retained at the same level as per interim BE at Rs 11.1 lakh crore which translates to 3.4% of GDP.
- This amount is significantly higher than Rs 9.5 lakh crore of provisional actuals for FY24.
- No major change in capital spending across ministries, with the exception Power and chemicals and petrochemicals
- Capital allocation for Road, transport and highways, Railways, Telecom and Housing, has been increased in FY25BE.

This reflects government's concerted efforts towards crowding in private investment.



Source: Union Budget, Bank of Baroda Research,
Note: IBE: Interim Budget Estimates

Ministry wise capex picture

Ministry (Rs lakh crore)	Current Share in GBS	FY23	FY24RE	FY25BE
Road Transport and Highways	24.5	2.1	2.6	2.7
Railways	22.7	1.6	2.4	2.5
Telecommunications	7.6	0.5	0.7	0.8
Housing and Urban Affairs	2.6	0.3	0.3	0.3
Defence	0.9	0.1	0.1	0.1
Others	-	2.9	3.4	4.6
Capital Spending	**-**	**7.4**	**9.5**	**11.1**

Source: Union Budget, Bank of Baroda Research

Centre's Financing of Fiscal deficit

(Rs lakh crore)	FY22	FY23	FY24RE	FY25IBE	FY25BE
Gross Borrowings	9.7	14.2	15.4	14.1	14.0
Net Borrowings	7.0	11.1	11.8	11.8	11.6
Net-Securities against Small Savings (NSSF)	5.5	4.0	4.7	4.7	4.2
Others (Balancing item of debt receipts)	3.3	2.3	0.8	0.4	0.3
Fiscal Deficit (FD)	**15.8**	**17.4**	**17.3**	**16.9**	**16.1**
Gross Borrowings/FD	**61.4**	**81.7**	**88.9**	**83.6**	**86.8**
Net Borrowing/FD	**44.3**	**63.7**	**68.0**	**69.5**	**72.1**
NSSF/FD	**34.8**	**22.8**	**27.2**	**27.6**	**26.0**

Source: Union Budget, Bank of Baroda Research, IBE: Interim Budget estimates

Some observations on debt receipts

- The gross borrowing amount of Rs 14.01 lakh crore includes the Rs 30,000 crore net buyback
- Buybacks conducted to ease payment obligations by infusing funds
  - Mostly short end papers were included in this buyback exercise.
- Short term borrowing is also curtailed. Indeed, the figure in negative.
- This is likely to arrest short end part of the yield curve from inching up.

How the debt receipts number were different from Interim BE?

1. The gross borrowing was marginally lower.
2. Repayment figure was lower at Rs 2.08 lakh crore from interim BE of Rs 2.38 lakh crore.
3. Reliance on small savings have been reduced due to higher rates.

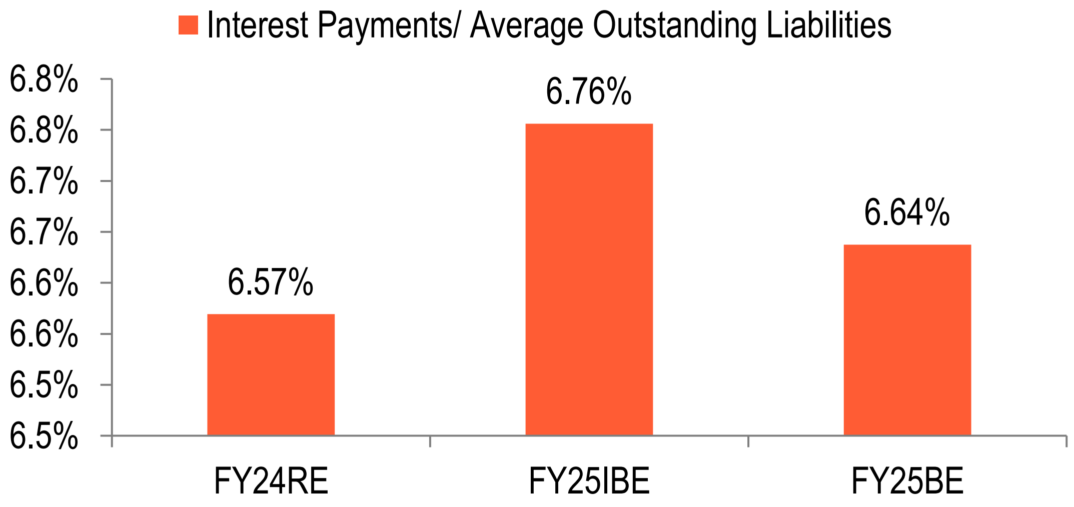
Finely managing debt receipts hinting at softening of yields across all tenors.

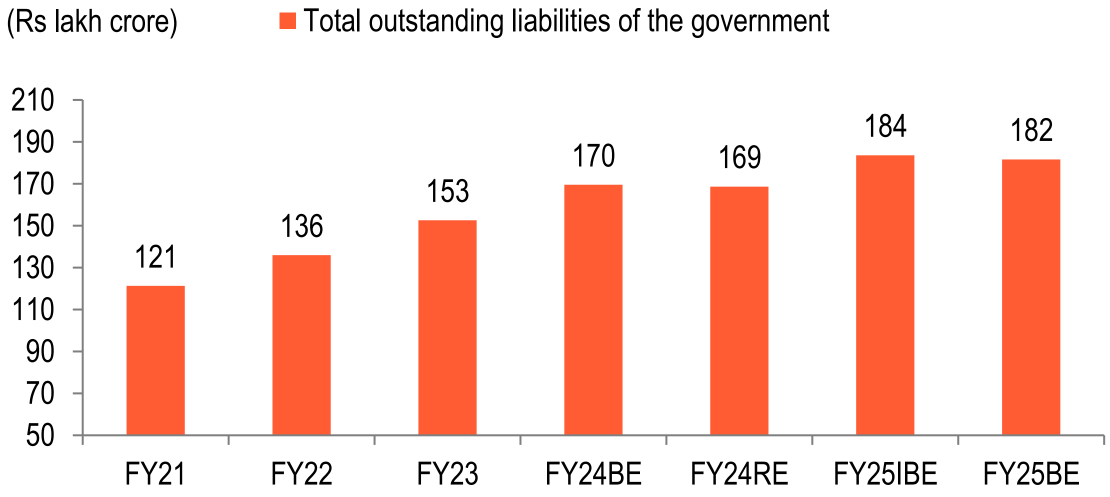
Liabilities and rates

- Total liabilities of the central government have gone down to Rs 182 lakh crore from interim budget figure of Rs 184 lakh crore.
- Interest cost is pegged lower at Rs 11.6 lakh crore in FY25 compared to interim BE of Rs 11.9 lakh crore.
- This has reduced the Effective interest rate which is calculated as interest payment/average outstanding liabilities.

Effective interest rate is expected to go down to 6.64% in FY25, thus reducing interest burden of government for this fiscal.

Outstanding liabilities of the government as percentage of GDP stands at 56%.





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Thrust Areas

Housing sector gets a boost

- The government has announced construction of 3 crore additional houses under the PM AWAS Yojana in both rural as well as urban areas
- Allocation PMAY-Urban for FY25 at Rs. 30,710 crore from Rs. 22,103 in FY24 RE
  - Between 2015-2024, a total of 118.64 houses were approved under the scheme, while 84.02 lakh houses were completed in the same period
  - Estimated cement and steel consumption stood at 55.7 million MT and 12.6 million MT respectively
  - Estimated employment generation of 323 lakhs
- Allocation under PMAY-Rural at Rs. 54,500 crore versus Rs. 32,000 crore in FY24 RE
  - As of 12 June 2024, 2.94 crore houses were sanctioned, and 2.62 crore houses (89% of target) were completed under PMAY-G against a target of 2.95 crore

Higher allocation for rural and urban housing will provide a boost to allied sectors such as cement, steel etc and also create direct and indirect employment

Improved credit access for MSMEs

- Access to credit:
  - Credit guarantee scheme for MSMEs in the manufacturing sector will provide a guaranteed cover of Rs. 100 crore to MSMEs for purchase of machinery without collateral.
  - MSMEs under the Special Mention Account (SMA) stage will be provided credit guarantee from a government fund to prevent them from slipping into NPA category,
  - A new credit rating model for MSMEs is also proposed which will be based on PSBs internal assessment by analysing the MSMEs digital footprints.
  - Enhanced limit of Rs. 20 lakhs for Mudra loans for MSME units who have successfully repaid earlier loans
  - 24 new SIDBI branches to be opened this year in MSME clusters to provide direct credit to MSMEs

MSMEs

- Strengthening the TReDS platform:
  - Turnover threshold for onboarding on the TReDS platform has been reduced to Rs. 250 crore from Rs. 500 crore. This will bring in more companies on the platform which will ease the working capital stress on MSMEs by quickly converting trade receivables into cash
- Market access and new products:
  - E-comm export hubs are proposed to improve market access for MSMEs and traditional artisans
  - Financial support for setting up 50 multi-food irradiation units and 100 food quality and safety testing labs in the MSME sector

Measures to improve the credit availability for MSMEs should help improve credit access for MSMEs

Setting up of e-commerce export hubs will enable MSMEs to sell products outside the country which will improve their profitability.

Taxation

New tax slabs	Tax Rate
Up to 3,00,000	Nil
3,00,000-6,00,000	5%
6,00,000-9,00,000	10%
9,00,000-12,00,000	15%
12,00,000-15,00,000	20%
Above 15,00,000	30%

- Under the new regime, the income tax slabs has been revised even as the base exemption limit remains the same. Status quo for the rates at the highest tax slab.
- Standard deduction under the new regime has been hiked from Rs 50,000 to Rs 75,000.
- Salaried employee will be able to save Rs 17,500 via the new regime.

Taxation

- Short term tax on capital gain (STCG) has been hiked to 20% and LTCG across listed as well as unlisted to be taxed at uniform rate of 12.5% (from 10%).
- Exemption on capital gains increased to Rs 1.25 lakh per year for certain assets.
- Angel tax has been abolished which is expected to boost and foster the start-up ecosystem.
- The indexation benefit has been removed on the sale of property.
- Corporate tax on foreign companies has been lowered from 40% to 35%.
- TDS rate has been lowered too 2% (from 5%) on rent payment of more than Rs 50,000 per month.

In FY23, a total number of 7.78cr ITRs were filed as per income tax. Over 2/3rd of the tax payers are part of the new regime. Based on this, over 5.2 crore tax filers are part of new regime. Overall, this is positive for the consumption sector.

Banking sector

Higher capital expenditure	• Promote domestic growth leading to higher credit demand • Infrastructure linked sectors will continue to do well
Higher allocation for housing	• Increased demand for home loans • Credit demand from sectors such as cement, steel, glassware etc. will pickup
Climate transition	• Renewable and solar energy sector to witness traction
Changes in IBC and strengthening of debt tribunals	• Improvement in debt quality of SCBs
MSME	• Credit guarantee schemes for MSME will lead to greater disbursements to the sector
Education	• Interest subvention of 3% on loans upto Rs. 10 lakh for higher education in domestic institutions will lead to higher demand for education loans
Income tax changes	• Savings due to reduction in income tax changes can translate into deposit inflow of Rs. 10,000-Rs.12,000 crore into bank deposits

Note: Assuming saving rate of 30.2% and 1/3rd of household saving in deposit

Boost to domestic manufacturing

- Customs duties on a number of products was reduced to boost domestic manufacturing or correct the inverted duty structure. These include:
  - Custom duty on mobile phone, mobile PCBA and mobile charger has been reduced to 15% Basic customs duty (BCD) on 25 critical minerals has been slashed to 0%, for 2 BCD has been reduced
  - To boost seafood exports, duties on imports of feeds or materials used to make feed has been reduced to 5%
  - For leather and textiles sectors, BCD on real down filling material from duck or goose has been reduced and list of exempted goods for manufacture of leather and textile garments, footwear and other leather articles for export has been expanded
  - Lower duty on import of methylene diphenyl diisocyanate used in manufacture of spandex yarn
  - To promote domestic value addition, customs duty on gold, silver and platinum has been reduced
  - BCD on oxygen free copper, ferro nickel and blister copper has been reduced to 0%

Boost to domestic manufacturing

- To support domestic manufacturing units from competition and increase export competitiveness, BCD on certain items has been increased. These include:

  - In view of the thriving solar energy industry in India, exemption on duties on solar glass and tinned copper interconnect has been discontinued
  - Duty on ammonium nitrate hiked
  - To curb import of flex banners, BCD has been hiked significantly to 25%
  - Customs duty on PCBA of telecom equipment has been increased to 15% from 10%

The measures announced are likely to boost domestic manufacturing and exports. Sectors which are likely to benefit include electronics, telecom, chemicals, textiles, leather, gems and jewellery, solar energy and marine products

Employment and Skilling

- Priority has been given to employment sector by the incentivizing the private sector to add more formal jobs. 3-schems have been announced under employment linked incentive.

- Direct transfer of 1-month salary will benefit over 2.1 crore youth in over 2-years. Secondly, incentive for job creation in manufacturing sector, expected to benefit 3 lakh youth entering the workforce. Lastly, government will reimburse employers for additional employment generation.

- In the next 5-years, an outlay of Rs 2 lakh crore will be allocated for job creation, with aim of facilitating employment, skilling and new opportunities for 4.1 crore youth.

- With the objective to train over 20 lakh youth in a span of 5-years, a new scheme has been launched. To support the skilling efforts, 1000 ITIs will be upgraded.

- Government is also expected to provide financial support through loans of Rs 10 lakh for higher education in financial institution.

Energy sector

- In order to fulfil the commitment of ‘net-zero’ by 2070, the viability gap funding for harnessing offshore wind energy has been announced.
- A long term plan needs to be formed in order to develop taxonomy for climate finance-help in moving towards climate and green transition.
- Total outlay of Ministry of New and Renewable Energy has been raised to Rs 19,100cr in FY25BE from Rs 7,848cr in FY24RE.
- In its endeavor to move towards Viksit Bharat, nuclear energy will play a pivotal role.
- Government will partner with private sector for R&D of new technologies for nuclear energy, setting of small reactors, R&D for Bharat small module sector.
- It has been proposed to bring pumped storage policy for electricity storage and integration of renewable energy.

Overall, this is positive for the energy, renewables sector.

Market impact

- Post the budget announcement, Sensex ended marginally lower by 0.1%. The top sectoral gainers included consumer durable stocks, FMCG and IT stocks.
- In contrast, sectors such as capital goods, real estate, oil & gas, industrials and financial services dropped the most.
- INR depreciated marginally and ended at 83.69/US$ from 83.67/US$.
- 10Y yield ended flat. However, with government's focus on fiscal consolidation, buoyant FII flows and comfortable liquidity will be positive.

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