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FY25 Budget Preview

The main budget for 2024-25 is most likely to shed light on vision of the government for the next five years and bring to focus the key themes that will help achieve the dream of making India a 'Viksit Bharat' by 2047. This budget will remain committed to the path of fiscal consolidation, and inch closer to the FY26 target of <4.5%, by bringing the fiscal deficit in FY25 to 4.9-5.1%, from 5.2% in interim budget (GDP for FY24 came in lower than what was assumed in the Interim Budget). This will be helped by additional fiscal space made available by RBI's more than estimated surplus transfer and hopes of better than expected GDP growth this year. Normal monsoon, gradual decline in inflation, softening of interest rates and government's measures to boost consumption and investment will aid growth this year. As a result, enhanced spending on MGNREGA, PM KISAN, and PMAY can be expected. We also expect capex at Rs 11.2-11.3 lakh crore for this year, to help crowd-in private investments. Markets will keep a watchful eye on borrowings which can change in case the fiscal deficit is altered from 5.2% as per the Interim Budget. Also the sharing of the total borrowings between market and small savings would be of interest.

Expectations from final FY25 Budget

Focus to remain on consolidation

Since the latest budget presentation for 2024-25 (FY25) will be the 1st after government begins its third term, we expect the budget to be more of a visionary document, presenting key focus areas for the new government.

First and foremost, it will continue to adhere to the path of fiscal consolidation, without compromising on the quality of expenditure. As a result, we expect 10-30bps reduction in the fiscal deficit (% of GDP) target to 4.9-5.1%. Given the extra fiscal room available with the government from additional Rs 1 lakh crore surplus from RBI we can expect announcements to boost consumption, saving and investment. If the budget assumes GDP level for FY25 to be at the level of Rs 327.7 lakh crore as per the Interim Budget the implicit GDP growth rate would be 11%. However, if the forecast of growth is increased to 11.5%, then GDP would be Rs 329.3 lakh crore which would then offer more space for the fiscal deficit. This combined space will vary from Rs 1-2.6 lakh crore depending on the forecast made for GDP growth.

These savings can be used for lowering the fiscal deficit target, making allowances for higher expenditure, lower collections on disinvestment or loss of revenue due to tax concessions.

Key themes: Steering consumption and investment

Giving impetus to urban and rural consumption, we expect a slew of announcements to be made to increase farmer income, employment, disposable income of individual tax payers and savings. Government capex is also expected to maintain a healthy pace of growth to give nudge to private investment. To support these agendas, government may:

- Increase the budget allocation for PM Kisan Samman Nidhi (PM-KISAN) scheme.
- Increase the budget allocation for MG-NREGA scheme.
- Provisions under affordable housing (rural and urban) are expected to touch ~Rs 1 lakh crore.
- Announce PLI scheme for MSMEs.
- Retain focus on capex and increase it to ~Rs 11.2-11.3 lakh crore.
- Overall we estimate Rs 50-70,000 crore increase in headline expenditure.

On the taxes side the following proposals may get importance:

- To help sustain consumption growth, and lighten the burden of consumers due to elevated prices in recent years, government may increase limit under standard deductions (new tax regime).
- In order to promote savings, exemption under 80C in the old tax regime may also be enhanced.
- To encourage people to buy homes, tax concession on interest paid can be increased.
- Custom duties on finished products of certain items may again be raised to correct the inverted duty structure.

Fiscal consolidation: FD 4.9-5.1% of GDP in FY25

Continued momentum in domestic growth is expected to supported Fiscal deficit (FD) in FY25. For instance, in Q1FY25, high frequency indicators such as GST collections, credit growth, services PMI, and port cargo traffic have noted an improvement. Further, as we also expect the latest budget to announce incentives to propel consumption, saving and investment, GDP growth is unlikely to falter even as global economy slows. Normal monsoon and lower rate of inflation will provide additional support to consumption and rural spending. Higher than expected surplus transferred from RBI, will support revenue growth of the government, and give room for additional spending. This suggests that both real and nominal GDP will hold ground, thus giving more room for the government to push fiscal deficit ratio to a lower level. Assuming this, nominal GDP is estimated to register 11-11.5% growth in FY25 (supported by base effect, normal monsoon, gradual decline in inflation, and revival in rural growth). As a result, estimate of fiscal deficit is expected to come in at ~Rs 16-16.9 lakh crore, implying a deficit of ~4.9-5.1% (~10-30bps less than FY25’s interim budget target of 5.2%), and closer to <4.5% target for FY26.

Table 1: Scenario-wise movement in fiscal deficit

Reduction from 5.2% FD target (FY25IBE)	FY25E Fiscal Deficit (in Rs crore)
	11% growth over FY24PA
10bps reduction (5.1%)	16.85
20bps reduction (5%)	16.55
30bps reduction (4.9%)	16.15
	11.5% growth over FY24PA
10bps reduction (5.1%)	16.95
20bps reduction (5%)	16.55
30bps reduction (4.9%)	16.05

Source: Bank of Baroda Research| Note: E- Bank of Baroda Estimates

Receipts growth to lend support

On the revenue side, tax receipts would be critical in determining the extent to which fiscal consolidation can be achieved this year. Since receipts move broadly in sync with the state of the economy, this implies that as nominal GDP is expected to clock ~11-11.5% (10.5% in Interim Budget), revenues will also grow in similar range.

In FY24, as per provisional actual data, centre's net revenue collections came in higher (14.5%) than what was projected (13.3%) as per the revised estimates in the interim budget (IB). This was purely due to jump in non-tax revenue receipts, which rose by 40.8% to Rs 4 lakh crore compared with RE of Rs 3.75 lakh crore (+31.7%). In case of tax revenue, the increase was only marginal (~Rs 2,600 crore) bringing the number to Rs 23.3 lakh crore (+10.9%) from RE of Rs 23.2 lakh crore (+10.8%).

Now, taking into account these provisional actuals for FY24, if government sticks to the interim budget targets for FY25, then we are looking at 10% growth in centre's net revenue receipts (versus 11.2% target set in IB), driven by 11.8% growth in tax receipts (11.9% as per IB) and (-) 0.5% decline in non-tax receipts (+6.4% as per IB).

However, certain circumstances have changed since the government presented its interim budget in Feb'24. Hence we expect certain tweaks in the receipt numbers. The most important update available is the windfall surplus transfer from RBI to the government of Rs 2.1 lakh crore. This is almost double of what the government had budgeted. This implies extra fiscal space of ~Rs 1 lakh crore with the government to boost consumption, savings and investment, while still adhering to the path of fiscal consolidation.

Tax receipts

In our base case scenario, we assume that government may announce certain **changes under direct taxes**, mainly for individual tax payers. These could include: increase in standard deduction limit under the new tax regime, increase in savings limit under section 80C of the old tax regime or increase in exemption limit under the home loan scheme. Further, to increase adoption of the new tax regime, there may also be changes in certain tax slabs under it.

In case of **indirect taxation**, as collection from custom duties in FY24 have already surpassed the FY25 interim budget target, we expect the new target to be revised upward (from FY24) by Rs 10,000-12,000 crore (similar to the quantum announced in the interim budget). GST collection growth will also be brought more in line with nominal GDP growth and can see some increase.

Non-Tax receipts

The bumper increase in RBI's surplus transfer to government will be reflected in FY25BE. As a result, dividend and profit target is expected to be revised upward by ~Rs 1 lakh crore to nearly Rs 2.5 lakh crore. We do not expect changes to other sub-components in this segment. Now, if government decides to increase the GDP estimate by 11.5% (best case scenario) versus 10.5% estimated in the interim budget, then it can use ~Rs 70,000 crore of Rs 1 lakh crore surplus, as its savings (higher overall receipt growth) and use the remaining the finance the fiscal deficit.

Disinvestment and Capital receipts

Miscellaneous receipts (which now includes disinvestment receipts) in FY24 were targeted at Rs 30,000 crore and as per the provisional actuals, these receipts came in at ~Rs 33,000 crore. In the interim budget, this target was set higher at Rs 50,000 crore. This could be retained or lowered only marginally given the higher surplus received from the central bank. . Apart from this, government is also likely to take steps to lower its public debt burden. In doing so, it may decide to reduce its reliance on borrowing from small saving funds, as the cost of borrowing from these funds remains higher than the current 10Y G-Sec yield.

Gross borrowing programme

In FY24, government met its gross borrowing target of Rs 15.4 lakh crore and net borrowing target of Rs 11.8 lakh crore. Now, for FY25, government announced a gross borrowing program of Rs 14.13 lakh crore and net borrowing of Rs 11.75 lakh crore in the interim budget. Given the higher than expected surplus from RBI, government may use this space to lower its market borrowing program as liquidity conditions still remain tight. On the other hand, there is also a possibility that no change in program is announced if government takes into account the supply of papers needed in the wage of India's inclusion into the JP Morgan EM Bond Index. In that case, government may only rely on reducing borrowing from NSSF.

Holistic spending push

Rural India to gain

In the final budget for FY25, we expect the government to announce measures to push rural growth and spending higher. As the earlier budget was only an interim one, the government could not announce any new policy measures (as per practice), thus we now expect a slew of announcements.

To provide further boost to farmer incomes, outlay of PM Kisan Samman Nidhi (PM-Kisan) can be increased. To further aid incomes, government may also push the outlay for MG-NREGA higher. Greater focus on PM-Awas Yojna (PM-AY) can also be expected. In addition, to align to government's broader vision of sustainable development in the wake of climate change, this budget may also enhance its emphasis on PM-Krishi Sinchayee Yojna, which pays attention to irrigation management. We may see an increased outlay here as well.

Revenue and capital both to get a bump up

We expect budget to maintain momentum on the capital expenditure front, to improve the quality of spending and crowd-in private investments. Enhanced fiscal space available due to possibility of higher than expected GDP growth (assuming best case scenario of 11.5% growth) and windfall RBI surplus transfer, will allow government to increase capital expenditure by Rs 10,000-20,000 crore from the target of Rs 11.11 lakh crore set in the interim budget. In terms of % of GDP (assuming 11.5% growth), this will would be 3.4-3.5% versus 3.4% as per IB. Revenue expenditure is also expected to receive a bump up of Rs 40-50,000 crore. Overall, we may see an increase of Rs 50-70,000 crore in headline expenditure.

Subsidy levels

In the interim budget, government had pushed subsidy estimates for FY24 higher from BE of Rs 3.75 lakh crore to RE of Rs 4.13 lakh crore. Actual data shows, subsidies in FY24 reached Rs 4.14 lakh crore. From this level, government has decided to rationalise subsidy bill to Rs 3.81 lakh crore in FY25. **We expect government to stick to this target.** Food subsidy estimate already includes the cost of extension of PM-Garib Kalyan Anna Yojna (PM-GKAY). However, the only upside risk possible is from increase in fertilizer subsidy. While this is not our base case scenario, but in case government increases the fertilizer subsidy, it may do so by Rs 10-20,000 crore.

Size of the budget

Size of the budget is likely to range between Rs 48.2-48.4 lakh crore in FY25.

Table 2 – Budget size

(Rs lakh crore)	FY24RE	FY24PA	FY25IBE	FY25E
Size	44.9	44.4	47.7	48.2-48.4

Source: CEIC, Union Budget Documents, Bank of Baroda Research | Note: RE- Revised Estimates; PA- Provisional Actuals, IBE-Interim Budget Estimates, E-BoB estimates

In conclusion:

As the budget presented on 23 July 2024 will be the 1st for NDA 3.0, we expect government to stick to its path of fiscal consolidation, without compromising on quality of expenditure. In the wake of slowing global growth and to maintain momentum in domestic growth, focus will be on improving rural and urban consumption, savings and investments. In addition, we also expect this document to reflect government's vision for turning India into 'Viksit Bharat' by 2047. Important schemes such as PM-KISAN, MG-NREGA, and Housing for all, will continue to hold significant importance. In addition, focus on infra spending will also remain. Crowding in of private investments will be credit positive for banks. In addition, if incentives are announced to increase savings, then banks may benefit from that too. On the receipt front, certain reductions can be expected if government decides to relieve the burden of individual tax payers and give incentives for savings. The fiscal space available will also be used for easing the debt burden of the government. However, we believe borrowing program to remain unchanged, taking advantage of softer yields.

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