23rd July 2024

Fig.1: Fiscal consolidation glide path to continue, targeting 4.5% in FY26

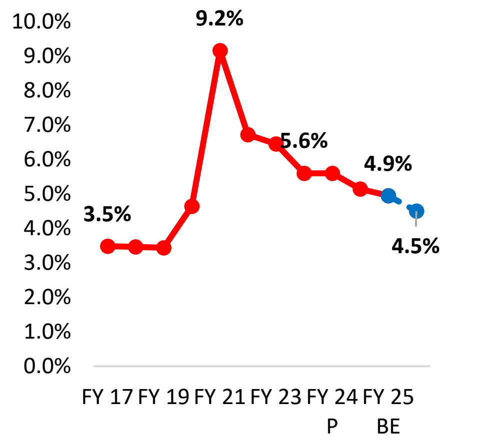
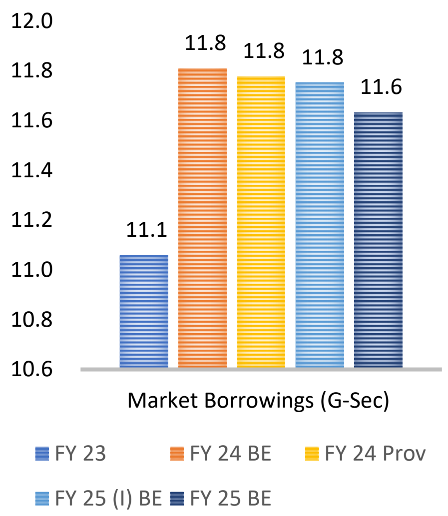


Fig.2: Borrowings cut reflected in T-Bills rather than dated securities



Fiscal deficit lowered to 4.9% of GDP in line with our expectations (*Watch: Fincast*)

The FY25 Budget saw a "fine balance", with the Finance Minister staying committed to the goals of fiscal consolidation and capex while also addressing competing policy priorities of boosting consumption and job creation. The headline FY25 fiscal deficit number was lowered in line with our below consensus expectation of 4.9% of GDP vis-à-vis 5.1% in the Interim Budget. In our view, the comprehensive Budget document can be summed up as a tale of 3 R's:

i) **Revex** - streaks of populism were visible in the Budget with revenue expenditure target revised up by Rs 60,000 cr vis-à-vis interim Budget to Rs 37.1 lakh cr while the capex budget was kept unchanged. It needs to be noted that the amount allocated to coalition partners (c.Rs.15,000 cr to Andhra Pradesh and c.Rs.60,000 cr to Bihar) is primarily via multilateral institutions with limited fiscal impact;

ii) **Reform** - the Budget lays down the idea of an economic policy framework for the next 5 years and is focused on the crucial sustainability frameworks together i.e. macro stability, financial stability and debt sustainability with critical steps taken to address the excess liquidity flow into asset classes like equity, real estate etc away from bank deposits (especially CASA); and

iii) **Rationalisation** - this was one of the first Budgets taking a comprehensive look at tax rationalization on various segments - capital markets, income taxes, custom duties among others.

Interestingly, our Interim Budget report, was titled a "FY25 Budget - A Tale of 3 C's" which denoted "Consolidation, Credible and Capex". The journey from interim to final Budget saw the ruling party clock slimmer majority in elections while degrees of freedom were created by RBI dividend bounty, high tax buoyancy and strong cash balance. **Hence, the shift was seen from the 3 C's to the 3 R's** as the government stayed committed to the original goals (3 C's) with some streaks of populism sinking in even as the reform roadmap was laid out.

Budget Math look reasonable, yet FM relying on repeat of strong income tax buoyancy

The revenue numbers for the final FY25 budget have been broadly similar to our budget expectations. The tax numbers were broadly kept unchanged with conservative estimates of close to 1. There is some scope of upside in this case given that the tax buoyancy clocked 1.4 last year and as the nominal GDP growth assumption of 10.5% may see some upside risk towards 11% mark.

More importantly, the Budget covers a series of tax rationalisation measures – income tax cuts via hike in standard deduction, rate cuts for Rs. 10-12 lakh income slab along with reduction in custom duties for various sectors mostly offset by hike in capital gains taxes and securities transaction taxes among others. While the FM mentioned about the net tax revenue foregone of Rs. 7,000 cr. However, the budget for income taxes has been hiked by c.Rs.30,000 cr in FY25. This implies that while the FM's overall tax assumptions appear conservative with respect to income tax, the Budget expects tax buoyancy to be relatively elevated at 1.66 even if it is lower versus 2.2 in FY24 on better tax compliance.

Meanwhile, non-tax revenue budget was raised as expected by c.Rs 1.5 lakh cr on RBI dividend bounty of Rs 2.1 lakh cr (vs Rs 88,000 cr in Interim Budget) along with higher PSU dividends. Apart from this, the divestment numbers were kept unchanged at Rs. 50,000 cr in line with our expectations.

While the revenue numbers were in line, we received some surprise in terms of spending allocation of the higher revenues. The capex number was kept unchanged at Rs. 11.11 lakh cr as against our expectations of a hike in allocation by c.Rs.40,000 cr, the revenue expenditure (revex) budget was revised up by Rs. 55,000 cr. Off the hike in FY25 Revex budget by c.Rs.20,000 cr vis-à-vis interim budget came from subsidy bill primarily in Price Stabilisation Fund. ThInterestingly, the Rs 70,000 cr unallocated capex in the Interim budget within Department of Economic Affairs (probably as the economy is reaching its absorptive capacity of public capex) was reduced only marginally to Rs.64,668 cr. It is key to note that capex loans to states has been enhanced by Rs. 20,000 cr to Rs 1.5 lakh cr.

Dated G-sec borrowings higher vs our est.; FD reduction done mainly via T-bills

While we were correct on the headline fiscal deficit no. showing a fall in absolute deficit by Rs.70,000 cr vs interim Budget, the extent of drop in dated G-sec borrowings was much less than expected. As per our estimates, we assumed that most of the fall in fiscal deficit would reflect in dated G-sec borrowings, the Finance Minister decided to make it reflect in T-bill borrowings. The strong demand for the former especially from FPIs post global bond index inclusion may have been a motivation to do the same. Meanwhile, the small savings numbers were revised lower vis-à-vis interim budget by c.Rs 40,000 cr. This is probably attributed to the steep hike in deposit rates by banks which is already weighing on collections, with FY24 provisional estimates lower vis-à-vis revised estimates by c.Rs 20,000 cr.

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More importantly, after building the cash balance by c.Rs 1.72 lakh cr in FY24, the government intends to drawdown a significant part of the same to the tune of Rs. 1.40 lakh cr in FY25. Despite this, the dated G-Sec borrowings did not see much drop as the impact was offset by net redemption of c.Rs 81,000 cr in Public account sub-segment. The drain in latter in our view is partly attributable to the use of Rs. 1.23 lakh cr of collections in the GST compensation fund for helping meet the large G-Sec redemption requirement.

From market view perspective, we maintain Positive outlook on long duration bonds on favourable demand supply dynamics. More importantly with the fall in supply the outlook for the shorter end of the curve has also received a boost from this Budget. This is also likely to be boosted by a strong liquidity outlook on significant drawdown in cash balance. In this regard, a case for liquidity withdrawal measures from the RBI viz. OMO sales may arise later in the year and will be closely watched.

An attempt to address all 3 together - macro & financial stability along with debt sustainability

The most important achievement of this Budget has been the focus on addressing all 3 together – i) macro stability - the sustained focus on fiscal consolidation with the government providing for a roadmap to reduce fiscal deficit further to 4.5% of GDP is a key positive; ii) financial stability – the above average returns being clocked in asset classes like equity, real estate and gold driving household savings away from bank deposits thereby driving credit to deposit ratios to record highs thereby exacerbating fight for deposits, the tax rationalisation (capital gains tax hikes in equity/MFs, indexation benefit taken away in real estate/gold even as long-term capital gains tax has been cut to 12.5% from 20%) is a step in the right direction; and iii) debt sustainability – the focus on reducing the government debt to GDP levels was asserted by the Finance Minister, with the roadmap calling for a fall in debt levels to 56.8% in FY25 from 58.1% last year.

Economic policy framework laid out for next 5 years

The Finance Minister mentioned about a strategy document on the economic vision for the next 5 years in order to transition towards Viksit Bharat 2047. This included reform measures like broad based focus on job creation and skilling (FY25 cost estimated at c. Rs.10,000 cr), boosting the MSME sector which is the backbone of overall manufacturing sector along with reducing cost of capital via lower borrowings to lay the foundation for capex led high growth low inflation economic model.

Fig.3: Factors contributing to reduction in Fiscal Deficit vis-à-vis Interim Budget

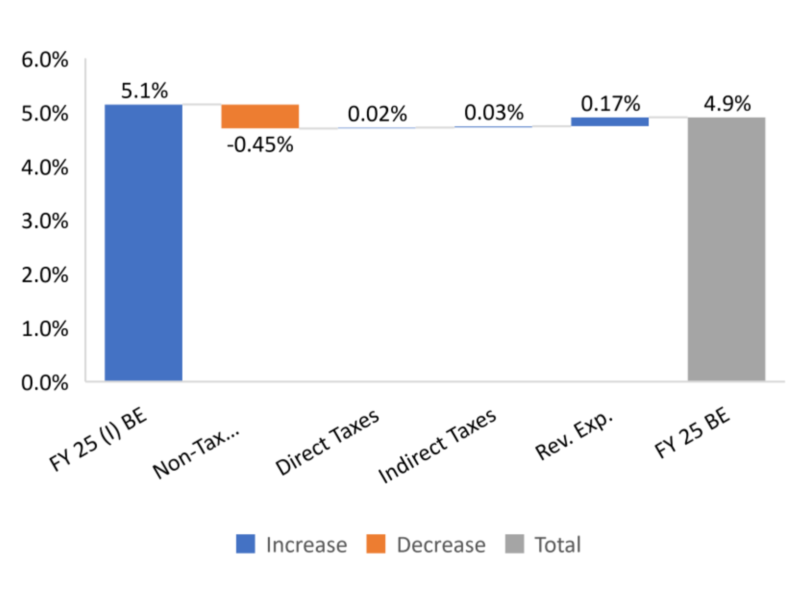

Fig.4: Increase in Income Tax Buoyancy vis-à-vis Interim Budget offset Revenue foregone on a/c of Income Tax cut

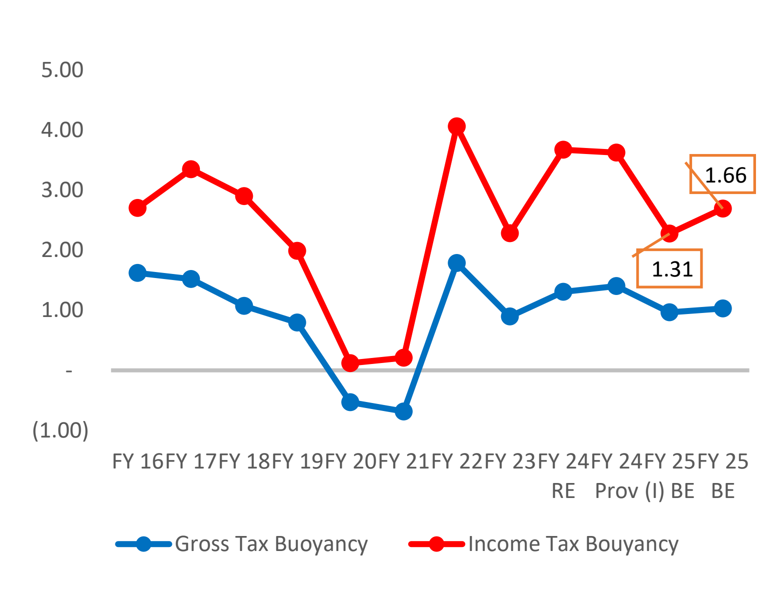

Fig.5: Gross Tax Buoyancy still holds scope for incremental Revenue

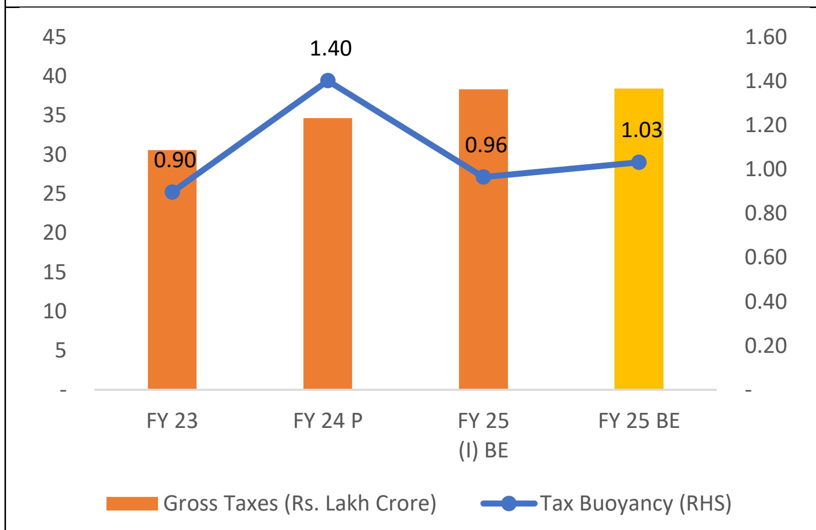

Fig.6: Tax to GDP at multi-year high led by Direct Taxes; % of GDP

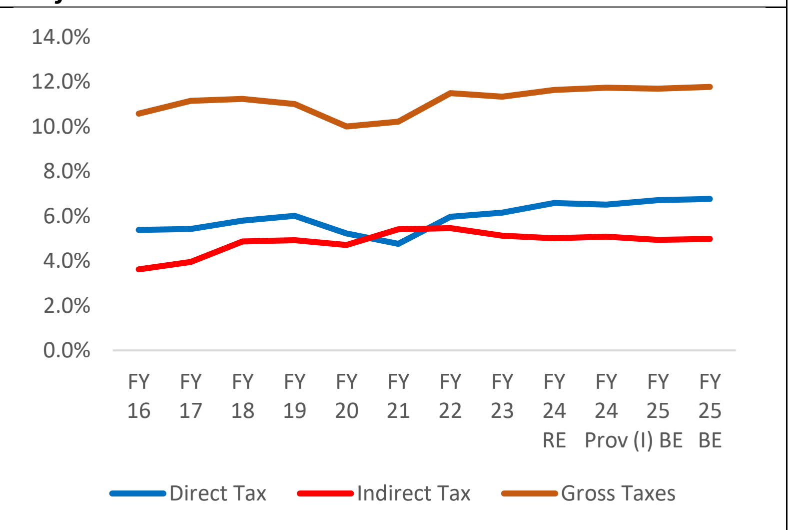

Fig.5: Budget Math looks reasonable with Fiscal consolidation in line with our expectations

Budget (INR Lakh crore)	FY 24 Prov	FY 25 (I) BE	FY 25 BE Exp	FY 25 BE	FY 24 Prov	FY 25 (I) BE	FY 25 BE Exp	FY 25 BE
					(% of GDP)			
Total Receipts	**27.9**	**30.8**	**32.2**	**32.1**	**9.4%**	**9.4%**	**9.9%**	**9.8%**
Revenue Receipts	27.3	30.0	31.4	31.3	9.2%	9.2%	9.6%	9.6%
-Direct Taxes	19.2	22.0	22.1	22.1	6.5%	6.7%	6.8%	6.8%
-Indirect Taxes	15.0	16.2	16.2	16.2	5.1%	5.0%	5.0%	5.0%
-Non-Tax Revenue Receipts	4.0	4.0	5.3	5.5	1.4%	1.2%	1.6%	1.7%
-Non-Debt Capital Receipts	0.6	0.8	0.8	0.8	0.2%	0.2%	0.2%	0.2%
Total Expenditure	**44.4**	**47.7**	**48.4**	**48.2**	**15.0%**	**14.6%**	**14.8%**	**14.8%**
-Revenue Expenditure	34.9	36.5	36.9	37.1	11.8%	11.2%	11.3%	11.4%
-Capital Expenditure	9.5	11.1	11.5	11.1	3.2%	3.4%	3.5%	3.4%
Fiscal Deficit	**16.5**	**16.9**	**16.2**	**16.1**				
Fiscal Deficit % of GDP	**5.6%**	**5.1%**	**4.9%**	**4.9%**				

Fig.6: Deficit financing presents a twisted tale

Sources of Financing Fiscal Deficit (Rs.in Lakh crore)	FY 23	FY 24 BE	FY 24 Prov	FY 25 (I) BE	FY 25 BE
Market Borrowings (G-Sec)	11.1	11.8	11.8	11.8	11.6
Short Term Borrowing (T-Bills etc.)	1.1	0.5	0.5	0.5	-0.5
Securities against Small Savings	4.0	4.7	4.5	4.7	4.2
State Provident Funds	0.1	0.2	0.1	0.1	0.1
Other Receipts	0.8	0.5	0.8	-0.3	-0.8
External Debt	0.4	0.2	0.6	0.2	0.2
Draw Down of Cash Balance	-0.0	-0.1	-1.7	0.0	1.4
Fiscal Deficit	**17.4**	**17.9**	**16.5**	**16.9**	**16.1**

Fig.7: Sectoral Impact in a nutshell

Sector	Impact
Agriculture	Positive
Automobile	Neutral
Banking	Positive
Capital Market	Negative
Consumption	Positive
Energy	Positive
FMCG	Positive
Infra	Positive
Mining	Positive
MSME	Positive
Pharma	Positive
Real Estate	Negative
Tourism	Positive
Urban Development	Positive

Source: Budget Documents, CEIC, UBI Research

Budget 2024 - Key Sectoral Highlights

Sector	Announcements
Priority Areas	**Nine Priorities in Budget 2024** 1. Productivity and Resilience in Agriculture 2. Employment and Skilling 3. Improved Human Resources, Social Justice 4. Manufacturing and Services 5. Urban Development 6. Energy Security 7. Infrastructure 8. Innovation, Research, and Development 9. Next Generation Reforms
Capital Market	• Tax Rate Reduction for Foreign Companies: The budget proposes to reduce the income tax rate for foreign companies from 40% to 35%. • Customs Duty Cut: The budget proposes to cut customs duties to facilitate trade and economic growth. **Capital Gain Tax** • Rationalization of Capital Gains Tax: The budget aims to rationalize and simplify the taxation of capital gains. • Long-Term Capital Gains (LTCG) Tax Rate: The LTCG tax rate has been increased to 12.5% from 10% for assets held for more than one year. • Short-Term Capital Gains (STCG) Tax Rate: The STCG tax rate has been increased to 20% from 15% for assets held for less than one year. • Long-Term Capital Gains Exemption: The exemption limit for LTCG has been increased to ₹1.25 lakhs from ₹1 lakh. • Indexation benefit long-term capital gains on sale of property and gold removed (this may cap the upside on physical savings of households. **Securities Transaction Tax (STT)** • STT Rate Hike: The STT rate has increased to 0.02% from 0.0125% for futures and to 0.1% from 0.0625% for options. • Taxation of Buybacks: Income received from share buybacks will be taxed in the hands of the recipient.
Consumption led Sectors	**Income tax rationalisation** to help a salaried employee in the new tax regime save up to ₹ 17,500/- in tax is a demand booster • Standard deduction hiked from Rs 50,000/- to Rs 75,000/- • Deduction on family pension for pensioners enhanced from ₹ 15,000/- to ₹ 25,000/ • Slab changes in new tax regime with a lower tax slab of 15% from Rs 10-12 lakhs introduced
Agriculture	• Allocation for Agriculture Sector: ₹1.32 lakh crore has been allocated for the agriculture sector in the Union Budget 2024. • High-Yielding and Climate Resilient Varieties: 109 new high-yielding and climate-resilient varieties of 32 field and horticulture crops will be released for cultivation by farmers. • Natural Farming: In the next two years, one crore farmers will be initiated into natural farming supported by certification and branding. • Digital Public Infrastructure: The government will work with states to promote digital public infrastructure for agriculture, including digital crop surveys and farmer and land registries. • Agricultural Research: The government will undertake a comprehensive review of agricultural research to focus on improving productivity and developing climate-resilient varieties. • Cooperation Policy: A National Cooperation Policy will be introduced to ensure the systematic and orderly development of the cooperative sector, focusing on rural economic growth and employment opportunities.
	• Increased Loan Limit: The loan limit for MUDRA loans has been increased from Rs 10 lakh to Rs 20 lakh. • Rs 100 crore credit guarantee: The scheme provides a credit guarantee of up to Rs 100 crore to MSMEs for purchasing machinery and equipment • No collateral or third-party guarantee: The scheme allows MSMEs to avail term loans without providing any collateral or third-party guarantee • Continuation of Bank Credit: A new mechanism will be introduced to ensure the continuation of bank credit to MSMEs during their stress periods.

MSME	• In-house credit assessment: Public sector banks will develop their in-house capability for credit assessment of MSMEs, instead of relying on external assessment based on the digital footprint. • Reduced turnover threshold for TReDS: The turnover threshold for mandatory onboarding of buyers on the TReDS platform has been reduced from Rs 500 crore to Rs 250 crore. • Extension of Corporate Tax Rate: The government is considering extending the lower 15% corporate tax rates for new manufacturing units for another 3 to 5 years to attract new investments, boost production, and stimulate capital inflow and expenditure. • Global Capability Centres: The government is considering setting up global capability centres (GCCs) in India to help move India up the value chain from mere offshore support services to centres of excellence. • Industrial Parks: The government has announced the establishment of 12 industrial parks under the National Industrial Corridor Development Program.
Urban Development	• PM Awaas Yojana-Urban 2.0: Under the PM Awas Yojana Urban 2.0, housing needs of 1 crore urban poor and middle-class families will be addressed with an investment of ₹ 10 lakh crore. This will include the central assistance of ₹ 2.2 lakh crore in the next 5 years. • Moderating Stamp Duty Rates: The government will encourage states to moderate stamp duty rates and will consider further lowering duties for properties purchased by women. • PM Awas Yojana-Gramin (PMAY Rural): The government has announced support for the construction of an additional 2 crore houses over the next five years under PMAY Rural. • The budgetary allocation for PMAY has been increased to Rs 80,671 crore for 2024-25, up from Rs 79,590 crore in 2023-24.
Employment and Skilling	• New Centrally Sponsored Scheme: A new centrally-sponsored scheme for skilling 20 lakh youth over the next five years has been announced. • Model Skill Loan Scheme: The Model Skill Loan Scheme will be revised to facilitate loans up to Rs 7.5 lakh, expected to help 25,000 students per year. • Internship Opportunities: Internship opportunities for 1 crore students in top companies have been announced, with a 12-month internship and a monthly allowance of Rs 5,000. • First Timer Scheme: This scheme will provide one month's wage to first-time workers entering the workforce in the formal sector, with individuals getting up to Rs. 15,000 in three instalments. • Manufacturing Jobs Assistance: Incentives of specified scale directly to employees and employers in the first 4 years of employment will be provided to employees entering manufacturing jobs, benefiting 30 lakh youth and employers. • Support to Employers: Additional employment in all sectors within a salary of 1 lakh/month will be provided at Rs. 3,000 per month for 2 years to cover EPFO charges, incentivizing additional employment of up to 50 lakh persons. • Financial Support for Higher Education: Financial support for loans up to Rs 10 lakh for higher education in domestic institutions will be provided to students who have not yet benefited from any government schemes.
Energy	• Initiatives with private sector in Nuclear Energy. • **Setting up Bharat Small Reactors.** • R&D of Bharat Small Modular Reactor and newer technologies for nuclear energy • Financial support for shifting micro and small industries to cleaner forms of energy. • Facilitate investment grade energy audit in 60 clusters, next phase expands to 100 clusters. • Pumped Storage Policy: For electricity storage and facilitation of smooth integration of the growing share of renewable energy. • AUSC Thermal Power Plants: A joint venture between NTPC and BHEL will set up a full scale 800 MW commercial plant. • PM Surya Ghar Muft Bijli Yojana- 1 crore Households obtain free electricity (Up to 300 Units every month), 1.28 crore Registrations and 14 lakh applications so far.

Infrastructure	• Rural Development: A budget of Rs 2.66 lakh crore has been allocated for rural development, including rural infrastructure projects. • Digital Public Infrastructure: Efforts will be made to implement Digital Public Infrastructure (DPI) in agriculture to cover farmers and their lands within a three-year timeframe. • Purvodaya Initiative: A new initiative called Purvodaya has been launched for the comprehensive development of Bihar, Jharkhand, West Bengal, Odisha, and Andhra Pradesh. • Road Connectivity: The government will enhance road connectivity through projects such as the Patna-Purnea Expressway, the Buxar-Bhagalpur Expressway, spurs to Bodhgaya, Rajgir, Vaishali, and Darbhanga, and an additional two-lane bridge over the Ganga River at Buxar, with a total investment of ₹ 26,000 crore. • Provision of ₹11,11,111 crore for infrastructure (3.4% of GDP). • ₹1.5 lakh crore to states vis-à-vis ₹1.3 lakh Crore in the interim budget implying the government want to spend more via interest free loans to states. • Phase IV of PMGSY will be launched to provide all weather connectivity to 25,000 rural habitations.
Tourism	• Development of Vishnupad Temple Corridor and Mahabodhi Temple Corridor modelled on Kashi Vishwanath Temple Corridor. • A comprehensive development initiative for Rajgir will be undertaken which holds religious significance for Hindus, Buddhists, and Jains. • The development of Nalanda as a tourist centre besides reviving Nalanda University to its glorious stature. • Assistance to development of Odisha's scenic beauty, temples, monuments, craftsmanship, wildlife sanctuaries, natural landscapes and pristine beaches making it an ultimate tourism destination.
Research & Development	• A Rs 1 lakh crore fund: dedicated to research and innovation, adopting the slogan Jai Jawan, Jai Kisan, Jai Vigyan, Jai Anusandhan (Salutations to Soldiers, Salutations to Farmers, Salutations to Science, Salutations to Research) • A venture capital fund: of Rs 2,000 crore will be set up to expand the space economy in the next 10 years • Jai Anusandhan scheme: Rs 1 lakh crore has been announced as a corpus fund, through which private entities may opt for an interest-free loan for 50 years • Allocation in Central Universities: Rs. 15928.00 Cr, i.e, Rs 4314.03 Cr more than allocation in BE 2023-24 • Allocation in IITs: Rs. 10324.5 Cr in 2024-25, which is Rs. 963.00 cr more than allocation in BE 2023-24
Package for Bihar	• Road Connectivity Projects: A budget of ₹26,000 crore has been allocated for road connectivity projects in Bihar, including the Patna-Purnia Expressway, Buxar-Bhagalpur Expressway, Bodh Gaya, Rajgir, Vaishali, and Darbhanga spurs, and a two-lane bridge over the River Ganga at Buxar. • Power Plant: A 2,400-MW power plant will be set up in Pirpainti, Bhagalpur, at a cost of ₹21,400 crore. • Industrial Development: The government will support the development of an industrial node in Gaya on the Amritsar-Kolkata industrial corridor. • Airports, Medical Colleges, and Sports Infrastructure: New airports, medical colleges, and sports infrastructure will be constructed in Bihar. • Flood Control Measures: An allocation of ₹11,500 crore has been made for flood control measures in Bihar. • Temple Corridors: The Vishnupad Temple in Gaya and Mahabodhi Temple in Bodhgaya will be supported and transformed into world-class heritage on the lines of Kashi Vishwanath Corridor.
Package for Andhra Pradesh (AP)	• Capital Development: ₹15,000 crore has been allocated for the development of the new capital city of Andhra Pradesh, Amaravati through loans from multilateral agencies. • Polavaram Irrigation Project: The government is committed to financing and completing the Polavaram Irrigation project, which is considered a lifeline for Andhra Pradesh and its farmers. • Backward Region Grants: Three districts of Andhra Pradesh will receive backward region grants to promote industrial development and infrastructure growth. • Industrial Development: Funds will be provided for essential infrastructure such as water, power, railways, and roads to promote industrial development in the state. • Grants for Backward Regions: Grants will be provided for the backward regions of Rayalaseema, Prakasam, and North Coastal Andhra Pradesh, as stated in the Andhra Pradesh Reorganisation Act.

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