

- **Union Budget 2025-26: Fiscally Prudent with focus on the 3 D's - Demand, Deregulation and Development**

The overall focus of the Union Budget 2025-26 remained on balancing fiscal prudence with growth-oriented spending, ensuring higher disposable incomes and support pickup in private capex. Agriculture, MSME, Investment, and Exports were the four powerful engines identified which can be supportive of the lagging banking sector credit demand. Fiscal deficit was budgeted to consolidate to 4.4% of GDP in FY26 from 4.8% in FY25 (BE: 4.9%). Consolidation to be achieved via expenditure rationalization while revenues remaining flat. There was focus on maintaining quality of spending with capex kept unchanged as % of GDP and revenue expenditure (revex) taking the hit. More importantly, fiscal math looks "credible". The nominal GDP growth of 10.1% from less than 10% in last two years is credible. However, while overall tax buoyancy is assumed to stay at ~1, income tax growth of 14.4% looks on the higher side despite revenue foregone of -Rs 1 lakh crore on tax cuts. Yet, an improved tax compliance seen in recent years may continue to provide a fillip to growth. While infra stayed the key focus area with some efforts to diversify capex spend into urban infra, science & technology etc, capex budget showed govt. hitting absorptive capacity in sectors like roads and railways. There was also focus on MSMEs, ease of doing business by placing greater trust in self-regulation/self-assessment, promising to lighten income tax provisions, reducing compliance burdens across various laws and deregulation push for Viksit Bharat. (Please see report "[FY'26 Budget: Fiscally Prudent with focus on the 3 D's - Demand, Deregulation and Development](#)")

Weakness in consumption recovery has been one of the key concerns for the economy. The personal income-tax cuts proposed (no income tax payable up to Rs 12 lakh) would give boost to consumption demand. The income tax cuts provided would result in a revenue loss of Rs 1 lakh cr. Growth boost from income tax cuts likely to be at least 0.3-0.4% of GDP using tax multiplier of -1. Using RBI estimates of an average marginal propensity to consume of 0.54 making tax multiplier of 1.16. There is an upward bias to our estimate given MPC may be higher for low-income segments. We compliment the government as it seeks to address the core issue of weak demand affecting the Indian economy despite the strict fiscal constraints.

Government endeavours to keep fiscal deficit in each year (from FY27 till FY31) such that the Central Government debt is on declining path to attain a debt to GDP level of about 50±1 per cent by 31st March 2031 (the last year of the 16th Finance Commission cycle). This requires the government to maintain stringent focus on fiscal consolidation. Net borrowings is assumed to remain flat at Rs 11.7 lakh crore. However, negative surprise in gross borrowing budgeted at Rs 14.8 lakh cr from Rs 14 lakh cr in FY25 yet impact on bond markets has been limited given the government remains firmly focused on fiscal consolidation in the long term.

- **Focus now shifts to RBI MPC outcome on 7th Feb**

The upcoming MPC meet would be the first policy decision under the new RBI Governor Sanjay Malhotra and will be keenly watched. For the new RBI Governor, the three policy focus areas in the order of priority are **Rupee, Liquidity and Rates**. With timely forex market interventions by the RBI to help reduce volatility, the rupee has been trending towards its fair value. With the liquidity deficit in the banking system hitting close to Rs 3 lakh crore in end-January (highest levels in more than a decade), the RBI had announced a number of liquidity measures worth Rs 1.5 lakh crore on 27th Jan'25. Accordingly, to ease the situation, the central bank would hold open market operations (OMOs) of Rs 60,000 crore in three tranches, dollar-rupee buy/sell swap auction of USD 5 billion for a tenor of six months and a 56-day variable rate repo auction of Rs 50,000 crore. With the host of durable liquidity measures announced, we do not see the need for a repeat of a CRR cut. The need for further steps to ease liquidity (if any) is contingent on FX flows and consequently, global factors. (Please see report "[RBI's liquidity steps to provide significant relief; all eyes now on Budget & MPC](#)")

With liquidity measures having been initiated, the focus now turns to rates. It is widely expected that the RBI may go for a 25bps rate cut to further ease liquidity and support growth. With the Union Budget announcing measures to support consumption while maintaining a fiscal consolidation path, there are expectations that the RBI would initiate a rate cut to stimulate sluggish economic growth. A rate cut at this point, is seen impending due to weak growth, slow recovery in urban consumption and capital expenditure, expectations of declining inflation, and fiscal prudence demonstrated in the Budget. Also, the recent liquidity measures announced by the RBI have further increased this possibility. Hence, we see start of a shallow 50bps rate cut cycle in the 5 to 7th February MPC meeting. While in an inflation targeting framework, FX is allowed to become the shock absorber on global developments, we still see the space being limited amid global volatility and paring of Fed rate cut expectations.

As regards growth and inflation outlook, with the govt. toning down the growth estimates for FY25 to 6.4% as against Dec'24 MPC's estimate of 6.6%, the RBI is likely to lower its projections for the current fiscal. In specific, we will watch out for downward revision in the MPC's Q3 FY25 growth projection of 6.8% versus our estimate of ~6% and 6.2% flagged in the RBI Bulletin. Additionally, growth projections for FY26 will be in focus versus 6.3-6.8% given by the Economic Survey. More importantly, we see downside risk to the MPC's inflation projections, with Q4 FY26 forecast of 4.5% tracking ~4% as per our estimates.

By:

Kanika Pasricha
kanika.pasricha@unionbankofindia.bank

Jovana Luke George
jovana.george@unionbankofindia.bank

Rohit Digambar Yarmal
rohitdigambar@unionbankofindia.bank

Economy Dashboard

MACRO-ECONOMIC DASHBOARD														
Industrial Sector	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24
IIP (YoY Gr%)	2.47	4.39	4.21	5.60	5.47	5.19	6.25	4.93	4.98	0.00	3.09	3.66	5.17	
Mining (YoY Gr%)	7.01	5.20	6.02	8.13	1.30	6.77	6.56	10.30	3.75	-4.29	0.18	0.86	1.90	
Manufacturing (YoY Gr%)	1.31	4.62	3.64	4.94	5.90	4.18	5.10	3.53	4.71	1.18	3.89	4.36	5.81	
Electricity (YoY Gr%)	5.76	1.23	5.63	7.59	8.62	10.24	13.74	8.58	7.94	-3.72	0.49	1.96	4.42	
Core Infra Growth (YoY Gr%)	7.89	5.08	4.16	7.06	6.25	6.94	6.86	5.00	6.27	-1.45	2.44	3.71	4.39	3.97
Cement Production (YoY Gr%)	-4.75	3.84	4.06	7.82	10.58	0.16	-0.63	1.79	5.12	-2.53	7.58	3.14	13.48	4.01
Steel Production (YoY Gr%)	9.74	8.28	9.17	9.44	7.53	9.83	8.94	6.31	6.99	4.13	1.81	5.16	4.36	5.13
Petroleum Products (YoY Gr%)	12.36	4.09	-4.30	2.63	1.59	3.92	0.50	-1.54	6.62	-1.03	5.76	5.20	2.90	2.83
Fertilizers Production (YoY Gr%)	3.33	5.85	-0.59	-9.50	-1.27	-0.76	-1.66	2.45	5.31	3.15	1.89	0.37	2.02	1.67
Coal Production (YoY Gr%)	10.87	10.79	10.57	11.57	8.70	7.51	10.20	14.78	6.82	-8.05	2.64	7.76	7.49	5.29
Capital Goods Production (YoY Gr%)	-1.11	3.70	3.24	1.72	6.99	2.81	2.63	3.63	11.66	0.00	3.55	3.11	8.98	
PMI Manufacturing	56.00	54.90	56.50	56.90	59.10	58.80	57.50	58.30	58.10	57.50	56.50	57.50	56.50	56.40
PMI Services	56.90	59.00	61.80	60.60	61.20	60.80	60.20	60.50	60.30	60.90	57.70	58.50	58.40	59.30
Banking Sector	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24
Bank Credit (YoY Gr%)	22.22	19.95	20.30	20.50	20.16	19.01	19.78	17.36	13.71	13.59	13.03	11.52	10.64	11.16
Agriculture Credit (YoY Gr%)	18.11	19.39	19.99	20.00	19.97	19.84	21.60	17.41	18.09	17.73	16.36	15.48	15.34	12.46
Industry Credit (YoY Gr%)	6.06	8.04	7.97	8.89	8.51	7.37	9.36	8.13	10.16	9.71	8.94	7.88	8.03	7.24
Services Credit (YoY Gr%)	25.75	23.34	24.20	24.26	23.49	22.02	23.18	17.36	14.47	13.92	13.70	12.69	12.95	11.67
Retail Credit (YoY Gr%)	30.03	28.41	28.61	28.11	27.46	26.70	28.73	25.60	13.95	13.93	13.42	12.89	13.34	12.02
Bank Deposits (YoY Gr%)	14.21	13.28	13.20	13.12	13.47	12.56	14.02	11.12	10.57	12.72	10.38	11.50	11.25	9.83
Demand (YoY Gr%)	15.04	10.71	9.19	10.12	12.08	9.88	14.83	6.24	8.25	20.55	7.22	10.22	7.74	5.44
Time (YoY Gr%)	14.10	13.64	13.76	13.53	13.67	12.93	13.91	11.83	10.88	11.70	10.82	11.68	11.73	10.44
C-D Ratio (%)	79.60	79.50	80.00	80.20	80.30	79.50	79.60	79.30	79.30	78.40	79.20	79.40	79.50	80.40
Weighted Average Lending Rate Fresh Rupee Loans (%)	9.41	9.32	9.43	9.36	9.37	9.55	9.39	9.32	9.40	9.41	9.37	9.54	9.40	9.25
Weighted Average Deposit Rate (%)	6.79	6.83	6.85	6.86	6.89	6.91	6.92	6.91	6.92	6.93	6.95	6.96	6.98	7.00
Banking Sector	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24
UPI (No. in Cr)	1124	1202	1220	1210	1344	1330	1404	1389	1444	1496	1504	1658	1548	1673
IMPS (No. in Cr)	47.24	49.88	50.88	53.46	58.06	55.04	55.77	51.68	49.03	45.33	42.99	46.68	40.79	44.12
NPCI Retail Transaction value (Y-o-Y Gr%)	25.99	21.14	25.16	28.51	22.19	23.95	22.01	22.83	22.96	20.51	20.62	29.59	14.89	19.50
NPCI Retail transactions volume (Y-o-Y Gr%)	46.93	44.96	44.68	50.01	46.69	44.24	42.86	44.14	39.05	37.43	38.96	43.18	31.84	34.45
Inflation	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24
CPI (Y-o-Y Gr%)	5.55	5.69	5.10	5.09	4.85	4.83	4.80	5.08	3.60	3.65	5.49	6.21	5.48	5.22
Core CPI (Y-o-Y Gr%)	4.11	3.89	3.59	3.37	3.24	3.23	3.12	3.14	3.39	3.40	3.49	3.67	3.64	3.58
WPI (Y-o-Y Gr%)	0.39	0.86	0.33	0.20	0.26	1.19	2.74	3.43	2.10	1.25	1.91	2.75	1.89	2.37
Consumer	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24
Electricity Consumption (YoY Gr%)	6.15	0.80	5.54	8.86	9.99	9.02	13.62	8.01	3.98	-4.96	-0.78	-0.44	3.68	5.19
Petroleum Consumption (YoY Gr%)	-4.37	9.41	6.46	-4.84	15.31	-2.54	8.20	8.99	7.41	0.27	-10.56	8.40	1.01	4.05
Consumer Durables (YoY Gr%)	-4.83	5.24	11.58	12.56	9.53	10.55	12.63	8.82	8.21	5.36	6.48	5.69	13.15	
Consumer Non Durables (YoY Gr%)	-3.38	3.04	0.30	-3.17	5.22	-2.46	2.80	-1.02	-4.17	-4.38	2.17	2.60	0.57	
Unemployment (YoY Gr%)	8.88	8.65	7.40	8.10	7.40	8.10	7.00	9.20	7.90	8.50	7.80	8.80	8.80	9.80
Trade	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24
Merchandise Export (YoY Gr%)	-3.27	0.80	4.26	11.87	-0.63	1.98	13.27	2.43	-1.98	-9.93	-0.27	16.65	-5.06	-0.99
Merchandise Import (YoY Gr%)	-3.32	-6.65	1.99	13.69	-6.39	11.09	7.25	4.62	6.27	0.44	-0.88	-1.15	15.99	4.90
Service Export (YoY Gr%)	4.16	1.74	10.75	3.43	-1.40	17.06	9.69	3.16	16.60	5.66	14.61	22.32	13.90	16.52
Service Import (YoY Gr%)	-11.13	-1.05	0.10	1.72	-2.12	19.99	6.18	-3.08	15.98	9.07	13.49	27.90	25.95	13.78
Logistics	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24
E Way bill generated (Nos. in Cr)	8.76	9.53	9.60	9.73	10.35	9.67	10.32	10.01	10.49	10.55	10.91	11.73	10.18	11.20
Air Freight (YoY Gr%)	5.31	10.80	15.52	22.66	17.32	9.98	15.57	15.94	18.06	12.46	17.95	14.51	9.67	8.02
Fiscal	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24
GST Collection (YoY Gr%)	15.12	10.28	10.51	12.54	11.47	12.42	9.96	7.63	10.28	9.99	6.47	8.92	8.54	7.26
Govt. Expenditure (YoY Gr%)	-13.82	7.13	-14.03	20.44	-0.62	39.26	-37.87	-18.42	0.12	20.94	2.63	31.65	3.63	22.15

Source: CEIC, RBI, UBI research

Banking Research Team	
Kanika Pasricha Chief Economic Advisor	kanika.pasricha@unionbankofindia.bank
Suneesh K	suneeshk@unionbankofindia.bank
R Gunaseelan	gunaseelan@unionbankofindia.bank
Nidhi Arora	nidhiarora@unionbankofindia.bank
Rajesh Ranjan	rajeshranjan@unionbankofindia.bank
Jovana Luke George	jovana.george@unionbankofindia.bank
Amit Srivastava	asrivastava@unionbankofindia.bank
Rohit Yarmal	rohitdigambar@unionbankofindia.bank
S. Jaya Laxmi	s.jayalakshmi@unionbankofindia.bank
Dhiraj Kumar	dhirajkumar@unionbankofindia.bank
Akash Deb	akash510@unionbankofindia.bank
Shreyas Bidarkar	shreyas.bidarkar@unionbankofindia.bank

Disclaimer:

The views expressed in this report are personal views of the author(s) and do not necessarily reflect the views of Union Bank of India. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Union Bank of India and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability regarding the same.