

11th Jul 2024

Fig 1: We expect further Fiscal Deficit consolidation in FY 25 final budget

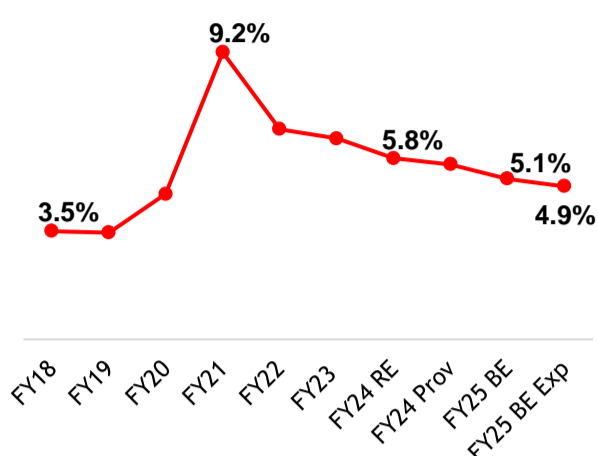
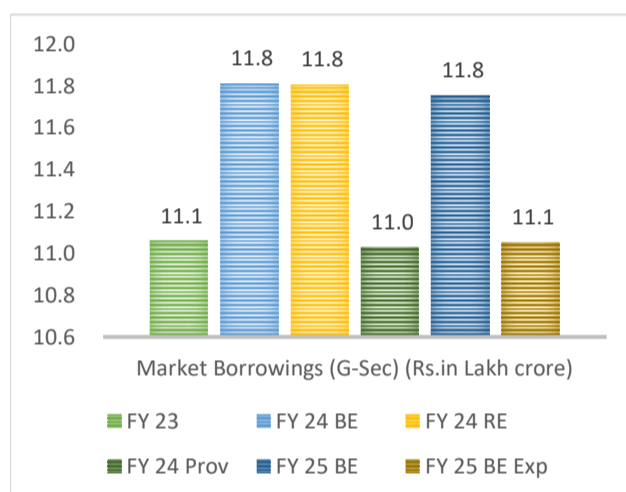


Fig 2: We see further reduction in FY 25 Borrowings



What has changed since the Interim Budget in Feb'24?

All eyes are on the Final Union Budget on 23rd July on account of two factors:

1. The ruling party came back into power in the elections this year with a slimmer majority driving speculation of a possible shift in policy bias from fiscal consolidation towards slight rise in populist spending. With a coalition government in power, the demand for funds for key political allies also needs to be addressed.
2. Bountiful surprise from the RBI in the form of dividend of Rs 2.1 lakh cr vs Rs 88,000 cr (Fig 3) provided for in Interim Budget for FY25, which gives fiscal space to address the competing priorities. Additionally, tax buoyancy can help as it spiked to 1.4 in FY24 (as per provisional estimates) while being budgeted at less than 1 in FY25 (Interim Budget).

In our view, the Finance Minister is unlikely to deviate significantly from the policy focus of fiscal consolidation and capex push in order to continue to promote macro stability. Meanwhile, some push towards boosting the weak consumption dynamics is expected in order to support broad based private capex recovery.

We see FY25 fiscal deficit to be revised lower to 4.9% of GDP in Final Budget (Fig 1)

Given the fiscal space of c.0.55% of GDP created from the various positive revenue surprises (Fig 7) this year, we expect the competing priorities of fiscal consolidation and populism to be finely balanced by the Finance Minister.

In our view, the tentative Budget math is expected to add up as follows:

- Increase in revenue receipts (vis-à-vis Interim Budget) by c.0.55% of GDP (Rs 1.7 lakh cr), of which 0.4% within non-tax receipts on higher-than-expected RBI dividend and rest in tax revenues. Given the spike in tax buoyancy in FY24 to 1.4 (as per provisional estimates released in May'24), we see scope for upward revision in tax receipts budget (Fig 5).
- Focus on fiscal consolidation to remain with FY25 fiscal deficit likely to be revised down from 5.1% to 4.9%.
- The rest of the fiscal space of c.0.35ppt (percentage points) of GDP likely to be divided finely into:
 - a. (Direct) consumption boosting steps like income tax cuts
 - i. As per media reports, the government is considering a hike in standard deduction to Rs 1 lakh from Rs 50,000 cr currently, which is expected to cost c.Rs 34,000 cr (0.10% of GDP). Any other tax steps to direct boost income levels (especially at the bottom of pyramid) and the weak consumption growth will be closely watched.
 - b. Populist spending steps (Fig 7)
 - i. Food subsidy bill may be revised up by Rs 20,000 cr (0.06% of GDP) to Rs 2.25 lakh cr on the back of high carrying cost of buffer stocks especially for rice.
 - ii. Any other steps like grants for coalition partners, transfers to women/farmers among others. There is a lot of uncertainty in the fiscal cost of these measures yet given the broader objective of this government of macro stability and fiscal consolidation, we expect the allocation for such populist measures to be limited to Rs. 20,000 cr or 0.06% of GDP.
 - c. Higher capex allocation
 - i. The rest of the fiscal space of c.0.13% of GDP is likely to be used for capex, as part of sustained efforts to crowd-in broad based private capex recovery in the economy.
 - ii. In the Interim Budget there was an unallocated capex of Rs 70,000 cr which was provided for within the Department of Economic Affairs. This number may be allocated within schemes in the Final Budget. This may even include grants / loans for capex projects especially for the coalition partners.
 - iii. Meanwhile, it is key to note that the economy is nearing its absorptive capacity in terms of public capex spend and the baton needs to shift to private sector. Meanwhile, the latter is witnessing capex primarily in government led sectors (infrastructure, production linked incentive scheme (PLI) led manufacturing sub-sectors among others) in our view and hence needs a boost.

Bond markets likely to cheer a fall in borrowing numbers; we stay Positive on long duration IGBs

- Government stays focused on reducing cost of capital as part of transition to developed economy in coming decades. Hence, we see further reduction in supply of dated securities to Rs 11.1 lakh cr vis-à-vis Rs 11.8 lakh cr in FY24 (Fig 2). While the Tbill calendar was also reduced by Rs 60,000 cr in Q1-FY25, with Rs 20,000 cr dropped for 364-day Tbills, the adjustment is likely from drawdown of cash balance given the government ended last fiscal with Rs 1.72 lakh cr of cash.
- On balance, with decline in supply of IGBs while demand dynamics are improving on India's inclusion in JP Morgan EM bond index this year (FPI flow in IGBs seen at USD 25bn, Rs 2 lakh cr in FY25), we continue to maintain Positive outlook on long duration G-secs. While the demand for G-secs from banks is under pressure on the back of persistent gap in credit and deposit growth, the fall in supply numbers is likely to strongly boost bond market sentiment.

Budget focus likely to stay on Viksit Bharat

- We believe that apart from the focus on fiscal numbers and math, the Budget is likely to provide a roadmap for India Viksit Bharat 2047. In this regard, we will look for steps across traditional sectors like infrastructure and emerging sectors like defence, railways, EVs, semiconductors etc. In specific for banking, any steps to boost the lagging deposit growth (vis-a-vis credit) will be closely watched. Hence, measures to bring about tax parity between bank deposits and other high yielding assets like equities / MFs among others will be key to help support the funding for banking system, a key driver of the aim to become a developed economy by 2047.

By:
Kanika Pasricha
kanika.pasricha@unionbankofindia.bank

Jovana Luke George
jovana.george@unionbankofindia.bank

Dhiraj Kumar
dhirajkumar@unionbankofindia.bank

Fig 3: Bountiful surprise from RBI to support FY 25 fiscal dynamics

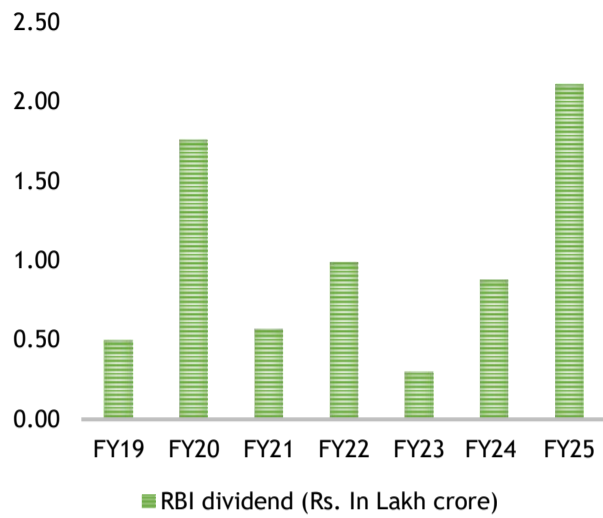


Fig 4: Direct Tax collections continue supercedethat for Indirect Taxes

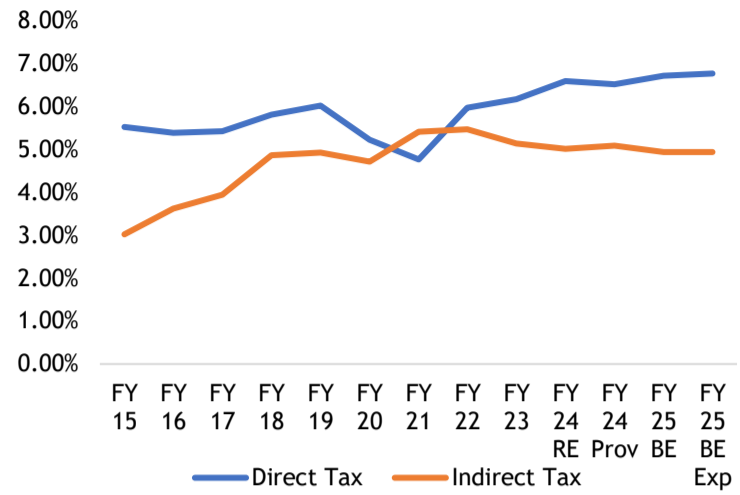


Fig 5: Strong Tax Bouyancy likely to continue to support fiscal consolidation in FY25

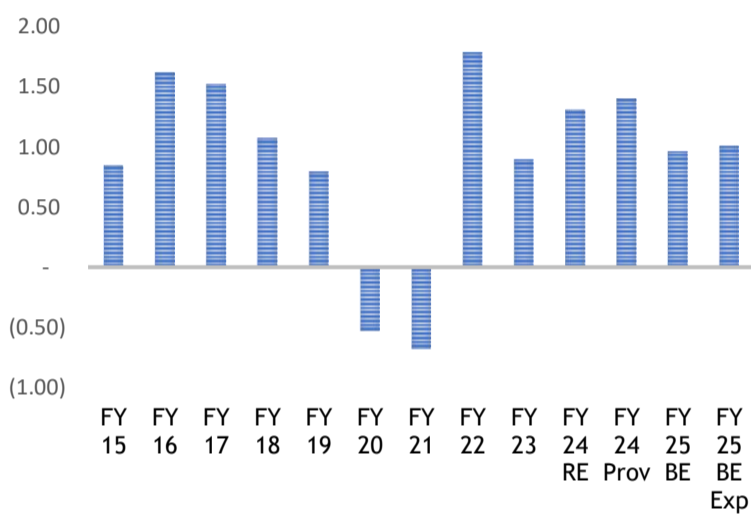


Fig 6: No change expected in Divestment targets

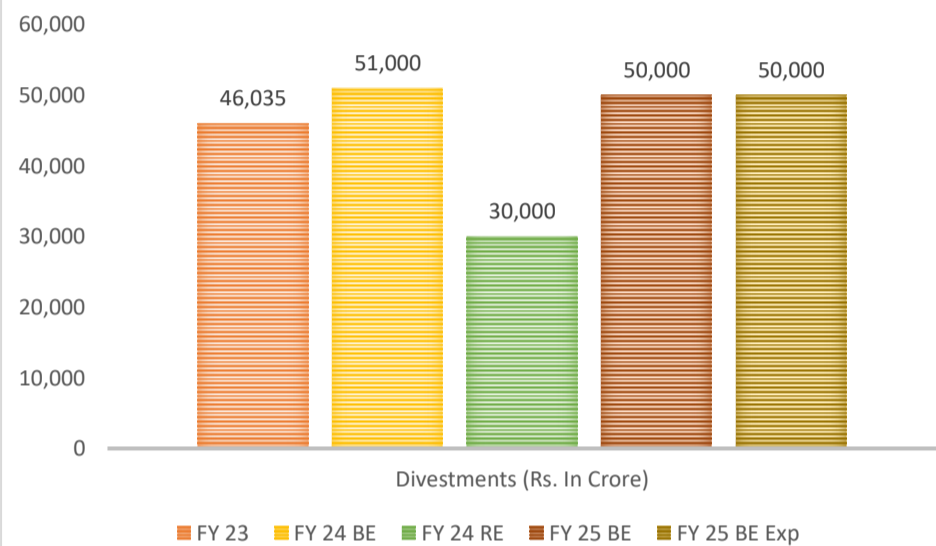


Fig 7: Adding up the Budget Maths

Sources of Revenue	INR Lakh crore	% of GDP	Additional Expenditure	INR Lakh crore	% of GDP
Higher Revenue from	1.78	0.54%	Capex increase	0.39	0.12%
- RBI Dividend	1.23	0.38%	Revex increase	0.60	0.12%
- PSU Dividend	0.05	0.02%	- Food Subsidy	0.20	0.06%
- Buoyancy in Tax Revenue	0.50	0.15%	- Special Packages for States, MSME Bank etc	0.21	0.06%
Revenue offset from	-0.34	-0.10%	Increase in total Exp.	0.99	0.24%
- Income Tax cut (Increase in Standard Deduction)	-0.34	-0.10%			
Net Increase in Revenue	1.44	0.44%			

Source: Budget Documents, CEIC, CGA, UBI Research

Fig 8: Budget Snapshot

Budget (INR Lakh crore)	FY 24 Prov	FY 25 BE	FY 25 BE Exp	FY 24 Prov (% of GDP)	FY 25 BE (% of GDP)	FY 25 BE Exp (% of GDP)
Total Receipts	27.89	30.80	32.29	9.4%	9.4%	9.9%
Revenue Receipts	27.28	30.01	31.50	9.2%	9.2%	9.6%
-Direct Taxes	19.22	21.99	22.15	6.5%	6.7%	6.8%
-Indirect Taxes	15.00	16.18	16.18	5.1%	4.9%	4.9%
-Non-Tax Revenue Receipts	4.02	4.00	5.28	1.4%	1.2%	1.6%
-Non-Debt Capital Receipts	0.60	0.79	0.79	0.2%	0.2%	0.2%
Total Expenditure	44.43	47.66	48.43	15.0%	14.5%	14.8%
-Revenue Expenditure	34.94	36.55	36.93	11.8%	11.2%	11.3%
-Capital Expenditure	9.49	11.11	11.50	3.2%	3.4%	3.5%
Fiscal Deficit	16.54	16.85	16.15			
Fiscal Deficit % of GDP	5.6%	5.1%	4.9%			

Source: Budget Documents, CEIC, CGA, UBI Research

Fig 9: Sources of Financing Fiscal Deficit, Market Borrowings expected to be lowered

Sources of Financing Fiscal Deficit (Rs.in Lakh crore)	FY 23	FY 24 BE	FY 24 RE	FY 24 Prov	FY 25 BE	FY 25 BE Exp
Market Borrowings (G-Sec)	11.10	11.80*	11.80*	11.80*	11.80*	11.10*
Short Term Borrowing (T-Bills etc.)	1.10	0.50	0.00	0.90	0.50	0.50
Securities against Small Savings	4.00	4.70	4.70	4.50	4.70	4.70
State Provident Funds	0.10	0.20	0.10	0.05	0.10	0.10
Other Receipts	0.80	0.50	0.80	1.02	-0.30	-0.30
External Debt	0.40	0.20	0.20	0.55	0.20	0.20
Draw Down of Cash Balance	0.00	-0.10	-0.30	-2.20	0.00	0.00
Fiscal Deficit	17.40	17.90	17.30	16.50	16.90	16.20

Fig 10: Fiscal Indicators thrusting positivity on long duration G-Sec

Parameter	FY15-20	FY21	FY22	FY23	FY 24 Prov	FY 25 BE	FY 25 BE Exp
FD (% of GDP)	3.8	9.2	6.8	6.4	5.6	5.1	4.9
FD (Rs. Lakh Crore)	6.3	18.2	15.8	17.4	16.5	16.9	16.2
of which Net Market Borrowing (Rs. Lakh Crore)	4.4	10.3	7.0	11.1	11.8*	11.8*	11.0*

*Repayment in RE 2023-24 and BE 2024-25 is net of recovery of Rs.78,104 crore & Rs.1,23,604 crore respectively from GST Compensation Fund; Source: Budget documents, UBI research

Fig 11: Sectoral expectations from Budget

Sector	Budget Expectations in various media reports
Agriculture	<ul style="list-style-type: none"> Higher R&D spending Hike transfers to farmers under PM Kisan Rise in food subsidy to support farmers
MSME	<ul style="list-style-type: none"> Hi-Tech training labs in MSME clusters under public-private partnership model Upskilling and re-skilling of employees of MSMEs in new and emerging technologies Employment-linked incentive schemes for labour intensive and high growth potential sectors such as toys, textiles, furniture and tourism, etc for generating jobs. Proposal to set up a separate bank for direct lending to MSMEs to bridge credit gap. Dedicated fund for export capacity development, promotion, and marketing of MSMEs. MSME NPA timeline be extended to 180 days from 90 days at present to provide relief to the sector. A new scheme for MSME's worth Rs 10k Cr including interest relief, loan guarantee and other financial provision
Corporate	<ul style="list-style-type: none"> Emphasis on Infrastructure Development Easing licensing requirements for electronics imports Labour codes to enhance industry competitiveness and strengthen university-industry linkages for R&D. Streamlining the Production Linked Incentive (PLI) scheme, promoting ease of doing business and reducing litigation.
Banking & Finance	<ul style="list-style-type: none"> Reduce Tax on interest earnings on bank deposits (and align with equity/MF) Housing loan interest tax deduction of Rs 2 lakh may be enhanced to Rs 3 lakh Tax saving fixed deposit tenure lock-in period may be reduced from 5 years to 3 years Dedicated refinancing body for NBFCs.
Capital Markets	<ul style="list-style-type: none"> Simplification of the capital gains tax system by streamlining it into two or three broad categories based on asset types. To consider moving income from F&O trading from the head of 'business income' to 'speculative income' in the Budget. Hike STT (Securities Transaction Tax) on F&O contracts
Retail	<ul style="list-style-type: none"> Enhanced budget allocation for education sector. Income tax cuts for individuals in lower slabs particularly those earning between Rs 5 lakhs and Rs 15 lakhs. Low-cost finance, subsidies, and benefits on land rates and necessities such as electricity for retailers Atal Pension may double minimum payout to Rs 10,000.
Individual	<ul style="list-style-type: none"> Enhancement in tax benefit on home loan interest from current Rs 2 lakh. Home loan interest benefit to be extended to new tax regime. Raise PMAY housing cost limit to Rs 65 lakhs. Reinstate credit-linked subsidy scheme Standard deduction for salaried individuals may increase to Rs.1 Lakh per annum.

Source: Various Media Houses and 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

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