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Budget FY25 Maintains Fiscal Prudence Without Compromising Capital Expenditure; Promotes Social Welfare

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- The government reduced the fiscal deficit target for FY25 from 5.1% in the Interim Budget to 4.9% – sticking to its commitment to bring the fiscal deficit below 4.5% by FY26, supported by higher revenue receipts.
- Apart from fiscal prudence, the budget aims to boost consumption and employment through changes in personal income tax and incentives for employers.
- For FY25, the total non-debt receipts are budgeted to grow by 15.0% vs 10.4% supported by RBI's bumper dividend transfer of Rs. 2.1 lakh crore to the government for FY24.
- Within non-debt receipts, the gross tax revenue is expected to grow by 10.8% which looks conservative given the nominal growth of 10.5% assumed in the budget. Meanwhile, net tax revenue growth is revised lower due to higher devolution to states. Further, the divestment target remains largely unchanged at Rs. 50K crores – which looks optimistic.
- Part of the policy space created from higher receipts is being utilized in increasing revenue expenditure on segments like agriculture, transfers to states (other than tax devolution), energy, and housing.
- In contrast, the capital expenditure is left unaltered at 3.4% of GDP. However, there are changes in the composition of capital expenditure with an increase in the interest-free loan to state government which is offset by a reduction in the capex target of the petroleum and natural gas segment.
- Apart from tax devolution, the total transfers to states were higher by Rs. 47K crores owing to the increase in special transfers to states like Bihar and Andhra Pradesh, due to the formation of coalition government and higher allocation of interest-free capex loan.
- With a lower level of fiscal deficit for FY25, the government's gross borrowing is estimated at Rs. 14.01 lakh crore down from Rs. 14.13 lakh crore in Interim Budget. Meanwhile, given a high cash surplus of government post-dividend transfer by the RBI, the reliance on cash balance has increased.
- Market Reaction: A lower-than-anticipated reduction in market borrowings kept the bond yields largely flat. Meanwhile, the hikes in capital gains taxes left the equity market disappointed.

Bhawna Sachdeva
Economist
bhawna.sachdeva@dmifinance.in

Yuva Simha
Economist
yuva.simha@dmifinance.in

www.dmifinance.in

+91 11 4120 4444

DMI Finance Private Limited
Express Building, 9-10, 3rd Floor,
Bahadur Shah Zafar Marg,
Delhi – 110002.

FY25 budget focused on fiscal prudence while addressing the issue of job deficit in the country

The government adhered to its fiscal consolidation roadmap as it revised the fiscal deficit target from 5.1% (announced in the Interim Budget (IB)) to 4.9%, achieving a consolidation of 0.7 pp from a 5.6% fiscal deficit in FY24, supported by a ***higher RBI dividend transfer***. Part of the additional budgetary space provided by the higher dividend transfer was utilized to increase the revenue expenditure, while the capital expenditure was retained at 3.4% of GDP, reflecting the government's focus on an investment-led growth strategy. The finance minister reiterated the government's commitment to bring the fiscal deficit below 4.5% by FY26.

Apart from focusing on fiscal prudence, ***the budget announced a slew of measures to boost employment and consumption growth in the economy***. To put it into context, private consumption grew by a mere 4% in FY24 amidst elevated food inflation, a volatile labour market, and muted rural consumption due to poor monsoon performance. The government, therefore, has announced tax changes in income tax slabs and direct benefits to first-time employees putting more money in the hands of taxpayers. Further, to address the long-standing issue of job deficit in the country, the budget focused on the creation of employment by incentivizing employers while also focusing on enhancing the skills of the workers (read the full list of measures in the annexure). While the government reduced the personal income tax it increased the capital gains taxes which left the equity market disappointed causing the benchmark indices to lose 2% post-announcement (although it recovered later in the day to close at 0.1%lower than the previous closing).

FY25 Fiscal Math: Minor deviations from fiscal math presented in the Interim Budget

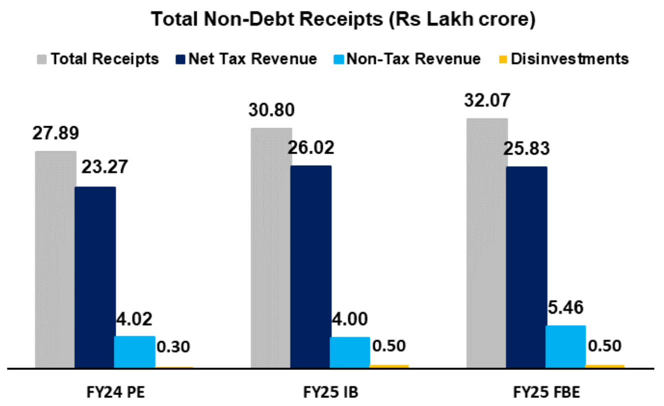
For FY25, the total non-debt receipts are expected to grow by 15.0% vs 10.4% previously, to Rs. 32.07 lakh crores, up from Rs. 30.8 lakh crores. This is primarily attributed to the higher receipts on account of RBI's bumper dividend transfer of Rs. 2.1 lakh crore to the government for FY24 – accounted in the budget of FY25. This is double the collective dividend budgeted for PSUs and RBI in Interim Budget. Indeed, the non-tax revenue receipts are now estimated to grow by 35.8% over FY24 PE (Provisional Estimates), compared to a 0.5% contraction earlier.

The gross tax revenue for FY25 is expected to grow by 10.8% slightly up from 10.6% previously owing to an increase in personal income tax (despite changes in tax slabs), while the growth in corporate taxes is revised lower likely accounting for the moderation in corporates' profits amidst pick-up in the input cost and lower tax rates announced for the foreign companies today. Overall, the gross tax revenue growth target of 10.8% looks more than reasonable in the context of nominal GDP growth of 10.5% implying a tax buoyancy of ~1.03 which is lower than the tax buoyancy of 1.4 achieved in FY24. Therefore, the government is likely to overshoot its budgeted tax revenue. Meanwhile, the growth in net tax revenue is estimated to

Fiscal Metrics					As % of GDP				%YoY		
ıkh Crore	FY 23 A	FY24 PE	FY25 IB	FY25 FBE	FY23 A	FY24 PE	FY25 IB	FY25 FBE	FY24 PE over FY23 A	FY25 BE over FY24 PE	FY25 FBE over FY24 PE
Revenue Receipts	23.83	27.28	30.01	31.29	8.8	9.2	9.2	9.6	14.5	10.0	14.7
Net Tax Revenues	20.98	23.27	26.02	25.83	7.8	7.9	7.9	7.9	10.9	11.8	11.0
Gross Tax Revenues	30.54	34.65	38.31	38.40	11.3	11.7	11.7	11.8	13.4	10.6	10.8
Direct Tax	16.59	19.56	21.99	22.07	6.2	6.6	6.7	6.8	17.9	12.4	12.8
Corporate Tax	8.26	9.11	10.43	10.20	3.1	3.1	3.2	3.1	10.3	14.5	12.0
Income Tax	8.33	10.45	11.56	11.87	3.1	3.5	3.5	3.6	25.4	10.7	13.6
Indirect Tax ex GST	5.33	5.39	5.50	5.57	2.0	1.8	1.7	1.7	1.1	2.1	3.3
Customs	2.13	2.33	2.31	2.38	0.8	0.8	0.7	0.7	9.2	-0.8	2.0
Union Excise Duty	3.19	3.05	3.19	3.19	1.2	1.0	1.0	1.0	-4.3	4.4	4.5
Service Tax	0.00	0.00	0.00	0.00	0.0	0.0	0.0	0.0	-1.6	-76.4	-76.4
GST	8.49	9.57	10.68	10.62	3.2	3.2	3.3	3.3	12.7	11.6	11.0
Taxes of union territory	0.09	0.00	0.09	0.09	0.0	0.0	0.0	0.0	-100.0		
less states share	9.48	11.29	12.20	12.47	3.5	3.8	3.7	3.8	19.1	8.0	10.4
less NCCD transferred	0.08	0.09	0.09	0.09	0.0	0.0	0.0	0.0	9.7	7.6	7.8
Non-Tax Revenues	2.85	4.02	4.00	5.46	1.1	1.4	1.2	1.7	40.8	-0.5	35.8
Non-Debt Capital Receipts	0.72	0.60	0.79	0.78	0.3	0.2	0.2	0.2	-16.3	30.7	29.0
Disinvestments	0.46	0.30	0.50	0.50	0.2	0.1	0.2	0.2	-34.8	66.7	66.7
Total Receipts	**24.55**	**27.89**	**30.80**	**32.07**	**9.1**	**9.4**	**9.4**	**9.8**	**13.6**	**10.4**	**15.0**
Total Expenditure	**41.93**	**44.43**	**47.66**	**48.21**	**15.6**	**15.0**	**14.5**	**14.8**	**5.9**	**7.3**	**8.5**
Revenue Expenditure	34.53	34.94	36.55	37.09	12.8	11.8	11.2	11.4	1.2	4.6	6.2
Interest Payments	9.29	10.64	11.90	11.63	3.4	3.6	3.6	3.6	14.6	11.9	9.3
Capital Expenditure	7.40	9.49	11.11	11.11	2.7	3.2	3.4	3.4	28.2	17.1	17.1
Fiscal Deficit	**17.38**	**16.54**	**16.85**	**16.13**	**6.4**	**5.6**	**5.1**	**4.9**			

Source: Union Budget Documents; Note: A- Actuals, PE - Provisional Estimates; IB - Interim Budget; FBE - Full Budget Estimates (released in July) lower to 11.0% from 11.8% previously reflecting the increased tax devolution to the states. The tax devolution to states has been increased further by Rs. 27.4K crores in the full budget compared to February.

Receipts were higher in full budget due to substantial dividend transfer by the RBI



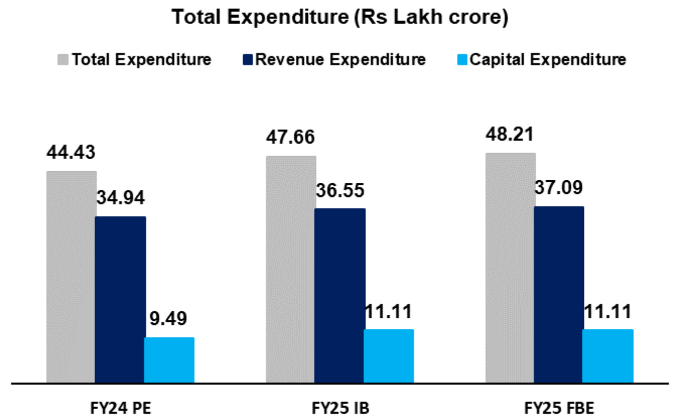
Source: Union Budget Documents.

Lastly, within the non-debt receipts, the disinvestment target for FY25 has been retained at Rs. 50K crores vs Rs. 30K crores achieved in FY24. This looks highly optimistic in the context of the central government repeatedly missing its target in previous years and no disinvestments have taken place so far due to elections.

Part of the policy space created from the higher dividend is utilized in increasing revenue expenditure while keeping the capital expenditure unchanged

On the expenditure front, the government has revised its total expenditure target for FY25 upwards to Rs. 48.2 lakh crores from Rs. 47.6 lakh crores previously – reflecting a growth of 8.5% over FY24 PE. This is purely due to increased revenue expenditure, while the capital expenditure target was kept unchanged. Within the revenue expenditure, the interest payments were reduced, while the expenditure incurred on segments like agriculture transfer to states (other than tax devolution), energy and housing were increased. The total transfer to states, apart from tax devolution increased by Rs. 47K crores, partly owing to the increase in special transfers to states like Bihar and Andhra Pradesh, due to the formation of the coalition government.

Capital expenditure left unchanged



Source: Union Budget Documents.

Category	Major Announcements			
	Direct tax			
Personal Income Tax	Increase in standard deduction benefit of from Rs 50K to Rs 75K under new tax regime.			
	Furthermore, tax structure in the new regime has been changed as under -			
	Earlier		**Now**	
	Rs 0 - 3 lakh	Nil	Rs 0 - 3 lakh	Nil
	Rs 3 - 6 lakh	5%	Rs 3 - 7 lakh	5%
	Rs 6 - 9 lakh	10%	Rs 7 - 10 lakh	10%
	Rs 9 - 12 lakh	15%	Rs 10 - 12 lakh	15%
	Rs 12 - 15 lakh	20%	Rs 12 - 15 lakh	20%
	> Rs 15 lakh	30%	> Rs 15 lakh	30%
	Deduction of family pension under new tax regime is increased from Rs 15K to Rs 25K.			
Capital Gains	Taxes on short term gains on certain financial assets increased to 20% from 15% earlier. Long term gains will attract a tax of 12.5% from 10% previously. Increase in exemption limit of long term capital gains to 1.25 lakh.			
Employment & Investment	Abolish Angel Tax.			
	Reduce corporate tax on foreign companies from 40% to 35%.			
Security Transaction Tax (STT)	STT on futures & options increased from 0.02% to 0.1%. Income received on buyback of shares to be taxed.			
	Indirect tax			
Minerals	25 critical minerals to be exempted from custom duties & basic custom duty on two of them to be reduced.			
Solar Energy	Expand the list of exempted capital goods for use in the manufacture of solar cells and panels			
Electronics	Custom duty proposed to be removed on oxygen free copper for manufacture of resistors & certain parts for manufacture of connectors to be exempted.			
Mobile Phones & Telecom	Basic customs duty to be reduced on mobile phones, mobile PCBA (Printed Circuit Board Assembly) and mobile charger to 15%.			
	Increase in basic custom duty on from 10% to 15% on PCBA of specified telecom equipment.			
Metals	Reduction in custom duty on gold & silver to 6% and on platinum to 6.4%.			
	Reduction in basic customs duty on ferro nickel and blister copper.			
	Concessional basic customs duty of 2.5% on copper scrap is being continued.			

Meanwhile, the capital expenditure was retained at Rs. 11.1 lakh crores and is expected to reach its decadal highs of 3.4% of GDP, up from its five-year pre-pandemic average of 1.7% of GDP, reflecting the government's continued focus on investment-led growth, which is expected to crowd in private investment required to support economic growth. The government has also increased the outlay of interest-free capex loans from Rs. 1.3 lakh crore in IB to Rs. 1.5 lakh crore to encourage capital expenditure by states. The increase in the same was offset by the reduction in the capex target of the petroleum and natural gas segment, keeping the total capital expenditure largely unchanged from the IB.

Minor changes in borrowings leave the bond market disappointed

With moderation in the fiscal deficit target for FY25 to 4.9% of GDP, the government has lowered the estimates for both the gross and net borrowing to Rs. 14.01 lakh crore (from Rs. 14.13 lakh crore) and Rs. 11.63 lakh crore (from Rs. 11.75 lakh crore). This is lower than the absolute decline in fiscal deficit (Rs. 72K crore), as the government has also reduced its reliance on small savings, short-term borrowings and other receipts. Meanwhile, the dependence on the government cash balance is budgeted to increase by Rs. 1.37 lakh crore owing to the substantial government cash surplus due to the RBI dividend which was credited in May. With lower-than-expected moderation in market borrowings, the bond yields inched up, touching an intra-day high of 6.99% (from the previous close of 6.97%) before closing at 6.97%.

Sources of funding the deficit

INR Lakh Crores	FY24 P	FY25 IB	FY25 FBE
Fiscal Deficit (A)	**16.54**	**16.85**	**16.13**
Fiscal Deficit (% of GDP)	**5.6**	**5.1**	**4.9**
Sources of Funding	FY24 P	FY25 IB	FY25 FBE
Net Short Term Borrowings	0.53	0.50	-0.50
External Finance	0.55	0.16	0.16
Securities Issued Against Small Savings	4.51	4.66	4.20
State Provident Fund (Net)	0.05	0.05	0.05
Other Receipts (Net)	0.83	-0.31	-0.81
Drawdown of Cash Balances	-1.72	0.04	1.40
Net G-sec Borrowing (B)	11.80	11.75	11.63
Redemption + Buy Back (C)	3.63	2.38	2.38
Gross Borrowing (B+C)	**15.43**	**14.13**	**14.01**
Net Borrowing as % of Fiscal Deficit	**71.4**	**69.7**	**72.1**

Source: Union Budget Documents

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ANNEXURE: **The budget for FY25 outlines nine key priorities –**

Productivity and resilience in agriculture

- Review and enhance agriculture research for productivity and climate resilience, with new funding and expert oversight, and release 109 high-yielding, climate-resilient crop varieties.
- To achieve self-sufficiency in pulses and oilseeds, their production, storage, and marketing will be strengthened.
- Large-scale vegetable clusters to be developed near consumption centres, supported by Farmer-Producer Organizations, cooperatives and start-ups for vegetable supply chains.
- The Digital Public Infrastructure (DPI) scheme will be implemented for coverage of farmers and their lands in 3 years and will also facilitate digital Kharif crop survey in 400 districts this year.
- Support to be given for shrimp broodstock centres, with NABARD financing shrimp farming, processing, and export.

Employment and Skilling

- Three 'Employment Linked Incentive' schemes to be implemented, focusing on EPFO enrolment, recognizing first-time employees, and supporting both employees and employers.
- Setting working women hostels and organising women specific skilling programs to promote higher participation of women in workforce.
- New skilling scheme to train 20 lakh youth, upgrade 1,000 Industrial Training Institutes, and align courses with industry needs.
- Model Skill Loan Scheme to be revised to offer loans up to ₹7.5 lakh with a government-backed guarantee, aiding 25,000 students annually.
- Loans up to ₹10 lakh for domestic higher education will be supported with 3% interest subvention for 1 lakh students annually.

Inclusive Human Resource Development and Social Justice

- Utilizing saturation approach for inclusive development and intensify support for schemes aiding farmers, youth, women, and economic activities through various programs.
- Purvodaya plan for all round development of eastern region covering Bihar, Jharkhand, West Bengal, Odisha and AP covering HRD, Infrastructure and generation of economic opportunities.
- To provide financial support of Rs. 15000 crore in FY25 under AP recognizing act for AP state capital with additional amounts in future years.
- Three crore additional houses to be provided under the PM Awas Yojana for rural and urban areas
- Over ₹3 lakh crore to be allocated to schemes benefiting women and girls, to enhance their role in economic development.
- Pradhan Mantri Janjatiya Unnat Gram Abhiyan to be launched to improve socio economic conditions of tribal communities.
- More than 100 branches of India Post Payment Bank will be set up in the North East region to expand the banking services.

Manufacturing and Services

- A comprehensive package for MSMEs, including financing, regulatory changes, and technology support, along with a credit guarantee scheme, a new credit assessment model, and continuation of credit support during stress periods was announced.
- Mudra loan limits enhanced to Rs. 20 lakh for those entrepreneurs who have repaid previous repaid under 'Tarun' category.
- Lowering the TReDS onboarding threshold to Rs. 250 crores, expanding SIDBI branches to serve MSME clusters, providing financial support for food irradiation units and testing labs, and establishing E-Commerce Export Hubs in PPP mode to boost MSME exports.
- Government will launch a comprehensive scheme for providing internship opportunities in 500 top companies to 1 crore youth in 5 years.

Urban Development

- Develop ‘Cities as Growth Hubs’ through economic and transit planning, create a framework for transformative brownfield redevelopment of existing cities, and formulate Transit Oriented Development plans for 14 large cities.
- PM Awas Yojana Urban 2.0 to invest ₹10 lakh crore to address housing needs of 1 crore urban families.
- Partnering with State Governments and Multilateral Development Banks to promote water supply, sewage treatment, and solid waste management in 100 large cities, using treated water for irrigation and tank filling.

Energy Security

- PM Surya Ghar Muft Bijli Yojana launched to install rooftop solar power for 1 crore households to obtain free electricity up to 300 units per month.
- NTPC and BHEL will build an 800 MW AUSC power plant with government support.
- Roadmap for ‘hard to abate’ industries to be formulated for transition from ‘Perform, Achieve, and Trade’ mode to Indian Carbon Market’ mode.
- Energy audit of traditional micro & small industries in 60 clusters with financial support for shifting them to cleaner forms.

Infrastructure

- Phase IV of PMGSY to be launched to provide all-weather connectivity to 25,000 rural habitations.
- Provision of Rs. 1.5 lakh crore for long-term interest free loans to support states in infrastructure investment.
- Financial support to be provided for flood control projects in Bihar, Assam, Himachal Pradesh, Uttarakhand, and Sikkim, including infrastructure, reconstruction, and rehabilitation efforts.

- Vishnupad and Mahabodhi Temples, Rajgir, Nalanda, and Odisha's attractions will be developed to boost tourism and create economic opportunities.

Innovation, Research & Development

- Government will operationalize the Anusandhan National Research Fund for basic research and prototype development and set up a mechanism for spurring private sector-driven research and innovation at commercial scale with a financing pool of ₹1 lakh crore.

Next Generation Reforms

- An Economic Policy Framework to be developed to guide reforms aimed at improving productivity, efficiency, and employment, with significant focus on land-related reforms and digitization in both rural and urban areas.
- E-shram portal to be integrated to offer comprehensive labour services, including employment, skilling, and job matching.
- Shram Suvidha and Samadhan portals will be revamped to enhance ease of compliance for industry and trade.
- A comprehensive financial sector strategy will be developed for the next 5 years to enhance size, capacity, and skills, while also implementing a taxonomy for climate finance, seeking legislative approval for flexible financing structures, and simplifying rules for foreign and overseas investments.
- NPS- vatsalya plan to be introduced for minors which can be converted to normal NPS account
- Technology will be further leveraged to enhance digitalization, ease of doing business through Jan Vishwas Bill 2.0 and state incentives and improve data governance and management.