यूनियन बैंक ऑफ इंडिया
भारत सरकार का उपक्रम
Union Bank of India
A Government of India Undertaking

FY25 Budget – A Tale of 3 C’s

01st February, 2024

1. Union Budget 2024-25 : A tale of 3 C's – Consolidation, Credible and Capex

- Government stays committed to the fiscal **"consolidation"** roadmap targeting sub 4.5% of GDP fiscal deficit by FY26
- Budget maths is **"credible".** In specific tax buoyancy is assumed to ease to 1.1 in FY25 from 1.4 in FY24
- Focus stays on **"capex"** budgeted to inch up to 3.4% of GDP. No major populist announcements made despite this being an election year

2. Govt. reiterated fiscal consolidation roadmap with credible fiscal arithmetic

- FY24 fiscal deficit revised down to 5.8% from budgeted 5.9% of GDP
- FY25 Fiscal deficit budgeted at 5.1% of GDP, below our expectation of 5.3% (consensus: 5.2-5.6%)
- Budget maths is conservative in our view:
  - *Tax Buoyancy estimated at 1.4 for FY24 and 1.1 for FY25;*
  - *Non-debt capital receipts at 0.2% of GDP in FY25, same as in FY24RE;*
  - *Slight downside risk possible in non-tax revenues esp spectrum payments and dividends;*
  - *Subsidies and broader spending numbers appear realistic*

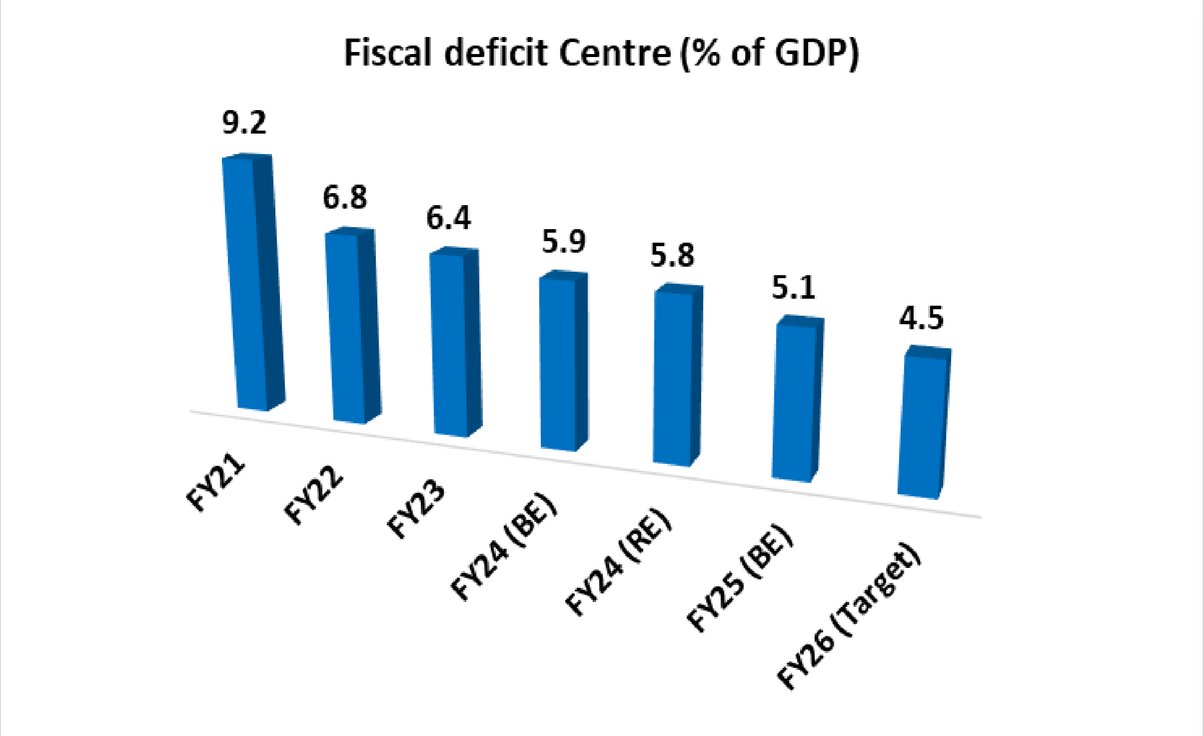
3. Govt. maintains quality of spending notwithstanding Elections ahead

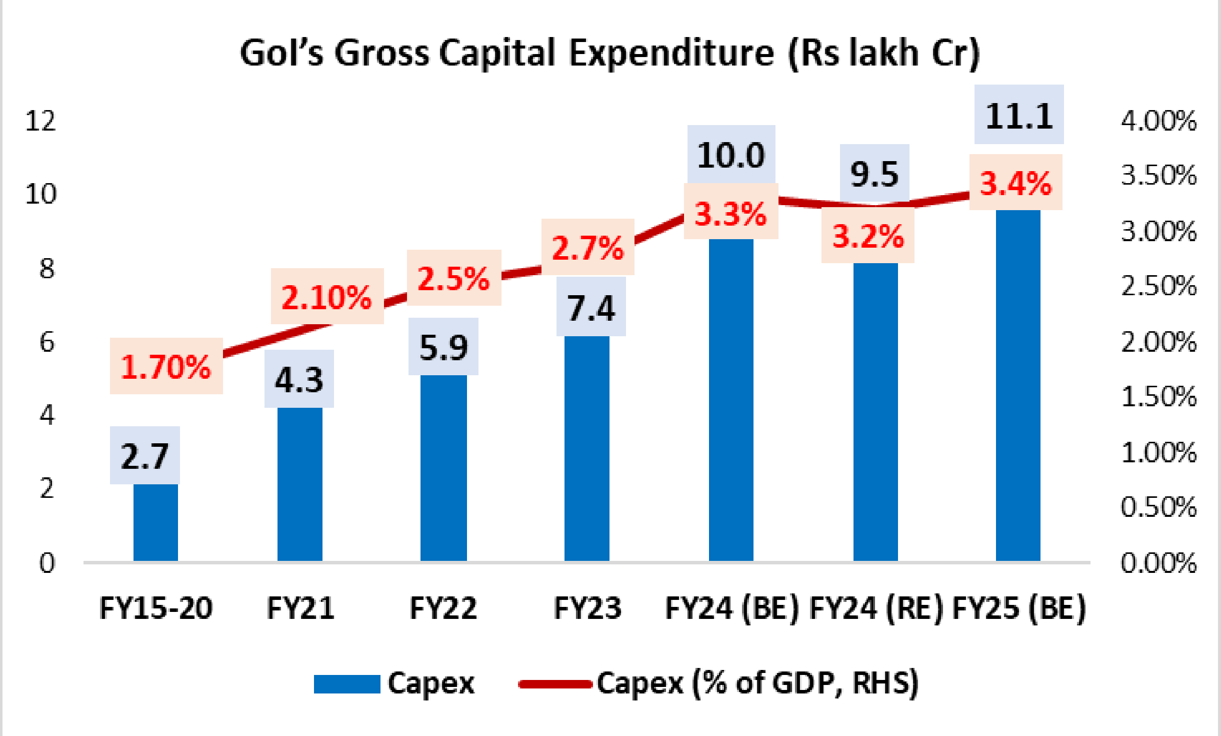
- Capex outlay increased by 11.1% to Rs 11.1 lakh crore, i.e. 3.4% of GDP for FY25 vis-à-vis 3.3% of GDP in FY24.
- 50-year interest free loans of Rs 1.3 lakh crore for capital expenditure to states to continue
- Revenue spending likely to drop to 11.2% of GDP vs 11.9% in FY24RE mainly on drop in subsidies budget

4. Bond markets cheered the Budget

- Gross market borrowings were sharply lower than street estimates of c.Rs 15-15.5 lakh crore
- ***Interestingly, borrowings dropped on account of funding of c.Rs 1.2 lakh crore of bond redemptions using the GST Compensation cess fund***
- Gross market borrowings during FY25 dropped to Rs 14.13 lakh crore; Net borrowings stay unchanged at Rs 11.8 lakh crore
- Lower borrowings to help crowd-in private capex and reduce cost of capital
- Yield on 10-year benchmark bond fell by 8 bps to 7.06% post announcement

Fiscal consolidation with focus on capex stays the key theme

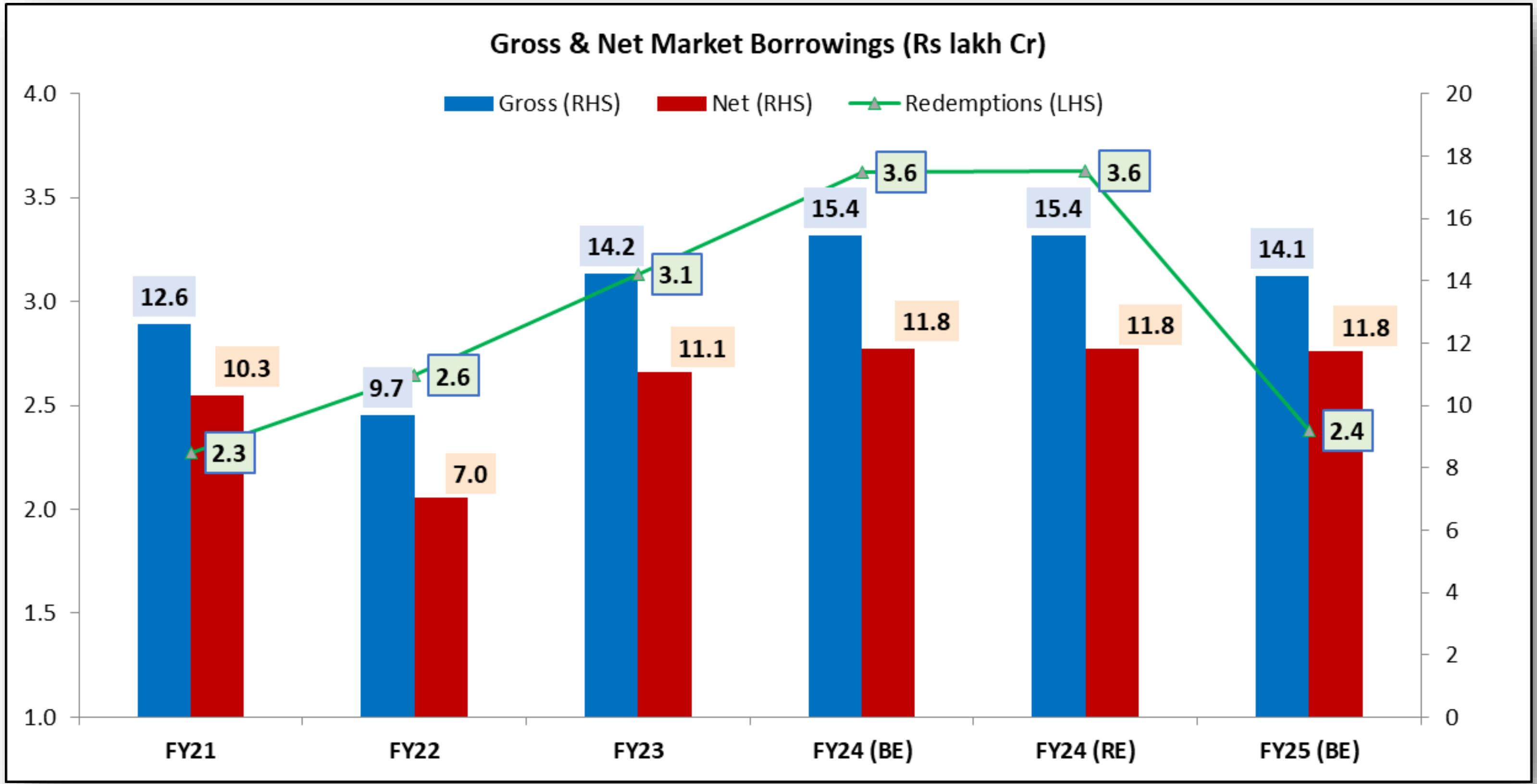




- Govt sticks to fiscal consolidation roadmap of sub-4.5% of GDP fiscal deficit by FY26
- FY25 fiscal deficit budgeted at 5.1% of GDP while FY24 fiscal deficit revised down to 5.8% from budgeted 5.9% of GDP
- Capex stayed the focus area and was budgeted to rise to 3.4% of GDP in FY25 from 3.3% in FY24, 2x vs 1.7% during pre Covid period (FY15-19)

Source: Budget documents, UBI research

Bond markets cheered the sharp drop in gross borrowings



- Gross market borrowings budget at Rs 14.1 lakh crore were sharply lower than street estimates of c.Rs 15-15.5 lakh crore
- Interestingly, borrowings dropped on account of funding of c.Rs 1.2 lakh crore of bond redemptions using the GST Compensation cess fund
- Net borrowings to stay unchanged at Rs 11.8 lakh crore in FY25 vis-à-vis FY24RE

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

Net market borrowings to stay flat in FY25

Sources of Fiscal Financing (Rs. Lakh Crore)					
Parameter	FY22	FY23	FY24 (BE)	FY24 (RE)	FY25 (BE)
Net Debt Receipt	15.82	17.39	17.99	17.61	16.82
Market Borrowing (G-Sec + T-bills)	7.81	12.17	12.31	11.81	12.25
G-secs	7.04	11.05	11.81	11.80	11.75
T-bills	0.77	1.12	0.50	0.01	0.50
Securities Against Small Savings Scheme	5.51	3.96	4.71	4.71	4.66
State Provident Fund	0.10	0.05	0.20	0.05	0.05
Other Receipt (Internal Debts & Public accounts)	1.70	0.83	0.54	0.78	-0.31
External Debt	0.36	0.37	0.22	0.25	0.16
Drawdown of Cash Balance	0.03	-0.02	-0.12	-0.27	0.04
Grand Total	15.51	17.37	17.86	17.34	16.85

- Despite the fall in “absolute” fiscal deficit levels, net market borrowings in Gsecs budgeted to stay flat in FY25BE vis-à-vis FY24 RE
- This is broadly attributed to the switch in “Others” from Rs 78,000 crore in FY24 RE to (-) Rs 31,000 crore in FY25
- Meanwhile, small savings with c.30% share in fiscal financing budgeted to stay flat at c.Rs 4.7 lakh crore

Source: Budget documents, UBI research

Fiscal deficit budgeted lower than our below market estimates

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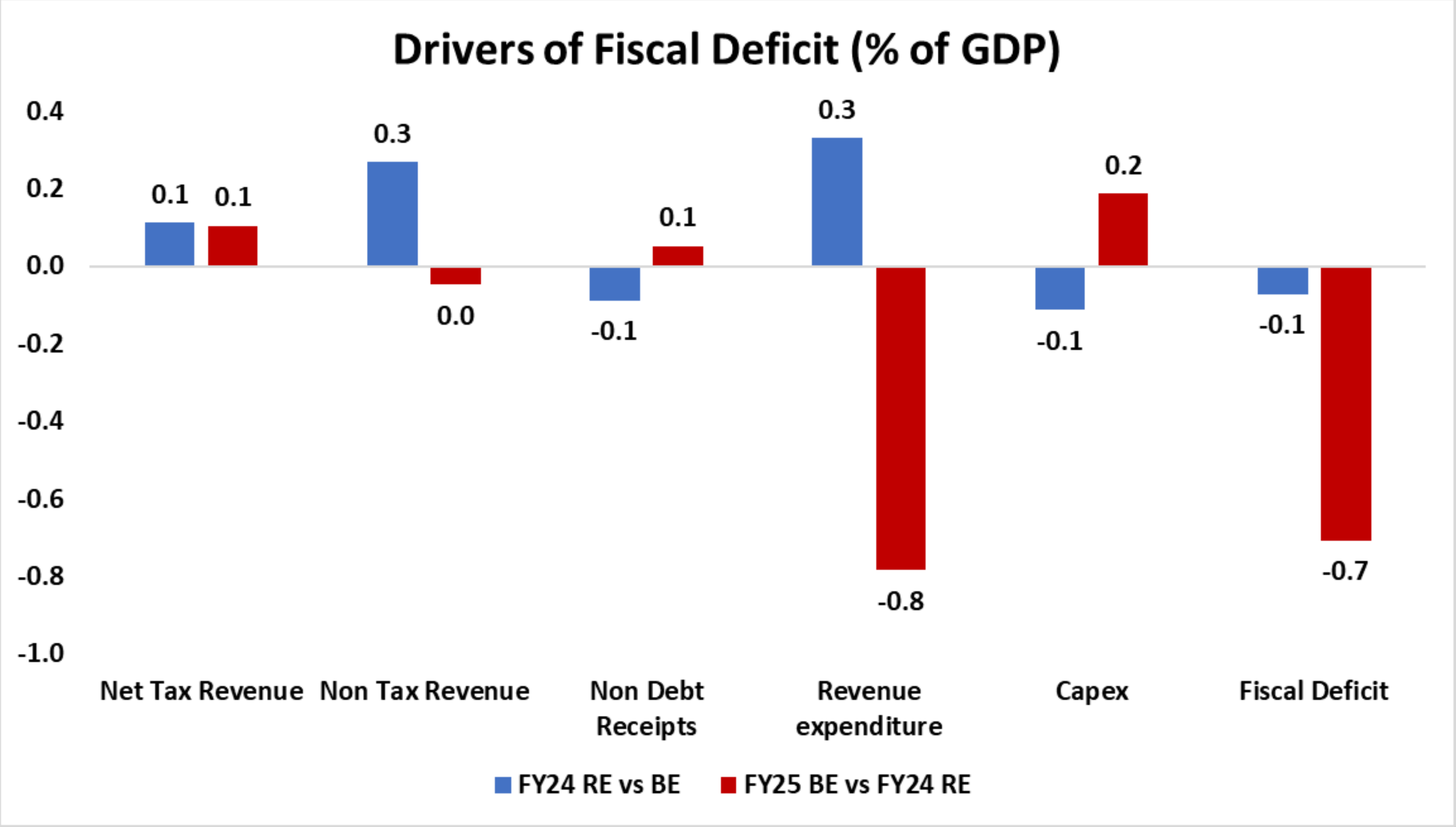
Budget Expectation on Fiscal Numbers (Rs lakh crore)									
	(Rs Lakh Crore)					% of GDP			
Parameter	FY22	FY23 (RE)	FY24 (BE)	FY24 (RE)	FY25 (BE)	FY23 (RE)	FY24 (BE)	FY24 (RE)	FY25 (BE)
Total Receipts	22.1	24.6	27.2	27.6	30.8	9.0	9.0	9.3	9.4
Revenue Receipts	21.7	23.8	26.3	27.0	30.0	8.7	8.7	9.1	9.2
Net Tax Revenue	*18.0*	*21.0*	*23.3*	*23.2*	*26.0*	*7.7*	*7.7*	*7.8*	*7.9*
Non Tax Revenue	*3.7*	*2.9*	*3.0*	*3.8*	*4.0*	*1.0*	*1.0*	*1.3*	*1.2*
Non Debt Receipts	0.4	0.7	0.8	0.6	0.8	0.3	0.3	0.2	0.2
Total Expenditure	37.9	41.9	45.0	44.9	47.7	15.4	14.9	15.1	14.5
Revenue expenditure	*32.0*	*34.5*	*35.0*	*35.4*	*36.5*	*12.7*	*11.6*	*11.9*	*11.2*
Capex	*5.9*	*7.4*	*10.0*	*9.5*	*11.1*	*2.7*	*3.3*	*3.2*	*3.4*
Fiscal Deficit	15.8	17.4	17.9	17.3	16.8	6.4	5.9	5.8	5.1
Nominal GDP	234.7	272.4	301.8	296.6	327.7				

- We expected FY25 fiscal deficit at 5.3% of GDP, closer to the lower end of market estimates of 5.2-5.6%
- However, the Finance Minister surprised with a sharper pace of fiscal consolidation
- Fiscal deficit budgeted at 5.1% of GDP in FY25 from a downwardly revised 5.8% in FY24 vs 5.9% budgeted

RE: Revised Estimates; BE: Budget Estimates; Source: Budget documents, UBI research

Tax buoyancy and revex compression drive fiscal consolidation

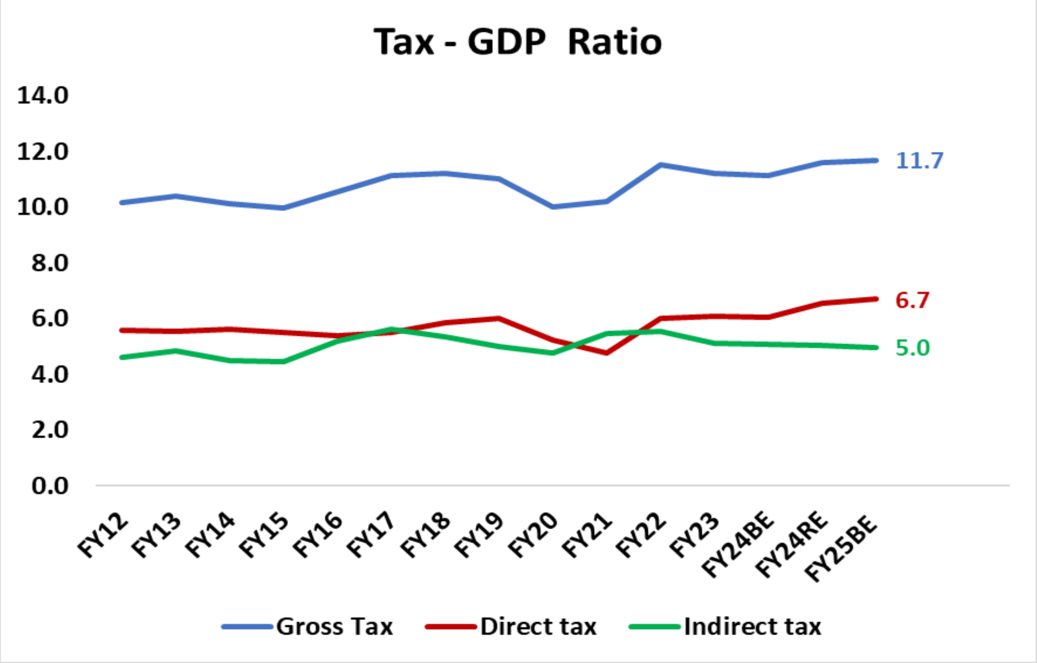


- Stronger tax buoyancy and dividend flows supported fiscal arithmetic in FY24 despite slippage in revenue expenditure
- In FY25, apart from tax buoyancy, fall in revenue spending as % of GDP has been the prime driver of fiscal consolidation

Source: Budget documents, UBI research

Tax numbers are conservative and credible

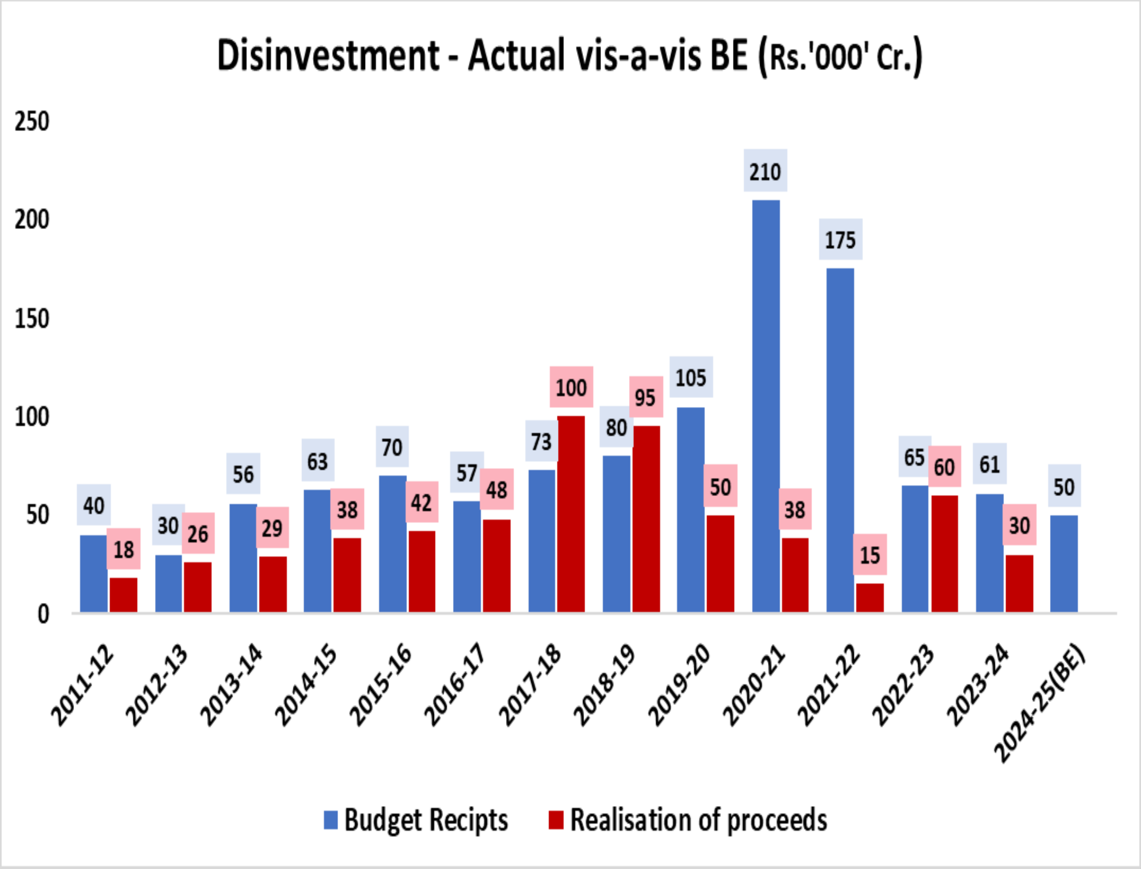
Parameters	Avg. Tax Buoyancy (2010-11 to 2018-19)	2021-22	2022-23 (BE)	2022-23 (RE)	2023-24 (BE)	2023-24 (RE)	2024-25 (BE)
1. Gross Tax Revenue	1.11	1.72	0.86	0.79	0.93	1.41	1.09
2. Direct Taxes	1.03	2.51	1.22	1.11	0.92	1.94	1.24
(i) Corporation Tax	0.92	2.85	1.2	1.00	1.09	1.32	1.24
(ii) Income Tax	1.27	2.21	1.28	1.23	0.75	2.56	1.25
3. Indirect taxes	1.25	1.04	0.51	0.45	0.95	0.78	0.89
(i) GST	-	1.39	1.4	1.35	1.17	1.43	1.11
(ii) Customs Duty	0.31	2.47	1.14	-1.14	0.58	-0.54	0.48
(iii) Excise Duty	0.91	0.04	-1.34	0.43	0.86	0.28	0.55

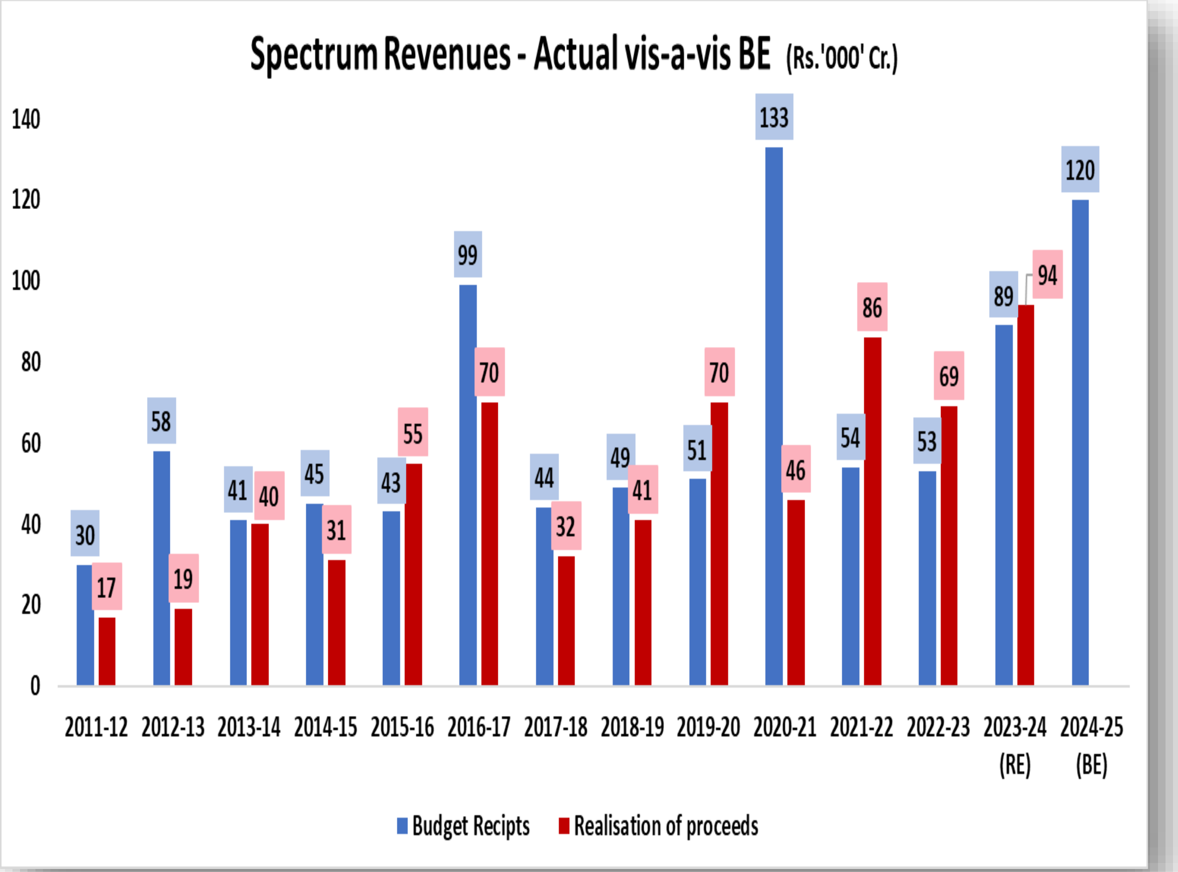


- Tax Buoyancy estimated to fall to 1.1 in FY25 from 1.4 for FY24 with tax to GDP ratio is budgeted to stay flat at 11.7%
- These numbers appear credible. Nominal GDP growth assumption of 10.5% is likely to be comfortably achieved with real GDP growth forecast of 7%

Source: Budget documents, UBI research

Downside risk possible in divestment and non-tax receipts





- Despite a likely slippage in divestment budget by c.Rs 30,000 crore, the budget for next year has been kept broadly unchanged. This may see some downside risk unless stake sale momentum is stepped up
- Within non-tax revenues, we believe that the spectrum revenues may fall short of the budgeted levels of Rs 1.2 lakh crore and we keep a close watch

Source: Budget documents, UBI research

Focus stay on quality of spending

	Expenditure of Central Government							
	Rs.'000' Cr.				Growth Rate %			
	FY23	FY24 (BE)	FY24 (RE)	FY25 (BE)	FY23	FY24 (BE)	FY24 (RE)	FY25 (BE)
1. Total Expenditure	4,193	4,503	4,490	4,766	10.5	7.4	7.1	6.1
2. Revenue Expenditure (of which)	3,453	3,502	3,540	3,655	7.9	1.4	2.5	3.2
Interest Payments	*929*	*1,080*	*1,055*	*1,190*	*15.3*	*16.3*	*13.7*	*12.8*
Major Subsidies	*578*	*403*	*440*	*410*	*14.7*	*-30.3*	*-23.9*	*-6.9*
Food	*273*	*197*	*212*	*205*	*-5.6*	*-27.8*	*-22.2*	*-3.3*
Fertilizer	*251*	*175*	*189*	*164*	*63.5*	*-30.4*	*-24.8*	*-13.2*
Petroleum	*7*	*2*	*12*	*12*	*99.2*	*-66.9*	*79.6*	*-2.6*
MGNREGA	*91*	*60*	*86*	*86*	*-7.8*	*-33.9*	*-5.3*	*0.0*
PM-KISAN	*58*	*60*	*60*	*60*	*-12.8*	*3.0*	*3.0*	*0.0*
Defence Services (Revenue)	*256*	*270*	*299*	*283*	*12.1*	*5.4*	*16.6*	*-5.3*
3. Capital Expenditure (of which)	740	1,001	950	1,111	24.8	35.3	28.4	16.9
Roads	*206*	*259*	*265*	*272*	*81.8*	*25.5*	*28.4*	*2.9*
Railways	*159*	*240*	*240*	*252*	*35.8*	*50.7*	*50.7*	*5.0*
Housing & Urban Affairs	*27*	*26*	*27*	*29*	*3.6*	*-3.3*	*-1.3*	*7.9*

- Populist announcements as seen in the last pre-election budget in FY20 viz. PM Kisan, MGNREGA etc were not the focus areas in FY25 Budget
- Revenue spending budgeted to drop to 11.2% of GDP vs 11.9% in FY24RE. This is the key driver of fiscal consolidation
- Subsidies numbers appear realistic in our view, unless there is a spike in fertilizer prices and / or crude oil prices spike on geopolitical tensions
- Capex continues to get priority with outlay increased by 11.1% to Rs 11.1 lakh crore, i.e. 3.4% of GDP for FY25 vis-à-vis 3.2% of GDP in FY24RE
- High multiplier sectors i.e. roads and railways continued to together contribute to c.50% of overall capex

Source: Budget documents, UBI research

Key Announcements

Sector	Announcements	Impact
Agriculture and food processing	**Matsya Sampada-** Five integrated aquaparks will be setup. ➢ Enhance aquaculture productivity from existing 3 to 5 tons per hectare, ➢ Double exports to 1 lakh crore and, ➢ Generate 55 lakh employment opportunities in near future.	About 16 lakhs fishers have got livelihood and Rs 17, 527 crores worth proposal got sanctioned under the PM Matsya Sampada Yojana[1]. It will further boost the produce and income of the farmer.
	Lakhpati Didi- Lakhpati Didi from 2 crore to 3 crore.	**SHG** mission is spread in 7091 blocks covering 9.54 crores of women[2]. Further policy thrust will improve the rural livelihood and disposable income of the rural population leading to the development of socio-economic life of women (rural).
	Nano DAP(Di Ammonium Phosphate) to be expanded in all agro-climatic zones	Application of Nano-DAP will reduce the cost of farming(Less than 50% costing of conventional DAP) leading to increase the agriculturist's income.
	Oilseeds - Atmanirbhar Oilseeds Abhiyaan- To achieve atmanirbharta for oilseeds.	India imports more than 50% of its edible oil requirements. The Atmanirbhar Oilseeds abhiyaan will be a move towards self-sufficiency.
Housing	**PM Awas Yojana (Grameen)-** 2 crore more houses will be taken up in the next five years.	It will help meeting the requirement of rural housing arising due to increase in the number of families.
	New scheme on housing for middle class- It will cater the housing needs of deserving sections of the middle class living in rented houses, or slums, or chawls and unauthorized colonies .	Bank credit for housing has risen to 8.7% of GDP in FY24 signalling improving optimism post Pandemic (6.8% in FY20)[3]. The present proposal may increase the demand for housing loan segment further.

1. Department of Fisheries, Government of India
2. Ministry of Rural Development , Government of India
3. The Indian Economy: A Review, January 2024; Department of Economic Affairs, Ministry of Finance, Government of India

Key Announcements

Sector	Announcements	Impact
Tourism	Long-term interest free loans (75000/- Cr)to be provided to States to encourage comprehensive development of iconic tourist Centre's, branding and marketing them at global scale.	Foreign tourist arrival during Jan-Nov,2023 is 9.22 lakhs and Indians went abroad was 21.94 lakhs[4]. Citizens holidaying abroad can be attracted to domestic locations, thus saving forex, while earning forex from foreign visitors.
Infrastructure	(The outlay for FY25 is being increased by 11.1% to Rs 11.11 lakh crore, i.e. 3.4% of the GDP). **Within Infra, announcements cover:** **Railways-** (1) Energy, mineral and cement corridors, (2) Port connectivity corridors, (3) High traffic density corridors. (Passenger services-Forty thousand normal rail bogies will be converted to the Vande Bharat standards). **Aviation Sector-**Expansion of existing airports and development of new airports will continue expeditiously. **Metro and NaMo Bharat-** Expansion to be supported in large cities focusing on transit-oriented development	Infrastructure push is evident with total public sector CapEx rising 3.3X in past decade, enabling quicker mobility, transportation and lowering logistics costs. The projects have been identified under the PM Gati Shakti for enabling multi-modal connectivity. It will improve logistics efficiency and reduce cost and enhance safety, convenience and comfort of passengers. It will support the growing number of air flyers in the country. The growing infrastructural expenses will increase employment and support the allied industries in terms of demand of construction materials.
Research & Development	A corpus of Rs 1 lakh crore will be established with fifty-year interest free loan to encourage the private sector to scale up research and innovation significantly in sunrise domains. A new scheme for strengthening deep-tech technologies for defence purposes and expediting 'atmanirbharta'.	India has emerged a preferred destination for Global Capability Centres (GCC) supporting multinational conglomerates in their corporate functions. The GCCs have been significant contributor to India's services export buoyance this decade. With country having a rich pool of STEM (Science, technology, Engineering and Management) human resources, the investing in R&D could help India rise the defence production value chain faster.

4. Monthly Tourism Statistics, November 2023, Ministry of Tourism, Government of India

Sector	Announcements	Impact
Sustainability	**Electric Vehicle Ecosystem-**Supporting manufacturing and charging infrastructure and greater adoption of e-buses for public transport.	Expansion and strengthening of the e-vehicle ecosystem. There are 10000 charging stations in India. As per the Ministry of Road Transport & Highways, number of E-Vehicle registered in India noted 20% growth YoY in 2023 to 8.2 lakh vehicles[5]. The budget announcement may further boost the growth.
	Bio-manufacturing and Bio-foundry- It will work for environment friendly alternatives such as biodegradable polymers, bio-plastics, bio-pharmaceuticals and bio-agri-inputs.	It will also transform today's consumptive manufacturing paradigm to the one based on regenerative principles.
	Blue Economy 2.0- This scheme will work for restoration and adaptation measures towards coastal aquaculture and mariculture with integrated and multi-sectoral approach.	It will promote climate resilient activities leading to sustainable development.
Green Energy	Viability gap funding for initial capacity of one giga-watt (GW) of wind energy.	It will encourage harnessing offshore wind energy potential. (In India, cumulative installed capacity of wind energy stood 44.7 GW as of 31/12/2023. About 90% of wind energy remains untapped in India[6]).
	Coal gasification and liquefaction capacity of 100 MT will be set up by 2030.	It will reduce the imports of natural gas, methanol, and ammonia.
	Mandatory blending of compressed biogas (CBG) in compressed natural gas (CNG) for transport and piped natural gas (PNG) for domestic purposes in phased way (Financial assistance to be provided for procurement of biomass aggregation machinery).	Bio-gas blending will encourage the sector just like ethanol blending. It will again reduce the imports of natural gas.

5. Ministry of Road, Transport & Highways, Government of India
6. Ministry of New & Renewable Energy, Government of India

Research Team

1. Kanika Pasricha
2. Sujit Kumar
3. Suneesh K
4. R Gunaseelan
5. Nidhi Arora
6. Rajesh Ranjan
7. Jovana Luke George
8. Ashish D Dhok
9. Ajinkya Tawde
10. Kanhaiya Jha
11. Manish Gupta
12. Rohit Yarmal
13. S. Jayalaxmi

Thank you!