LIC MUTUAL FUND

# Fund House Commentary

# Union Budget

## 2024 - 25

## Fostering Growth by prioritizing fiscal prudence

- In a budget that aligns closely with fiscal forecasts, India's Financial Year (FY) 25 plan underscores a prudent yet growth-oriented fiscal policy. The budget outlines a 17% increase in public capital expenditure, modestly upping the ante on revenue expenditure by 6%. This controlled expenditure framework contributes to a projected fiscal deficit reduction to 4.9% of Gross domestic product (GDP), marking a slight improvement from the interim forecast of 5.1%.
- The thrust of the budget remains steadfast on bolstering infrastructure, manufacturing, and housing sectors, pivotal in propelling long-term economic resilience. Concurrently, the budget introduces targeted measures to spur consumption among low-income groups through enhanced focus on agriculture and welfare schemes, alongside improved access to finance. For the middle-income brackets, the consumption boost is facilitated through employment incentives and selective income tax reliefs, aiming to catalyze consumer spending and economic vibrancy.
- Despite the budget's overarching pro-growth orientation, the augmentation in capital gains tax casts a temporary shadow over equity market sentiments. However, this perturbation is expected to be transient, with the broader fiscal strategy poised to foster a conducive environment for inflation control and sustained financial market positivity in the longer term.
- This strategic fiscal plan reveals a meticulous balancing act, aiming to maintain fiscal health while invigorating economic growth—a testament to the government's commitment to navigating the complexities of economic stewardship.

### Employment Focus

- The FY25 budget emphasizes job creation as a central goal, addressing both supply and demand in the labour market. The government aims to create 8 million jobs annually, facilitated by measures such as labour-intensive production initiatives, enhanced skilling programs, incentives for formal job creation, and efforts to increase women's workforce participation. These measures align with the employment needs outlined in the economic survey, reflecting a strategic effort to leverage India's demographic dividend.

### Consumption and Economic Growth

- Changes in income tax slabs and direct benefit transfers to first-time workers are expected to boost consumption, particularly in small-ticket items. The comprehensive policy mix—encompassing continued capex, job creation, and support for key sectors like manufacturing and agriculture—positions the economy for robust growth. The budget forecasts a real GDP growth rate of 7.1% for FY25.

### Fiscal Consolidation

- The fiscal deficit target is set at 4.9% of GDP for FY25, down from 5.1% in the interim budget, with an aim to further reduce it to below 4.5% by FY26. This consolidation is supported by higher projected revenue receipts, largely from additional Reserve Bank of India (RBI) and Public Sector Undertaking (PSU) dividends. The revenue receipts target is INR 31.3 lakh crore for FY25, a 14.7% increase from FY24, and higher than the INR 30 lakh crore set in the interim budget.

## Fiscal Consolidation

- The allocation for capital expenditure remains unchanged at Rs 11.1 lakh crore, accounting for 3.4% of GDP. However, there are notable shifts within this allocation. Interest-free capex loans to states have been increased to INR 1.50 lakh crore from INR 1.30 lakh crore in the interim budget. Conversely, the allocation to the petroleum ministry has been significantly reduced from INR 15,408 crore to INR 1,129 crore. Increases in capex allocations for agriculture, housing, urban development (including smart cities and metro projects), the National Health Mission, and education signal targeted investments in high-impact areas.

## Transfers to States

- Total transfers to states have been increased by INR 74,439 crore from the interim budget. This includes a substantial rise in "other transfers," which encompasses central capex loans and special assistance to states, as well as an increase in tax devolution due to higher total tax receipts. Notable allocations are directed towards Bihar and Andhra Pradesh, reflecting political and developmental priorities.

## Revenue Receipts and Tax Assumptions

- The budget assumes a nominal GDP growth rate of 10.5% for FY25. The Gross Tax-to-GDP ratio is expected to increase to 11.8% from 11.6% in FY24. The budget's reliance on robust direct tax collections and dividends from the RBI and PSUs suggests a cautious yet optimistic revenue forecast. Goods and Services Tax (GST) collections are budgeted at INR 10.6 lakh crore, requiring a monthly run rate of INR 1.5 lakh crore, which is below the current Q1 FY25 average of INR 1.72 lakh crore, indicating potential upside.

## Bond Market and Borrowings

- The fiscal deficit financing plan includes a reduction in borrowing through dated securities, short-term borrowings, and small savings funds, with an increased drawdown on cash balances. This approach led to a slight rise in the 10-year bond yield by 3bps post-budget announcement, settling around 6.99%. We anticipate the 10-year bond yield to decrease to the 6.7-7.0% range by Q4 FY25, supported by Foreign Institutional Investor (FII) debt flows, lower United States (US) yields, and a potential RBI rate cut in late 2024.

## Price Stability and Food Supply Chains

- Initiatives aimed at promoting self-sufficiency in pulses and oilseeds and creating vegetable production clusters are expected to address structural issues in food inflation and enhance price stability. These measures reflect a strategic approach to improving agricultural productivity and supply chain efficiency.

*In summary, the FY25 budget balances fiscal consolidation with strategic investments in infrastructure, employment, and critical sectors, positioning India for sustainable economic growth. The cautious yet optimistic revenue projections and targeted expenditure shifts underscore the government's commitment to maintaining economic stability while fostering growth.*

**Data Source: Union Budget - 2024 - 25, https://www.indiabudget.gov.in/**