

Fiscal surprises with continued prudence

India reiterates its policy priorities

- The budget narrative focused on four key pillars: Poor, Women, Youth and Farmers
- Today's budget managed to deliver multiple positives, without the need for any populist measures
- Continued fiscal consolidation has laid the roadmap for increased credibility and transparency
- India's policy priorities remain clearer to the markets than before
- Rural, farm, welfare and capex have retained their focus, alongside infrastructure and green energy
- Lower borrowings have sent a positive message to bond markets, reducing some pressure on yields

FY24 fiscal deficit sees a surprise 10bps drop

Fiscal deficit for the current fiscal year stood at 5.8% GDP, 10bps lower than market expectations of 5.9%. This has been largely possible due to an appreciable pickup in receipt growth. As a % of GDP:

- **Total receipts were 30bps higher** than FY24 budget target
 - While disinvestments disappointed, RBI dividends were higher, pushing up non-tax revenue
 - Direct taxes accounted for a lion's share, up 50bps, solely on a surge in income tax collections
- **This allowed the Centre to overspend** on revenue-spends by 30bps, while also cutting back capex by 10bps
 - Centre overspent on subsidy spending (15bps) and education/ rural / pay (15bps)
- In effect, this allowed the Centre deliver 5.8%, despite a much lower nominal GDP growth of 9%

Note here that a higher nominal GDP growth gives fiscal spending a breather. However, while lower nominal GDP growth exerts pressure on fiscal spending, to keep the fiscal deficit in check.

Significant fiscal consolidation pencilled for FY25

- Budget pencilled in a sharp drop in fiscal deficit to 5.1%, well below the lowest market estimate of 5.3%
- This aggressive consolidation comes from a **sharp cutback in revenue spending**, even as Capex sees a moderate increase
 - Total expenditure is set to drop 60bps, on the back of a **20 bps cut in subsidies** and the rest from cuts in agri, rural and pay
 - **Capex has moved up 20bps**, with a shift in additional spends away from defense, rail and roadways
 - Viksit Bharat is likely to absorb the lion's share of this additional capex
- The above **fiscal consolidation is supported by realistic assumptions on receipt growth**; adding a strong layer of credibility to the fiscal math
 - Tax buoyancy (the tax/GDP ratio) has broadly been maintained, with a marginal pickup assumed in direct taxes

Bond markets seen jubilant

- Lower than expected fiscal deficits for both FY24 and FY25 have given the bond markets a positive surprise
- 10Y yields post budget witnessed a sharp drop of 10bps to 7.04%, closing marginally higher at 7.06%
- FY25 fiscal deficit projection at 5.1%, was lower than the lowest market expectation
- Gross market borrowing saw an 8% drop to Rs.14.1tr and flat net market borrowing of Rs.11.8tr

Expect budget numbers to change in July

- What we saw today was the interim budget of the current government
- Interim budget is a vote-on-account (VoA) where the budget is passed without a Parliament discussion
- The actual details would depend on the composition of the newly formed government
- VoA is seen just as a measure to ensure governments get to smoothly spend their budgeted monies
- The direction of the budget is unlikely to change...
- ...however, based on the report-card the government gets from its people, there would certainly be better spend-prioritization

Union budget expressed as % of GDP

Rs.Bn.					%GDP			
Nominal GDP (Rs Bn)	2,72,407	3,01,751	2,96,577	3,27,718				
Rs. Bn.	FY23	FY24 (BE)	FY24 (RE)	FY25 (BE)	FY23	FY24 (BE)	FY24 (RE)	FY25 (BE)
Revenue receipt	23,832	26,323	26,997	30,013	8.7	8.7	9.1	9.2
<i>Tax (net)</i>	20,978	23,306	23,239	26,016	7.7	7.7	7.8	7.9
<i>Non tax</i>	2,854	3,017	3,758	3,997	1.0	1.0	1.3	1.2
Capital receipt	722	840	560	790	0.3	0.3	0.2	0.2
Total receipt	24,554	27,163	27,557	30,803	9.0	9.0	9.3	9.4
Revenue expenditure	34,531	35,021	35,402	36,547	12.7	11.6	11.9	11.2
Capital expenditure	7,400	10,010	9,502	11,111	2.7	3.3	3.2	3.4
Total expenditure	41,932	45,031	44,905	47,658	15.4	14.9	15.1	14.5
Fiscal surplus/(deficit)	17,378	17,868	17,348	16,855	6.4	5.9	5.8	5.1
Revenue surplus/(deficit)	10,699	8,699	8,405	6,534	3.9	2.9	2.8	2.0
Fiscal deficit (%GDP)	6.4	5.9	5.8	5.1				
Revenue deficit (%GDP)	3.9	2.9	2.8	2.0				

Rs. Bn.	FY23	FY24 (BE)	FY24 (RE)	FY25 (BE)	FY23	FY24 (BE)	FY24 (RE)	FY25 (BE)
Total direct taxes	16,591	18,233	19,450	21,988	6.1	6.0	6.6	6.7
<i>Corporation tax</i>	8,258	9,227	9,227	10,428	3.0	3.1	3.1	3.2
<i>Income tax</i>	8,333	9,006	10,223	11,560	3.1	3.0	3.4	3.5
Total indirect taxes	13,951	15,376	14,922	16,320	5.1	5.1	5.0	5.0
<i>Customs</i>	2,134	2,331	2,187	2,313	0.8	0.8	0.7	0.7
<i>Excise</i>	3,190	3,390	3,036	3,188	1.2	1.1	1.0	1.0
<i>Service</i>	4	5	5	1	0.0	0.0	0.0	0.0
<i>CGST+IGST+Comp Cess</i>	8,491	9,566	9,566	10,677	3.1	3.2	3.2	3.3
<i>Others</i>	132	84	128	141	0.0	0.0	0.0	0.0
Total tax collections (gross)	30,542	33,609	34,372	38,308	11.2	11.1	11.6	11.7
<i>Transfer to states</i>	9,484	10,214	11,045	12,198	3.5	3.4	3.7	3.7
<i>Surcharge for financing NCFE</i>	80	88	88	94	0.0	0.0	0.0	0.0
Total tax collections (net)	20,978	23,306	23,239	26,016	7.7	7.7	7.8	7.9

Source: Budget documents, Sundaram Asset Management Research

Union budget expressed in %y/y terms

Rs.Bn.					%YoY		
Rs. Bn.	FY23	FY24 (BE)	FY24 (RE)	FY25 (BE)	FY24 (BE)	FY24 (RE)	FY25 (BE)
Nominal GDP (Rs Bn)	2,72,407	3,01,751	2,96,577	3,27,718	10.8	8.9	10.5
Revenue receipt	23,832	26,323	26,997	30,013	10	13	11
<i>Tax (net)</i>	20,978	23,306	23,239	26,016	11	11	12
<i>Non tax</i>	2,854	3,017	3,758	3,997	6	32	6
Capital receipt	722	840	560	790	16	-22	41
Total receipt	24,554	27,163	27,557	30,803	11	12	12
Revenue expenditure	34,531	35,021	35,402	36,547	1	3	3
Capital expenditure	7,400	10,010	9,502	11,111	35	28	17
Total expenditure	41,932	45,031	44,905	47,658	7	7	6
Fiscal surplus/(deficit)	17,378	17,868	17,348	16,855	3	0	-3
Revenue surplus/(deficit)	10,699	8,699	8,405	6,534	-19	-21	-22
Fiscal deficit (%GDP)	6.4	5.9	5.8	5.1			
Revenue deficit (%GDP)	3.9	2.9	2.8	2.0			

Rs. Bn.	FY23	FY24 (BE)	FY24 (RE)	FY25 (BE)	FY24 (BE)	FY24 (RE)	FY25 (BE)
Total direct taxes	16,591	18,233	19,450	21,988	10	17	13
<i>Corporation tax</i>	8,258	9,227	9,227	10,428	12	12	13
<i>Income tax</i>	8,333	9,006	10,223	11,560	8	23	13
Total indirect taxes	13,951	15,376	14,922	16,320	10	7	9
<i>Customs</i>	2,134	2,331	2,187	2,313	9	2	6
<i>Excise</i>	3,190	3,390	3,036	3,188	6	-5	5
<i>Service</i>	4	5	5	1	16	16	-80
<i>CGST+IGST+Comp Cess</i>	8,491	9,566	9,566	10,677	13	13	12
<i>Others</i>	132	84	128	141			
Total tax collections (gross)	30,542	33,609	34,372	38,308	10	13	11
<i>Transfer to states</i>	9,484	10,214	11,045	12,198	8	16	10
<i>Surcharge for financing NCFE</i>	80	88	88	94	10	10	7
Total tax collections (net)	20,978	23,306	23,239	26,016	11	11	12

Source: Budget documents, Sundaram Asset Management Research

Centre's Capex calculations

Rs. Bn.					%YoY			%GDP			
	FY23	FY24 (BE)	FY24 (RE)	FY25 (BE)	FY24 (BE)	FY24 (RE)	FY25 (BE)	FY23	FY24 (BE)	FY24 (RE)	FY25 (BE)
Gross budgetary support	7,400	10,010	9,502	11,111	35	28	17	2.7	3.3	3.2	3.4
IEBR (Ex-FCI)	3,631	4,877	3,262	3,430	34	-10	5	1.3	1.6	1.1	1.0
Govt. capital expenditure	11,031	14,887	12,764	14,541	35	16	14	4.0	4.9	4.3	4.4

Source: Budget documents, Sundaram Asset Management Research

Centre's borrowing mathematics

Rs. Bn.					%YoY			%GDP			
	FY23	FY24 (BE)	FY24 (RE)	FY25 (BE)	FY24 (BE)	FY24 (RE)	FY25 (BE)	FY23	FY24 (BE)	FY24 (RE)	FY25 (BE)
Gross borrowings	14,210	15,430	15,430	14,130	9	9	-8	5.2	5.1	5.2	4.3
of which Repayments	3,127	3,621	3,625	2,378				1.1	1.2	1.2	0.7
Net Market Borrowings	11,083	11,809	11,805	11,752	7	7	0	4.1	3.9	4.0	3.6
Small savings	3,959	4,713	4,713	4,662				1.5	1.6	1.6	1.4
State providend fund	51	200	52	52				0.0	0.1	0.0	0.0
Other receipts	835	543	783	(306)				0.3	0.2	0.3	(0.1)
External debt	371	221	248	160				0.1	0.1	0.1	0.0
Cash drawdown	(16)	(118)	(267)	35				(0.0)	(0.0)	(0.1)	0.0
Fiscal deficit	17,378	17,868	17,348	16,855	3	0	-3	6.4	5.9	5.8	5.1

Source: Budget documents, Sundaram Asset Management Research

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