

India Budget FY2025

A budget committed to push growth while focusing on fiscal consolidation

Fixed Income Perspective

July 2024



Continued focus on Capital Expenditure

Capex to remain key driver

Buoyant Tax collections aiding revenue

Total Receipts (net of borrowing) for FY2025 estimated at INR 32.1 trn, against FY2024 number of INR 27.9 trn

Non-Tax Revenue estimated significantly higher for FY2025 at INR 5.5 trn (vs INR 4.0 trn in FY2024)

Total expenditure to increase to INR 48.2 trn in FY2025 from INR 44.4 trn in FY2024

Capital expenditure for FY2025 estimated at INR 11.1 trn (in line with Interim Budget estimate), vs FY2024 actuals of INR 9.5 trn (17% y-o-y increase)

Revenue expenditure estimates higher by around INR 500 bn (at INR 37.09 trn) from the Interim Budget estimates

Interest free loans to States for Capex to continue

Subsidy expenditures projected to decline

Fertilizer subsidy expected to fall to INR 1.6 trn in FY2025 (vs INR 1.9 trn in FY2024)

Food subsidy estimated to be marginally lower at INR 2.1 trn

Government has balanced the need for fiscal consolidation while continuing to fuel growth

Source: Indian Union Budget Document, Bloomberg, July 2024

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Walking the talk on fiscal consolidation

Government announced fiscal deficit numbers lower than market expectations

Revenue numbers seem reasonable

Nominal GDP expected to grow at 10.5% in FY2025 (FY2024 GDP growth number at 9.6%)

Net Tax Receipts to increase from INR 23.2 trn in FY2024 to INR 25.8 trn in FY2025

Revenue from Dividend from Public Sector Enterprises and Divestment estimated at INR 560 bn, RBI and PSU Bank dividend budgeted at INR 2.3 trn

Expenditure driven majorly through Capex

Revenue to Capital expenditure lower than FY2024, but marginally higher than Interim Budget estimate

Subsidy expenditure lower than last year actuals by around INR 320 bn

Borrowing numbers lower than Interim Budget

Gross market borrowing for FY2025 announced at INR 14.0 trn (vs Interim Budget estimate of INR 14.1 trn), with Net market borrowing at INR 11.6 trn (including utilization from GST compensation fund)

Borrowing through Small Savings at INR 4.2 trn (~26% of fiscal deficit funding), lower than both FY2024 and Interim Budget FY2025 numbers

Fiscal Deficit better than market expectations

Fiscal Deficit target for FY2025 estimated at 4.9% (~ 20 bps lower than the Interim Budget estimate of 5.1%)

Government focused on bringing down Fiscal Deficit to 4.5% in FY2026

Beyond FY2026, Government committed to maintain a declining path for Debt to GDP ratio, implying a continuing fiscal consolidation

Fiscal numbers look credible; Net borrowing numbers only marginally lower

Source: Indian Union Budget Document, Bloomberg, July 2024

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Key Takeaways of the Union Budget

- ◆ Government will continue its focus on fiscal consolidation without compromising on growth
- ◆ Fiscal Deficit numbers for FY2024 and FY2025 were below market consensus, adding credibility to reaching a target of 4.5% by FY2026
- ◆ While markets were expecting a larger reduction in net borrowing at a Fiscal Deficit number of 4.9%; however net borrowing was only lower by INR 120 bn
- ◆ Yields of Government securities moved higher by 1-2 bps post the announcement, however markets recovered as the day progressed
- ◆ Corporate bonds also moved broadly in line with Government securities
- ◆ We continue to maintain our positive duration bias on interest rates

We believe there can be a favourable case to add duration to investor portfolios with a 1.5 - 2 year investment horizon

Source: Indian Union Budget Document, Bloomberg, July 2024

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HSBC Mutual Fund, 9-11th Floor, NESCO - IT Park Bldg. 3, Nesco Complex, Western Express Highway, Goregaon East, Mumbai 400063. Maharashtra.

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