Our Views

Interim Budget: GPS Tracker Towards India's Unprecedented Growth!

With the vision of 'Vikshit Bharat by 2047', the Hon'ble Financial Minister Ms. Nirmala Sitharaman presented Interim Budget for 2024-2025. Guided by the principle of 'Reform, Perform and Transform', the Government is committed to take up next generation reforms to realise the dream of developed India @ 2047.

The 'Panch Pran' has indeed laid robust foundations for the 'Amrit Kaal,' underscoring a strategic emphasis on fiscal consolidation, infrastructure spending, sustainable development, and inclusive growth. The echoes of this visionary approach resonate prominently in the contours of the interim budget.

Budget, akin to a GPS, meticulously tracks the quintessential elements steering growth, which are:

1. **Guidance on GDP Growth**

   With strong focus on capex and inclusive development, the real GDP growth is expected to be closer to 7.0% in FY25 according to 'The Indian Economy: A Review'. With this unprecedented growth, India is expected to become third-largest economy in the world with a GDP of USD 5.0 tn. With the journey of reforms continuing, the government will be able to achieve its goal of becoming a 'developed country' by 2047.

2. **Path towards Fiscal Prudence**

   In the backdrop of economic uncertainties and global challenges, the Indian Government has charted a course towards fiscal consolidation with an aim to steer the economy towards stability and sustained growth. To continue towards the path of fiscal consolidation by 2025-26, the fiscal deficit for 2024-25 is estimated at 5.1% of GDP and below 4.5% by FY26. This will give boost to the sovereign rating and premium valuation that India commands.

3. **Tax Revenue**

   The Budget Estimates for FY25 provides that the total receipts other than borrowings are expected at INR 30.8 lakh crore out of which tax receipts are estimated at INR 26.02 lakh crore.

   The receipts from income taxes are expected at INR 21.6 lakh crore thereby growing 11.3% sequentially. The government's efforts to rationalise the income tax and make the filing process seamless has resulted in increase in income tax collection by one-third over the last two years.

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The total receipts from GST are expected at INR 10.7 lakh crores which implies 11.4% growth as compared to FY24. The introduction of Goods & Services Tax has played significant role in increasing the indirect tax collection. The indirect tax collection has almost doubled since the introduction of GST i.e. from INR 8.6 lakh crore in FY17 to INR 16.2 lakh crore estimated for FY25.

4. **Non-tax Revenue**

The total non-tax revenue is estimated at INR 7.6 lakh crore for 2024-25 which implies 5.3% growth compared to last year. Out of this, INR 2.2 lakh crore is expected from Interest and Dividends receipt and INR 5.5 lakh crore expected from other non-tax revenues like disinvestments, asset monetisation etc. The income from interest and dividends have significantly increased by 25% over the last two years.

Total expenditures are estimated at INR 47.66 lakh crore. To meet the fiscal demands, the government anticipates gross market borrowings through dated securities to reach INR 14.13 lakh crore in the financial year 2024-25. The estimated government borrowings have decreased from INR 15.43 lakh crore in FY24 to INR 14.13 lakh crore in FY25 albeit increase in capex and infrastructure spending. This underscores the intricate balance that the government strives to maintain, leveraging both tax and non-tax avenues while resorting to market borrowings judiciously.

5. **Capex Investment Takes Center Stage**

The Budget 2024 underscores a resolute commitment to infrastructure development, signaling the government's understanding of its pivotal role in economic rejuvenation. The total outlay on capital expenditure (capex) has been increased by a commendable 11.1% to reach a substantial INR 11.1 lakh crore. India's capex has almost doubled in last 3 years from INR 5.9 lakh crore in FY22 to INR 11.1 lakh crore in FY25.

The continued focus on capex outlay at around 3.4% of GDP will certainly help boost economic activity and serve the long-term vision of Vikshit Bharat.

Recognizing the need to bolster state-level capital investments, the government has earmarked INR 75,000 crore for 50-year interest-free loans to states. This strategic provision is a proactive step towards empowering states with the financial means to undertake capital-intensive projects.

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During this interim budget, the Government did not propose any changes in taxation and confined budget to meet its expenditure till general elections with focus on achieving ‘Vikshit Bharat’.

The Indian bonds market reacted favourably with marginal easing of Indian bond (~6–7 bps drop for 10 Yr benchmark yield). This can be attributed to on track fiscal consolidation and a positive surprise on borrowings estimates for FY25.

On the equity side, the market had an initial positive start ahead of the budget and remained flattish post the budget session. The stocks for housing finance and green energy sector have gained following a massive push in the interim budget.

While ensuring prudence fiscal framework, the primary emphasis is on driving infrastructure and capital expenditure growth, coupled with a commitment to innovation. We now look forward to the full budget in July post elections with focus on comprehensive GDP - Governance, Development and Performance.

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