Budget '25 – Less than meets the eye!

In an environment with little place to navigate, in the first year of the third term of this Government – it delivered to the masses. Clearly the tight rope was all about controlling the deficits – this is not a regime that looks like it would borrow its way to growth.

The headline captured it all - tax deductions for the middle class!

By estimates this would add between 4% to 7% of incremental disposable income in the hands of the income earners below INR 2.5 million. For Indian households that have been struggling with inflation and with an all-time high in household debt to GDP this does come as a relief.

Total annual income (INR)	Tax Savings as per Budget'25 (INR)		% of total income
	Per annum	Per month	
8,00,000	30,000	2,500	4%
12,00,000	80,000	6,667	7%
20,00,000	90,000	7,500	5%
24,00,000	1,10,000	9,167	5%
50,00,000	1,10,000	9,167	2%

Source – Budget Documents, Government of India & Old Bridge workings

From an economic standpoint would this be enough?

For a while the only GDP multiplier we have been leaning on is Government spending. For a while now, Government balance sheet has been almost the sole contributor of growth. It has front loaded all its expenses for Infrastructure, Defence and also for private sector capex through its PLI schemes. But the ammunition there too appears to be slowing down. Corporate capex doesn't seem to be incentivised enough to pick up the gauntlet and spend, resulting in a historical high cash generation. Nothing in the budget seemed to suggest that this trend was likely to change.

On the revenue side for a 10% nominal GDP growth, tax buoyancy is expected to be better, this is when we are already peaking out in corporate profit margins. Secondly, households are already contributing more to the coffers than corporates and they are expected to continue to do so at least for this year!

Particulars (INR trn)	4 yr CAGR		% YoY	FY26BE	FY25 RE	FY24	FY23	FY22
Direct Tax	16%		13%	25.2	22.4	19.6	16.7	14.1
Of which Personal Income Tax	**20%**		**14%**	**14.4**	**12.6**	**10.4**	**8.3**	**7.0**
Of which Corporate Income Tax	11%		10%	10.8	9.8	9.1	8.3	7.1
Indirect Tax	8%		8%	17.4	16.0	15.0	13.8	12.9
Total Tax Collection	12%		11%	42.6	38.4	34.5	30.5	27.0
GDP	11%		10%	357	324	295	270	236
Tax to GDP ratio				11.9%	11.8%	11.7%	11.3%	11.4%

Source – Budget Documents, Government of India & Old Bridge workings

There has been some tinkering with customs duties in industries where the supply chain resides abroad – making it more efficient for the manufacturing sector. Nuclear power capex again found its mention out here, but that is left to execution over the course of the next decade. On real estate, there would be no deemed rental income on the second home, which is a minor positive. Finally, if most taxpayers move to the new regime of income tax – this would have an impact of any financial product group where rebates were allowed.

This event is behind us. It was largely in continuation with what has been delivered historically – fiscal prudence and some element of populism. The good news as one of the television commentators said was that there were no surprises on the negative side.

Particulars (INR trn)	**FY25BE**	**FY25RE**	**FY26BE**
Total Expenditure	**52.1**	**50.2**	**54.9**
Allocated in Budget	48.2	47.2	50.7
Internal and Extra Budgetary resources	3.9	3.0	4.3
Revenue Expenditure	37.1	37.0	39.4
- Interest payment	11.6	11.4	12.8
- Farmers welfare	3.2	3.1	3.4
Capital Expenditure (Total)	15.0	13.2	15.5
Capital Expenditure (Budget allocation)	11.1	10.2	11.2
Total Receipts	**46.8**	**46.6**	**50.6**
Revenue Receipts	31.3	30.9	34.2
Capital Receipts	15.5	15.8	16.4
Sources of tax receipts			
Corporate tax growth	11%	8%	10%
Personal tax growth	16%	20%	14%
Center GST growth	12%	11%	11%
Non-tax receipts			
Dividend + Profits	2.9	2.9	3.3
Divestment	0.5	0.3	0.5
Net debt raise	14.9	15.7	15.7

Source – Budget Documents, Government of India & Old Bridge workings

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

Date of Release: 1st February 2025