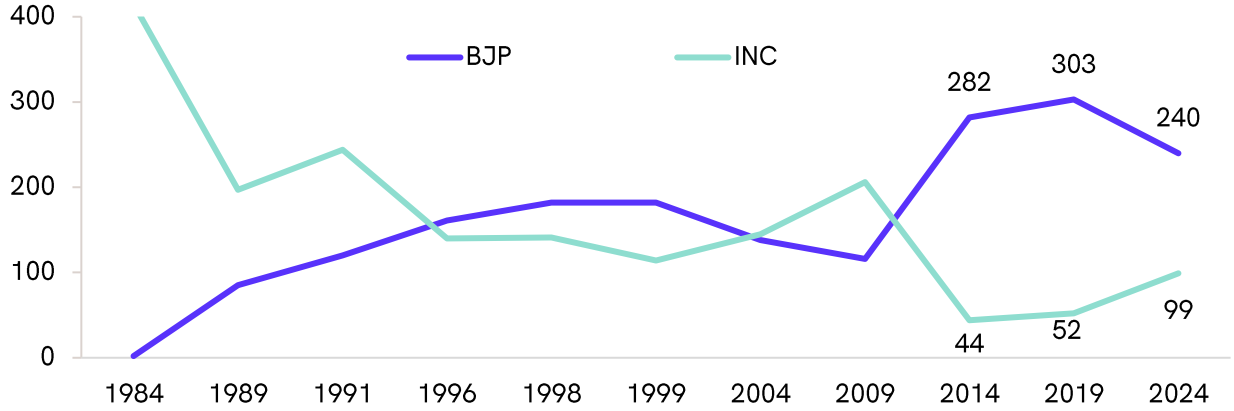
Budget 2024-25 Expectations: Consumption vs Investment? Continuity vs Change?

The Bharatiya Janata Party (BJP)-led National Democratic Alliance (NDA) clinched a third consecutive term in the 2024 General Elections but with a narrow majority. The BJP failed to achieve a single-party majority and experienced a notable decline in seats compared to the previous general elections (Chart 1). This has sparked concerns in the market that there could be a policy rethink in the upcoming budget, possibly shifting the focus from investment/capital expenditure to consumption/revenue expenditure.

Chart 1: Seats Won in General Elections



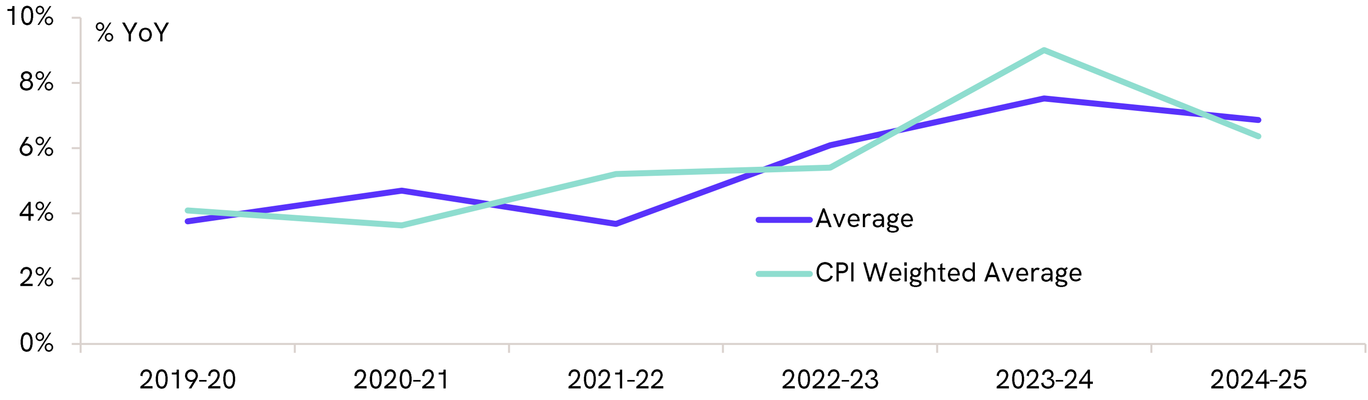
Source: Election Commission of India, Note: INC – Indian National Congress

At present, weaker consumption, rising inequality, and poor job creation stand out as pressing economic concerns. The markets are concerned that resources may be redirected towards addressing these issues through populist measures, such as increased spending on welfare programs and subsidies. This could impact the quality of budget spending and limit funding for vital infrastructure expansion.

The recent Maharashtra state budget has compounded the fears of a populist union budget. Maharashtra's budget featured several initiatives to increase income and consumption, including financial aid for women, additional subsidies, and regional tax cuts on diesel and petrol, among other measures. Could Maharashtra's budget be setting a precedent for the upcoming union budget?

So far, NDA 3.0 has shown little inclination for policy change. Key ministries like Home, Defence, Transport, Finance, Commerce, Ports, Railways, Petroleum, and Education have retained the same ministers from NDA 2.0. Minimum Support Prices (MSPs) for Kharif crops announced in June 2024 were also consistent with the prior policy stance of offering a 50% return over the cost of production. The increase in MSPs was, in fact, lower than last year (Chart 2).

Chart 2: Kharif MSPs hike



Source: CMIE, 360 ONE Asset Research

Let's analyse the interim budget figures to assess the potential for policy adjustments. The interim budget for FY24-25 set a fiscal deficit target of 5.1% of GDP. The direct and indirect tax collection estimates were largely realistic and achievable, providing little scope for revision in final budget estimates. The disinvestment target is also likely to be retained in the final budget. However, non-tax revenues will likely be revised significantly upward due to the large RBI dividend received in the current financial year (Table 1).

Table 1: Central Government Receipts Budget

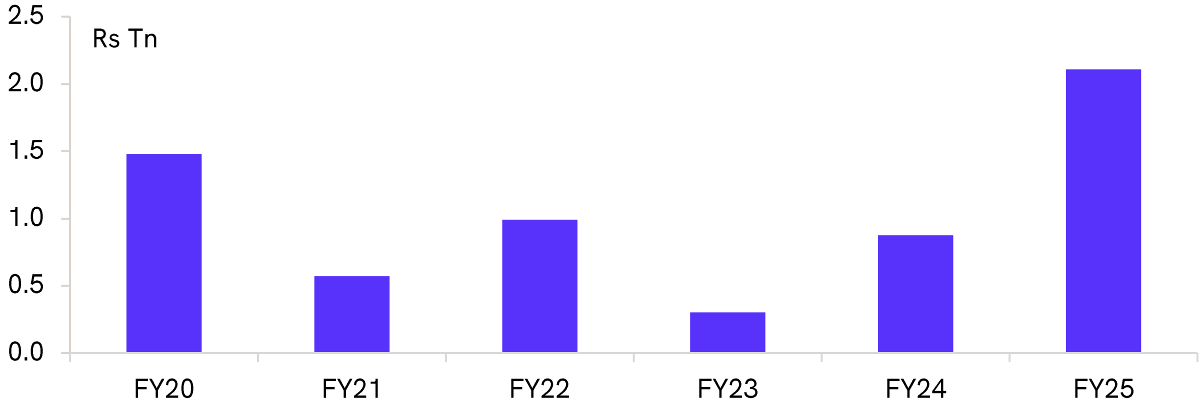
Heads	Rs Tn				% YoY			
	FY22	FY23	FY24	FY25	FY22	FY23	FY24	FY25
	A	A	PE	BE	A	A	PE	BE
Gross Tax Revenue	**27.1**	**30.5**	**34.6**	**38.3**	**33.7%**	**12.7%**	**13.4%**	**10.6%**
Income	7.0	8.3	10.1	11.6	42.9%	19.7%	21.3%	14.3%
Corporation	7.1	8.3	9.1	10.4	55.6%	16.0%	10.3%	14.5%
Excise	3.9	3.2	3.1	3.2	0.3%	-18.4%	-4.3%	4.4%
Customs	2.0	2.1	2.3	2.3	48.2%	6.8%	9.2%	-0.8%
Central GST	5.9	7.2	8.2	9.2	29.6%	21.5%	14.2%	11.8%
Compensation Cess	1.0	1.3	1.4	1.5	23.0%	20.1%	12.4%	6.1%
Non-Tax Revenues	**3.65**	**2.85**	**4.02**	**4.00**	**75.8%**	**-21.8%**	**40.8%**	**-0.5%**
o/w Dividend & Profit	1.61	1.00	1.70	1.50	65.8%	-37.8%	70.6%	-12.0%
Capital Receipts	**0.39**	**0.72**	**0.60**	**0.79**	**-31.7%**	**83.4%**	**-16.3%**	**30.7%**
o/w Disinvestments	0.15	0.46	0.33	0.50	-61.4%	214.5%	-28.0%	51.0%

Source: Budget Documents, Note: PE – Provisional Estimate, BE – Interim Budget Estimate

The interim budget projected Rs 1.02 trillion in dividends from the RBI and other financial institutions. However, dividends from the RBI alone are significantly higher at Rs 2.1 trillion (Chart 3), indicating an additional dividend of approximately Rs 1.40 trillion (assuming no revision in dividends from other financial institutions).

This amount is substantial enough for the government to allocate towards measures aimed at boosting consumption or household disposable income. Therefore, there is no need to increase the fiscal deficit or reallocate spending from the capital account to fund these measures.

Chart 3: Dividends received by the Government from RBI



Source: RBI, 360 ONE Asset Research

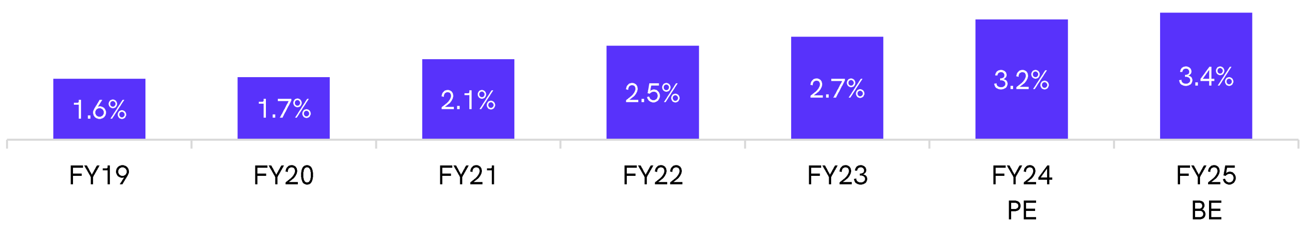
Here is a prioritised list of various measures the government could consider. We do not anticipate that the government will adopt all measures, but some may be included in the budget.

1. Taxpayers could receive more incentives to shift to the new tax regime. However, we assign a low probability to changes in the income tax slabs in the old tax regime. The government intends to gradually transition taxpayers to the new tax regime, so any incentives for the old tax regime would be counterproductive.
2. Allocation to rural sector schemes could be increased. There was a notable reduction in the allocation to the rural roads scheme, while expenditure on piped water and rural employment guarantee remained unchanged in the interim budget.
3. The budget can prioritise job creation through various upskilling initiatives, introduce incentives for employment creation, and launch an urban employment guarantee scheme.
4. The government could revise the minimum income support instalments under PM-KISAN by 50% to Rs 9,000 annually.
5. Financial assistance could be announced for unemployed youth, backward classes, and people experiencing poverty. Various states have already announced income transfers to women, reducing the probability of the Centre launching a similar scheme.

Can the government adjust taxes to address income/wealth inequality? Yes, there is a possibility. Rising inequality has been a significant policy concern and a political issue. Measures such as the introduction of a long-term capital gains (LTCG) tax of 10% on the sale of listed equity or equity-oriented funds in Budget 2018 and the removal of LTCG tax benefits and indexation benefits from debt mutual funds in Budget 2023 have been introduced to address this concern. Increases in surcharge on income tax for individuals earning higher incomes and further adjustments in capital gains taxes (both short term and long term) cannot be ruled out. Although we assign a low probability to such measures in Budget 2024, their implementation in future budgets remains a distinct possibility. Note that the government will need to find additional sources of revenue if it announces any irreversible welfare schemes.

Overall, for the final budget 2024, we anticipate that the government will adhere to the capital expenditure target of Rs 11.1 trillion (3.4% of GDP) set in the interim budget. Capital expenditure has grown significantly over the past five years (Chart 4). We expect this trend to continue, reflecting the government's sustained dedication to infrastructure development. However, additional funding, such as a higher RBI dividend, will be directed towards enhancing consumption or household disposable income in the 2024 budget.

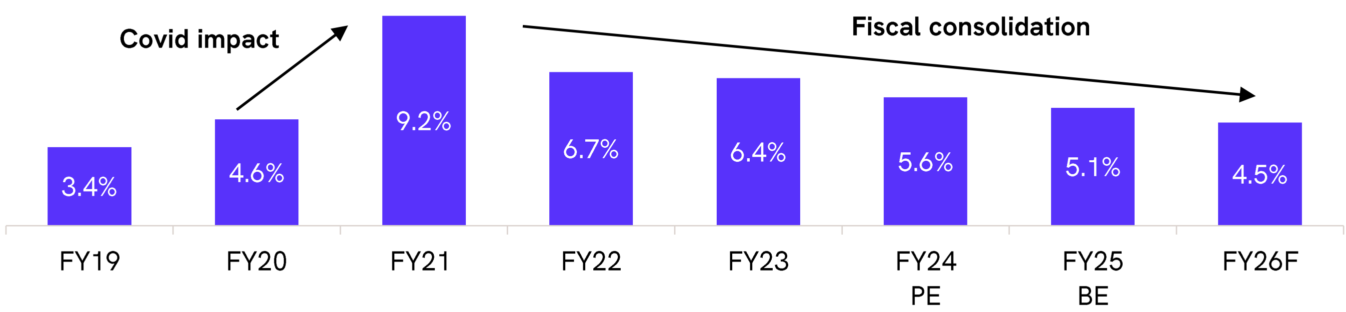
Chart 4: Capital Expenditure (% of GDP)



Source: Budget Documents, Note: PE – Provisional Estimate, BE – Interim Budget Estimate

Consequently, we expect the government to maintain the fiscal deficit target of 5.1% of GDP (Chart 5) in the final budget. The government's borrowing programme is also not likely to be significantly different from the interim budget. The finance minister has repeatedly committed to reducing the fiscal deficit to 4.5% by FY26, and we anticipate that the government will successfully achieve this objective. Broadly, NDA 3.0 is expected to emphasise 'continuity' over 'change'.

Chart 5: Fiscal Deficit (% of GDP)



Source: Budget Documents, Note: PE – Provisional Estimate, BE – Interim Budget Estimate, F - Forecast

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