July 24, 2024

Union Budget strikes a fine balance; Employment receives big focus in roadmap to *Viksit Bharat*!

What's the Point?

Budget 2025 accelerated on the path of fiscal consolidation while addressing today's priorities. Headroom from excess RBI dividends was allocated to increase revenue expenditure and further reduce the fiscal deficit to 4.9% for FY25BE, down from 5.1% in the interim budget. As part of the strategy to achieve *Viksit Bharat*, a developed country status by 2047, the Honourable Finance Minister highlighted nine priority areas. A major focus was on employment and skilling, with a ₹2 lakh crore package that includes Employment Linked Incentive Schemes and Internship Programmes. Simplification measures in the tax regime were also proposed for charities, TDS rate structure, reassessment and search provisions, and capital gains taxation, along with some easing in personal tax slabs in the new tax regime. Overall, the budget aimed to balance fiscal prudence with growth impetus.

Key Highlights from the Fiscal Math

- Increase in total budgeted revenue of ₹1.27 lakh crore vs the budgeted numbers in the Interim Budget, largely emanating from excess RBI Dividend. Revenue receipts saw no major change in the headline numbers, with buoyancy in tax collections potentially being offset by tax foregone on account of easing of tax slabs.
- Large part of headroom was utilised in reduction of Fiscal Deficit – to ₹16.1 lakh crore from interim budget number of ₹16.7 lakh crore. Net market borrowings for FY25BE at ₹11.6 lakh crore are lower than FY24.
- The rest went towards increase in Revenue Expenditure to ₹37.1 lakh crore from ₹36.5 lakh crore. Revenue expenditure is thus budgeted to grow at 6% for FY25BE over FY24, above last 3 years average growth of 4%.

Fiscal Snapshot

₹ lakh crore	FY24P	FY25BE(I)	FY25BE	FY24P over FY23 Actual	FY25BE over FY24P
Gross Tax Collections	**34.6**	**38.3**	**38.4**	13.4%	10.8%
Total Direct Tax	**19.7**	**22.1**	**22.2**	17.7%	12.8%
Corporate Tax	9.1	10.4	10.2	10.3%	12.0%
Personal income tax	10.6	11.7	12.0	25.0%	13.6%
Total Indirect Tax	**15.0**	**16.2**	**16.2**	8.2%	8.2%
Custom duties	2.3	2.3	2.4	9.2%	2.0%
Excise duties	3.1	3.2	3.2	-4.3%	4.5%
Goods and Services Tax	9.6	10.7	10.6	12.7%	11.0%
Other Taxes and Duties	0.0	0.0	0.0		
Less: Share of States and others	11.4	12.3	12.6	19.0%	10.4%
Net Tax Collections	**23.3**	**26.0**	**25.8**	10.9%	11.0%
Non-Tax Revenue	**4.0**	**4.0**	**5.5**	40.8%	35.8%
Total Revenue Receipts	**27.3**	**30.0**	**31.3**	14.5%	14.7%
Total Capital Receipts	**0.6**	**0.8**	**0.8**	-16.3%	29.0%
Divestments	0.3	0.5	0.5	-28.0%	51.0%
Total Receipts	**27.9**	**30.8**	**32.1**	13.6%	15.0%
Total Revenue Expenditures	**34.9**	**36.5**	**37.1**	1.2%	6.2%
Interest Payments	10.6	11.9	11.6	14.6%	9.3%
Subsidies	4.1	3.8	3.8	-22.1%	-7.8%
Others	20.2	20.8	21.7	3.3%	3.9%
Total Capital Expenditures	**9.5**	**11.1**	**11.1**	28.2%	17.1%
Total Expenditure	**44.4**	**47.7**	**48.2**	5.9%	8.5%
Gross Fiscal Deficit	**-16.5**	**-16.9**	**-16.1**	-4.8%	-2.4%
Fiscal Deficit as % of GDP	**5.6%**	**5.1%**	**4.9%**		

Sources: CMIE, Budget Documents, Kotak Institutional Equities, P – Provisional Estimates, BE(I) – Budgeted Estimates announced in the Interim Budget 2024-25, BE – Budgeted Estimates

9 Priorities for *Viksit Bharat*

Finance Minister Smt. Nirmala Sitharaman highlighted in her speech 9 priorities (mentioned below) in the roadmap for *Viksit Bharat*. It was mentioned that subsequent budgets will build on these, and add more priorities and actions. A more detailed formulation will be carried out as part of the 'economic policy framework'.

- Productivity and resilience in Agriculture
- Employment & Skilling
- Inclusive Human Resource Development and Social Justice
- Manufacturing & Services
- Urban Development
- Energy Security
- Infrastructure
- Innovation, Research & Development
- Next Generation Reforms

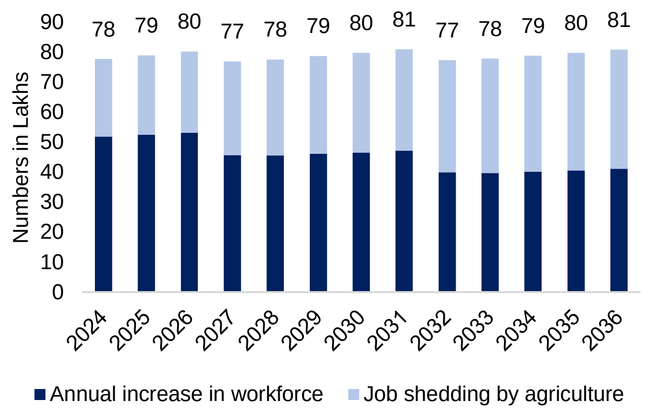
Focus on Employment; After PLI, we see ELI!

While Indian labour market indicators have improved in the last six years, there are enough and more reasons to ensure skilling and greater employment in the economy, such as growth in population, declining workforce requirements from Agriculture, and changes in technology. In this light, focus on skilling and employment bodes well for higher incomes within the economy, and to make India the Factory and the Office to the world.

Prime Minister's Package for Employment and Skilling

Scheme	Beneficiaries (in lakh)	Central Outlay (in ₹ crore)
Employment Linked Incentives (ELIs)		
Scheme A (first timers)	210	23,000
Scheme B (bulk hiring of first timers in manufacturing	30	52,000
Scheme C (job creation)	50	32,000
Internship Programme (Phase-1)	30	19,000
Internship Programme (Phase-2)	70	44,000
Upgradation of Industrial Training Institutes	20	30,000
Total	**410**	**2,00,000**

Mix of Population Growth and Declining Agriculture Labour Requirement drive up Jobs



Sources: Budget Documents, Economic Survey

Changes in Capital Gains

The Government has focused on rationalisation and simplification of taxation of Capital Gains in the following manner:

- ***Two Holding Periods***: 12 months & 24 months for determining whether capital gain is short-term or long-term based on the nature of asset, instead of the prior structure where there were three slabs of 12, 24 & 36 months.
- ***Long-Term Capital Gains***: The tax rate on long-term capital gains for all financial and non-financial assets to increase from 10% to 12.5%.
- ***Short-Term Capital Gains***: The tax rate on short-term gains from certain financial assets to increase from 15% to 20%

- Removal of indexation benefit for all asset classes

Further, the government has amended the definition of Specified Mutual Fund under section 50AA w.e.f. from 1st April 2025, to exclude certain categories of mutual funds from the aforesaid section. This improves the taxation regime for Exchange Traded Funds (ETFs), Gold Mutual Funds, Gold ETFs and Fund-of-Funds (FoFs) where the investment is less than 65% in debt and money market funds.

Conclusion

While Budget 2025 remains on the fiscal prudence path, it does well to focus on social priorities and ensuring broad based growth. The budget is positive from a fixed income market perspective in view of continuation of medium-term fiscal consolidation path as outlined by the government. This reduces a potential risk that had emanated post elections of expansionary fiscal policy.

Priorities highlighted by the Budget look well grounded, aiming sustainable development and inclusive growth. India has a strong demand and supply for jobs, and the Budget aims to allow young aspirants an easy entry into the workforce. This bodes well for India's labour markets and help it tap the demographic dividend in India's *Amrit Kaal*.

Sources: India Budget, Kotak Institutional Equities, and other publicly available information.

About Tuesday's Talking Points (TTP)*: TTP is an effort by HDFC AMC to guide key conversations in the Indian financial markets and investing ecosystem. We aspire to do this by providing relevant facts, along with our perspective on the issue at hand. If you have a topic that you would like to be featured here please write to us at hello@hdfcfund.com*