Union Budget Analysis

1 Feb 2025

Economic Research Department, Bank of Baroda

Budget impact

- In the Union Budget for FY26, the focus of the government was on promoting consumption, manufacturing and employment.

- Through targeted policies, the emphasis is on improving growth prospects keeping in mind the government's over arching objective of Viksit Bharat.

- Fiscal prudence has been maintained without compromising on quality of expenditure.

- Capital expenditure momentum has been maintained.

- Government borrowing program has been stable, which is positive for markets.

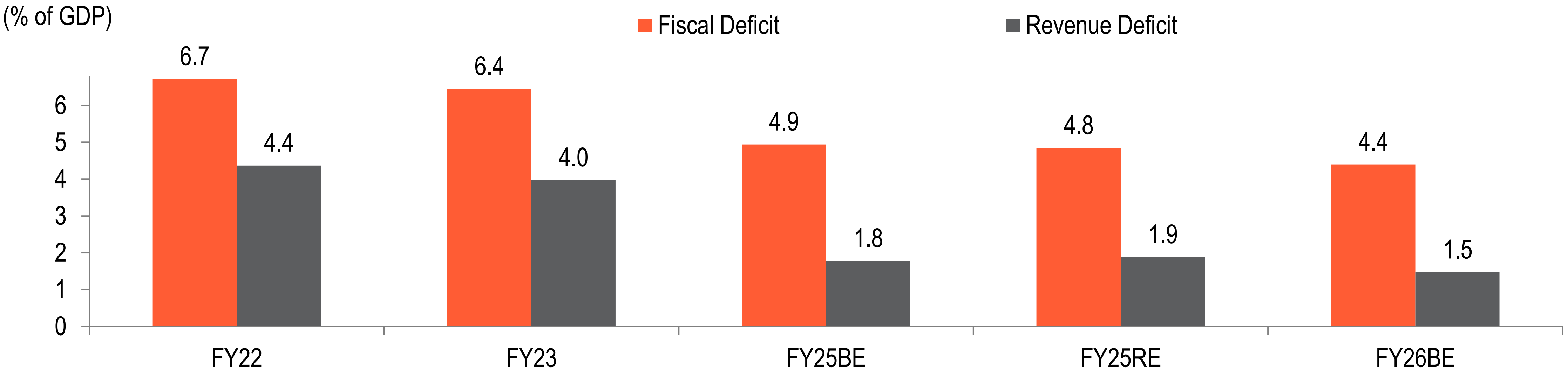
Fiscal Ratios

Budget assumptions

In order to arrive at budget ratios, government makes some critical assumptions.

- Government expects nominal GDP to rise by 10.1% in FY26, recovering from 9.7% growth in FY25.
- Overall tax revenue-GDP is estimated to remain steady at 12% in FY26BE versus 11.9% in FY25RE.
- Direct tax-GDP ratio is expected to increase to 7.1% from 6.9%.
- Indirect tax-GDP ratio will remain stable at 4.9% in FY26BE, unchanged from FY25RE.
- Overall size of the budget, as % of GDP, has been brought down to 14.2% in FY26BE from 14.6% in FY25RE.

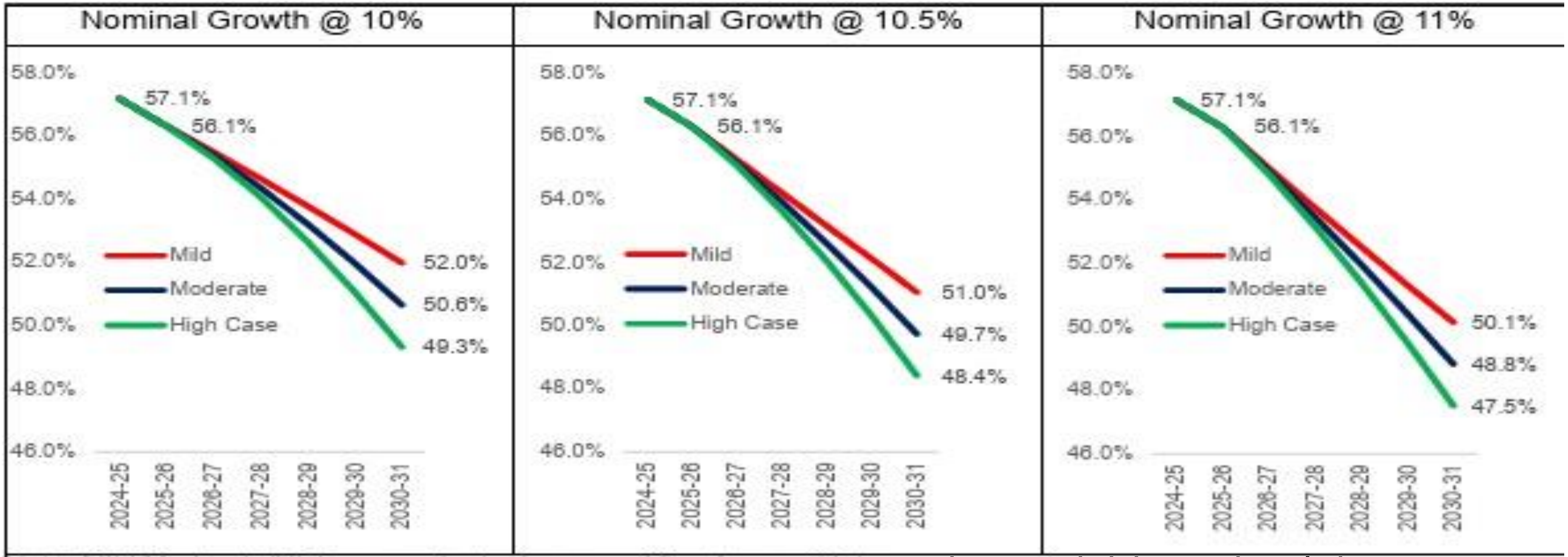
Trends in deficit ratios



Source: Union Budget documents, Bank of Baroda Research | RE: Revised Estimates, BE: Budget Estimates

- Union Budget for FY26 outlined key areas where government will be focusing in the next five years.
- These include: employment, skilling, agriculture, MSMEs, women, infra, and space technology, etc.
- In line with the fiscal glide path outlined in the Budget for 2021-22, fiscal deficit (as % of GDP) was lower in FY25 and will be brought down by another 40bps in FY26.

Future glide path

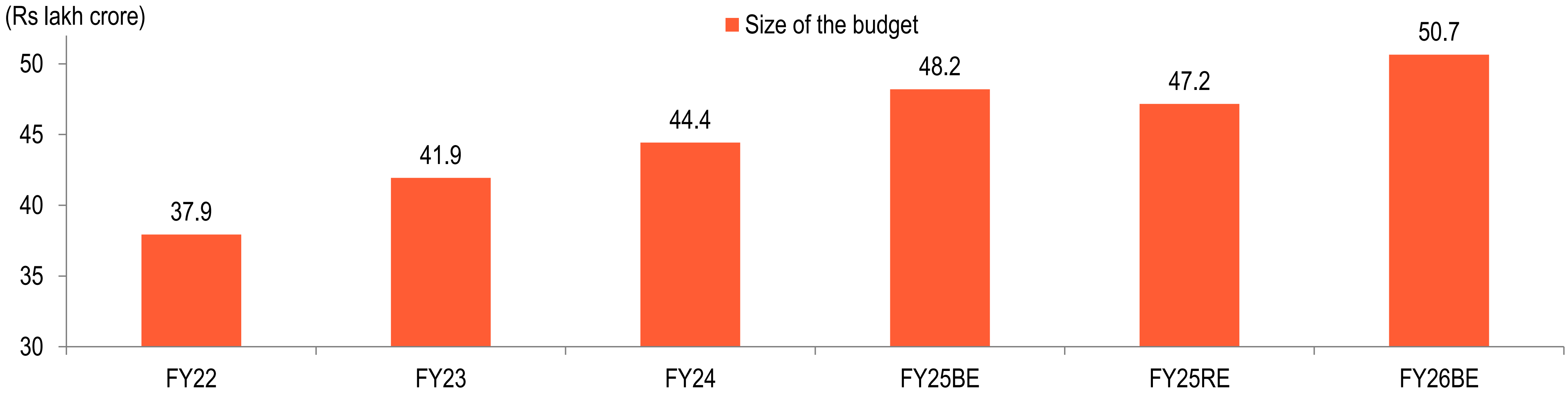


Debt-GDP Ratio (%), scenario analysis

Source: Union Budget documents, Bank of Baroda Research

- The above figures show different scenarios in which debt-GDP ratio can be brought down to 50%.
- Government lowered its debt-GDP ratio from 58.1% in FY24RE to 57.1% in FY25RE. In FY26BE is estimated to come down further, to 56.1%.
- By 2031, government to lower its debt-GDP ratio below 50%, as recommended by the 16th Finance Commission.

Size of the budget



Source: Union Budget documents, Bank of Baroda Research | RE: Revised Estimates, BE: Budget Estimates

- Size of the budget has seen steady increase over the past few years, with growth averaging ~7.6% over the last 5 years), compared with average nominal GDP growth of 12.5%.

- The increased size is keeping in mind improving the quality of spending.

- However, as a % of GDP, it has come down gradually from 16.1% in FY22 to now 14.2% in FY26BE.

Revenue

Tax collections

- Centre's net revenue collections are estimated to come in line with growth in nominal GDP.
- On net basis, revenue collections are estimated to increase by Rs 3.3 lakh crore this year.
- Gross tax collections are estimated to register significant incremental improvement in FY26BE (Rs 4.2 lakh cr) compared with last year (Rs 3.9 lakh cr).
- This is driven by increase in corporate tax receipts and indirect tax collections.
- Incremental increase in income tax collections will be lower, as government has decided to forego ~Rs 1 lakh cr as tax rebate.

Rs lakh crore	FY24	FY25 RE	FY26 BE	FY25RE (%YoY)	FY26BE (%YoY)
Gross tax collections	34.7	38.5	42.7	11.2	10.8
Centre's net revenue	27.3	30.9	34.2	13.2	10.8
-Total direct tax	19.6	22.4	25.2	1.7	12.7
---Corporate tax	9.1	9.8	10.8	7.6	10.4
---Income tax	10.4	12.6	14.4	20.3	14.4

Source: Union Budget documents, Bank of Baroda Research | RE: Revised Estimates, BE: Budget Estimates

Indirect tax collections

- Indirect tax collections are also projected to increase, albeit slightly at a slower pace compared with direct taxes.
- Of the incremental Rs 1.33 lakh cr increase expected compared with FY25RE, Rs 1.16 lakh cr will be on account of GST collections alone.
- Increased compliance and prospects of higher domestic consumption will be the key drivers.
- Of the remaining Rs 0.17 lakh cr increase, excise collections will account for Rs 0.12 lakh cr.
- Within excise, agriculture infrastructure and development cess, duty on petrol and diesel and basic excise duties will gain momentum.

Rs lakh crore	FY24	FY25 RE	FY26 BE	FY25RE (%YoY)	FY26BE (%YoY)
Total indirect tax	15.0	16.0	17.4	7.1	8.3
--Customs	2.33	2.35	2.40	0.8	2.1
--Union excise duties	3.05	3.05	3.17	(0.1)	3.9
--GST	9.6	10.6	11.8	10.9	10.9

Source: Union Budget documents, Bank of Baroda Research | RE: Revised Estimates, BE: Budget Estimates

Non-tax revenue collections

- Non-tax revenue growth is expected to normalize in FY26BE, coming off from a higher base.
- Steep jump in FY25 was due to higher dividend received from RBI (Rs 2.1 lakh cr).
- In FY26 as well, a higher dividend is expected from RBI.

Rs lakh crore	FY24	FY25 RE	FY26 BE	FY25RE (%YoY)	FY26BE (%YoY)
Total non-tax revenue	4.0	5.3	5.8	32.2	9.8
--Interest receipts	0.38	0.34	0.48	(11.0)	40.2
--Dividends and profits	1.7	2.9	3.3	69.3	12.3
--Other non-tax revenue	1.9	2.0	2.1	7.9	1.1

Source: Union Budget documents, Bank of Baroda Research | RE: Revised Estimates, BE: Budget Estimates

Expenditure

Spending thrust

- Centre's overall expenditure is estimated to increase from Rs 47.2 lakh crore in FY25RE to Rs 50.7 lakh crore in FY26BE.
- This will be led by both, revenue and capital spending.
- Within this, revenue spending is set to increase to Rs 39.4 lakh crore in FY26BE, a Rs 2.5 lakh crore increase from last year, mainly on account of interest repayment and servicing of debt (Rs 1.4 lakh crore).
- Pensions, Rural development and agriculture will be driving the growth in spending.

Rs lakh crore	FY24	FY25RE	FY26BE
Pension	2.38	2.75	2.77
Defence	4.45	4.57	4.92
Subsidy	4.12	3.83	3.83
Education	1.23	1.14	1.29
Home Affairs	1.97	2.20	2.33
Interest repayment	10.64	11.38	12.76
Rural Development	2.41	1.91	2.67
Agriculture	1.46	1.41	1.71

Source: Union Budget documents, Bank of Baroda Research | RE: Revised Estimates, BE: Budget Estimates

Thrust on capex continues

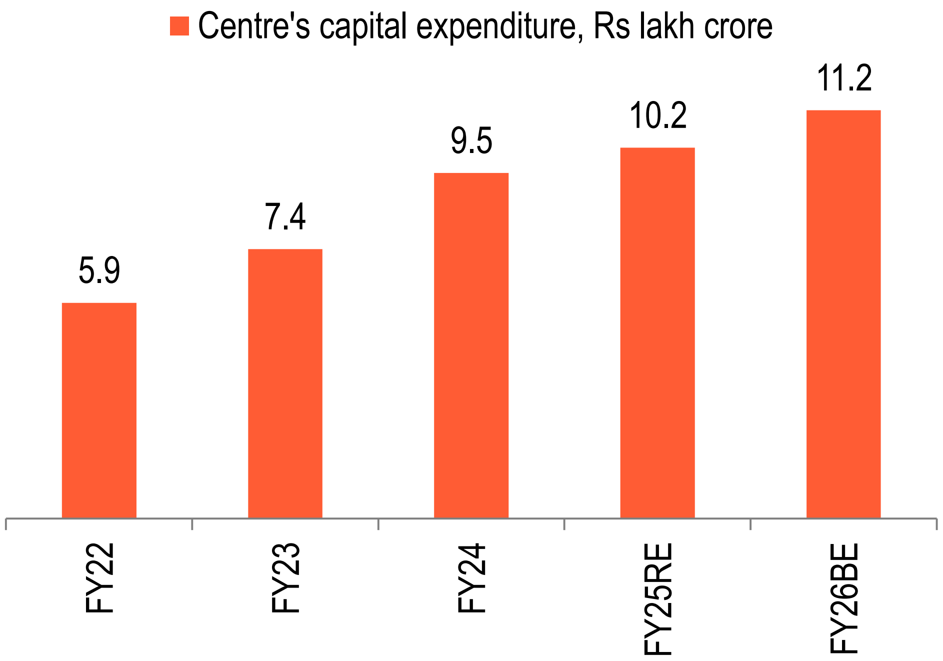
- In FY26, Centre's capex spending is expected to increase sharply to Rs 11.2 lakh crore from Rs 10.2 lakh crore as per FY25RE.

- As % of GDP, ratio of capex is retained at 3.1%.

- The continued upward trajectory of capex reflects government's intention to give investment cycle the desired impetus.

- Increased focus in the Budget through PPP mode of project implementation will crowd in private investment

- This will continue to provide confidence to private sector where investment is bit sluggish.



Source: Union Budget, Bank of Baroda Research, RE: Revised Estimates, BE: Budget Estimates

Ministry wise capex picture

Major Ministries (Rs lakh crore)	Share in Capital spending	FY25RE	FY26BE
Road Transport and Highways	24.3	2,72,241	2,72,241
Railways	22.5	2,52,000	2,52,000
Defence	17.2	10,241	1,92,388
Telecommunications	4.7	84,496	52,743
Housing and Urban Affairs	3.4	28,628	37,623
Total capital expenditure	**-**	**10,18,429**	**11,21,090**

Source: Union Budget, Bank of Baroda Research, RE: Revised Estimates, BE: Budget Estimates

Some observations on capex spending

- The capital expenditure has been efficiently managed targeting towards sectors which have multiplier effect in terms of infrastructure.

- For roads, transport and highways and railways the same level of spending has been retained.

- The capital spending for housing has increased significantly which is a persistent move towards providing quality living by Government.

Housing sector has forward and backward linkages with sectors such as construction, steel, cement, glass etc.

Financing the Deficit

Centre's Financing of Fiscal deficit

(Rs lakh crore)	FY22	FY23	FY24	FY25RE	FY26BE
Gross Borrowings	9.7	14.2	15.4	14.0	14.8
Repayments	-2.6	-3.1	-3.6	-2.4	-3.3
Net-Market Loans	7.0	11.1	11.8	11.6	11.5
Net-Short Term Borrowings	0.8	1.1	0.5	-1.2	0.0
Net-Securities against Small Savings (NSSF)	5.5	4.0	4.5	4.1	3.4
Fiscal Deficit (FD)	15.8	17.4	16.5	15.7	15.7
Ratios					
Gross Borrowings/FD	61.1	81.8	93.3	89.2	94.5
Net-Short Term Borrowings/FD	44.4	63.8	71.3	74.1	73.5
NSSF/FD	34.8	22.8	27.3	26.2	21.9

Source: Union Budget, Bank of Baroda Research| RE: Revised Estimates, BE: Budget Estimates

Some observations on debt receipts

- The gross borrowing number pegged for FY26 has been largely in line with market estimates.

- This is likely to be positive for long end papers.

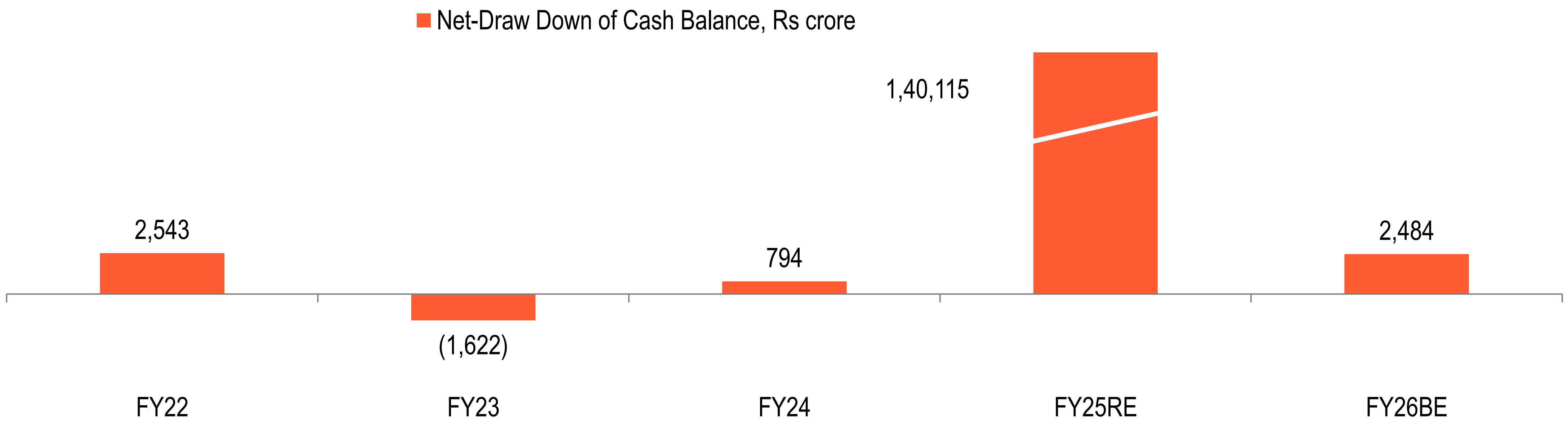
- FY26 is likely to witness repayment pressure as a provision of Rs 2.5 lakh crore in FY26 has been kept for switching and buyback.

- Offloading of short-term papers by government is likely to put a cap on its yields which were exhibiting some volatility on account of tight system liquidity.

- Thus, India’s yield curve may experience some flattening bias in the near term.

Finely managing debt receipts hinting at softening of yields across all tenors.

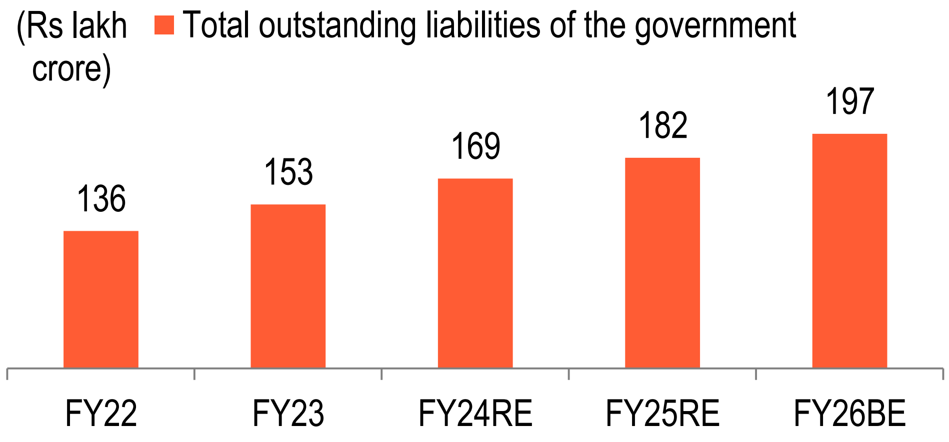
Net drawdown of cash balance

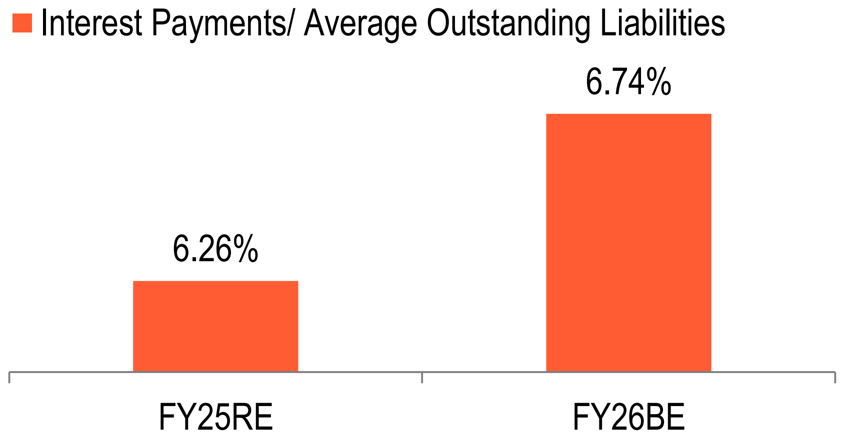


Source: Union Budget, Bank of Baroda Research, RE: Revised Estimates, BE: Budget Estimates

Liabilities and rates

- Total liabilities of the central government is expected to pick up to Rs 197 lakh crore.
- Interest cost is pegged higher at Rs 12.8 lakh crore as per FY26 BE compared to Rs 11.4 lakh crore as per FY25RE.
- This has increased the Effective interest rate which is calculated as interest payment/average outstanding liabilities.
- Effective interest rate is expected to go up to 6.74% in FY26, on account of long duration securities.





Source: Union Budget, Bank of Baroda Research, RE: Revised Estimates, BE: Budget Estimates

Resources of Public enterprises

Ministry (Rs lakh crore)	FY22	FY23	FY24	FY25RE	FY26BE
Power	13,397	15,916	15,241	19,909	24,214
Housing and Urban Affairs	7,500	6,000	5,000	10,000	15,000
Others	40,886	66,164	14,255	12,457	13,520
Petroleum and Natural Gas	11,756	7,281	7,245	18,863	12,400
Renewables	6,200	5,100	6,428	13,000	10,475
Total	**79,740**	**1,00,461**	**48,169**	**74,229**	**75,608**

Source: Union Budget, Bank of Baroda Research, RE: Revised Estimates, BE: Budget Estimates

Some observations on CPSE borrowings

- CPSE borrowings in FY26 is likely to be largely aligned with FY25 numbers.

- Within sectors, power noticed considerable increase in borrowing.

- Its share in overall borrowing by public enterprises is pegged higher at 32% as per FYBE compared to 26.8% as per FY25RE.

- It is balanced by moderation in shares of renewables and petroleum and natural gas in overall borrowing.

Thrust Areas

Agriculture

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- Prime Minister Dhan-Dhaanya Krishi Yojana aims to transform 100 identified districts. Focusing will be on parameters such crop diversification, post-harvest storage facilities, irrigation and availability of credit.
    - *Likely to benefit 1.7 lakh farmers*

- To enhance domestic production of pulses, an outlay of Rs. 1,000 crore has been proposed for “Mission for Aatmanirbharta in Pulses”. This will focus on Tur, Urad and Masoor.

- For vegetables and fruits, a comprehensive program covering production, storage, processing and prices has been proposed. The outlay for the scheme is Rs. 500 crore.

- On similar lines, Mission for Cotton Productivity aims to improving productivity and promote production of extra-long staple cotton variety. Outlay of Rs. 500 crore.

Agriculture (contd…)

- An outlay of Rs. 100 crore has been proposed to set up Makhana Board in Bihar.
- Enhanced loan limit of Rs. 5 lakhs (earlier Rs. 3 lakhs) for loans taken through Kisan Credit Card (KCC)
- Government also proposed a National Mission on High Yielding Seeds with a Budgeted outlay of Rs. 100 crore
- Rural Prosperity and Resilience Scheme aimed at improving employment opportunities in rural areas.

- To help MSMEs grow and generate more employment, investment and turnover limits has been increased to 2.5 and 2 times, respectively.

- For improved credit accessibility, guarantee cover has been increased:
  - For micro and small enterprises to Rs 5 crore from Rs 10 crore.
  - For Startups to Rs 20 crore from Rs 10 crore.
  - For well-run exporter MSMEs to Rs 20 crore in case of term loans.

- To increase digital penetration among MSMEs, credit Cards with Rs 5 lakh limit for micro enterprises registered on Udyam portal will be issued.

Industry

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- National Plan for Toys has been proposed which aims to position India as a global hub for production of toys.
    - *As of 2023, global toy exports stood at US$ 155bn, while India's share was 0.3%.*

- Setting up a urea plant in Assam, with an annual production capacity of 12.7 lakh metric tons.

- Setting up a National Institute of Food Technology, Entrepreneurship and Management in Bihar to promote food processing industry.

- A National Manufacturing Mission focussing on small, medium and large industries to further promote Make in India.
    - *The outlay of the scheme is Rs. 100 crore.*

Boost to domestic manufacturing

- Basic customs duty (BCD) on several critical minerals was reduced to zero. These included: Cobalt powder and waste, lead, zinc etc.
- Two more types of textile machinery were exempted from tariffs. Further, duty rates on knitted fabrics was also reduced.
- To correct the inverted duty structure, BCD on interactive flat panel display was increased while duty on open cell and other components was reduced.
- Further, parts of open cells were exempted from duty.
- Duty exemptions were also provided on additional capital goods for manufacturing of EV battery manufacturing and mobile phone manufacturing.
- Custom duty exemption on raw materials, components, consumables or parts for the manufacture of ships has been continued for another 10 years.
- BCD on ethernet switches has been reduced to 10% from 20%.

Exports

- To promote exports of handicrafts, the time period of exports has been increased to 1 year from 6 months earlier. This can be further extended by 3 months. Further, nine inputs were added to duty-free list.
- For promotion of seafood exports, the duty on imports of frozen fish paste and fish hydrolysate was reduced to 5% from 30% and 15% respectively.
- Time limit for export of foreign origin goods used for MROs for railway goods has been extended to 1 year from 6 months.

Exports

- National Export Mission with an outlay of Rs. 2,250 is proposed with the objective of improving access to export credit, cross-border factoring support, and support to MSMEs to tackle non-tariff measures in overseas markets.

- BharatTradeNet to be set up to facilitate unified platform for trade documentation and financing solutions for international trade based on international trade practices.

- Focus is also laid on enhancing India's manufacturing sector's integration in global value chains for selected sectors.

- To promote services exports, a national framework will be formulated to nudge states to set up Global Capability Centres (GCCs) in Tier-2 cities.

- Further, air cargo facilities will be improved along with easing cargo processing and custom protocols.

Infrastructure

- With the objective to support states, an outlay of Rs 1.5 lakh crore has been proposed for 50-year interest free loan.
  - The outlay will be used for capex and reforms.
- On public private partnership, each infra related ministry will come up with a 3-year pipelines of projects.
- The states can take support from IIPDF (India Infrastructure Project Development Fund) for PPP projects.
- Additional infrastructure has been proposed to be created in the 5-IITs in order to facilitate education for 6500 more students.
- It has been proposed to form a dedicated Centre for Excellence in AI for education with the outlay of Rs 500cr.
- Formation of National Geospatial mission, with focus on creating foundational geospatial infra and data.
- The outlay for Jal Jeevan Mission will be enhanced to provide quality infrastructure for rural piped water supply scheme under Jal Bhagidari scheme.

Infra & Housing

- Maritime development fund with the sum of Rs 25,000cr will be set up with 49% contribution by government.

- Modified UDAN scheme has been proposed which will raise connectivity to 120 new destinations and carry over 4cr new passengers in the next decade.

- A new greenfield airport has been announced in Bihar and a brownfield airport in Bihta.

- Over 40 thousand additional dwelling units have been proposed to be completed in 2025 under the special window for affordable and middle income housing (SWAMIH) to help middle class families.
  - SWAMIH-2 has also been proposed with an outlay of Rs 15,000 cr to blend finance facility with contribution from banks, government and private investors and complete 1 lakh units.

Employment

- Government will be undertaking specific policies in order to facilitate and generate employment and entrepreneurship opportunities.
- A focus product scheme will be implemented under the footwear and leather sector.
  - It will support component manufacturing, design capacity and machinery for production
  - Provide employment to 22 lakh people, generate turnover of 4 lakh crore and exports of 1.1 lakh crore.
- National Institute of food technology, entrepreneurship and management will be formed in Bihar
  - It will provide support to food processing industries in Eastern region
  - This will result in enhanced income for farmers through value addition.
  - Skilling, employment and entrepreneurship opportunities for youth.
- Proposed to provide employment led growth in tourism sector
  - Giving MUDRA loans to homestays.
  - Forming skill development programmes for youth
  - Improving ease of travel and connectivity for tourist destinations.
  - Providing performance linked incentive to states and introducing streamline e-visa and vis-fee waivers to some groups.

Social Sector

- In medical education, an additional 10,000 seats will be added in hospitals and medical colleges in FY26.

- In order to improve urban livelihoods, scheme has been proposed which help in raising income for urban workers and provide sustainable livelihoods.

- PM-SVANidhi scheme will be revamped to include higher loans from banks, capacity building support and UPI linked credit card with the limit of Rs 30,000.

- For gig workers, government will provide ID cards, registration on e-shram portals and healthcare facility under PM Jan Arogya Yojna

- A total of 50,000 Atal tinkering labs in government school will be formed in the next 5-years to foster young minds. Urban challenge fund of Rs 1 lakh crore has been announced to implement ‘cities as growth hubs’, with 10,000cr allocated for FY26.

Taxation

- The provisions (TDS and TCS) have been rationalized.
- The threshold limit for tax collected at source under Liberalized Remittance scheme has been raised form Rs 7 lakh to Rs 10 Lakh.
- TCS will be removed on amounts remitted overseas for education loan.
- Basic exemption limit under the new regime has been raised form Rs 3 lakh to Rs 4 Lakh.
- The threshold limit for TDS on rent has been hiked from Rs 2.4 Lakh to Rs 6 Lakh per annum.

Taxable income (Rs)	New Rate
0-4 Lakh	NIL
4-8 Lakh	5%
8-12 Lakh	10%
12-16 Lakh	15%
16-20 Lakh	20%
20-24 Lakh	25%
Above 24 Lakh	30%

Impact

Sectors where Banks can target credit growth

MSMEs	• Credit guarantee schemes will lead to greater disbursements. • Credit card base can be expanded with announcement of issuance of fresh cards.
Housing	• Special Window for Affordable and Mid-Income Housing is an opportunity for credit expansion towards mid-income housing.
Clean tech manufacturing	• Solar PV cells, EV batteries, motors and controllers, electrolyzers, wind turbines holds potential.
Agri & allied	• Increased loan limit through KCC will contribute towards higher credit disbursal.
Airlines	• Focus on improving connectivity through UDAN, thus loans may be directed to such infra spending.
Tourism	• Handholding of Banks in developing 50 tourist destination sites by the government. • Banks can target MUDRA loans for homestays.
Retail Loans	• Proposed changes in tax regime will provide a boost to retail loans.

Macro impact

- Growth:
  - Growth in agriculture will be supported by schemes like PM Dhan-Dhaanya Krishi Yojana, PM-Kisan Sampada Yojana (for agri infra), and Mission for Cotton Productivity.

  - Industry to gain on the back of
    - Revision in classification criteria of MSMEs (investment and turnover limits)
    - Ease in credit availability
    - Funds for first time entrepreneurs
    - Sector specific policies for footwear & leather, toys, food processing and clean tech manufacturing.
    - Jump in PLI, particularly for automobiles, textile, battery cells and storage, specialty steel, pharmaceutical, electronic manufacturing, and IT hardware.

  - Services sector (including financial sector) will receive a significant push from boost to tourism sector.

  - Public admin sector will be driven by higher revenue spending.

Macro impact (contd…)

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- Employment:
  - Enhanced spending on upskilling of labour force and specific schemes for labour-intensive sectors push employment higher.
  - Safety net for 'gig-workers' is also positive.

- Inflation:
  - Reduction on duties for some imported inputs such as phone batteries and EV batteries etc. is likely to have a positive impact on inflation, though the actual impact might be limited.
  - Over the long-term horizon, measures aimed at improving the domestic availability and production of pulses, as well as supply-side measures aimed at reducing the volatility in prices of fruits and vegetables are positive for the inflation trajectory.

- Government debt market is likely to be supported by stable market borrowings and lower reliance on short-term borrowings which can lead to a flattening bias for the domestic yield curve.

- USD/INR is also expected to find some support as the Budget announcements are likely to boost growth.

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