ASK Private Wealth

Union Budget

No Poetry, No(t much) Prose

But that’s not so bad (for markets)

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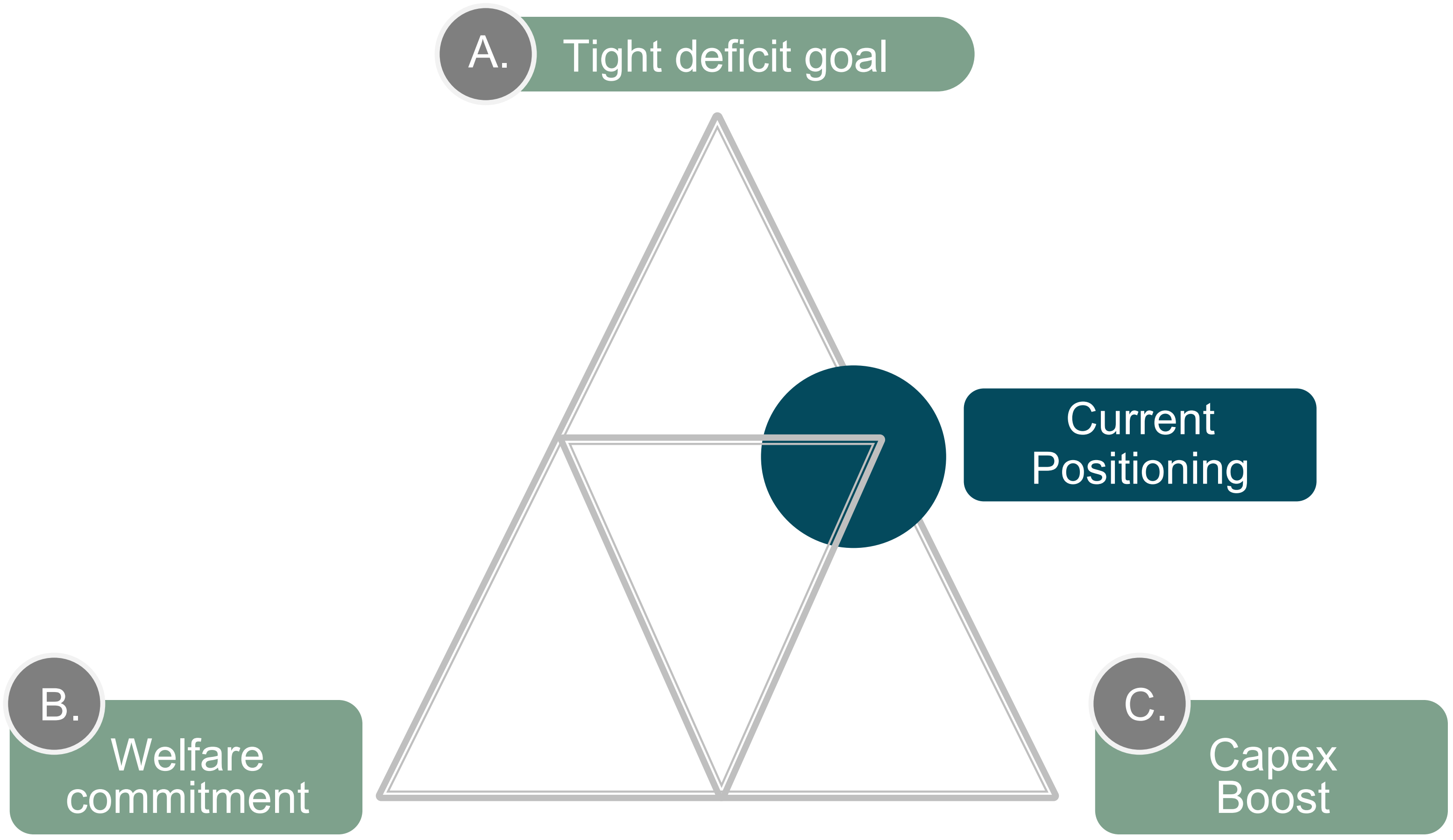
The Impossible Trilemma of Indian political economy



At present the government is prioritizing the dual goal of fiscal tightening with stable capex while cutting back on revenue expenditure to make space for it.

India's structural GDP growth is therefore stuck at 6-6.5% levels – no immediate trigger for an acceleration

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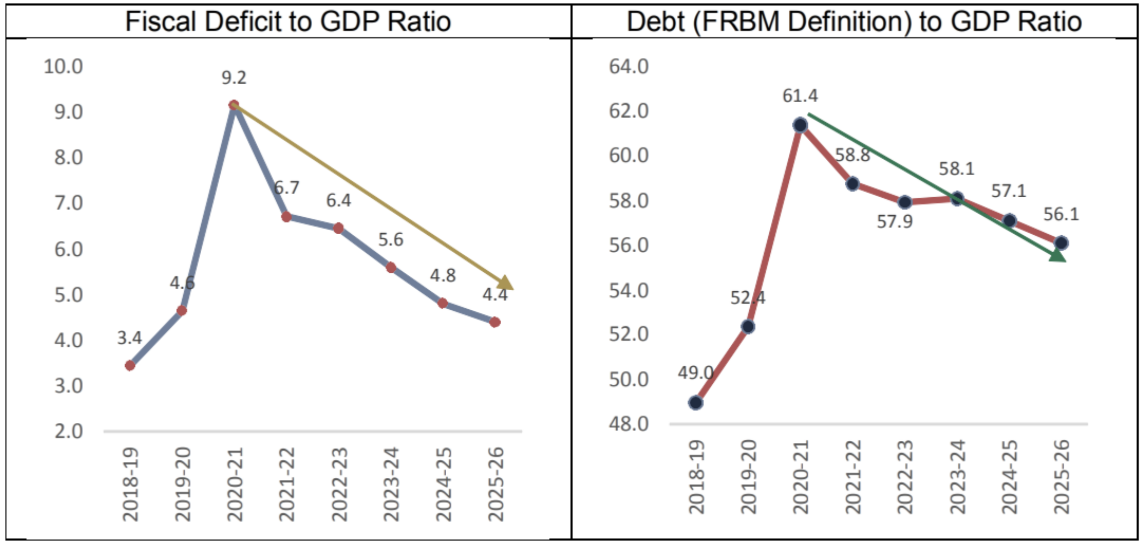
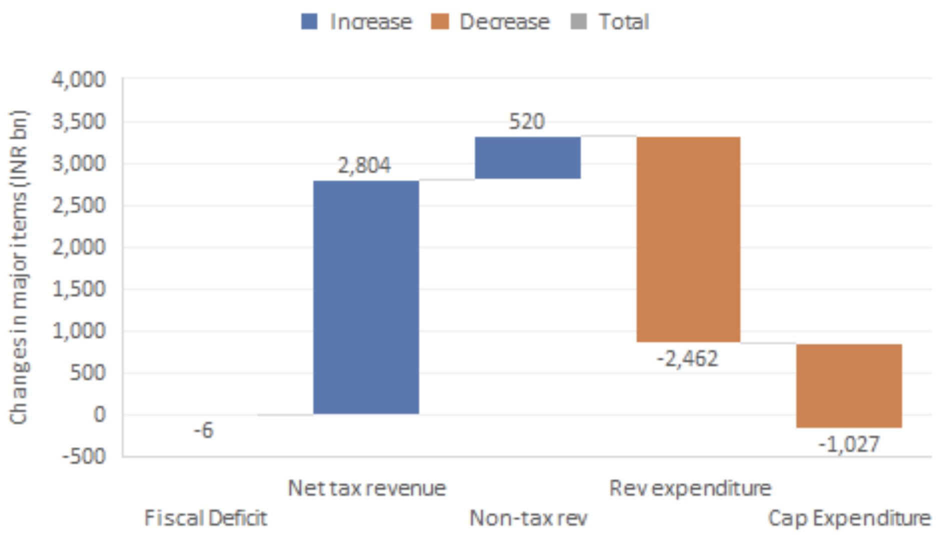
Modi continues in his Thatcher avatar on the fisc…

Government stuck to its deficit reduction goals resolutely – Govt expenditure back to pre-Covid levels



How the govt. achieved zero increment deficit point by balancing its revenue and expenditure



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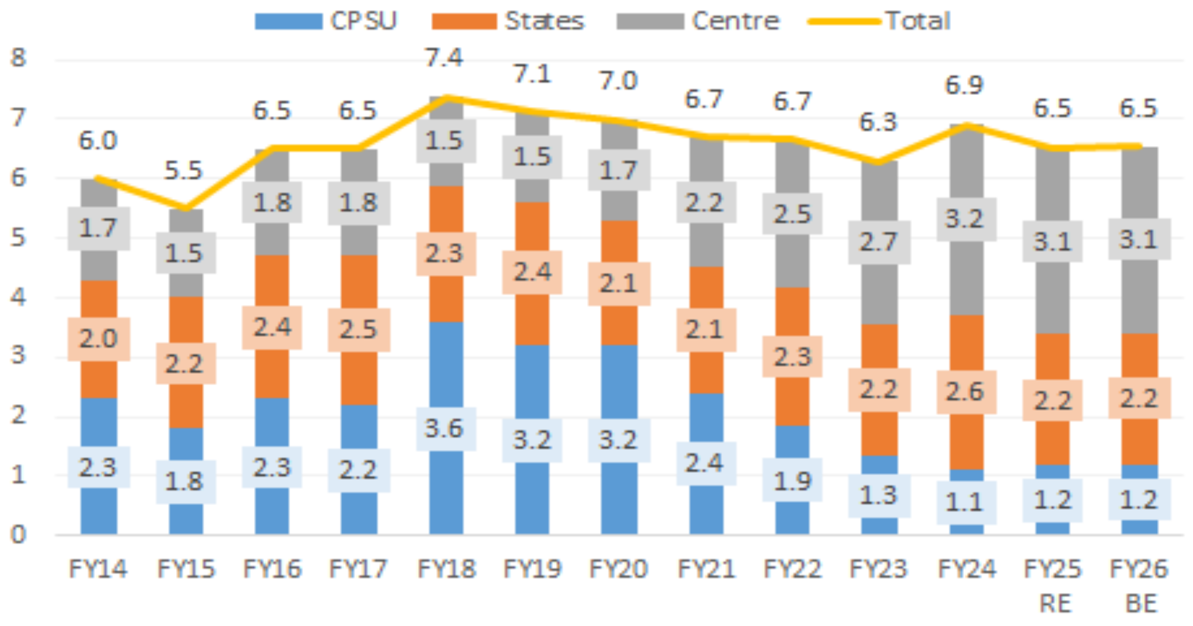
Source: CMIE, Union Budget, ASK PW

Capex – Held at a static level with Union Budget replacing PSUs



- Public capex/GDP (including centre + states + CPSUs flat-lining @ ~6-6.5% of GDP. While states are steady @2.5%, the other two components have stabilized at around 4%+ levels.
- The real story is freeing PSUs from the burden of capex and taking it on the fisc – that story's played out over the last 6 years
- State budgets have been loaded up with significant welfare commitments, limiting headroom for incremental capex

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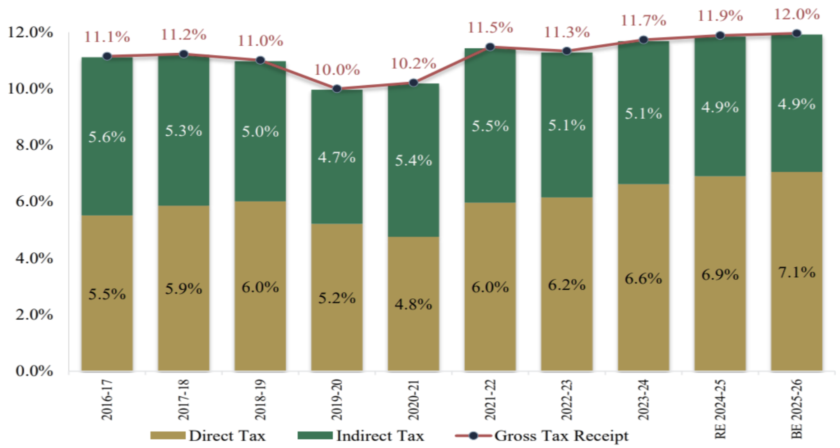
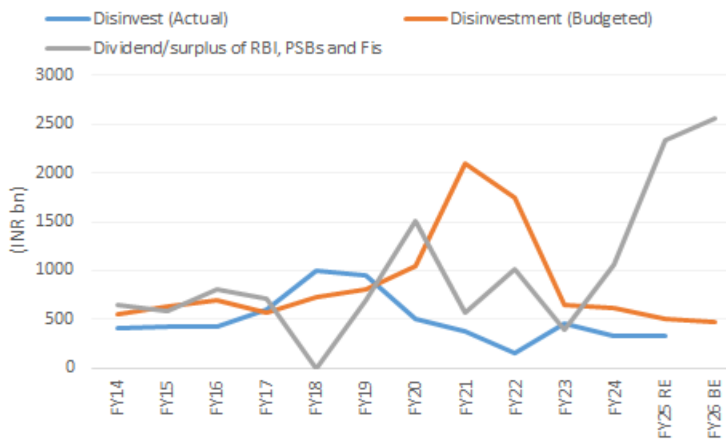
Source: CMIE, Union Budget, ASK PW

Revenue efforts have nearly maxed out

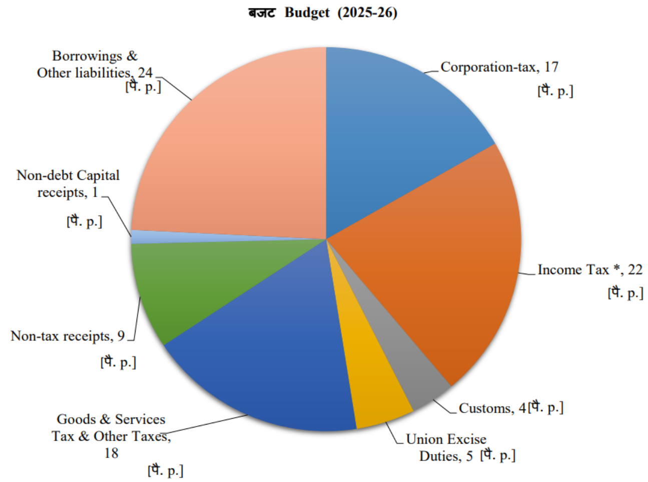
Static tax-GDP ratio



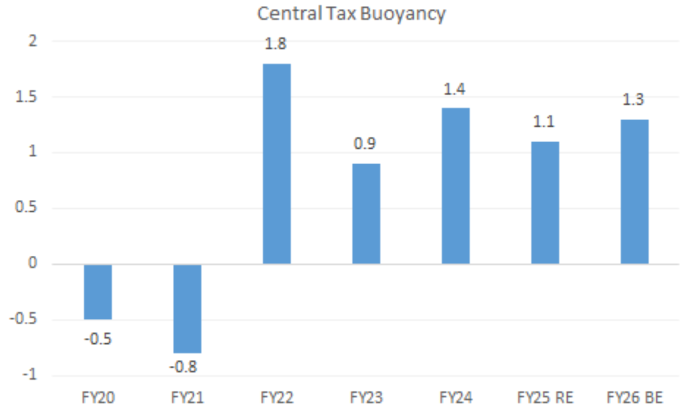
High reliance on higher dividend from RBI as disinvestment mobilization has remained low



Personal Income tax emerged as the biggest source of revenue



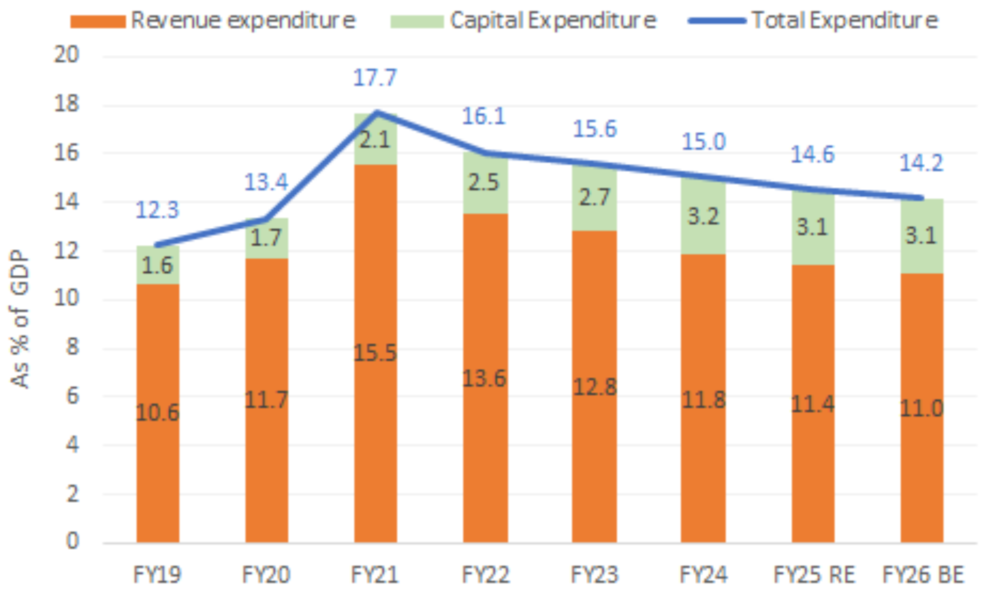
With increased compliance effort



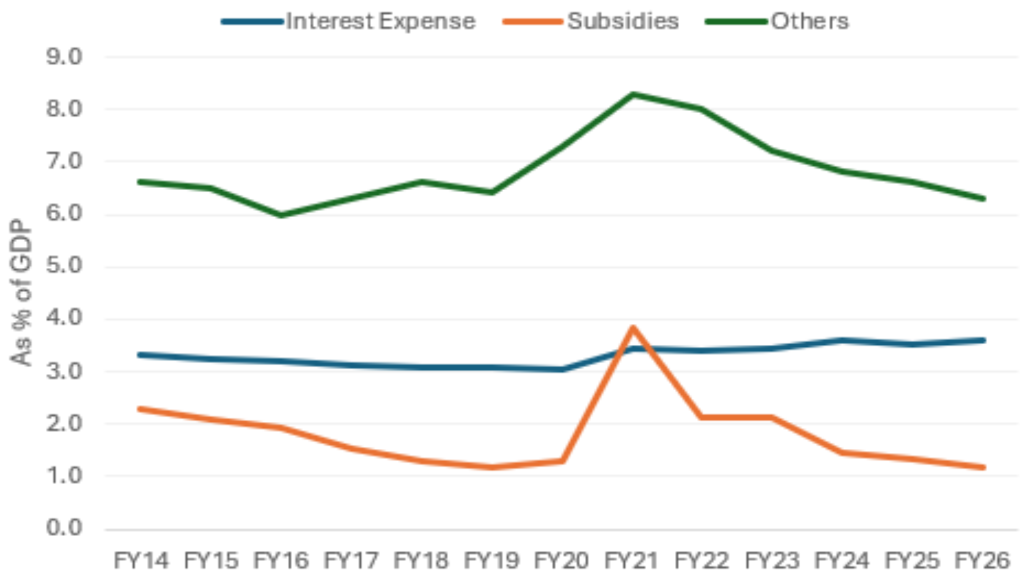
Source: CMIE, Union Budget, ASKPW

Expenditure squeeze and tight revenue left even less room for welfare

Deeper cuts in revenue expenditure to accommodate fiscal correction and capex spend



Rising interest expense accommodated by cutback in subsidies and other welfare expenses



Lesser room to cut subsidies now – real growth in a range of subsidies now are in negative territory

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Source: CMIE, Union Budget, ASK PW

How the fiscal maths works out

	Absolute INR tn					Increments (YoY%)					As % of GDP				
	FY22	FY23	FY24	FY25	FY26	FY22	FY23	FY24	FY25	FY26	FY22	FY23	FY24	FY25	FY26
Gross fiscal deficit (GFD)	**15.8**	**17.4**	**16.5**	**15.7**	**15.7**	**-12.9**	**9.7**	**-4.8**	**-5.1**	**0.0**	**6.7**	**6.4**	**5.6**	**4.8**	**4.4**
Non-debt receipts	**22.1**	**24.6**	**27.9**	**31.5**	**35.0**	**30.7**	**11.1**	**13.6**	**12.8**	**11.1**	**9.4**	**9.1**	**9.4**	**9.7**	**9.8**
Revenue receipts	21.7	23.8	27.3	30.9	34.2	32.8	9.8	14.5	13.2	10.8	9.2	8.8	9.2	9.5	9.6
Net tax revenue	18.0	21.0	23.3	25.6	28.4	26.5	16.2	10.9	9.9	11.0	7.6	7.8	7.9	7.9	7.9
Non-tax revenue	3.7	2.9	4.0	5.3	5.8	75.8	-21.8	40.8	32.2	9.8	1.5	1.1	1.4	1.6	1.6
Capital receipts	0.4	0.7	0.6	0.6	0.8	-29.9	78.8	-17.2	-1.3	28.8	0.2	0.3	0.2	0.2	0.2
Disinvestment	0.2	0.3	0.3	0.3	0.3	25.4	5.8	1.9	-2.4	11.5	0.1	0.1	0.1	0.1	0.1
Recoveries of loans	0.2	0.5	0.3	0.3	0.5	-58.7	194.2	-28.1	-0.4	42.4	0.1	0.2	0.1	0.1	0.1
Expenditure	**37.9**	**41.9**	**44.4**	**47.2**	**50.7**	**8.1**	**10.5**	**6.0**	**6.1**	**7.4**	**16.1**	**15.6**	**15.0**	**14.6**	**14.2**
Revenue expenditure	32.0	34.5	34.9	37.0	39.4	3.8	7.9	1.2	5.8	6.7	13.6	12.8	11.8	11.4	11.0
Interest payments	8.1	9.3	10.6	11.4	12.8	18.5	15.3	14.6	7.0	12.2	3.4	3.4	3.6	3.5	3.6
Subsidies	5.0	5.8	4.3	4.3	4.3	-33.5	14.7	-24.7	-1.6	-0.4	2.1	2.1	1.5	1.3	1.2
Others	18.9	19.5	20.0	21.3	22.4	15.0	2.9	2.5	6.9	5.1	8.0	7.2	6.8	6.6	6.3
Capital Expenditure	5.9	7.4	9.5	10.2	11.2	39.1	24.8	28.3	7.3	10.1	2.5	2.7	3.2	3.1	3.1

Note: FY25 figures are RE and FY26 are BE, all others are actual.

Source: CMIE, Union Budget, ASK PW

Bond supply a touch higher – but eminently manageable

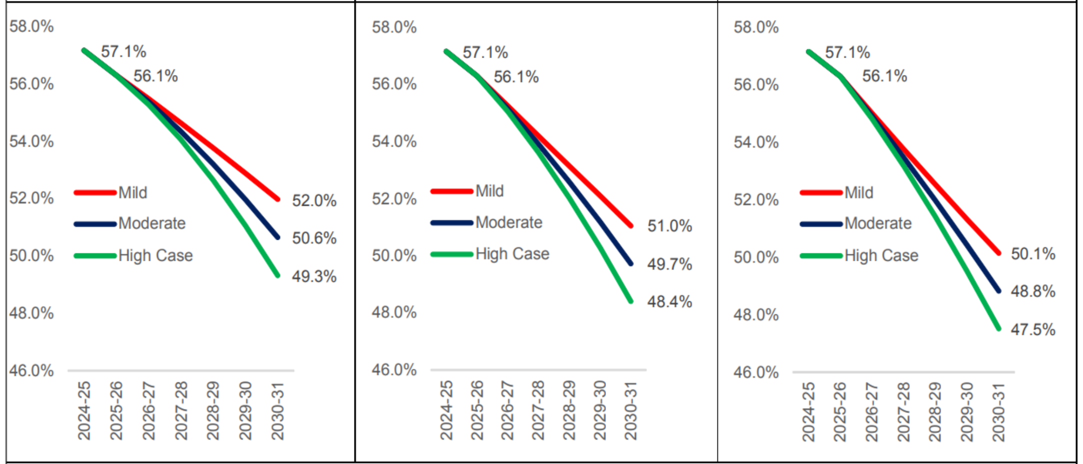
Deficit and financing	Absolute INR tn					Increments (YoY%)					As % of GDP				
	FY22	FY23	FY24	FY25	FY26	FY22	FY23	FY24	FY25	FY26	FY22	FY23	FY24	FY25	FY26
Gross fiscal deficit	**15.8**	**17.4**	**16.5**	**15.7**	**15.7**	**-12.9**	**9.7**	**-4.8**	**-5.1**	**0.0**	**6.7**	**6.4**	**5.6**	**4.8**	**4.4**
Gross revenue deficit	10.3	10.7	7.7	6.1	5.2	-28.9	3.8	-28.5	-20.3	-14.1	4.4	4.0	2.6	1.9	1.5
Gross primary deficit	7.8	8.1	5.9	4.3	2.9	-31.6	3.9	-27.0	-26.9	-32.2	3.3	3.0	2.0	1.3	0.8
Sources of financing deficit															
Net market borrowings	**8.9**	**11.1**	**11.8**	**10.7**	**11.5**	**-22.3**	**24.0**	**6.5**	**-8.8**	**7.4**	**3.8**	**4.1**	**4.0**	**3.3**	**3.2**
Gross market borrowings	**9.7**	**14.2**	**15.4**	**14.0**	**14.8**	**-36.5**	**46.4**	**8.5**	**-9.1**	**5.7**	**4.1**	**5.3**	**5.2**	**4.3**	**4.1**
Repayments	4.3	4.2	4.7	4.7	5.8	13.7	-3.4	11.3	1.6	22.2	1.8	1.6	1.6	1.5	1.6
Short term borrowings	0.8	1.1	0.5	-1.2	0.0	-61.9	44.6	-52.5	-325.5	-100.0	0.3	0.4	0.2	-0.4	0.0
Net external assistance	0.4	0.4	0.6	0.3	0.2	-48.5	2.7	48.5	-42.0	-26.6	0.2	0.1	0.2	0.1	0.1
Receipts from small savings, PPF & deposit sch	5.5	4.0	0.0	0.0	0.0	14.0	-28.2				2.3	1.5	0.0	0.0	0.0
Receipts from state providend fund	0.1	0.1	0.1	0.1	0.1	-44.3	-50.7	-0.6	-1.2	0.0	0.0	0.0	0.0	0.0	0.0
Other capital receipt	1.7	0.8	-0.9	0.3	0.4	1296.4	-50.8	-206.3	-129.4	56.5	0.7	0.3	-0.3	0.1	0.1
Cash balance decrease(+)/increase(-)	0.0	0.0	0.0	1.4	0.0	-135.4	-163.8	-149.0		-98.2	0.0	0.0	0.0	0.4	0.0
GDP	236.0	269.5	295.4	324.1	357.0	18.9	14.2	9.6	9.7	10.1	100.0	100.0	100.0	100.0	100.0

Note: FY25 figures are RE and FY26 are BE, all others are actual.

Source: CMIE, Union Budget, ASK PW

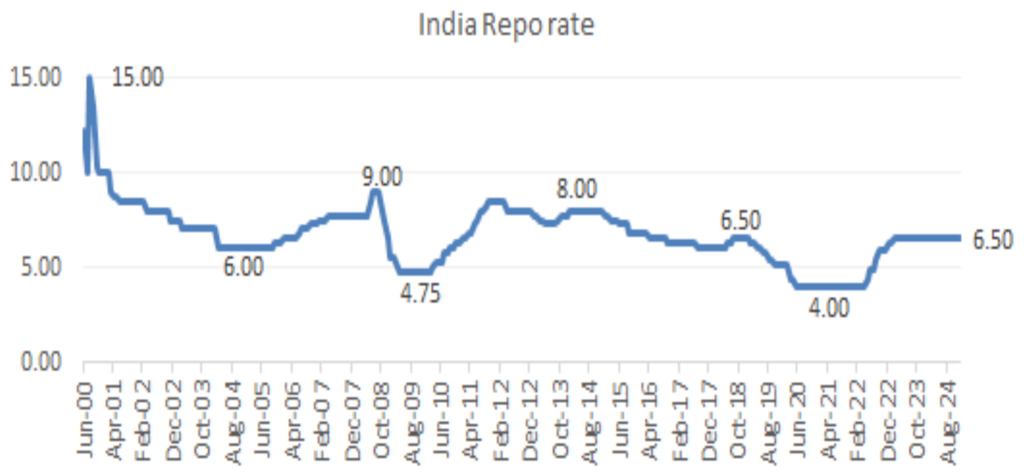
Market Impact - Long Bonds have hi margins of safety

Aims to reduce debt to GDP to 50±1% by March 2031



Note: Mild/Moderate/High case refer to degrees of fiscal consolidaton.

RBI need to do heavy lifting on growth too

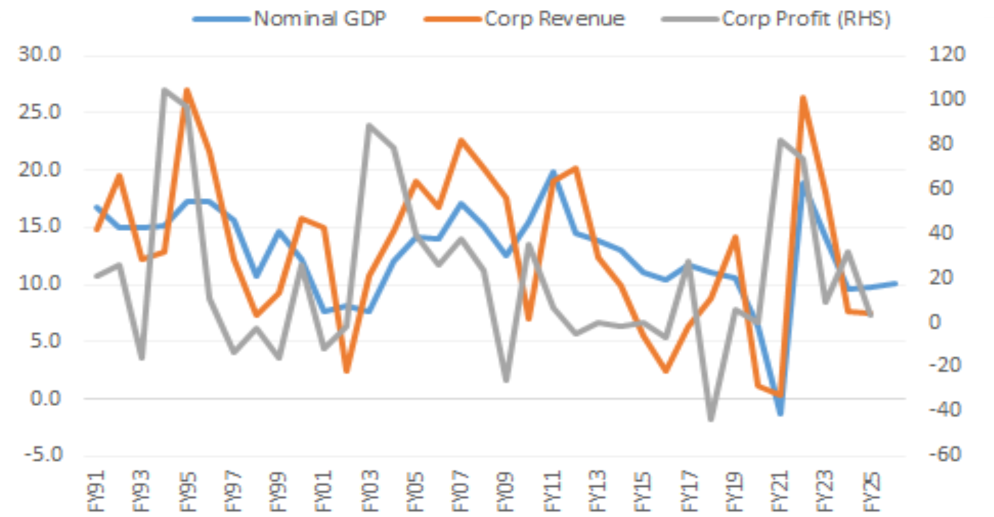


- Gross borrowing numbers at 14.82 tr and Net borrowings of 11.54 tr are in line with market estimates.
- Some knee-jerk reactions possible for bond switches pegged at INR 2.5 tr. But this is likely to be transitory.
- **Fiscal glide-path lays down the road for RBI to continue pushing system liquidity and cut rates – do whatever it takes!**

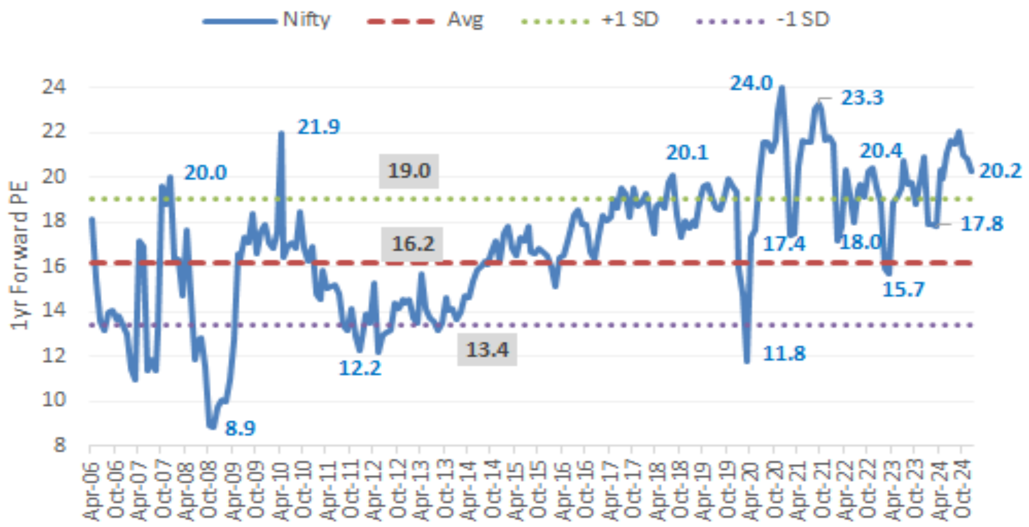
Source: CMIE, Union Budget, RBI, ASKPW

Market Impact - Neutral for equities

Lower GDP to impact corporate performance



While valuations are still high



Flattening of nominal GDP growth @ 10% places caps on corporate revenue and profit growth

Market Impact - Some sector rotation, but a year-long summer lies ahead

No growth for Railways and Roads/Highways while Defence and Housing receives a boost

Rs bn	FY23	FY24	FY25BE	FY25RE	FY26BE
Capital expenditure	**7,400**	**9,492**	**11,111**	**10,184**	**11,211**
Defence	1,509	1,646	1,822	1,705	1,924
Railways	1,593	2,426	2,520	2,520	2,520
Roads and Highways	2,060	2,639	2,722	2,725	2,722
Housing and urban affairs	269	264	285	317	376
Transfers to states	812	1,229	1,624	1,394	1,706
Others	1,158	1,288	2,137	1,524	1,962

Source: Ministry of Finance, Emkay research

Growth (%YoY)				%GDP				
FY24/ FY23	FY25BE/ FY24	FY25RE/ FY24	FY26BE/ FY25RE	FY23	FY24	FY25BE	FY25RE	FY26BE
28	**17.1**	**7.3**	**10.1**	**2.7**	**3.2**	**3.4**	**3.1**	**3.1**
9.1	10.7	3.6	12.8	0.6	0.6	0.6	0.5	0.5
52.3	3.9	3.9	-	0.6	0.8	0.8	0.8	0.7
28.1	3.2	3.3	(0.1)	0.8	0.9	0.8	0.8	0.8
(1.8)	7.9	19.9	18.8	0.1	0.1	0.1	0.1	0.1
51.3	32.2	13.4	22.4	0.3	0.4	0.5	0.4	0.5
11.2	65.9	18.3	28.7	0.4	0.4	0.7	0.5	0.5

- **Consumer:** Clearly the most direct beneficiary of the cuts in personal tax.
- **Banking and finance:** Higher disposable income to make EMIs more affordable reducing risk of potential delinquencies, declining interest rates reduce wholesale borrowing costs
- **Housing:** Personal tax cuts raises affordability while higher allocation to housing sector in capex spend by government and continued focus on urban infrastructure too helps.
- **Railways and Infrastructure and Defence:** To take a knock due to lowest capex growth in five years.

Source: CMIE, Union Budget, RBI, ASKPW

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