KIRTANE & PANDIT

Budget Edition February 2025

The Ecoknowmic™

Post Budget Economic Review

01.
KEY INSIGHTS

Economic Backdrop

- The global economy is expected to grow at 3.3% in 2025-26, similar to levels in the last 2 years, albeit with a divergence in various economies.
- While geopolitical uncertainties continue to pose risks to the global economic outlook, inflationary pressures are subsiding, expected at 4.2% y/y in 2025.
- Indian GDP for FY 2024-25 is expected to grow at 6.4 % y/y, with growth in FY 2025-26 projected in the range of 6.3%-6.8%.
- The services sector continues to be the engine of growth for the economy, with the agricultural sector also contributing this year with the support of a good Kharif crop.
- Core & Fuel inflation has witnessed a steady decline through the year, but food inflation has been sticky, led by high prices for vegetables and have pulses. Retail inflation has softened from 5.4% in FY 2023-24 to 4.9% in the first 9 months of FY 2024-25.
- Merchandise trade deficit continues to remain high, affected by subdued global demand and prices. CAD to GDP has risen to 1.2% of GDP in Q2 of 2024-25 despite a surplus in services trade.
- Net FDI inflows have been rather subdued in FY 2024-25 at US$ 0.5bn in the first 8 months as the gross inflow of US$55.6 bn was accompanied by high repatriation /disinvestment of US$39.6bn in the same period.
- Forex reserves remain healthy and can cover 10+ months of imports. India is currently the fourth largest forex reserve holding country.
- The government intends to achieve a balance between fiscal prudence and inculcating growth through various fiscal measures.

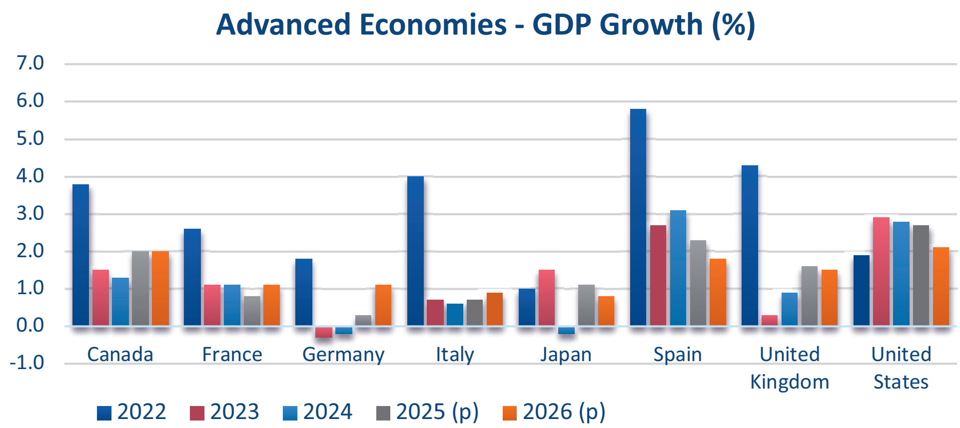
Important Budget Proposals

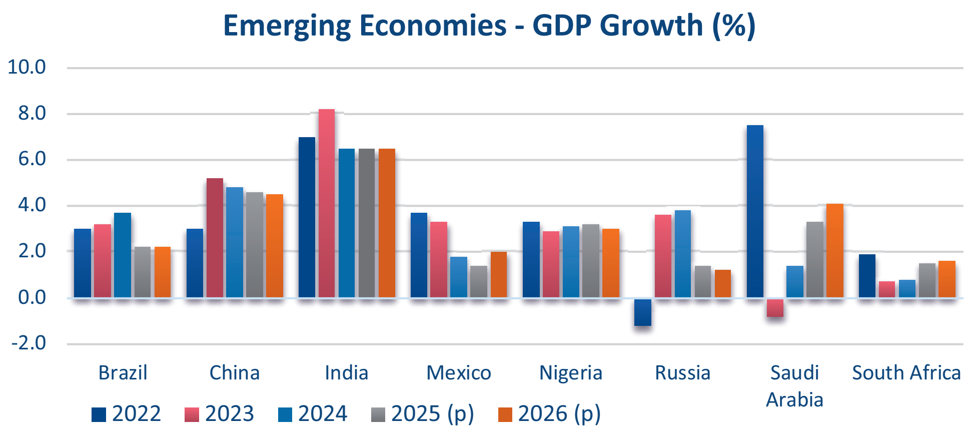
- Continued its focus on Viksit Bharat with a focus on accelerated growth, securing inclusive development, enhancing the spending power of India's middle class, stimulating private sector investments and uplifting household sentiments.
- Set key principles that include prioritising policies for the benefit of the poor, youth, farmers and women.
- Identified four engines of growth for the focus in the coming year – Agriculture, MSMEs, Investment and Export.
- Set a target of 4.4% for the fiscal deficit to GDP ratio through strategic investments and fiscal discipline. Improving public finances are expected to support macro economic stability at the domestic front.
- Identified focus reform area to propel further growth – Financial Sector reforms such as revamping KYC registry, speedy corporate merger process, FDI de-capping in Insurance sector etc, Tax Reforms through new Income Tax Bill and various Regulatory reforms such as Jan Vishwas Bill for decriminalization of laws, setting up of high level committee for non-financial sector reforms etc.

02.
GLOBAL SCENARIO

The Global economy faced an unprecedented year in 2024 with major geopolitical events such as the Russia-Ukraine conflict and the Isreal-Hamas conflict, which greatly impacted the regional stability of these regions and disrupted the global supply chain. This led to price shocks and impacted energy and food security across most economies. Further, numerous countries across the globe, including India and the USA, held elections, resulting in policy uncertainties from the newly formed governments or even incumbent governments with changed portfolios and agendas. Despite this challenging environment, the global economy has been growing steadily recently, with growth expected to continue at 3.3% y/y in 2025 and 2026, similar to the growth of 3.3% witnessed in 2023. Overall, the services sector continues to show strength, while the manufacturing sector indicated a contraction as per the latest PMI data.

The global economy seems to have entered a phase of subdued stability, but the growth patterns within the different regions have experienced divergence. Amongst the developed economies, the United States is expected to stand out, buoyed by supportive financial conditions, a more accommodative monetary stance and strong wealth effects. The US economy is expected to grow at 2.7% y/y in 2025, with growth tapering down to 2.1% y/y in 2026. The Euro area is expected to experience growth within the economy but at a gradual pace. Political and policy uncertainty, coupled with subdued performance in the manufacturing sector towards the end of 2024, have put downward pressure on growth in the Euro area. With expectations of stronger domestic demand, the Euro Area is expected to recover in the next couple of years, growing at the pace of 1.0% and 1.4% y/y in 2025 and 2026, respectively, from growth rates of 0.4% in 2023 and 0.8% in 2024. The growth forecast for Japan remains unchanged from previous year projections at 1.1% y/y in 2025 and 0.8% y/y in 2026.





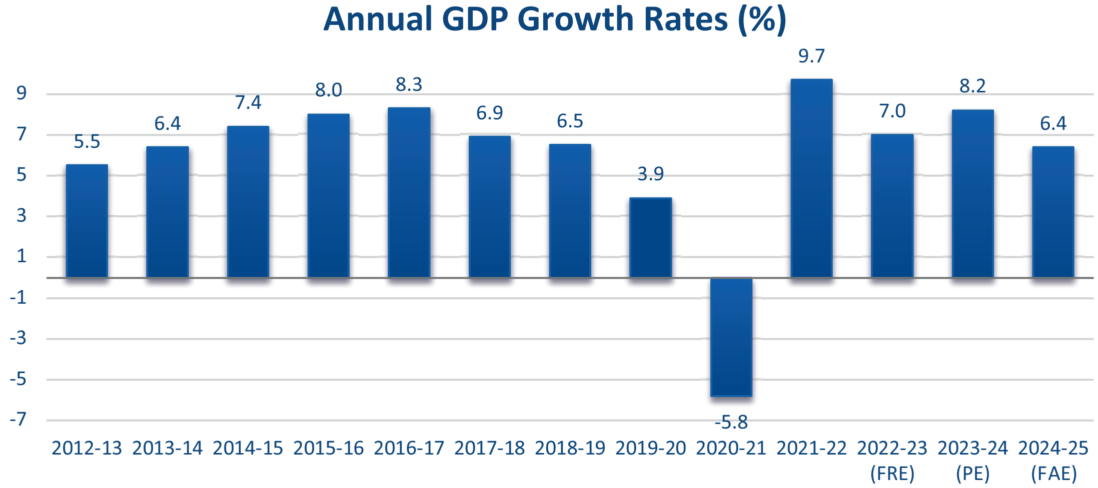
Among the emerging market economies, growth in China is expected to be 4.6% y/y in 2025. The robust fiscal package announced by the government in November last year is expected to partly offset the negative effects of trade policy uncertainty and the stuttering property market. Growth projections for India remained unchanged at 6.5% y/y in 2025 and 2026. With a moderate but stable growth forecast, India is expected to remain one of the key growth drivers for the global economy. The growth rate for Russia is expected to come in at 1.4% in 2025 and is expected to decline to 1.2% y/y in 2026 as the country tries to address the economic repercussions of the prolonged ongoing war.

This GDP growth divergence has been accompanied by the continuing trend of disinflation. A combination of cooling labour markets keeping demand pressures at bay and a decline in energy prices controlling headline inflation is expected to lead to the downward trajectory of global inflationary pressure. Global headline inflation is projected to decline to 4.2% y/y in 2025 and 3.5% y/y in 2026. Inflationary pressures, however, are expected to be a little more persistent in emerging market economies as compared to advanced economies. Overall, non-fuel commodity prices are expected to increase by 2.5% y/y in 2025, led by increased food and beverage prices. The rise in food prices is especially hard on the poorer sections of society as their consumption platter is highly sensitive to food prices and could lead to lower consumption appetite. In contrast, energy prices are expected to decline by 2.6% y/y in 2025, with weak demand from China playing a major role. Another factor has been the increased supply from countries outside of OPEC+. These factors have offset the slight price shock in recent months due to supply disruptions in the Middle East and gas outages.

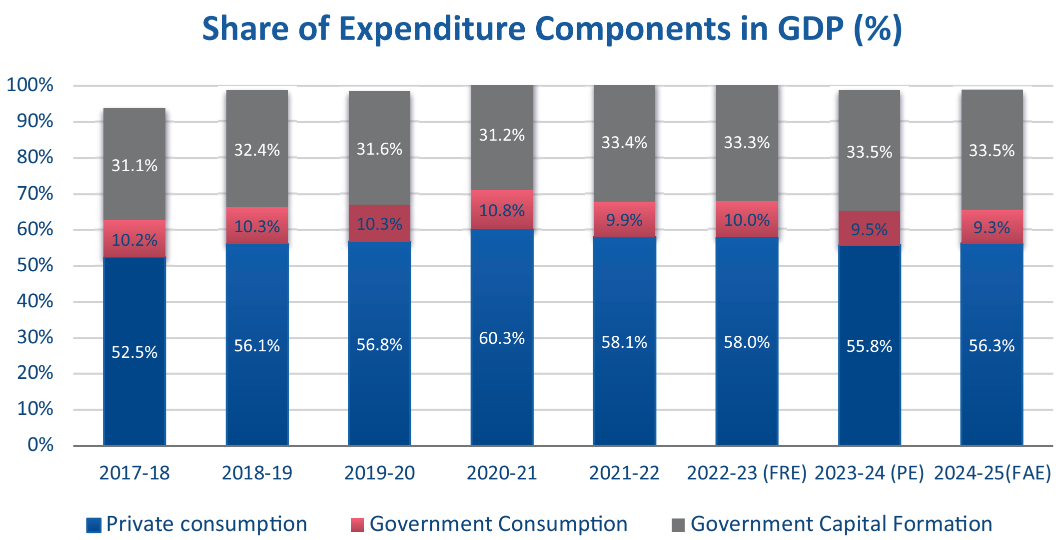
The global economy is expected to tread a steady path of economic activity; however, it would appear that it's settling in at a low growth rate in the medium run. The current growth rate for the global economy would appear insufficient to overcome the damages in successive years in the recent past. The lingering after-effects of the COVID-19 pandemic, ongoing geopolitical tensions as well as inclination towards trade protectionist policies are some of the key factors that have damaged the global economy in recent years. Further, the subdued growth would affect the low-income economies the hardest, which are even more vulnerable to climate change, with the gap between them and middle-income economies appearing to be widening further. Concerted global policy measures are the need of the hour for the proliferation of global trade, addressing debt vulnerabilities and helping combat the effects of climate change.

03.
INDIA GDP

The Indian economy has been able to steer through choppy waters on account of strong economic fundamentals. Based on the latest estimates published by the NSO, GDP growth for FY 2024-25 is expected to come in at 6.4% y/y, which would be the lowest since the pandemic. Looking through the global context, the Indian economy still remains one of the better performers among large developing nations.



Based on the latest forecast, private consumption is expected to grow by 7.3% y/y in FY 2024-25 as compared to 4.0% y/y in FY 2023-24. An increase in rural demand, buoyed by a normal monsoon and improved agricultural performance, is expected to drive the growth in private consumption. Government expenditure is expected to rise to 4.1% y/y in FY 2024-25 as compared to 2.5% y/y in 2023-24. However, Capital formation, which is an indicator of the overall investment activity, is expected to decline to 6.4% y/y in FY 2024-25 as compared to 9% in FY 2023-24, which is definitely a worrying sign.

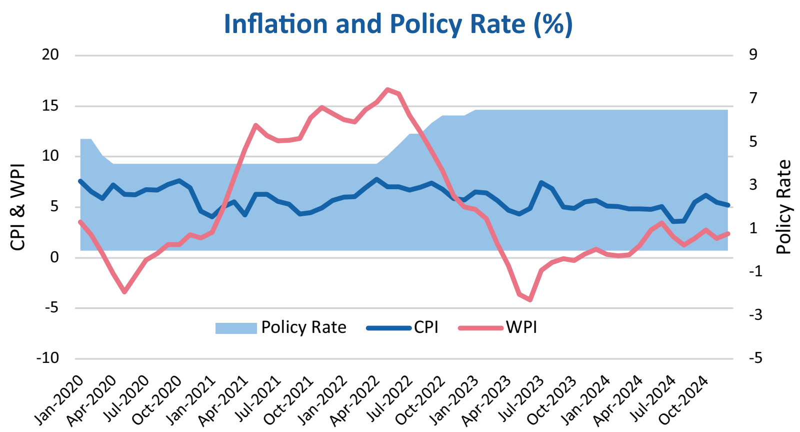


Looking at the supply side, growth in GVA is expected to be led largely by the agricultural and services sectors, with growth in the industrial sector expected to remain subdued. A healthy monsoon season, improved Kharif crop production and adequate water levels are all expected to support growth in agriculture. The services sector is expected to continue on its impressive growth trajectory, although at a slightly subdued pace at 7.2% y/y in FY 2024-25 as compared to 7.6% y/y in FY 2023-24. Within the services segment, the standout performer is the Education, Health, Recreation, and Other Personal Services sector, with a growth of 9.1% y/y in FY 2024-25 as compared to 7.8% y/y in 2023-24. Growth in the manufacturing sector is expected to decline to 5.3% y/y in FY 2024-25 as compared to 9.9% y/y in FY 2023-24. Similar trends can be seen in Electricity, Gas, Water Supply, & Other Utility Services, with growth expected at 6.8% y/y in FY 2024-25 as compared to 7.5% y/y in FY 2023-24. Another stand-out sector in recent years - the construction sector is expected to grow at 8.6% y/y in FY 2024-25 after growth of 9.9% y/y seen in 2023-24. Subdued manufacturing exports due to weak global demand and protectionist trade policies, along with disruption in mining and construction activities, affected the overall growth in the industrial segment. Heavy industries such as cement, iron and steel have experienced subdued performance due to a combination of rain disruptions and weak global demand and global prices. However, there have been signs of improvement in the industrial sector in recent months with improved expectations of production, employment, capacity utilisation as well as order books.

There are positives for the domestic economy as a good Kharif crop and an expected good rabi crop would firm up rural demand, which would improve overall consumption. Improved business expectations, with steady growth in private sector order books and a rise in investment intentions, in the manufacturing sector coupled with higher public capex are expected to shore up manufacturing production. Overall, the ability to navigate through global headwinds while firming up domestic activity, underpinned by improved private investment and consumption, is the current requirement of the Indian economy.

04.
INFLATION & MONETARY POLICY

Headwinds from inflationary pressures in certain parts of the world continued to affect global economic activity at the turn of last year. Synchronised monetary tightening by central banks across the globe has had its effect, as we experienced a decline in global inflationary pressures towards the end of 2024. From a peak of 8.7% in 2022, which was mainly due to geopolitical tensions and supply chain disruptions, global inflation subsided to 5.7% in 2024.



In India, the CPI for 2024-25 (Apr-Dec) averaged 4.93% y/y as compared to 5.48% y/y during the same period last year. Overall, inflationary pressures remain sticky but have slightly improved in recent months. The decline was mainly led by the core inflation, which is non-food, non-fuel inflation. Core inflation dropped by 0.9% y/y in FY 2024-25 (Apr-Dec) as compared to FY 2023-24 (Apr-Dec). A decline in core services inflation is attributed to the overall decline in core inflation as well. Along with core inflation, a decline in global fuel prices, led by the increased supply of countries outside the OPEC+, has greatly helped control the overall headline inflation. A look at the WPI, which has averaged around 2.17% y/y in FY 2024-25 (Apr-Dec), is an indication of the reduction of the overall input prices.

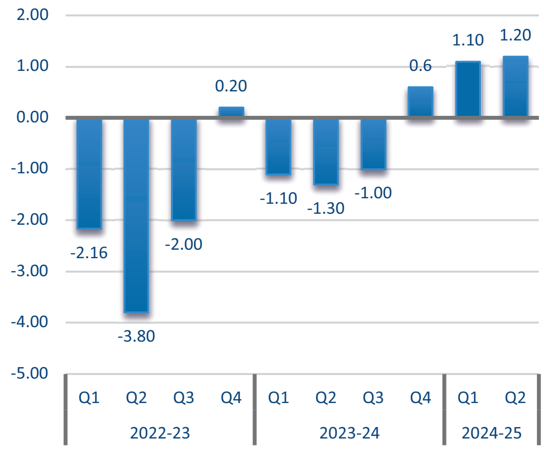
With core inflation declining along with fuel prices, what has had a major contribution to the inflation level remaining sticky has been food inflation. Food inflation has averaged 7.6% y/y in FY 2024-25 (Apr-Dec), with its peak at 9.7% y/y in October 2024. Reduced harvest of some crops, supply chain disruption and extreme weather events have contributed to the increase in food inflation. The main cause of concern has been the rise in the prices of vegetables and pulses, which form an integral part of the consumption basket for most people. Vegetable inflation averaged a staggering 26.2% y/y in FY 2024-25 (Apr-Dec), with pulses averaging at 11.7% in the same period. Unfavourable weather events and supply chain disruptions led to an increase in the prices of tomatoes and onions – two of the three most price-sensitive items in the inflation food basket.

A combination of prudent monetary policy along with fiscal measures such as strengthening the buffer stock of essential food items and periodic open market releases, subsidised retail sale of essential food items in specified outlets, and easing imports of the essential food items through rationalisation of duties have helped to reign in the overall headline inflation. The normal monsoon season of 2024-25 is also expected to provide relief to the overall vegetable prices.
The RBI, in its latest Monetary Policy Committee (MPC) in February 2025, cut the repo rate by 25 basis points, its first in almost 5 years. The repo rate was cut to 6.25% from 6.50%. The RBI opined that this rate cut will provide the stimulus required by the private sector for improved private investment activity. The MPC observed a decline in inflation and expects it to moderate further by 2025-26, aligning with the target. Although growth is projected to recover from Q2 of 2024-25, it remains below last year's level. This situation seems to have motivated and allowed the MPC to support growth while focusing on inflation alignment.

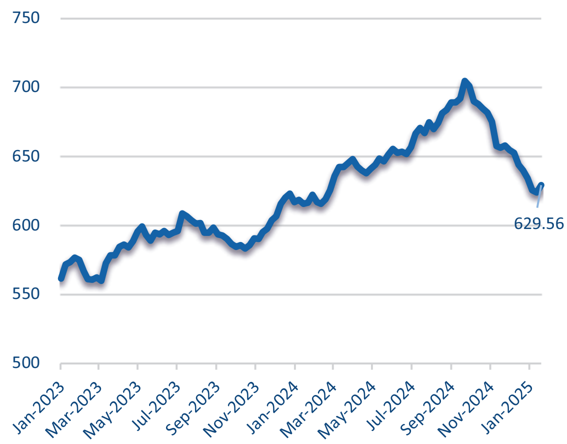
05.
THE EXTERNAL SECTOR

The external sector continued facing macro-economic headwinds with geo-political tensions, supply chain disruptions and the emergence of protectionist trade policies. This is reflected in the Current Account Deficit (CAD) to GDP ratio coming in at 1.1% in Q1 of 2024-25, with a slight uptick to 1.2% in Q2 of 2024-25. The continued increase in the CAD to GDP ratio in the latest quarter was predominantly due to merchandise trade deficit, which increased to US$ 75.3bn in Q2 of FY 2024-25 as compared to US$ 64.5bn in Q2 of FY 2023-24. Improved net services receipts coupled with private transfer receipts kept the CAD to GDP ratio relatively ranged.

CAD as % of GDP



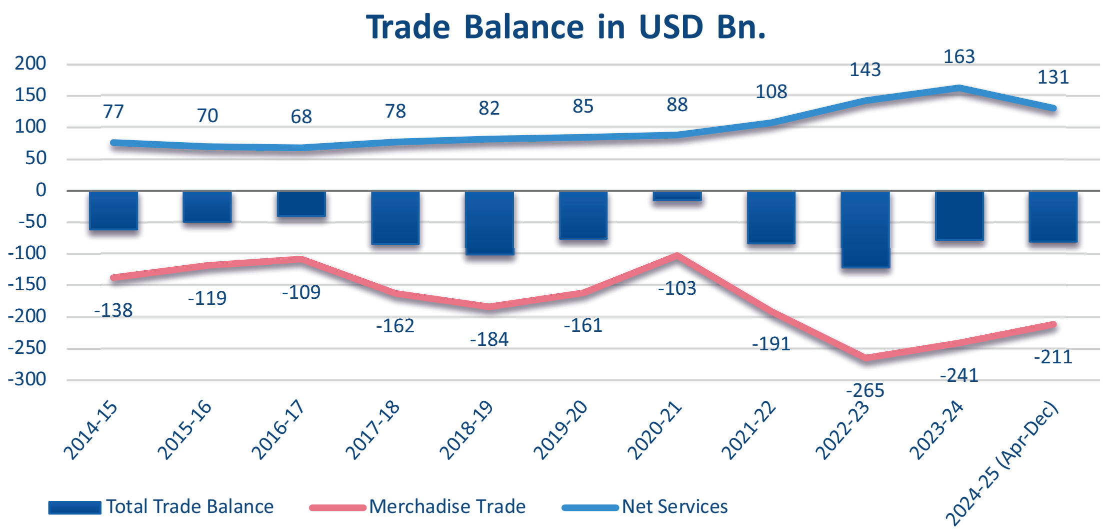
Foreign Exchange Reserves (US $ Bn)



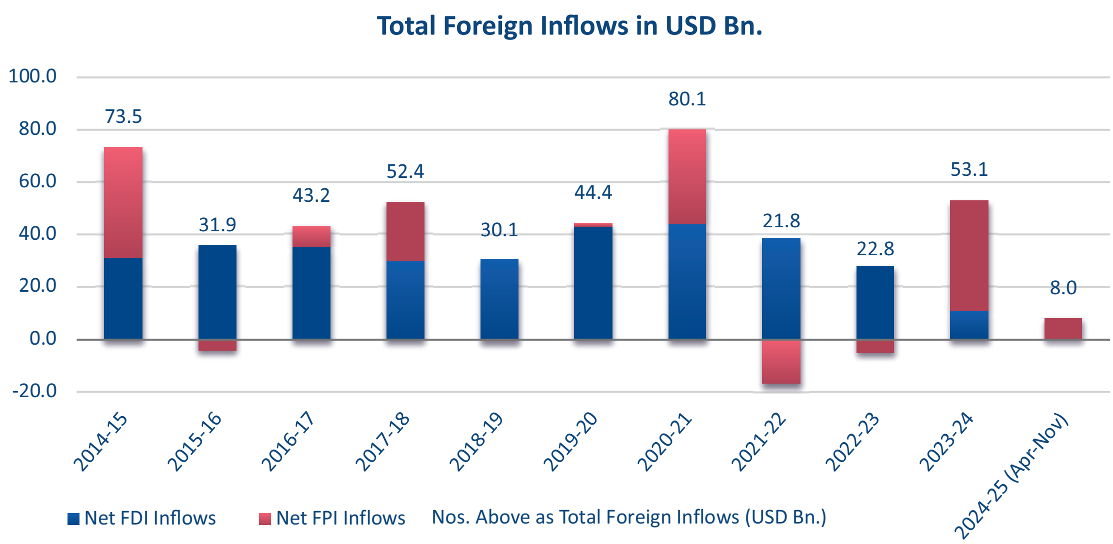
Even with the turbulent global markets, India's forex reserves continue their healthy trend, peaking at US$ 701.1bn in Sep 2024 to then moderating to US$629.5bn in Jan 2025. As of the end of December, the reserves provide an import cover of 10+ months, which is assuring from the perspective of safeguarding against external vulnerabilities. India is currently the fourth largest reserve-holding country, preceded only by China, Japan and Switzerland.

As discussed in Section 2 above, Global trade has faced significant challenges in recent years. Indian trade has been largely resilient through this global volatility but has faced its fair share of challenges. The total merchandise trade deficit in FY 2024-25 (Apr-Dec) came in at -US$ 210.8bn. up from -US$189.8bn. in FY 2023-24 (Apr-Dec). This has led to the overall deficit (merchandise & services) increasing to -US$ 79.5bn in FY 2024-25 (Apr-Dec) as compared to -US$69.7bn during the same period in the previous year. Heightened growth in imports has overshadowed improvement in exports throughout the year. Non-oil, non-gold imports came in at US$352.1bn in FY 2024-25 (Apr-Dec), a marginal increase from US$ 340.5bn. during the same period in the previous year. Imports in sectors like non-ferrous metals, machine tools, machinery, electrical & non-electrical goods, and transport equipment indicate recovery in domestic demand. Further, an improvement in non-petroleum and non-gems exports in sectors such as drugs and pharmaceuticals, electronic goods, engineering goods, and chemicals is a positive sign.

Net services receipts continued their credible trend through the year, coming in at US$ 131.3bn in the first 9 months of FY 2024-25 as compared to US$ 120bn in the same period in FY 2023-24. Despite facing several challenges, services exports have been growing at an impressive pace. Continued push by MNCs to set up Global Capability Centres (GCC) in India is expected to support this trend in the medium run.



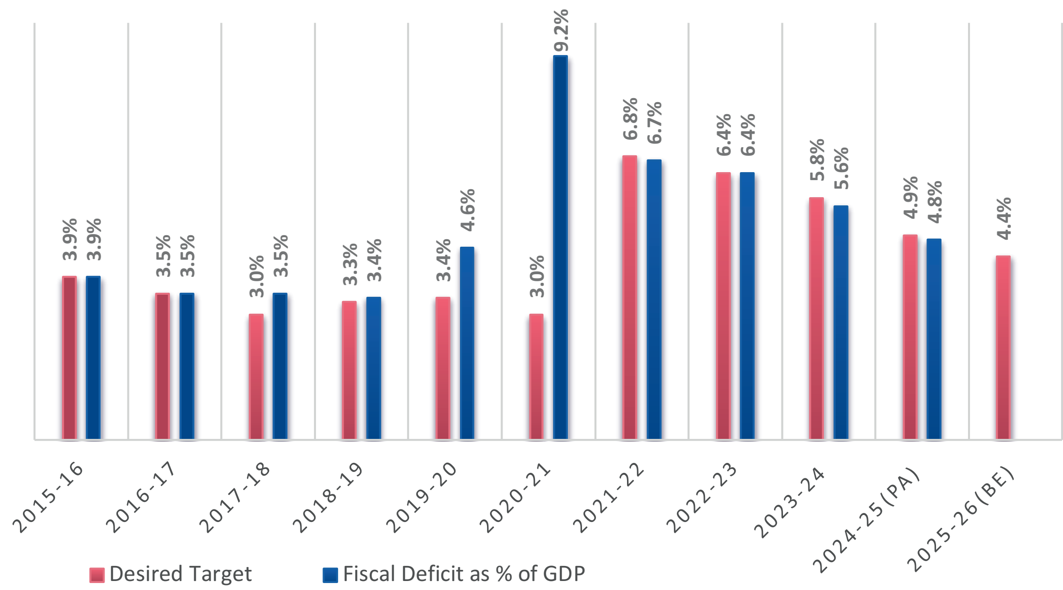
Subdued global investment flows have greatly hampered net foreign inflows into the country. The Net FDI inflows for FY 2024-25 (Apr-Nov) come in at US$ 0.5bn as compared to US$ 8.5 bn in FY 2023-24 (Apr-Nov). A closer look at these figures gives a better understanding. Looking at the gross FDI inflows, it came in at US$ 55.6 bn in FY 2024-25 (Apr-Nov) as compared to US$47.2bn in FY 2023-24 (Apr-Nov), a growth of 17.9%. However, this was accompanied by high levels of repatriation/disinvestment, coming in at US$39.6bn in FY 2024-25 (Apr-Nov) as compared to US$29.7 in FY 2023-24. The rise in repatriation could be a sign of foreign investors' realising profits from their investment in the Indian market.



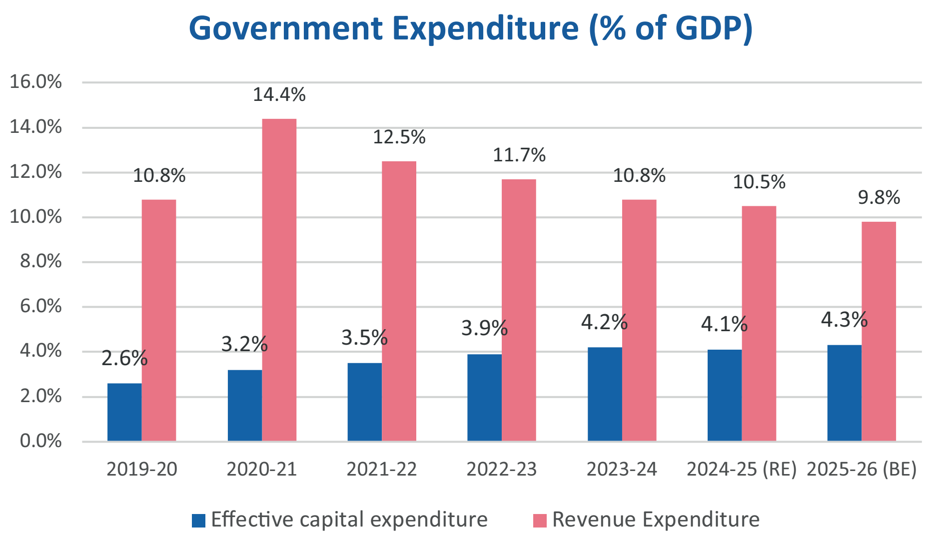
After showing significant net inflows in portfolio investments in Q2 of 2024-25, this trend reversed greatly in October and November, with a total net outflow of US$13.2 bn in these two months. Factors such as concerns about slowing earnings growth, high valuations, rising geopolitical tensions, and recent developments in China led FPIs to withdraw significant funds from Indian equities. The external sector has largely been able to navigate through unfriendly waters unscathed and is positioned to flex its muscles in the near future. Measures such as the increased focus on textile exports as well as the increase in FDI limit in insurance to 100% adopted in the budget are expected to underpin improved performance of the external sector.

06.
FISCAL SCENARIO

The government looks intent on achieving a balancing act between supporting growth through strategic investments and government schemes on the one hand and achieving fiscal prudence on the other. To this effect, the target set for the fiscal deficit as a percentage of GDP for 2025-26 is at 4.4% (BE), the lowest in the last five years. This shows greater intent by the government to curb fiscal slippage and steer fiscal deficit towards pre-pandemic levels.

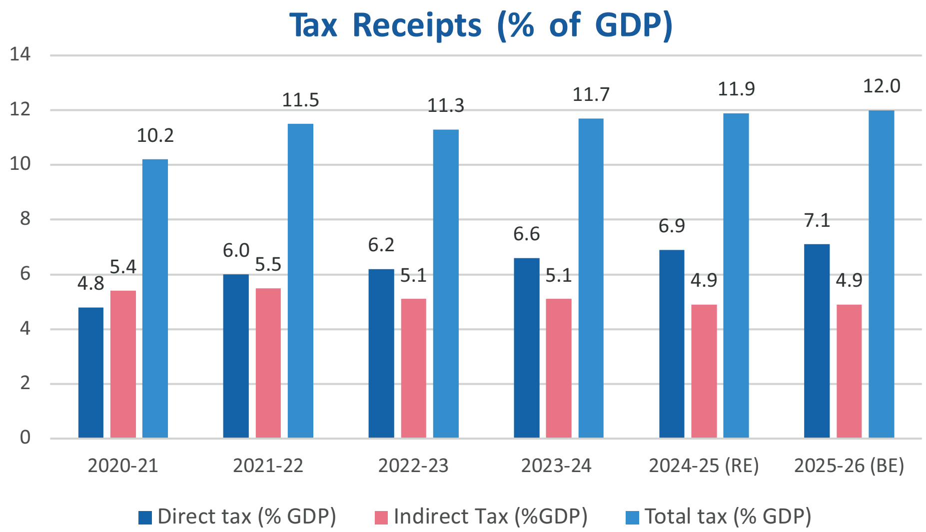


In terms of the total expenditure by the centre, the amount allotted for Central Sector Schemes/projects is expected to be INR 16.2 lakh crores in FY 2025-26 as compared to 15.1 lakh crores in FY 2024-25, a jump of 7.2%. The government seems to have, however, reined in capital expenditure for FY 2024-25 with revised estimates pegging capital expenditure at INR 10.2 lakh crores as compared to the previous year's budget estimates of INR 11.1 lakh crores.



An encouraging sign has been the fact that of the total expenditure, revenue expenditure has been on the decline, whereas effective capital expenditure has been on the rise. Effective capital expenditure is a combination of core capital outlays and grants in aid to states for creation of capital. Since revenue expenditure mainly revolves around the day-to-day functioning of the government, whereas effective capital expenditure is generally aimed at creating capital assets, the overall quality of expenditure has been steadily improving.

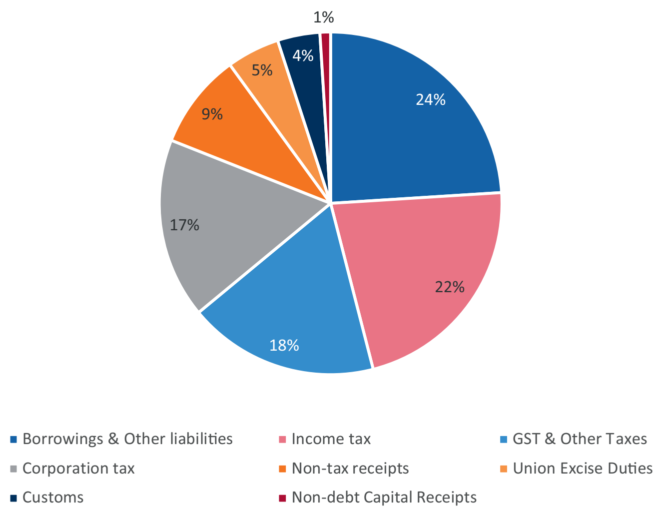
Looking at the budget outlay, the defence sector has been allocated the highest sum of INR 4.9 lakh crores, followed by rural development with an allocation of INR 2.67 lakh crores. Home affairs are allotted INR 2.3 lakh crores, with the agricultural sector allocated budget sum of INR 1.7 lakh crores.



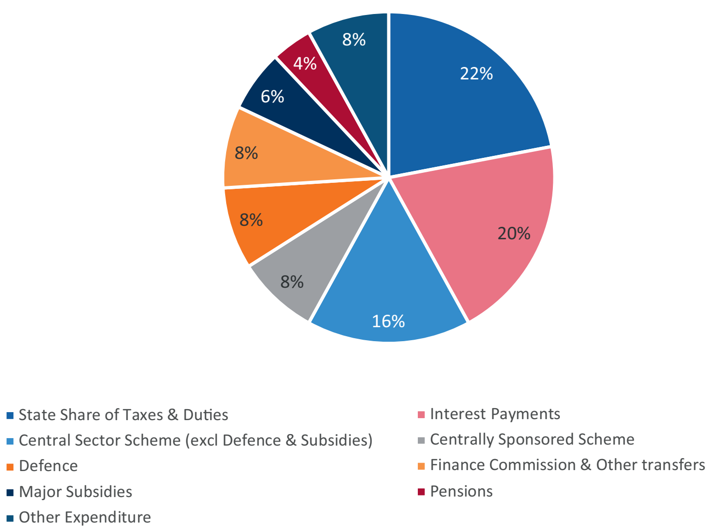
With the aim of achieving fiscal prudence, tax revenues are going to play a significant role. According to budget estimates, total tax receipts are expected to improve slightly to 12% of GDP in FY 2025-26 as compared to 11.9% of GDP in the previous year, with indirect tax largely remaining stable at 4.9% of GDP in FY 2024-25. Direct tax collections are expected to firm up to 7.1% of GDP in FY 2024-25, a noticeable jump from 6.9% in the previous year. Factors such as ease of compliance, adoption of technology and improved income of individuals are all expected to result in improved tax collections. Looking at non-tax revenue, dividends and profits form the largest section of the pie, expected to contribute around 55.7% of the total non-tax revenues.

Below is a representation of important sources of funds for the government as well as important outlay avenues for the application of these funds in FY 2024-25.

SOURCES OF FUNDS



APPLICATION OF FUND



07.
SALIENT FEATURES OF THE BUDGET

Continuity towards Viksit Bharat

The government, through its budget, aims at furthering its cause of Viksit Bharat by focusing on accelerated growth, securing inclusive development, enhancing the spending power of India's middle class, stimulating private sector investments and uplifting household sentiments.

The key principles highlighted in the budget were support to Indian farmers in making India the food basket of the world, poverty alleviation, better quality education, meaningful employment through skilled workforce, increased participation of women in economic activities and affordable and high-quality workforce.

The budget intended to prioritise policies targeted at the poor, youth, farmers and women. To achieve its targets, the government identified four engines of growth – agricultural, MSMEs, investment and export. The major budget policies were laid out in supporting these four engines of growth;

Agriculture

The policies are aimed at spurring agricultural growth and building rural prosperity

- Prime Minister Dhan-Dhaanya Krishi Yojana Developing Agri Districts Programme – the scheme aims at increasing overall productivity, achieving crop diversification, providing credit access, improving irrigation and enhancing storage of crops. It aims to cover around 100 vulnerable districts.

- Enhanced Credit - With the ultimate aim of easier access to credit, the government plans to facilitate enhanced loans of INR 5 lakhs to 7.7 crore farmers

- Aatmanirbharta in pulses – with a special focus on pulses such as tur, urad and masoor, the scheme aims at increased productivity, development and commercial availability of climate resilient seeds as well as improving post-harvest storage and management, assuring remunerative prices for farmers.

MSMEs

Policies aimed at supporting MSMEs and furthering Make in India

- First time entrepreneurs – loans up to INR 2 crores to be provided for first time entrepreneurs, which especially includes women, scheduled casts and scheduled tribes

- Significant enhancement in credit availability – guarantee cover increased for MSME from 5 to 10 and for startups from 10 to 20. Further, for exporters in MSMEs, term loans up to 20 crores to be approved

- Revision in criteria for MSMEs –

Amounts in INR Crore	Investment		Turnover	
	Old	New	Old	New
Micro Enterprises	1	2.5	5	10
Small Enterprises	10	25	50	100
Medium Enterprises	50	125	250	500

Investment

Policies aimed at investing in people, economy and innovation

- **Investing in people** – several measures such as setting up 50,000 Atal Tinker labs in schools in the next five years, expansion of medical education with 10,000 additional seats to set up 70,000 seats in the next 5 years, setting up Five National Centres of Excellence for Skilling with global partnerships for "Make for India, Make for the World" manufacturing have been announced. PM SVANidhi to be revamped with enhanced loans from banks, UPI linked credit cards and capacity building support

- **Investing in Economy** – increased focus on infrastructure and rural development
  - 50-year interest free loans to states for capital expenditure and incentives for reforms with a capital outlay of 1.5 lakh crore in the budget
  - Jal Jeevan Mission, which aims to provide tap water to rural households, extended till 2028 with an additional focus on operations and maintenance through Jan Bhagidari
  - Asset monetisation plan 2025-30 launched to re route capital for INR10 lakh crore in new projects
  - The Urban Challenges Fund launched with a capital outlay of INR 1 Lakh crore to implement Cities as Growth Hubs, Creative Redevelopment of Cities and Water &Sanitation.

- **Investment in innovation**
  - ₹20,000 crore allocated for a private sector-driven Research, Development, and Innovation initiative.
  - Gyan Bharatam Mission set up to document and conserve manuscripts along with setting up the National Digital Repository of Indian knowledge systems for knowledge sharing to be set up.
  - National Geospatial Mission set up to develop foundational geospatial infrastructure and data.

Exports

With the external sector facing significant global headwinds, the government has announced measures to address these issues;

- Export Promotion Mission, with a capital outlay of INR 2,250 crores, is aimed at enhancing India's export capabilities. The mission aims at facilitating MSME exports as well as specific targets for selected sectors and ministries, as the government aims at achieving its goal of US$ 2 trillion in exports.

- BharatTradeNet was announced to streamline exports and enhance supply chains by setting up facilitation groups of experts to support select products and supply chains

- National Framework for GCC: Global Capability Centres have been an integral part of services industry growth in recent years. This framework aims at providing the framework and guidance to states for promoting the development of GCCs in emerging tier-2 cities across the country.

Other major reforms

- Along with the major infrastructural announcement under rural and urban development, the building of 50 new airports and a total capital outlay of INR 2.4 lakh crores for railways bodes well for this sector

- 36 life-saving drugs for cancer, rare, and chronic diseases fully exempted from Basic Customs Duty (BCD).

- In a bid to support lithium-ion battery manufacturing, 35 capital goods for EVs & 28 for mobile batteries were added to the exemption list.

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