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UNION 2025-26 BUDGET PREVIEW

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Budget 2025: All Eyes on the Madam Finance Minister—Waiting for Magic, Bracing for Math

The upcoming Union Budget is set to perform the ever-delicate balancing act—stimulating growth without triggering a fiscal migraine. Given the government's iron grip on fiscal discipline, anticipating a shower of populist benefits would be as fanciful as expecting Mumbai's monsoon-battered roads to rival Singapore's silken boulevards—a triumph of hope over municipal reality. Instead, fiscal discipline will be the buzzword. This year the deficit is carefully reined in to 4.7% of GDP —thanks to higher tax collections (because tax buoyancy surprised even the north block mandarins!) and a judiciously restrained capital expenditure. In essence, this budget is likely to be a masterclass in controlled ambition—just enough to keep the markets happy, but not so much that it upsets the accountants in the finance ministry.

Budget is likely to focus on following 5 key areas.

1. Infrastructure – Investment in transportation, power, and digital infrastructure to enhance efficiency and reduce logistics costs. Streamlining land acquisition and promoting public-private partnerships will also be crucial.
2. Financial Sector – Expanding corporate bond markets for alternative financing and strengthening fintech regulation for financial inclusion.
3. Labor Markets – Enhancing skill development programs to align with industry needs.
4. Agriculture – Improving direct market access for farmers, investing in irrigation and storage infrastructure, and ensuring fair pricing.
5. Administrative Reforms – Simplifying business regulations through digitization and procedural enhancements.

Inflation control measures in the budget will focus on supply-side interventions such as investment in agricultural infrastructure, modernization of supply chains, and increased irrigation funding. Fiscal measures will include prudent fiscal deficit management, subsidy rationalization, and capital expenditure prioritization. Trade-related initiatives may involve customs duty adjustments to ensure stable domestic supply and incentives for sectors facing supply bottlenecks. MSMEs will likely receive targeted support to enhance competitiveness and drive economic growth.

Despite fiscal constraints, infrastructure spending remains a priority, particularly in roads, railways, and highways. However, the budget is unlikely to aggressively increase capital expenditure due to limited fiscal space. Instead, targeted measures to stimulate private consumption—such as direct tax incentives and support for discretionary spending—are expected to boost demand.

The government's focus on inclusive growth means that agriculture, MSMEs, household consumption, and job creation will be key priorities. With household spending forming over half of India's GDP, policies aimed at revitalizing demand will be crucial.

The budget also comes at a time when India's trade balance faces risks from global economic realignments. Trump's potential trade policies could further impact India's exports, necessitating decisive policies to attract manufacturing investments and safeguard trade competitiveness.

Overall, the FY25 Union Budget is expected to focus on economic stability while addressing growth imperatives through targeted investments and fiscal responsibility. By maintaining a balance between infrastructure spending and demand-side support, the budget should aim to sustain India's economic momentum in the face of global uncertainties.

Key Forecasts for FY25 and FY26 Budget

(in INR, lakh Cr)	FY25 BE	FY25 F	FY26 F
Fiscal Deficit (% of GDP)	**4.9**	**4.7**	**4.4**
Fiscal Deficit	**16.1**	**15.3**	**15.6**
Gross Tax Revenue	38.4	38.6	42.5
Gross tax % GDP	*11.8*	*11.9*	*11.9*
Gross tax % yr	*10.8*	*11.3*	*11.0*
Tax buoyancy	*1.12*	*1.16*	*1.07*
Non-tax Revenue	5.5	5.5	5.3
Non-debt Capital Receipts	0.8	0.5	0.8
Total Receipts	32.1	32.0	34.8
Total Expenditure	48.2	47.3	50.4
Revenue Expenditure	37.1	37.3	39.3
Revex excl. interest and subsidy	*21.2*	*21.2*	*22.5*
Capital Expenditure	**11.1**	**10.0**	**11.1**
Capex to GDP	*3.4*	*3.1*	*3.1*
Revex to Capex ratio	*3.3*	*3.7*	*3.5*
Nominal GDP growth	10.5	9.7	10.2

INR Trillion	FY23	FY24	FY25 BE	FY25 F	FY26 F
Fiscal Deficit	**17.4**	**17.3**	**16.1**	**15.3**	**15.6**
FD % GDP	6.4	5.6	4.9	4.7	4.4
Net market borrowings	**11.1**	**11.8**	**11.6**	**11.6**	**11.2**
Net Repayments (excluding recovery from GST compensation fund, buybacks)	3.1	3.6	2.1	2.1	3.6
Gross Market Borrowings	**14.2**	**15.4**	**14.0**	**14.0**	**14.8**
Net borrowing % FD	64	68	72	-	72

Source: HDFC Bank, HDFC securities Prime Research

The following analysis captures the diverse range of expectations voiced by multiple industry sectors ahead of the upcoming budget. Industry associations and business leaders have articulated an ambitious agenda encompassing tax reforms, regulatory changes, and sector-specific support measures. However, given the government's current fiscal constraints and the need to maintain budgetary discipline, it appears improbable that all these expectations can be fully met. In this context, we have evaluated these industry demands through the lens of fiscal feasibility and policy priorities. Based on our assessment, we identify specific proposals that align with the government's stated objectives and current economic priorities, making them more likely to receive the Finance Minister's approval. Conversely, we also highlight those expectations which, despite their merit, may face implementation challenges or lower probability of acceptance.

Expectations

Sector	High Probability	Low Probability
Automobile	• Continue incentives for the development and adoption of advanced battery technologies • Provide support for energy storage solutions	• Uniform 5% GST on EV components and batteries in line with EV • Enhanced FAME subsidies for EV adoption
BFSI	• Continuation of Credit guarantee scheme for MSME • Increased deduction for home loan interest	• Abolishing/Reduction in GST on insurance policies to 5% • Dedicated funds for sustainable housing projects, smart cities, and eco-friendly home solutions • Lower GST on luxury home solutions. • Abolishing STT
Consumption	• Relaxation in basic income tax exemption limit and/or increase in standard deduction could be the likely drivers to boost private consumption growth and revive the slowdown in demand. • Incentives in the agriculture sector to improve technology, improve production methods, develop marketing infrastructure and reduce post-harvest losses to boost farm incomes. • Fresh allocation to employment-linked incentive schemes and towards skilling in different sectors to improve job creation in the labour market	• Expansion in the scope of the Production Linked Incentive (PLI) scheme to include high-demand sub-sectors within the consumer goods industry, such as home appliances, personal care products and small consumer electronics

Cement sector	• Increase allocation under PM Awas Yojana (rural and urban) as housing constitutes a significant portion of demand.	• Reduce GST rates on cement to 18% from 28% to stimulate growth in the sector and boost consumption. • Policies supporting capital expenditure in green energy and the use of alternative fuels, promoting sustainable growth, and incentivising carbon emission reductions in the cement industry and further strengthening the carbon credit trading scheme.
Defence & Space	• The defence budget is expected to see a considerable increase in capital expenditures, allowing for the introduction of new defence projects. This boost is intended to modernise and expand India's infrastructure and increase in ordering of defence equipment from domestic players • There will be a focus on promoting defence exports, aligning with the government's vision of making India a global defence manufacturing hub. • The government could increase the budget for space exploration, including funding for the Gaganyaan mission and the development of the Bharatiya Antariksh Station.	• Policies for foreign entities to invest in the Indian space sector, promoting collaboration and technology transfer

EMS	• The government could approve fund more than Rs 25000 crore to boost local production of printed circuit boards (PCBs), camera modules, lithium-ion cells, and other critical components. • The industry expects on expanding the Production-Linked Incentive scheme to boost India's global competitiveness in sectors such as electronics.	• The global electronics industry is exposing the risks of overdependence on China. Considering the "China Plus One" strategy, the government could plan through substantial investments, incentives, and a focus on both upstream component manufacturing and workforce development
Healthcare	• Dedicated support toward R&D in emerging technologies like AI and data analytics is necessary, which will expedite advancements in drug discovery and personalised medicine. • support for CMOs and CROs is vital for innovation and production. Investments in workforce development to upskill professionals will ensure India remains prepared for future challenges.	• The budgetary allocation should be increased to at least about 3 per cent. • Better reimbursement models and smart incentivisation of efficient private hospitals to bridge the urban-rural divide
IT	• To strengthen the IT sector with the apt digital infrastructure and focus on cyber security & skill advancement to continue leading globally in the technology space • The government could come out with initiatives that facilitate the establishment of AI centres, special schemes for skilling tech workforce	• Tech entrepreneurs are looking for "policies that promote innovation and entrepreneurship while ensuring soft compliance measures that do not stifle growth • The IT industry expects advanced digital infrastructure and frameworks that will allow the companies to innovate and take the country on a global platform

Industrials	• PLI schemes and tax benefits for R&D. • Focus on chip manufacturing and data centres are expected to see significant allocations	• 15% rise in Government expenditure
Infrastructure	• See a significant increase in allocation to the road sector. – Reaffirm government's commitment to the National Infrastructure Pipeline (NIP) with key focus areas like the PM Gati-Shakti National Master Plan and the Jal Jeevan Mission (JJM). • Higher allocation towards Water Treatment and Desalination, Urban waste management, Water supply pipelines. • To focus on modernising the transmission grid infrastructure, increasing allocation for smart metering and digitalizing energy sector.	• Introduce measures to encourage asset monetisation to finance new developments and ease financial pressures on NHAI
Logistics	• Incentivisation of EV charging infrastructure • Establishing dedicated e-commerce export hubs	• Initiatives aimed at improving last mile connectivity and transformational reforms to strengthen logistics ecosystem
Metals and Mining	• Increase in financial incentives for critical minerals and speed up in the launch of critical minerals mission. • Allocation to offer incentives to produce low carbon steel, reducing emissions, boost research and development and increase raw material efficiency, as well as encourage	• Imposition of a temporary safeguard duty up to 25% on steel imports from China due to a significant surge in imports and protect domestic steel producers and increase viability.

	banks to offer lower interest rates on renewable energy loans.	• Increased infrastructure spending and enhance logistics infrastructure in mineral-rich areas to propel growth
Oil and Gas	• The oil marketing companies expect an adequate budgetary provision to compensate for losses incurred on the sale of auto fuels and sensitive products -LPG and kerosene • The upstream industry has been demanding a downward revision in the cess on crude oil production and the exemption of exploration and development activities, cost petroleum, profit petroleum and royalty from the levy of GST	• The industry expects the customs duty of 2.5% on liquified natural gas (LNG) imports to be scrapped to promote the use of natural gas as a fuel
Sugar and Ethanol	• Extension of production linked incentive schemes to encourage ethanol and biofuel production	• Incentives for raw material procurement for sugarcane farmers facing issues like delayed payment and unstable cane pricing • Robust framework to support mills in clearing farm dues and enhancing cane quality

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