

Union Budget: Govt to strike a balance between fiscal deficit, capex for growth, social spending

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— KRISHNA RAO | JULY 20, 2024 / 08:49 AM IST



Union Budget

By Krishna Rao, Managing Director & Co-Head - Equity Broking at JM Financial Services

The upcoming Union Budget is expected to lay a strong foundation for India's economic, infrastructure, and social development for the next decade, with strong reform measures and a visionary blueprint for growth. With the focus on adding further impetus and consolidating the 'India growth story', it is expected that the pace of reforms would be greatly expedited to accelerate progress. In addition, expectations would be high as this would be the first full-year budget for NDA 3.0.

We believe that the government would strike a balance between Fiscal Deficit, Capex for growth and Social spending. The continuation of the existing Capex agenda (Infrastructure, Railways, Defence, Renewable/Clean energy), higher budgetary allocation to revive the rural economy, job creation and a firm roadmap for 'Viksit Bharat' by 2047 would be the key theme for the Union Budget 2024-25. Markets would also keenly await any adverse changes in the capital gains tax on equities. In case there is no change in capital gains tax it would be considered positive for the Indian equity markets.

Fiscal Consolidation

The government would adopt a path to fiscal consolidation to balance macroeconomic growth with stability. The government would attempt to maintain the fiscal deficit for FY25 below 5.1 percent, with a target of achieving 4.5 percent by FY26, as forecasted.

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Emphasis on CAPEX spending:

Capex will remain at the forefront while balancing Fiscal deficit. The Government is likely to continue its capex plan of Rs 11.1 lakh crore for FY25, as announced in the Interim budget, to keep Fiscal Deficit target unchanged at 5.1 percent of GDP (versus 5.8 percent of GDP in FY24) to reach 4.5 percent of GDP in FY26E.

The Government's capex focus would continue to remain on defence, railways and infrastructure development given the Government's vision of 'Viksit Bharat' by 2047. The continuity of pro-reform agenda like PLI schemes and incentivizing clean energy (RE, Green Hydrogen) would aid revival in private Capex as well as job creation.

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Reinforce Measures to Revive Rural Economy

The record dividend of Rs 2.11 lakh crore received by the government from RBI, would provide headroom to invest in welfare measures to revive rural economy, with higher spending on government programmes like the Pradhan Mantri Awas Yojana (affordable housing for all) and the PM Kisan Samman Nidhi Yojana (financial support for farmers). Likely government welfare schemes and recent moderation in inflation, bodes well for recovery in the rural economy and this could also help boost demand across the broader economy.

Key Budget Picks:

When it comes to our key picks for this Budget, we are positive about companies that would benefit from Capex revival and Rural demand recovery.

Rural revival theme: Mahindra & Mahindra, Hero Motocorp, ITC, Sumitomo Chemical

Power capex/green energy: RIL, Power Grid, NTPC, Sanghvi Movers

Defence capex: Bharat Electronics, Bharat Forge

Water treatment play: VA Tech Wabag

Capital goods: Larsen & Toubro

Real estate & building material: DLF, Ambuja Cement, APL Apollo

Power finance: Power Finance Corporation (PFC) **Railways:** IRCON International

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