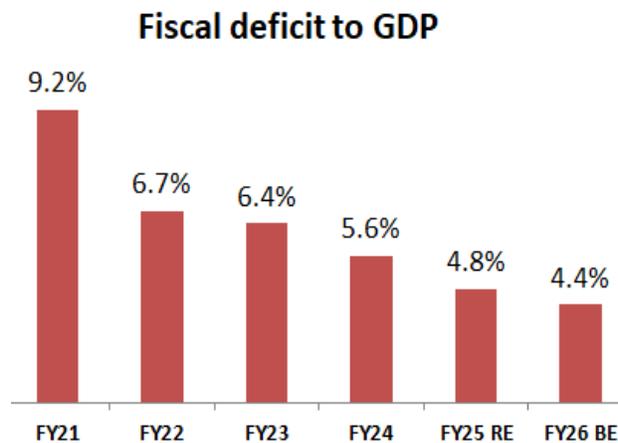


## Budget 2025- consumption boost while keeping a strong eye on fiscal consolidation

The 2025 budget continues the government's commitment to fiscal responsibility while introducing measures to stimulate demand, particularly among the urban middle class. This budget reflects a shift from primarily supply-side measures to addressing a softening in consumption, especially in urban areas. This is particularly relevant given global economic uncertainties and the potential impact of external factors.

### Budget sticks to fiscal consolidation path

Since covid when fiscal deficit touched a peak of 9.2%, the government has steadily been on the path of improving the same. The Government expect fiscal deficit to further improve to 4.4% in FY26 that is a 0.4% improvement from FY25.

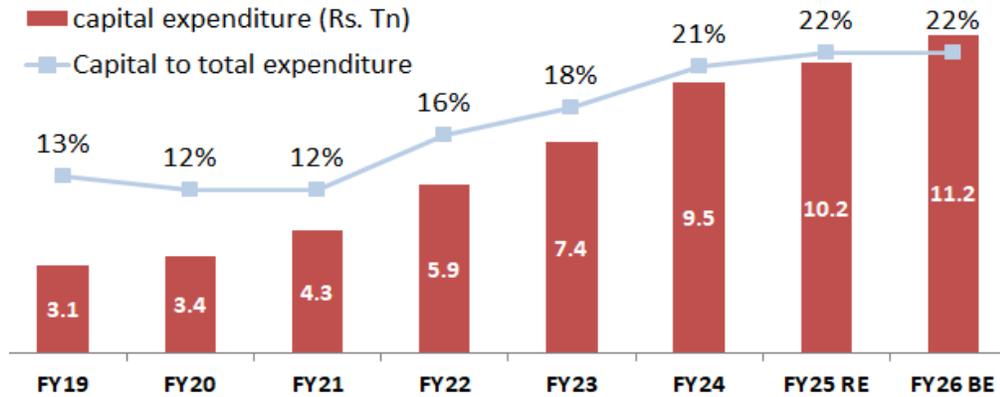


### Projections look realistic to achieve this target

	YoY growth	
	FY25RE	FY26BE
<b>GDP Nominal</b>	9.7%	10.1%
<b>Tax revenue</b>	9.9%	11.0%
<b>Non Tax revenues</b>	32.2%	9.8%
<b>Disinvestment</b>	-1.3%	28.8%

The economic survey expects India's GDP growth at around 6.5% for FY26. Adding an expected inflation rate of 5% the nominal GDP comes at 11.5%. The budget has been further conservative by expecting a nominal GDP growth of 10.1%. While the projection of tax and non-tax revenues at 11% and 10% in FY26 looks credible. However, Government has projected a steep target for disinvestment receipt that is expected to grow at 29% which like in past may not be met. Overall the projections look credible and reachable unless there is continuous derailment in the economic recovery in FY26.

**Government capex seems to have reached its peak, a likely signal to steadily shift from value to growth oriented stocks and funds**



Capital expenditure by the government grew at a robust rate of 25% per annum from FY 19 to FY24, improving the capital to total expenditure from 13% in FY19 to 21% in FY24, thereby benefiting many themes. However, lately the Government capex has plateaued to 22% of total expenditure that may impact the order book of these themes. This could signal a shift in market focus from value and infrastructure to growth and consumption-oriented sectors.

**Reasonable boost to consumption post tax relief**

Government has significantly expanded the nil tax slab under new tax regime from Rs. 7 lakh to Rs. 12.75 lakh (after additional standard deduction) thereby taking many in the middle class out of the tax net. This may likely expand the scope of disposable income in the hands of middle class thereby boosting consumption. Moreover the tax relief is across the slabs thereby benefiting every taxpayer.

in Rs.			
Particular (in Rs. Lakh)	Tax due-Old tax regime	Tax due-New tax regime	benefit (Rs. )
12.75	86,840	-	86,840
16	1,73,160	1,13,100	60,060
20	2,97,960	1,92,400	1,05,560
24	4,22,760	2,92,500	1,30,260
30	6,09,960	4,75,800	1,34,160
50	12,33,960	10,99,800	1,34,160
100	30,73,356	29,25,780	1,47,576

As can be seen, every tax bracket is benefiting under the new tax regime. Further details can be fetched only after the government introduces the New Tax Bill next week. This along with populist schemes like Ladli Laxmi Yojana that is now getting implemented in every state can boost domestic demand in the medium term.

However to boost further consumption corporates may have to participate on both capex and opex side. For example corporate profits have improved from 2.1% in FY23 to 4.8% of GDP in FY24 , the highest since 2008, a profit growth of 22% in FY24 but employment grew only by 1.5% in FY24, as per economic survey.

## Government Flexibility and Responsiveness: A Shift towards Demand Stimulation

Since 2014, the government has demonstrated a commitment to adapting its economic policies to address evolving needs and challenges. Initially, the focus was largely on supply-side measures aimed at building capacity and infrastructure. These included initiatives to enhance manufacturing, improve logistics, and strengthen the financial sector. However, as the economic landscape has shifted, particularly with a softening in urban consumption and increasing uncertainty in external sectors, the government has shown flexibility by adjusting its approach to stimulate demand. This shift is evident in the 2025 budget, which introduces significant tax relief measures designed to increase disposable income, particularly among the middle class.

Indicator	Prior Focus (Supply-Side)	Current Focus (Demand-Side)
Capital Expenditure	High Growth (FY19-FY24)	Moderate Growth (FY26 BE), with focus on specific sectors like defense and power
Taxation	Focus on compliance	Focus on reducing the burden on the middle class and tax simplification.
Fiscal Deficit	Focus on consolidation	Continued commitment to reduce, but balanced with measures to boost consumption
Ease of Doing Business	Long-term goal	Active reforms and committees for streamlining regulations
Focus of Government	Capacity creation	Demand stimulation and job creation

## Conclusion

The 2025-26 Union Budget marks not just a continuation of fiscal consolidation, but a significant and deliberate shift in economic strategy. It is a move away from a singular focus on building supply-side capacity towards a more nuanced approach that seeks to stimulate demand, particularly among the urban middle class, while maintaining a firm grip on fiscal prudence. This budget is not just a collection of numbers, it represents a carefully calibrated response to the economic realities on the ground and a recognition that sustained growth requires a balance between investment and consumption. In the words of Gurajada Appa Rao, 'Desamante Matti Kaadoi, Desamante Manushuloi'; meaning, 'A country is not just its soil, a country is its people'. The budget echoes this sentiment by prioritizing measures aimed at enhancing the well-being and spending power of its citizens

The government is shifting from a government-led to a more private sector-driven growth model. There are specific measures for sectors like healthcare, tourism, and agriculture, aimed at increasing both consumption and employment. This budget is a balanced approach, aiming to stimulate demand while maintaining fiscal prudence, and improve ease of doing business, signalling a shift from capacity building to shared prosperity

## Market outlook

Recent market correction which in our opinion is a bull market correction and not a bear market provides good entry point for new purchases including lump sum and SIP. Lower cost of acquisition may help reduce the average purchase value thereby providing good long term returns.

Given the nature of market movements in the past few years it is highly unlikely that this correction phase will last long so the window of new investment opportunity may be limited. All new investments will be through STPs and SIPs so that we can actively participate in the market volatility

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