UNION BUDGET

2025-26

ICICI PRUDENTIAL MUTUAL FUND

Highlights of Economic Survey 2024-25

Key highlights of Economic Survey: 2024 - 2025

The Economic Survey described the state of Indian economy as 'getting back into the fast lane' to highlight how India is displaying steady growth despite global challenges

Notable global trends included – slowdown in manufacturing, outperformance of services sector, sticky last-mile disinflation, uncertainty around policy rates and inflation trajectories

Key observations on Indian economy – growth remained steady, private consumption remained stable, fiscal discipline and strong external balance supported by a services trade surplus and healthy remittance growth contributed to macroeconomic stability

India's economic prospects for FY26 balanced. Headwinds can be geopolitical and trade uncertainties

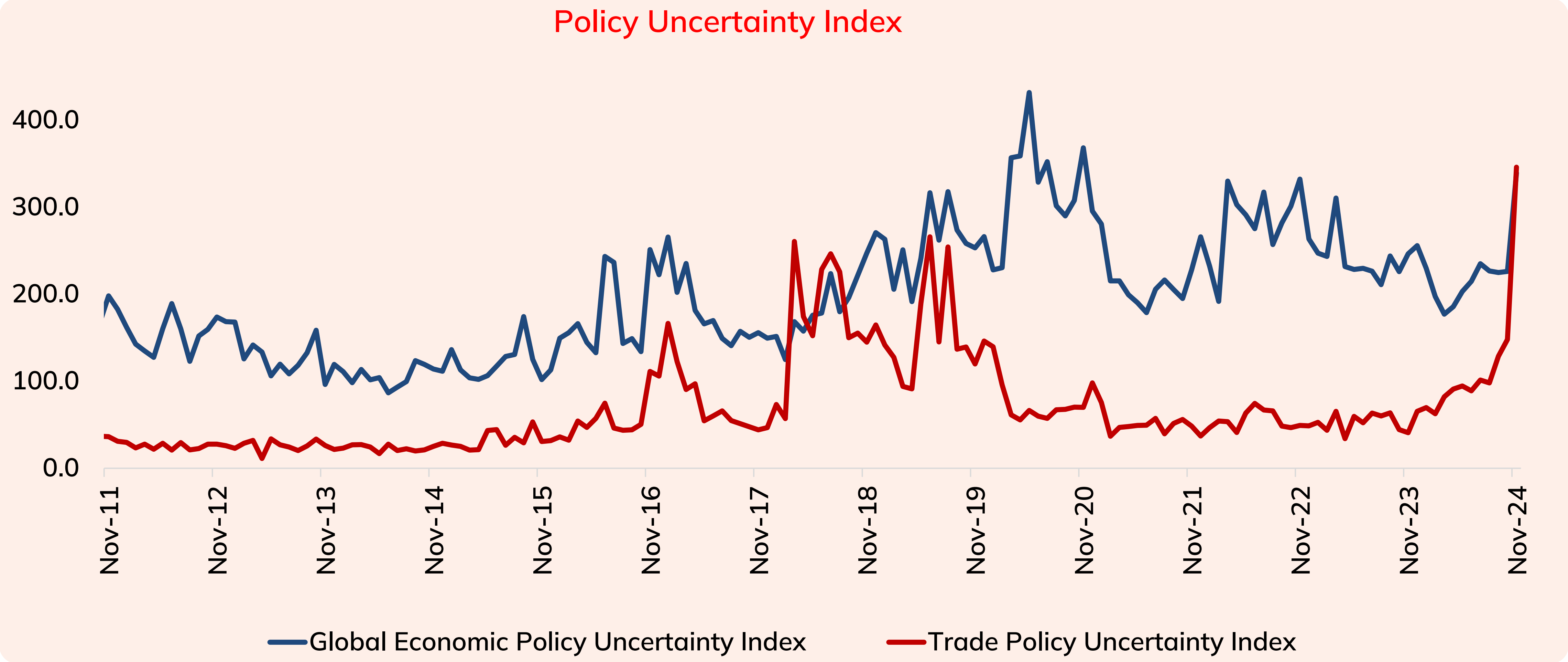
The translation of order books of private capital goods sector into sustained investment pick-up, improvements in consumer confidence, and corporate wage pick-up will be key to promoting growth

Rebound in rural demand & anticipated easing of food inflation key to near term growth

Data Source: Economic Survey 24-25 (https://www.indiabudget.gov.in/economicsurvey/). FY: Financial Year

Global Update: Trade & Policy Uncertainty

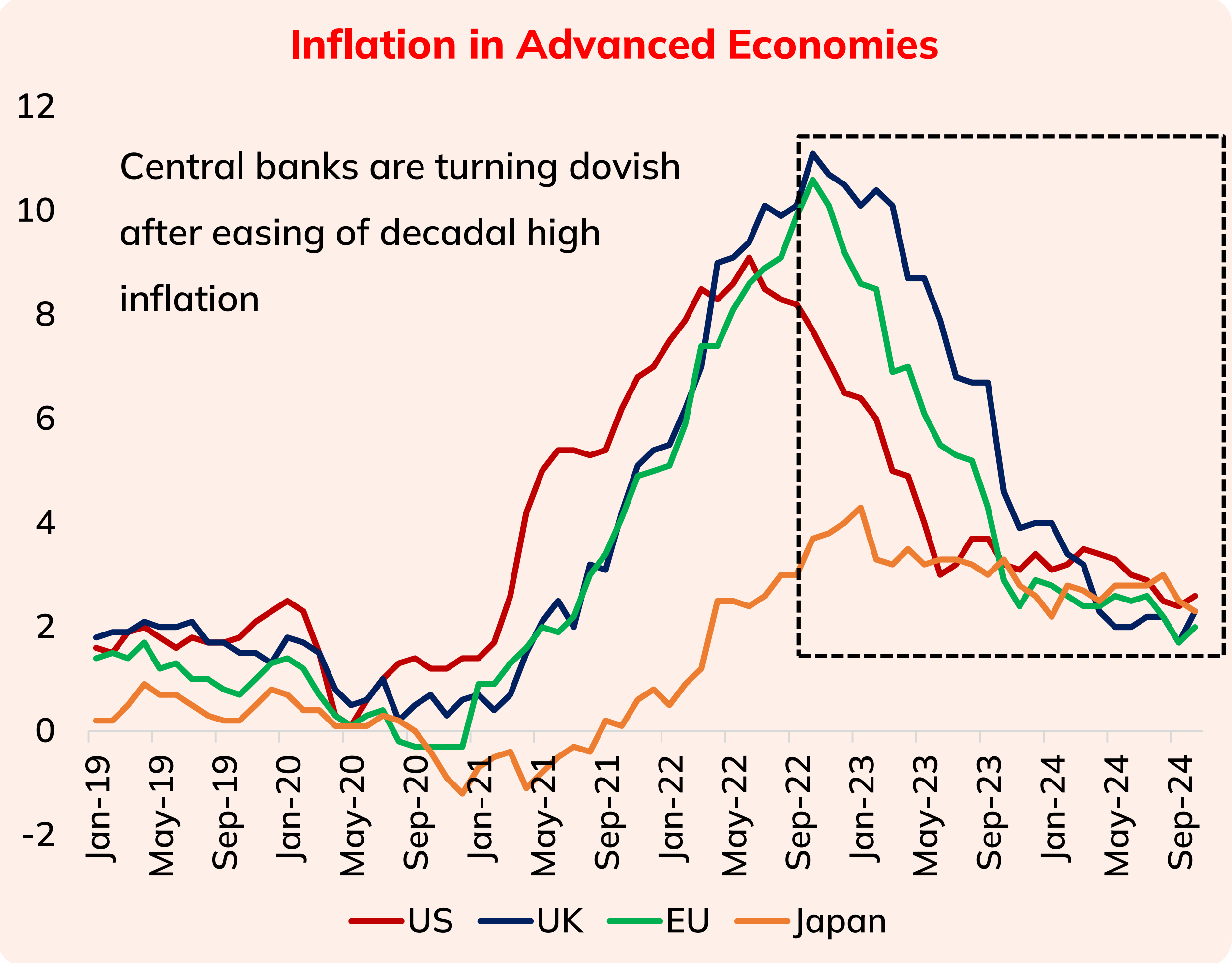
In the wake of geopolitical conflicts, global economic and trade policy uncertainties have risen, impacting Advanced as well as Developed economies

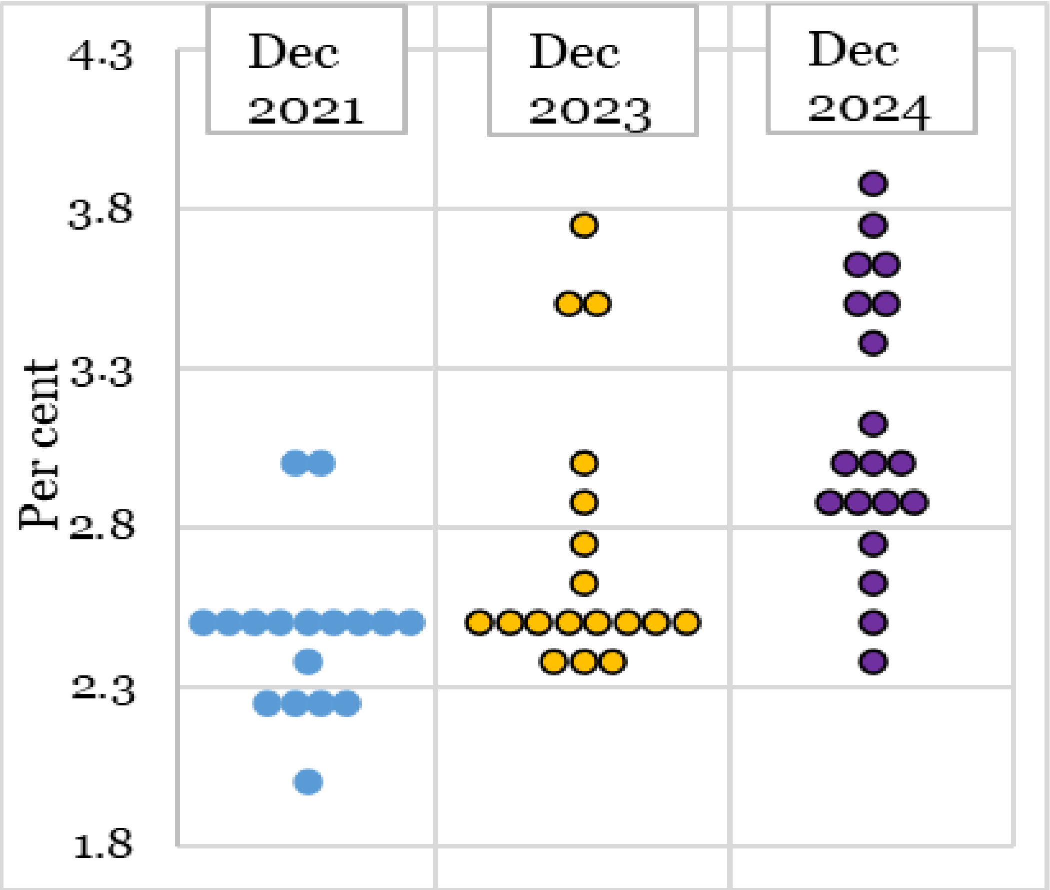


Data Source: Economic Survey 24-25 (https://www.indiabudget.gov.in/economicsurvey/). Data as on Nov 30,2024. Global Economic Policy Uncertainty Index is a GDP-weighted average of national Economic Policy Uncertainty indices for 21 countries. These indices capture changes occurring in economies constituting about 71% of global output. Trade Policy Uncertainty Index covers the frequency of articles mentioning trade policy uncertainty and heightened trade tensions

Global Update: Uncertainty about easing cycle

Given the difference in inflation trajectories across major economies, policy outcomes of Central Banks may not be in sync

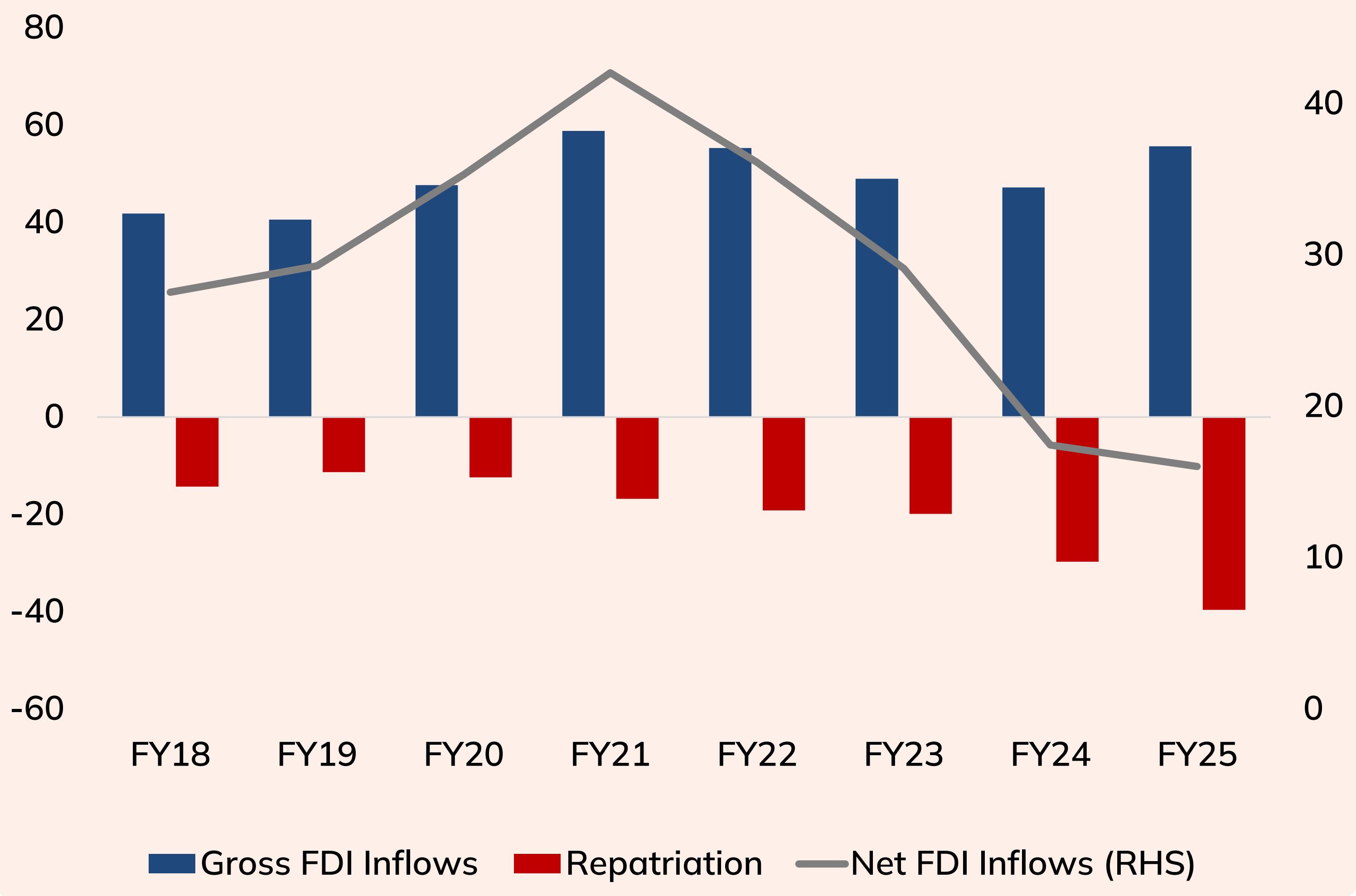




Data Source: Economic Survey 24-25 (https://www.indiabudget.gov.in/economicsurvey/). US: United States, UK: United Kingdom, EU: Euro Area, FOMC: Federal open Market Committee. *Each dot represents an individual FOMC member's assessment of the federal funds rate five years from the date of assessment.

Domestic Update: Rise in stable capital flows

FDI Flows (USD Bn)

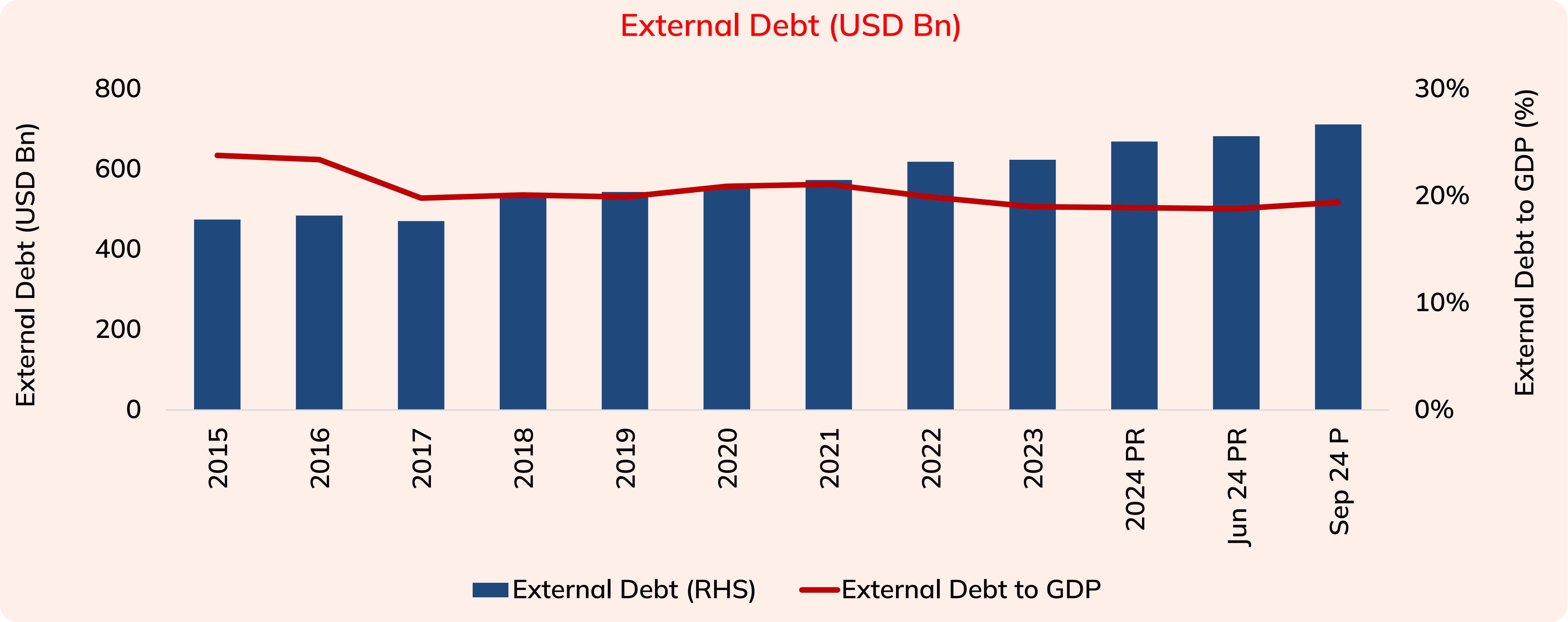


- Gross FDI flows were higher in H1 FY25 compared to corresponding period of any previous years except FY21
- Net FDI flows declined in this period on account of repatriation
- The rise in repatriation was through channels of Secondary sales and IPOs highlighting investor confidence in profitable exits for direct investors

Data Source: Economic Survey 24-25 (https://www.indiabudget.gov.in/economicsurvey/). FY – Financial Year, FDI – Foreign Direct Investment, RHS – Right Hand Side, H1 – First Half, Bn - Billion , IPO: Initial Public Offer

Domestic Update: Stable External Debt

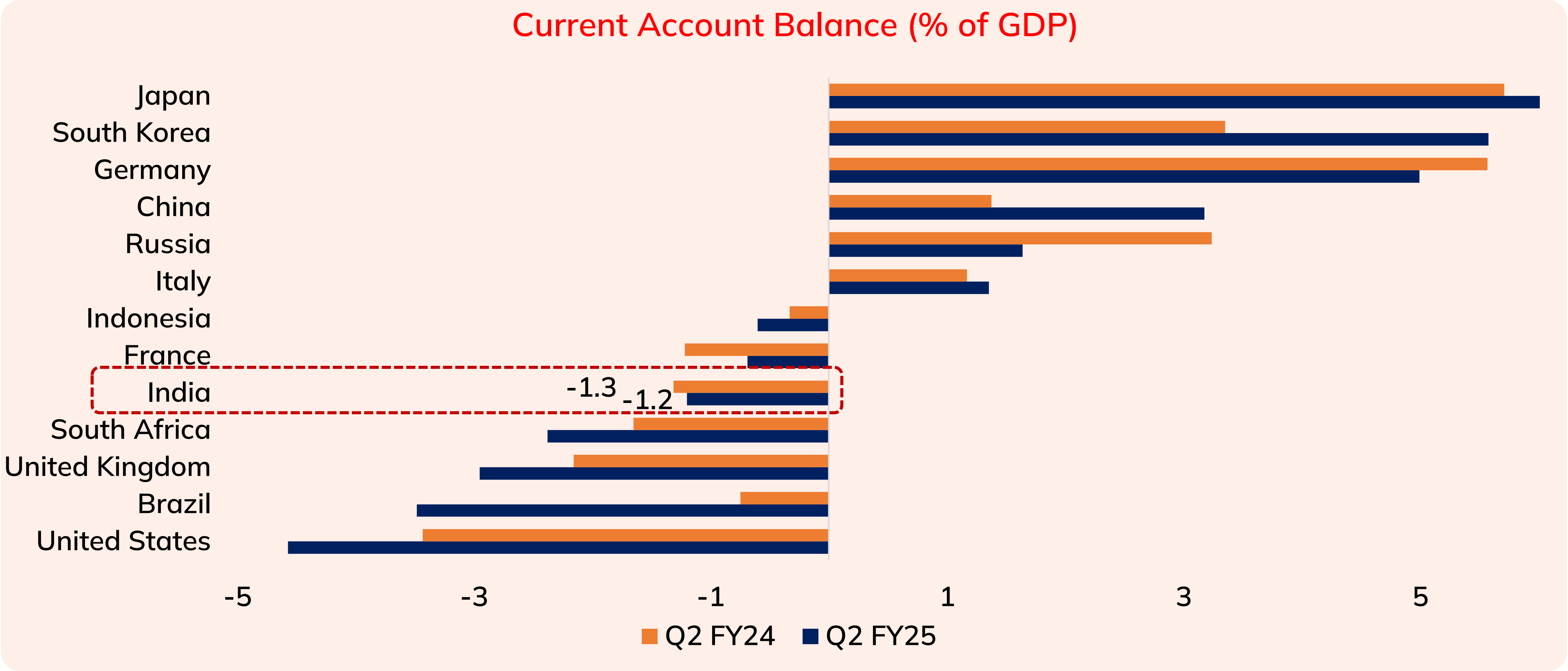
Stable external debt over years has helped India maintain external sector stability specially at a time when rest of the world is affected by geo-political headwinds



Data Source: Economic Survey 24-25 (https://www.indiabudget.gov.in/economicsurvey/). GDP – Gross Domestic Product, PR – Partially Revised, P - Provision

Domestic Update : Stable Trade Balance

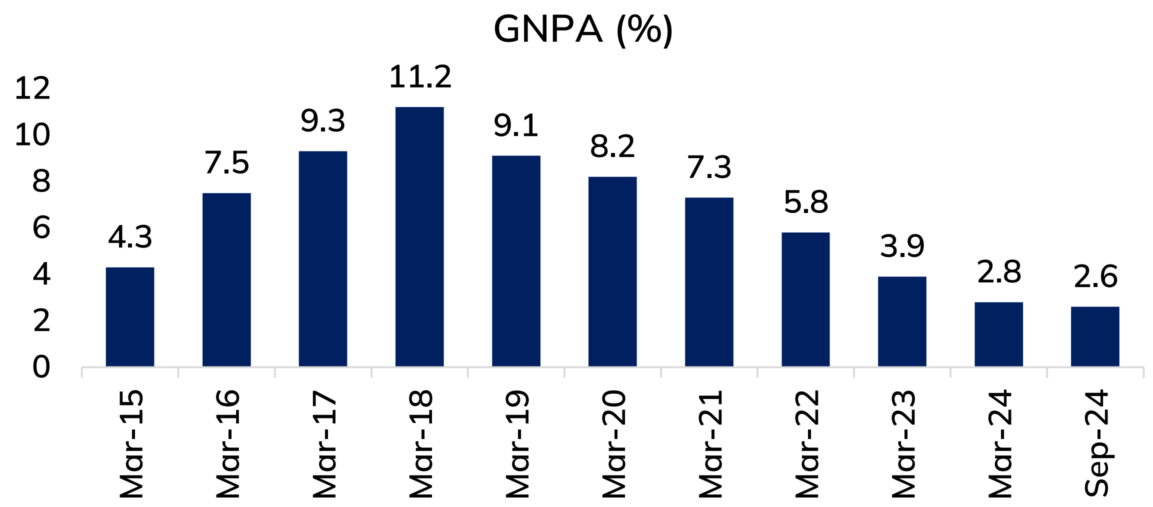
Withstanding similar external pressures of high commodity prices & weak global demand, India's trade has relatively remained stable

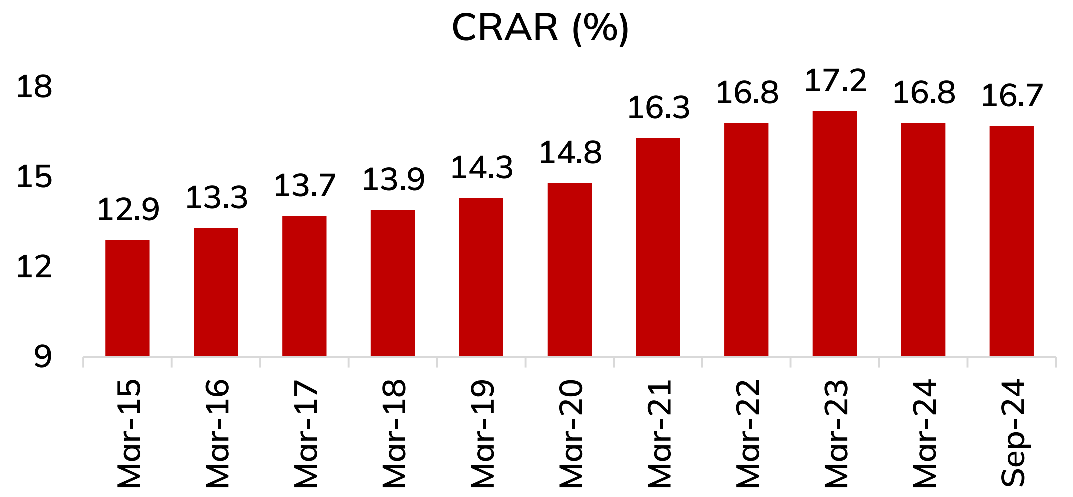


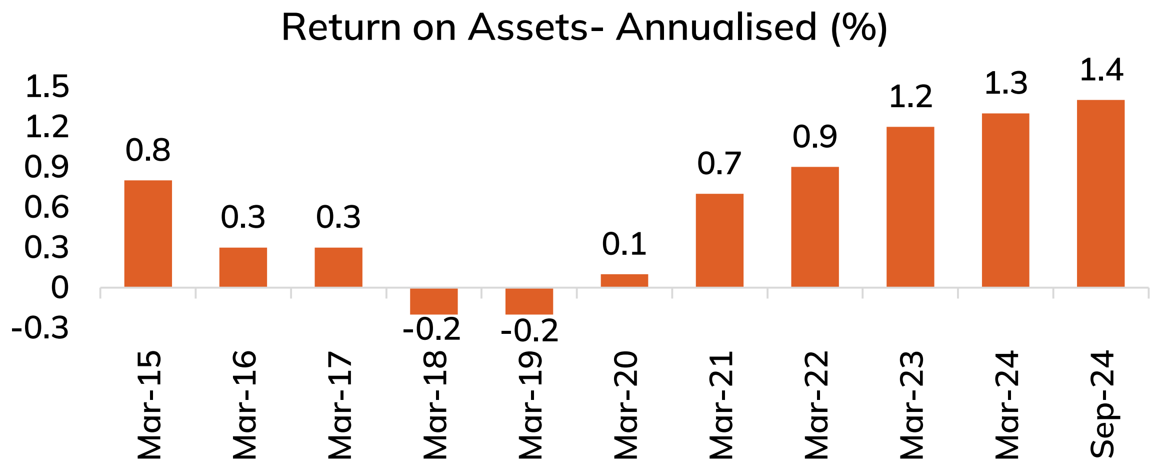
Data Source: Economic Survey 24-25 (https://www.indiabudget.gov.in/economicsurvey/). FY: Financial Year, GDP: Gross Domestic Product, CAB: Current Account Balance, Q: Quarter

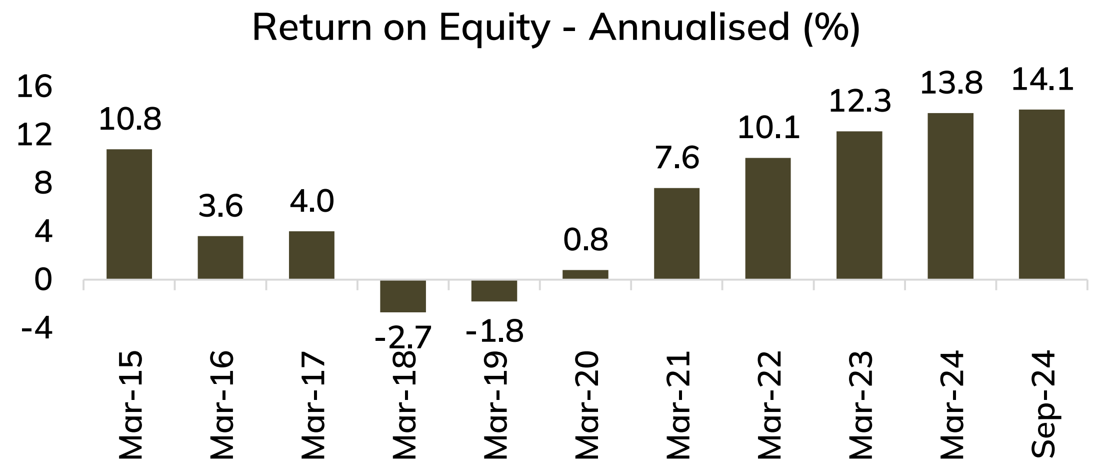
Domestic Update : Banking sector

Banking sector has reflected trends of i. Better Asset Quality ii. improved profitability and iii. Convergence in deposit & credit growth





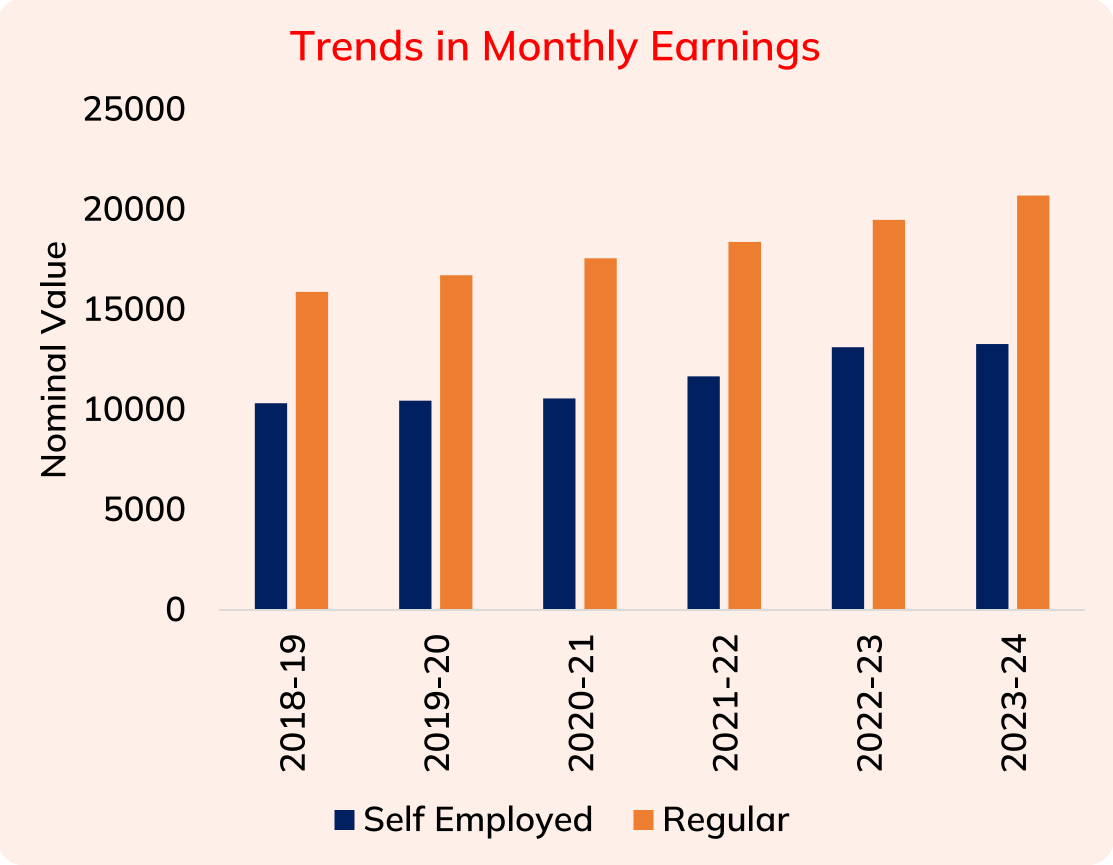


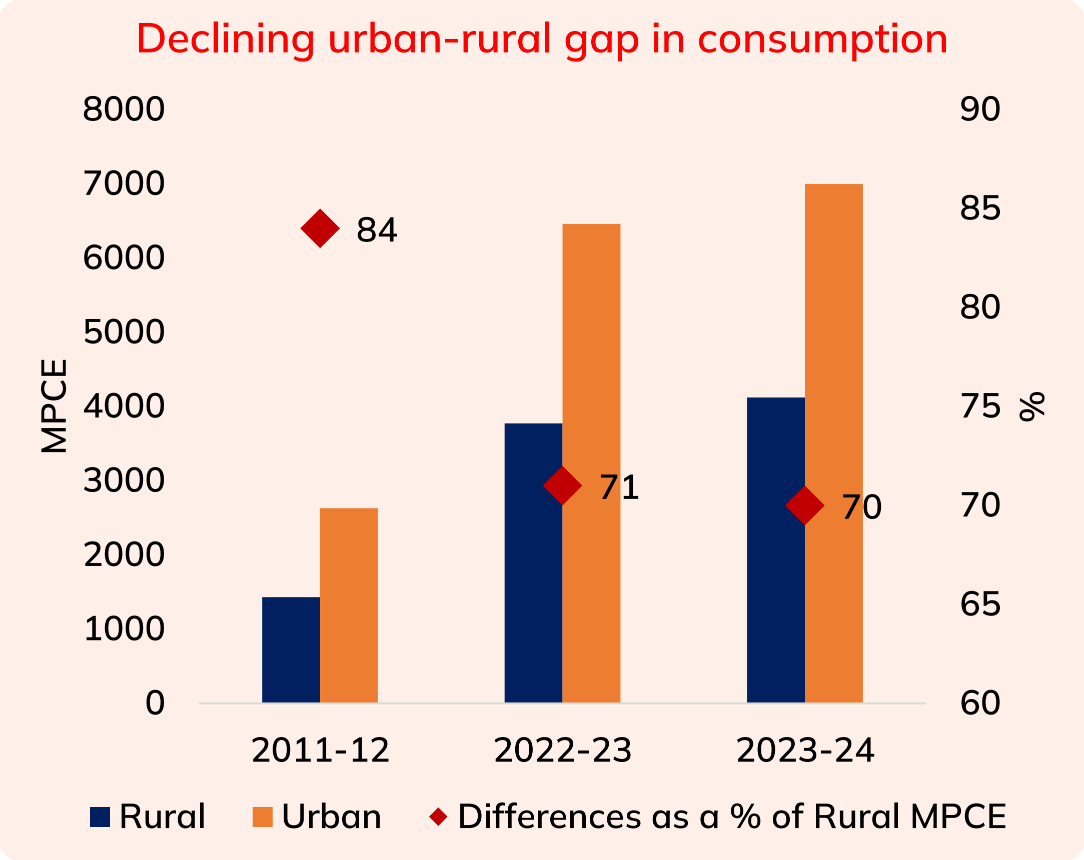


Data Source: Economic Survey 24-25 (https://www.indiabudget.gov.in/economicsurvey/). GNPA: Gross Non Performing Assets, CRAR: Capital to risk weighted asset ratio

Domestic Update : Declining Urban – Rural gap

The economic survey charted increasing trends in monthly earnings where as the gap between rural & urban consumption narrowed down





Data Source: Economic Survey 24-25 (https://www.indiabudget.gov.in/economicsurvey/). MPCE: Monthly Per Capita Consumption Expenditure

Key Budget Announcements
2025-26

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Key Budget Announcements

Budget 2025-26 set a fiscally prudent tone while also covering key areas such as export promotion, consumption and investment given current global economic scenario

Export Promotion Mission to facilitate easy access to export credit, cross-border factoring support and support to MSMEs in overseas markets

For EV & mobile phone battery manufacturing, additional capital goods exempted from Basic Customs Duty

Exemption of cobalt powder and waste, lead, zinc and 12 more critical minerals from BCD, boosting their availability for manufacturing in India

FDI in Insurance hiked from 74% to 100% for companies that invest entire premium in India

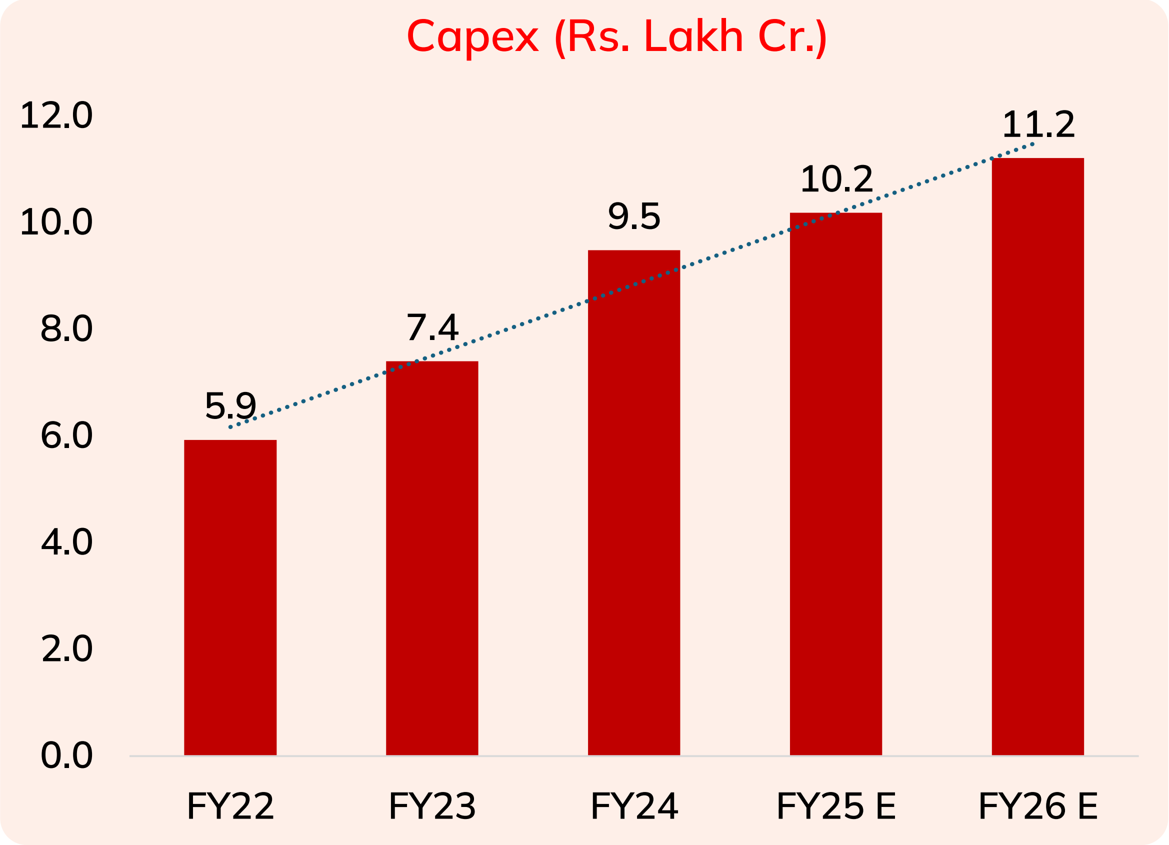
Incentivize electricity distribution reforms & augmentation of intra-state transmission capacity by states. Additional borrowing of 0.5 per cent of GSDP will be allowed to states

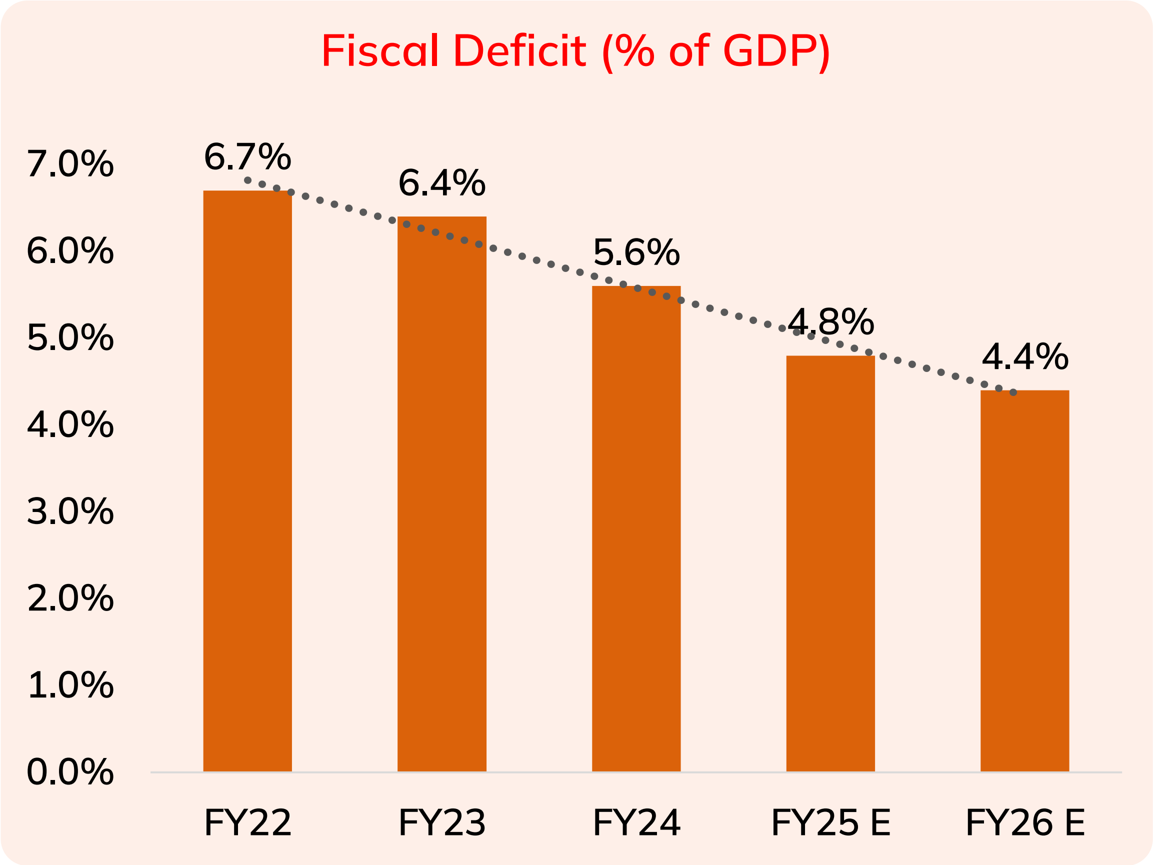
No income tax payable upto income of Rs. 12 lakh. Slabs and rates changed across board to benefit all taxpayers*. Rationalization of TDS/TCS/Customs Tariff Structure

*Applicable only in New Tax Regime. Source – Union Budget 2025-26 (www.indiabudget.gov.in); MSME – Micro Small & Medium Enterprises, TDS – Tax Deducted at Source, TCS – Tax Collected at Source, FDI – Foreign Direct Investment, GSDP – Gross State Domestic Product, EV: Electronic Vehicle. Please consult your tax advisors for more details

Prioritizing fiscal prudence

With COVID shock behind us and economy doing well, priority now is to stick to fiscal discipline and moderate capex

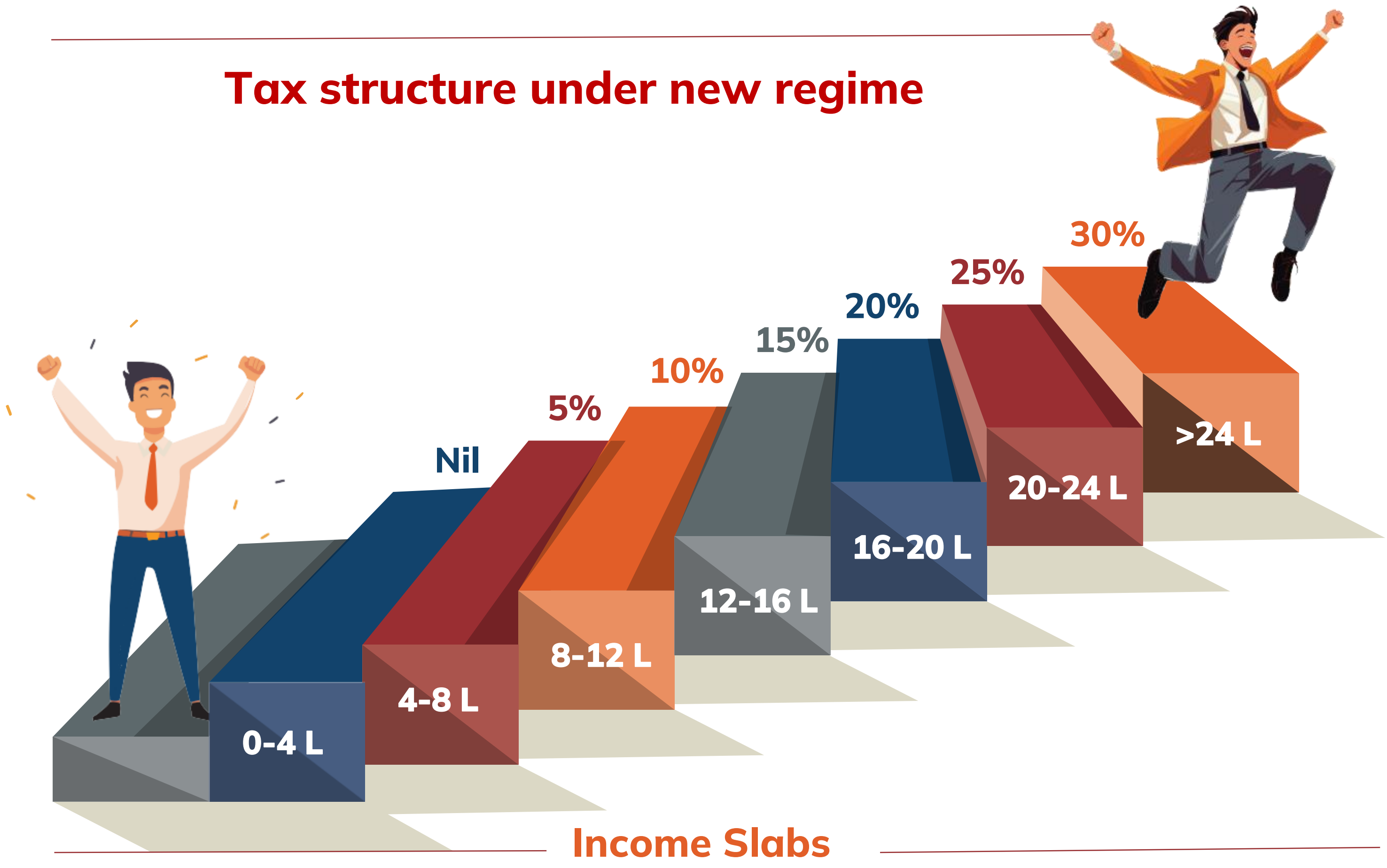




Source – Avendus Spark & Union Budget 2025-26 (www.indiabudget.gov.in); E – Estimate, GDP – Gross Domestic Product, Cr:Crore

Consumption wins over capex

Tax relief proposals in the budget are likely to boost consumption which has been lagging since long



- Effectively zero tax payable by individuals^ having income* upto Rs 12 lakhs *(rebate of Rs 60,000 can be claimed under 87A$)*
- Tax deduction limit for senior citizens doubled from Rs 50,000 to Rs 1 lakh
- The annual limit of Rs 2.4 lakh for TDS on rent increased to Rs 6 lakh
- Tax payers allowed to claim annual value of two self occupied properties without any conditions (as compared to previously one)

Data Source: Union Budget 2024-25. (https://www.indiabudget.gov.in/). *Income other than capital gains. ^Individuals paying income tax under new tax regime. TDS: Tax deducted at source, TCS: Tax collected at source. L: Lakhs. Please consult your tax advisors for more details. $: Section 87A of the Income Tax Act,1961

Reviving Rural Consumption

Enhanced Credit to farmers through Kisan Credit Cards

Facilitate short term loans for 7.7 crore farmers, fishermen, and dairy farmers with enhanced loan of Rs 5 lakh

Launched 'Mission for Cotton Productivity'

Improving productivity of cotton farming, ensuring steady supply of quality cotton and increasing farm incomes

Multi-sectoral 'Rural Prosperity & Resilience' programme to be set up

Generating ample employment opportunities in rural areas through skilling, investment & technology. 100 agri-districts will be covered in Phase I

India Post as a Catalyst for the Rural Economy

Providing services of Direct Benefit Transfer, Cash out, EMI pick up, credit services to micro enterprises etc. via their 1.5 Lakh rural post offices

Data Source: Union Budget 2024-25. (https://www.indiabudget.gov.in/). EMI: Equated Monthly Instalment

Impact on industries

Highlighting the positive impacts of budget announcement on select industries

Retailing

Focus product scheme implementation to create 22 L jobs, 4 Lakh Cr turnover and exports of over 1.1 Lakh Cr

Staples & Rural Consumption

Launched initiatives to boost agricultural productivity y— National Mission on High Yielding Seeds, KCC, and a Mission for Cotton Productivity

Travel & Tourism

Modified UDAN Scheme to add 120 new destinations, while Greenfield airport to be facilitated in Bihar. Additionally, Top 50 Indian tourist destinations to be developed

Insurance

Insurance sector FDI limit relaxed, increased from 74% to 100%

Real Estate

Tax rules eased for second house buyers as no income reporting required

Manufacturing & Exports

Rationalizing import tariff structure to address duty inversion in manufacturing & export oriented sectors

Data Source: Union Budget 2025-26. (https://www.indiabudget.gov.in/). L: Lakhs, Cr: Crore, UDAN: Ude Desh ka Aam Naagrik, FDI: Foreign Direct Investment, KCC: Kisan Credit Card

Our Outlook on Equity & Hybrid

- The budget set a positive tone providing much needed relief to the middle class. It also focused on structural growth by aiming at fiscal prudence, export promotion, tax rationalization and boosting domestic manufacturing
- After an investment-led economic recovery, this year's budget is rightly focusing on consumption revival which was lagging behind
- Tax relief measures announced by the Govt. can spare more disposable income in hands of consumers thereby boosting demand
- Hence, India's long-term prospects look good despite global uncertainties given structural reforms
- On the equity side, Large caps have suffered off late due to aggressive FPI selling, which makes them reasonably valued. Valuations in the Mid & Small cap space continue to remain high
- We recommend investing in (a) Hybrid & Multi-Asset allocation schemes and (b) staggered investment in large cap schemes or schemes with flexible investment mandate that can take high large cap exposure

FPI: Foreign Portfolio Investment, Govt.: Government

Our Outlook on Fixed Income

- We believe the rejig in income tax slabs should help the middle class with additional disposable income.
- However, the income tax collection assumptions appear to be aggressive. Everything else remaining the same, a reasonable tax collection assumption would mean fiscal deficit reaching 4.7% of GDP, instead of the budgeted 4.4% figure.
- The gross market borrowing of Rs 14.82 lakh crore and net market borrowing of Rs 11.54 lakh crore is marginally higher than market expectations.
- In the current fiscal year, the government has relied on public account funds to meet its funding requirements. We expect the Govt. to fall short on small savings collections against the revised estimates. It is possible the Govt. may end up with a WMA borrowing or raise funds via issue of cash management bills.
- Given the current growth scenario, we expect the RBI to cut the repo rate by 25 bps in this policy meet. We also expect the RBI to maintain sufficient liquidity in the banking system; this may require an additional 50 bps of CRR cut.
- We expect economic growth to be supported by the tax slab rejig and by expected monetary stimulus by the RBI. This will ensure that the economy continues to progress in the mid-cycle growth phase.
- Given the current shape of the yield curve, the biggest beneficiary of rate cuts would be the 1- to 3-year corporate bond yield curve. We expect the yield curve to steepen from here.
- We recommend schemes like low duration, ultra short duration, money market, short duration, banking and PSU, corporate bond, dynamic bond and credit risk funds

Data Source: Union Budget 2025-26. (https://www.indiabudget.gov.in/). WMA – Ways and Means Advances. CRR – Cash Reserve Ratio. GDP – Gross Domestic Product. RBI – The Reserve Bank of India.

Disclaimer

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

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