UNION BUDGET 2024-2025

BUDGETING FOR THE COMMON GOOD

The FM has addressed unemployment and rural distress while sticking to fiscal discipline

FINANCE MINISTER NIRMALA Sitharaman deserves full marks for a Budget that continues on the path of fiscal consolidation while spending a little more to boost demand. The unambiguous focus on jobs, skilling, small and medium units, and the rural economy is probably the result of lessons learnt from the fractured election verdict. The Budget clearly reflects the changed political dynamics, including the government's reliance on coalition partners, and the realisation that unemployment and rural distress played a role in the electoral setback. It's a blessing in disguise as the Budget measures suggest a shift to a more equitable growth and are aimed at addressing unemployment and supporting small enterprises. These include an increase in social welfare spending, helped by a bigger dividend transfer from the Reserve Bank of India, and relief for both small taxpayers and investors.

At ₹48.2 trillion, the Budget is not expansionary; the surplus has been split between additional revenue expenditure of ₹55,000 crore and the consolidation of the fiscal deficit to 4.9% of the gross domestic product. The lower net market borrowings of ₹11.6 trillion will help keep interest rates in check. Importantly, the intent to reduce government debt over the years should soon earn India a rating upgrade. Indeed, it's a very conservative Budget with gross tax revenues tipped to grow by 10.8%, at an assumed buoyancy of only 1.1 compared with 1.4 last year, and the nominal GDP at 10.5%. A 70 basis point contraction in the deficit might not impart a negative fiscal impulse because the quality of the expenditure is good with more capex, and also because the RBI dividend is coming in more as a transfer from overseas rather than any local financial repression.

The unchanged capex outlay of ₹11.1 trillion should drive home the message to the private sector that it is time to start investing meaningfully. The increase in the allocation of interest-free loans to state governments by 15% will help boost infra spends, while the ₹10 trillion for affordable housing will help boost construction activity. The government is clearly looking to help small enterprises with credit and to create jobs with an outlay of ₹2 trillion on five new schemes. Several skilling, apprenticeships, and training programmes have been talked of, targetted at 40 million youth. These are good ideas and the private sector must do its bit. There are sops such as cash transfers for first-time formal workers and incentives for Employees Provident Fund Organisation contributions.

> OF THE MANY OTHER TAX CHANGES, THE RELIEF TO THE SMALL TAXPAYER WHO GETS AN ADDITIONAL ₹17,500 IN HIS POCKET WAS OVERDUE

The government will also extend support to small entrepreneurs with higher Mudra loans of ₹20 lakh to those eligible. Some measures sound imprudent — asking state-owned lenders to assess credit risks for micro, small, and medium enterprises rather than rely on external agencies, covering units without a formal accounting system — but banks must support these units in times of stress. Since the government is providing a credit guarantee, they cannot demur. There is also an agenda to push manufacturing with the setting up of a dozen industrial parks. The FM has spoken of simplifying foreign direct investment norms, which should be accompanied by easier labour norms and regulatory certainty. There is mention of more public private partnerships — and the promise of viability gap funding to promote projects. To boost local manufacturing, the government has cut import duties on a range of goods such as precious metals and copper. However, protectionism through higher tariffs, such as those on select telecom machinery — cannot make Indian firms competitive. The decision to abolish the angel tax is a good one because the risk of losing out on big investments, in a bid to prevent a few cases of deliberate undervaluation, is simply not worth it. Moreover, doing away with the 2% equalisation levy is also a good move.

Of the many other tax changes, the relief to the small taxpayer who gets an additional ₹17,500 in his pocket was overdue given the high inflation of the past few years. The cut in the corporate tax rate to 35% for foreign companies will encourage investments including in global captive centres, which are big employment generators. The markets may be miffed about the higher short-term capital gains tax on financial assets of 20% as also the move to tax the gains from buybacks in the hands of the recipient, but well-to-do individuals can afford this. As has been pointed out, more than 60% of the capital gains is being collected from persons with an annual income of over ₹1 crore. The relatively well-off may agonise over the withdrawal of indexation benefits on the sale of real estate, but they have enough going for them. It was time to do something for the common man.

The Budget has adopted an apt stance for the present macroeconomic context, and poll outcomes have led to a focus on employment; but Viksit Bharat ambition calls for significant structural reforms

Fiscal stance just right

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THIS IS A first take on the Budget, without a detailed scrutiny of the voluminous Budget documents. I assess the Budget through a lens consisting of three factors. First, is the fiscal stance of the Budget appropriate for the present macroeconomic context? Second, the outcome of the May elections has important political implications for the Budget; how have these been addressed? Third, this is the first of five Budgets through which the present government will set the course for Viksit Bharat, India's aim of becoming a developed country by 2047. How has this long-term goal been addressed?

On the first question, despite a challenging external environment, India's macroeconomic position is very comfortable. With sustained annual growth of 7% or more, it is the fastest-growing major economy globally. Inflation remains moderately elevated mainly on account of high food price inflation, still above the Reserve Bank of India's (RBI) 4% target but within the 5% ceiling of its tolerance band.

The current account deficit is also very comfortable at less than 1%. In this macroeconomic context the fiscal stance of the Budget seems just right, following Nirmala Sitharaman's now well-known fiscal approach: High public capex to lead growth; this combined with fiscal consolidation, progressive reducing of the fiscal deficit; meeting this dual goal by containing revenue expenditure within limits as enabled by revenue growth.

All three features are prominent in today's Budget. There is again a large increase in capital expenditure, amounting to over ₹11 trillion, or 3.4% of GDP. The zero interest, 50-year capex loan scheme for states has also been retained and expanded. Despite this, the fiscal deficit has been budgeted at 5.1% of GDP, a sharp reduction from 5.9% last year. This assumes robust revenue growth of 14.7%, which in turn assumes buoyant tax revenue growth in addition to the large transfer of the RBI surplus.

Meanwhile, revenue expenditure growth has been budgeted to grow by only 6.2%, especially compressing traditional safety net projects, thereby leading to the sharp deficit reduction.

On the second question — that of the response to election outcomes — the post-mortem made clear that the government has to focus on employment growth. Also, with its reduced majority, the Bharatiya Janata Party-led central government is now heavily dependent on Nitish Kumar and N Chandrababu Naidu, both of whom demanded special category status or special packages for their states, Bihar and Andhra Pradesh. How has the Budget responded to these compulsions?

A host of schemes are aimed at productive employment generation in labour-intensive sectors under four of the nine Budget priorities: agriculture, employment and skilling, inclusive development and social justice, and development of micro, small, and medium enterprises. These have been prioritised over the two traditional pillars of the social safety net, namely food subsidies and the relief employment scheme under the Mahatma Gandhi National Rural Employment Guarantee Act.

The demands of Bihar and Andhra Pradesh have been addressed by a special package for the entire eastern region, covering not just for these two states but also Jharkhand, West Bengal, and Odisha. The package includes road, rail, and power projects. In addition, there are special infrastructure support programmes for Bihar, such as the Kosi flood control project and tourism related projects in Bodh Gaya, Rajgir, and Nalanda.

In Andhra Pradesh, a generous provision has been made for the Amaravati capital project and economic corridor projects from Vijaywada to Chennai and Bengaluru, and schemes for the backward Rayalaseema region.

On setting the course for Viksit Bharat, the schemes for infrastructure development and for productive employment generation, skilling, and promoting labour-intensive sectors will contribute to this long-term goal. But Viksit Bharat will also require significant structural reforms along a wide front. The finance minister indicated that a forthcoming economic policy framework will guide the next generation of reforms. Details are awaited, especially for systematic tax reforms. Some ad hoc tax measures have been announced, such as the elimination or reduction of basic customs duties in indirect takes.

There are also some changes in the personal income tax rates and the tax on short-term capital gains. But the big whammy here is the elimination of indexation in sale of property for tax on long-term capital gains. Hopefully, this will be rolled back. Otherwise, it could play havoc with the property market, with knock-on effects in financial markets and other sectors of the economy.

Views are personal

Towards manufacturing growth

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> The government has signalled a determination to be fiscally disciplined, stomach for reforms, and sense of equity

BUDGET 2024 IS an emphatic statement of continuity and stability. It signals the government's determination to be fiscally disciplined, its stomach for reforms, and its sense of equity to ensure sustained growth for all sections. It outlines nine key priorities that will set the foundation for India to become a developed nation by 2047. The capacity to think beyond the short-term and take a long-term view of economic policy has been a hallmark of the Modi government. The government has consistently increased capex over the last several years, which has had a multiplier effect on growth and investment. Budget 2024 remains true to that commitment, with the capex allocation pegged at over ₹11 trillion, or 3.4% of the GDP.

Central to the Budget proposals is the government's unequivocal commitment to fiscal consolidation, a strategy that has consistently served India well. The fiscal deficit target for FY25 is set at 4.9% of GDP, reflecting the government's ongoing efforts to steadily reduce the deficit. This target is in line with the broader objective of lowering the fiscal deficit below 4.5% of GDP by FY26, as outlined in the fiscal consolidation glide path announced in 2021.

The Budget has introduced several initiatives to develop infrastructure focusing on energy transition and local manufacturing. The proposal to rationalise duties, allowing for the purchase of imported cutting-edge equipment or raw materials while safeguarding domestic manufacturers is commendable. These measures aim to create a level playing field for domestic manufacturers, enhancing their competitive positioning and operational efficiencies. For example, the hike in basic customs duty (BCD) on solar glass used in manufacturing solar cells or modules will stimulate domestic production, and help the country achieve its renewable energy (RE) and solar installation targets. Similarly, the reduction of customs duties on 25 critical minerals, coupled with reductions in BCD for some, will bolster the processing and refining of the minerals. This move ensures their availability for important sectors of the economy.

> THE BUDGET HAS INTRODUCED SEVERAL INITIATIVES TO DEVELOP INFRASTRUCTURE FOCUSING ON ENERGY TRANSITION AND LOCAL MANUFACTURING

The government is also planning to develop investment-ready "plug and play" industrial parks with complete infrastructure in or near 100 cities. This initiative will be rolled out in partnership with states and private sector companies. These parks will enhance manufacturing's cost efficiency.

The Critical Mineral Mission is an equally powerful initiative. It underscores a strategic commitment to sustaining economic growth through robust investments and self-reliance.

This Budget also prioritises labour-intensive manufacturing, aiming to address unemployment concerns with the introduction of three schemes. The schemes also emphasise the need for public-private partnerships to enhance skill development. Employee wage subsidies and employer support schemes will go a long way to incentivise hiring, particularly new talent. These schemes are expected to contribute greatly towards achieving the target of creating eight million jobs by 2036, as outlined in the Economic Survey.

The Budget has also introduced policy measures aimed at accelerating the transition from fossil fuels and enabling companies to secure affordable credit for green projects, which are crucial for reducing carbon emissions. To bolster the storage and integration of RE, the government is poised to launch a comprehensive pumped storage policy. This initiative promises to offer a large-scale solution for storing surplus electricity, enabling a more seamless incorporation of renewable sources into India's energy mix.

Finally, the Budget outlines a series of next-generation reforms across sectors. These include land-related reforms, labour reforms, and measures to enhance ease of doing business. The government also plans to develop a comprehensive economic policy framework to guide the next phase of reforms and sustain high growth rates.

Budget 2024 skillfully balances maintaining fiscal discipline, accelerating growth through an infrastructure push, and prioritising key areas such as farmer prosperity and energy transition.

Focus on jobs, skilling and the middle class

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> The Budget proposals have laid down a road map for formalising the value chain

EMBOLDENED WITH "MAKE in India, making for the world", PM Modi's belligerent effort to establish India as a manufacturing hub found resonance in the Union Budget. Buoyed by the "Vikas bhi, virasat bhi" motto, the Budget has promisingly centred around employment, skilling, micro, small, amd medium enterprises (MSMEs), and the middle class.

Given the ongoing conflicts leading to supply chain constraints and rise in ocean freights, the global growth rates are unlikely to rise. This has resulted in protectionism and mercantilism, influencing India's trade dynamics and economic stability. As the global economy struggles to grapple with these, the trade map has stirred the energy and fertiliser imports for India.

As India embarks to an aatmanirbhar (self-reliant) approach, the Budget of the new government presented an opportunity to augment its participation in global supply chains. The proposals have laid down a road map for formalising the value chain by promoting financial inclusion, facilitating logistical and infrastructural support. The proposals on credit availability have reaffirmed much-needed support to MSMEs. The Economic Survey highlighted challenges faced by MSMEs on formalisation and inclusion, limited access to finance, markets, technology, and digitalisation, infrastructural bottlenecks, and skilling.

The Budget has addressed these challenges with a slew of measures, including a credit guarantee scheme for purchase of machinery and equipment, credit support during stress, and increased Mudra loans.

India has accelerated its China Plus One strategy. Amid growing trade tension between China and the US, large corporations have reacted to a cataclysmic change in global manufacturing, with many eyeing de-risking themselves from China. So far, India has been a minor participant in the global value chains (GVCs) for electronics manufacturing. Shifting parts of the value chains to India may have been encouraged by an umbrella of schemes such as production-linked incentives, Scheme for Promotion of Manufacturing of Electronic Components and Semiconductors, and Electronics Manufacturing Clusters. The government has announced setting up of 12 industrial parks under the National Industrial Corridor Development Programme, offering "plug and play" infrastructure. This could be a game changer and attract companies looking to set up manufacturing bases in India.

India's tariff structure has been a bone of contention for investment and the creation of manufacturing hubs. However, as a strategic move to attract GVCs setting up in India, the finance minister has announced duty exemption on 25 critical minerals. This allows India to augment its gap in downstream manufacturing capability. This would also supplement growth in technological advancement since these critical minerals comprise raw materials for sunrise sectors such as electronic vehicles, green energy, and semi-conductors.

"With a three-fold increase in domestic production, and (almost) hundred-fold jump in the export of mobile phones past six years", the finance minister said. It affirmed that the Indian mobile industry has matured. With the aim to deepen manufacturing and encourage value addition, the Budget proposes reduction in basic customs duty on mobile phones, mobile printed circuit board assembly, and mobile chargers to 15%. Keeping the momentum of domestic manufacturing, the Budget is expected to bring stability of policies including incentives, attracting foreign direct investment and fuelling exports.

To address the economic survey challenge on employability, the Budget has strived to empower the youth. Measures to augment skills, which include upgrade of 1,000 industrial training institutes, job creation incentives, and interest subvention on education loans, feature prominently.

Budget 2024 brings William E Simon's words to mind: "The nation should have a tax system that looks like someone designed it on purpose." India's future depends on skilling and employing the youth, and building a resilient manufacturing global hub. As India draws the foundation of a developed economy by 2047, the Budget resonates with the nation's desire to facilitate the trade dynamics and ease of doing business. Budget 2024 has taken significant steps towards these goals as India embarks on a journey to robust growth and inclusive stability.

*With assistance from **Lopamudra Mahapatra**, associate, BMR Legal*

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