Press Release

Expectations from Union Budget: Acuité Research

July 15, 2024

The final Union Budget for FY 2024-25 will be presented by the newly elected Government of India on July 23, 2024. The interim budget had already been presented in Feb-24 before the general elections. While almost every stakeholder in the economy expects specific measures for its sector or group, we believe that the upcoming budget will largely be a continuation of the economic policies pursued over the last one decade with some tweaks which will keep India on the progress road that leads to the destination of a developed nation by 2047.

We have identified **six major themes** on which the budgetary announcements of the Governments will hinge in the current year:

1. Strengthen domestic demand to sustain the current growth momentum in the economy and facilitate average GDP growth of 7% or above in the next 5 years
2. Expedite the development of a robust Indian manufacturing ecosystem particularly in the emerging sectors that will substitute imports and generate exports apart from also contributing to employment.
3. Accelerate the current pace of infrastructure development in the country to take connectivity and logistics across India to the next level with special attention to railways
4. Reiterate the government's commitment to fiscal consolidation by limiting the fiscal deficit to within 5% in FY25 and confirm the glidepath to 4.5% in FY26.
5. Strengthen Indian agriculture through policy measures that will facilitate crop diversity, mitigate climate risks, reduce high food inflation and importantly, raise farm incomes
6. Expedite progress towards achievement of SDGs (sustainable development goals) set for the year 2030

While the Indian economy grew at a robust rate of 8.2% in FY24, it has been largely driven by a surge in investments (GCF) which rose by 9.4%. Private consumption expenditure grew by a meagre 4.0%, which reflects the need to expand the growth drivers of the economy through demand stimulation. We expect the government to enhance the demand in the economy through (i) an increase in outlay for various welfare schemes targeted for vulnerable populations (ii) tax benefits for middle income population albeit the extent of such benefits may be limited. Higher household savings and increased rural demand from such measures can provide the much needed push to private consumption.

The PLI (production linked incentive) programme for expediting the growth of the manufacturing sector was initiated in 2021-22 with an outlay of almost Rs 2 tn. The programme covers 14 sectors and while the estimated investments under it is estimated to be Rs 1.1 tn, it has been limited mostly to a few such as electronics, pharmaceuticals and solar modules. We expect the government to review the progress of the programme and come out with modifications that can induce higher investments particularly in sectors that are relatively more employment intensive. One of the policy priorities of the government is to maximize jobs in the manufacturing sector and this may require linking investment incentives to not just output but also employment.

Infrastructure development has been a major policy focus for the Government over the last ten years. In the interim budget, it has allocated Rs 11.1 tn for public capital expenditure, which is only a moderate growth of 11% over the previous budget figure. We expect the government to raise the budgetary allocation for capex further given the demand from various infrastructure sectors and particularly railways where there is a significant requirement for upgradation of existing networks. It is also likely that the government will provide additional support (grants or loans) for capex incurred by the states. A further scale up of the ongoing infrastructure spending will have several benefits which include (i) support GDP growth (ii) generate additional employment in the construction sector and (iii) improve the quality of connectivity and transport in India as we target to become a developed nation in another two decades. Additionally, policy measures that facilitate the development of new urban infrastructure (smart cities) with resilience to climate risks will help to de-congest the existing cities. It is also likely that the government will announce specific measures to expand the existing PMAY (Urban) which will provide a boost to the real estate sector.

While continuing its commitment to spending that will boost growth of the economy, the government is also expected to demonstrate its commitment to fiscal consolidation and control on market borrowings. In the current scenario, two important developments have taken place on the fiscal front: (i) higher than projected tax revenues in the first quarter of the year which may induce the government to increase its tax collection estimates (ii) substantially high dividend from RBI of Rs 2.1 tn. Such additional inflows in the current year may support additional spending on welfare and also on capital expenditure. At the same time, we expect the government to demonstrate its commitment to fiscal consolidation by not just sticking to the glidepath of 4.5% fiscal deficit by FY26 but also making an effort to improve on it. While the disinvestment programme of the government is uncertain at this point, we may see some measures to step up on asset monetization.

GVA growth in the agricultural sector has slipped to 1.4% in FY24, which is the lowest since FY16. This has been primarily on account of the impact of the irregular rainfall brought about by the El Nino phenomenon, climate risks has led to chronic agrarian distress in some parts of India. While there is a political sensitivity around major farm reforms, specific policy measures need to be taken to promote crop diversity and mitigate the risks of high food inflation arising from climate changes. Along with efficient public procurement at MSPs, the government should take steps to ensure that farmers get reasonable prices for their crops. This may also involve facilitating public and private investments in crop storage infrastructure in rural areas.

Finally, the government is also likely to give adequate priority to the theme of sustainability, given the specific goals set for 2030. This will not only require India to expedite renewable energy capacity additions but also focus on relatively cleaner fuels such as CNG/LNG, expedite the implementation of schemes on solar rooftops and energy generation from bio-waste as also expedite the commercialization of new technology for storage batteries, green hydrogen etc.

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