Press Release

Union Budget-July 2024: a strong step towards Viksit Bharat

July 24, 2024

Coming on the back of the interim budget presentation, the full year heavy-duty budget presented by the Hon'ble Finance Minister on July 23, 2024 has been more like a comprehensive "back to business" exercise, reflecting the policy priorities of the Government for the next five years. The budget speech talks about nine priority areas but we have reconstituted them into six major themes that are critical to reach the destination of 'Viksit Bharat' by 2047. These key themes of the budget are as follows:

- Reaffirm the Government's commitment to fiscal consolidation
- Strengthen domestic demand through employment generation policies and facilitate average GDP growth of over 7% in the next 5 years
- Expedite the development of a robust Indian manufacturing ecosystem including the development of MSMEs that will contribute significantly to employment generation
- Accelerate the current pace of infrastructure development in the country with specific focus on states that currently lag behind
- Strengthen Indian agriculture through policy measures that will facilitate crop diversity, mitigate climate risks, reduce high food inflation and importantly, raise farm incomes
- Expedite progress towards achievement of SDGs (sustainable development goals) set for the year 2030

Fiscal Consolidation

In line with our expectations, the Government has provided a strong reaffirmation of its commitment to fiscal consolidation. From a low of 3.4% in FY19, the central fiscal deficit had seen a sharp spurt to 9.2% during the peak of the pandemic in FY21 but has seen a steady drop thereafter to 5.6% in FY24. Importantly, this was lower than the target of 5.9% set in the year's budget. Further, the Government had set a target of 5.1% for FY25 in the interim budget and has revised it downwards to 4.9% in the current budget. Additionally, two other statements in the budget speech have also reiterated the intent of the Government on fiscal consolidation – (i) the target for FY26 is likely to be set below 4.5% (ii) going forward from FY27, the metric for tracking fiscal consolidation will be central Government debt as a proportion of GDP. While the Government has not provided any glidepath yet to debt to GDP, it has clearly stated that it will endeavour to bring it down steadily over the next five years. In our opinion, these statements are significantly positive from the perspective of bond markets and global rating agencies.

Strengthen Domestic Demand

Employment generation is not only an important agenda from the perspective of social stability but also to strengthen and broaden the base of consumption in the country. Three separate schemes have been announced wherein incentives will be provided to both new employees and their employers for new jobs. This is expected to facilitate the creation of 2 Crore new jobs and needless to say, the latter will be positive for private consumption over the medium term. Having said that, the implementation of such schemes and the response of the private sector needs to be closely watched.

The tweaks in the tax slabs under the new tax regime along with the moderate increase in the standard deduction amount, will reduce the tax payouts for mid-income salaried employees. The tax savings can be upto Rs 17,500 for individual tax payers. This can give a moderate push to consumption apart from persuading tax payers to make a transition to the simpler new tax regime. This can also lead to moderately higher savings for low to mid-income households that can potentially support the growth of bank deposits. However, the new tax rules are not so positive for those who have a sizeable income from equity markets as the tax payout on both short and long term capital gains is set to be higher.

Expansion of Manufacturing Sector, MSME Focus

The Government has continued to take measures to improve the access to funds for MSMEs. The focus in the current budget was in MSMEs in the manufacturing sector. The Govt. plans to facilitate the constitution of a separate guarantee fund which will provide guarantee upto Rs 100 Cr on loans. Further, MSMEs during a stress period (as happened during the Covid period) when they are a SMA account, they will be eligible for additional loans to continue business operations through guarantee from a Govt. fund. Existing borrowers of MUDRA loans can get loans upto Rs 20 lakhs if they have repaid past loans. Also, the TReDS platform will be expanded to include more buyers with turnover more than Rs 250 Cr, supporting better working capital funding for MSMEs.

The budget also facilitates the development of investment-ready "plug and play" industrial parks with complete infrastructure in or near 100 cities, in partnership with the states and private sector, by better using town planning schemes. Rental housing with dormitory type accommodation for industrial workers will be facilitated in PPP mode. In the shipping industry, ownership and leasing reforms proposed to be implemented to improve the share of the Indian shipping industry. Further, a Critical Mineral Mission is to be set up for domestic production, recycling of critical minerals, and overseas acquisition of critical mineral assets. These are more of longer term measures that can support the infrastructure needs for the domestic manufacturing sector and make them more cost competitive.

Double Down on Infrastructure

It was not a surprise that the Government has persisted with its initiatives on the infrastructure front. While the allocation for capital expenditure set out in the interim budget has remained unchanged at Rs 11.1 tn, the same will be a significant growth of 16% over the actual expenditure incurred in the previous year. Further, it is to be noted that Government spending has been muted in the first quarter due to the general elections and a sharp acceleration in spending will be necessary in the remaining period of the fiscal. This will lead to a sharp pickup in the order book of construction companies which had seen a temporary slowdown.

One key element in the budget has been the higher allocation for infrastructural development in Bihar and Andhra Pradesh. Bihar has particularly lacked behind in infrastructure development and an aggregate amount of Rs 589 bn has been sanctioned for various projects in the state. Andhra Pradesh will receive funding support of Rs 150 bn for the development of its capital at Amravati which had been deferred by the previous State Government. Additionally, the Government has given priority to development of tourism infrastructure in several states which will give a boost to the hospitality sector.

While the budget has not highlighted any additional measures for railways, it has allocated a healthy capital budget of Rs 2.52 tn as compared to Rs 2.4 tn in FY24 (RE) and Rs. 1.6 tn in FY23. To lower the burden of infrastructure development for the Government, the budget also talks about the revival of the PPP model in some sectors and the support through viability gap funding.

Strengthen Agriculture

The theme for the agricultural sector in the current budget has been on crop productivity and diversification which is necessary to ensure food security and moderate food inflation in the face of increasing climate risks. The thrust on self-reliance in pulses and oilseeds as well as development of vegetable production clusters near urban centres are steps in the right direction given their contribution to higher food inflation in the last five years. Further, measures have been taken to encourage sustainable farming practices. While no major reforms have been announced in agriculture, the announcement of a digital backbone through a crop survey and establishment of land registry will be an important reform, if implemented successfully.

Sustainability- Next Phase

The expectations from the budget on the sustainability front had been high but the announcements have been limited. No significant measures have been taken on electric mobility where the penetration has been slow in the near past; however, it's possible that the FAME subsidy scheme will be relaunched during the course of the year. The revamped rooftop solar scheme for households had already been announced in the interim budget. To support indigenous manufacture of batteries and solar cells, the Government however, has slashed or waived the customs duty on components and minerals required in these sectors. A policy for promoting pumped storage projects for storage of generated renewable energy has been proposed and will support the increasing share of renewable energy capacity in the grid, a requirement under SDGs for India. Further, the Government has proposed the development of small and modular nuclear reactors to diversify the sources of alternative energies. The allocation for the Green Hydrogen Mission has also been raised but the speed of implementation of all such energy transition policies need to be closely watched.

Overall Comments

In our opinion, the budget of July 2024 is not merely a statement of accounts and measures for the current fiscal but is a roadmap for the economic and fiscal policies to be pursued over the next five years. As in the previous ten years, the current Government is unlikely to opt for any significant increase in social subsidies under normal circumstances and this has been reinforced in the current year. The commitment to fiscal consolidation is visible as also the intent to simplify and rationalize the taxation structure. Priority has been given to longer term objectives of building a robust manufacturing sector and generating employment. The budget arithmetic is fairly credible with realistic growth assumptions on tax revenues and the achievement of a 4.9% fiscal deficit target is not likely to be a struggle. Overall, we consider this budget to be an important and consistent step towards the goal of Viksit Bharat.

- Suman Chowdhury
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