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Business Standard

UNION BUDGET 2024-25

10.5% The Union Budget expects nominal GDP growth of 10.5% in 2024-25, the same as the Interim Budget

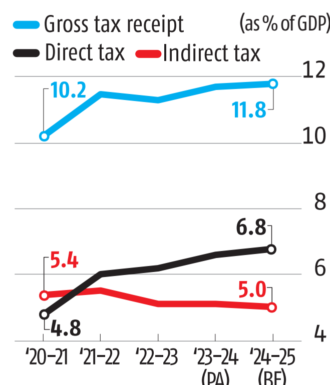
4.9% The government aims to contain fiscal deficit at 4.9% of GDP, compared to 5.1% projected in the Interim Budget and 5.6% in FY24

₹1.48trn The government will spend on education, employment, and skilling in FY25

3.4% Capital expenditure budget has been retained at 3.4% of GDP, which is expected to help drive growth in 2024-25

Robust direct tax mopup

Change in tax collections over the years



3 NEW EMPLOYMENT SCHEMES | INTERNSHIP FOR 10 MN YOUTH IN TOP 500 FIRMS | END TO ANGEL TAX; I-T RELIEF FOR SALARIED CLASS | HIKE IN CAPITAL GAINS TAX

POLITICAL BUT PRUDENT

RAJESH KUMAR
New Delhi, 23 July

Union Finance Minister (FM) Nirmala Sitharaman on Tuesday rose to present the Union Budget for a record seventh consecutive time. The political and economic conditions, however, were very different from five years ago when she presented her first Budget. It is for the first time in the past 10 years that the ruling Bharatiya Janata Party depends on its allies from the National Democratic Alliance to run the government. Changed political reality and the new composition of the Lok Sabha were evident in Sitharaman's Budget speech, which lasted nearly 90 minutes. First, there was considerable focus on Bihar and Andhra Pradesh. The Union government depends on the support of Janata Dal (United) and other regional parties from Bihar and the Telugu Desam Party from Andhra Pradesh.

Second, the Budget focused on employment, agriculture, and micro, small and medium enterprises (MSMEs). It is now well accepted that issues related to employment and agriculture significantly influenced the outcome of the last Lok Sabha elections. While a politically elected government is expected to course correct, the shift in focus also makes economic sense. Even though the headline numbers suggest the unemployment rate has come down over the past few years, the quality of employment has remained a concern.

Since employment has to be created in the private sector, the FM announced various measures, with the aim to incentivise hiring in the formal sector, including providing a one-month wage for new entrants in the workforce and supporting Employees Provident Fund Organisation contribution in the manufacturing sector. The government will also support an internship programme in the top 500 companies, which is expected to benefit 10 million youth over the next five years.

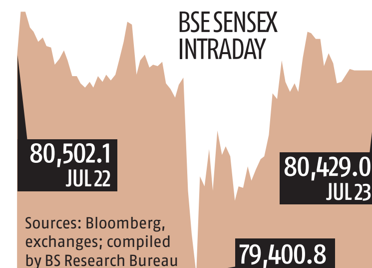
Renewed focus on the agriculture sector, which directly or indirectly supports the majority of the population, is aimed to improve productivity and market access. Improved outcomes in the agriculture sector will also help address food inflation, which has been driving the overall inflation rate in recent times.

Despite political compulsions, the FM avoided deviating from the principles of prudent fiscal management. The fiscal deficit in the current year is projected to be 4.9 per cent of gross domestic product (GDP) compared to 5.1 per cent in the Interim Budget. The change in total expenditure is much lower than the projected increase in revenue receipts. As a result, both gross and net borrowing from the market at ₹14.01 trillion and ₹11.63 trillion, respectively, will be lower than that in 2023-24. The FM also reiterated the target of bringing down the fiscal deficit to below 4.5 per cent of GDP by next year. The fiscal deficit thereafter will be managed with the aim that the central government debt as a percentage of GDP remains on a declining path. Turn to Page 6

EDIT: FM STICKS TO THE PLAN PAGE 13

"...This Budget will further energise the aspirations of our neo-middle class. Unprecedented opportunities will be unleashed for our younger generation"

NARENDRA MODI, Prime Minister



Sources: Bloomberg, exchanges; compiled by BS Research Bureau

Markets shrug off tax blow

The Sensex recovered 1,200 points, or 1.5 per cent, from Tuesday's lows as disappointment among investors because of higher taxes on equity transactions was largely offset by the other highlights of the Budget, such as the Centre sticking to the fiscal consolidation path and measures to boost job creation and skill development. The index ended at 80,429, down 73, points, or 0.1 per cent. The Nifty 50 closed at 24,479, down 30 points, or 0.12 per cent. The broader markets also saw sharp recoveries but lagged the benchmarks. SECTION II, 1

Political but prudent

The first Budget of the new government was also expected to give the medium-term road map for the Indian economy. The FM did not disappoint on this account. The Budget focused on the nine key areas, including urban development, energy security, infrastructure, and innovation. The Union government is expected to build on announcements in these areas in the coming time to guide growth and development in the country.

Notably, the focus now is on next-generation reforms. "We will formulate an Economic Policy Framework to delineate the overarching approach to economic development and set the scope of the next generation of reforms for facilitating employment opportunities and sustaining high growth," noted Sitharaman.

The next generation of reforms will cover all factors of production. To effectively implement some of these reforms, the Union government will need support from states. In this context, to incentivise states in the implementation of reforms, a significant part of the 50-year interest-free loan would be earmarked. The Union government in the current year is providing ₹1.5 trillion worth of long-term interest-free loans to states. Progress in land and labour reforms will significantly improve the ease of doing business in the country. Among other key announcements, the FM proposed a comprehensive review of the rate structure of Customs duties over the coming six months. The idea is to rationalise and simplify the structure, improve the ease of trade, reduce disputes, and remove duty inversion. Such a review was pending for some time. Higher tariffs and complex duty structure is said to be one of the major impediments in trade, which directly affects India's export competitiveness. A comprehensive review should help India's tariff structure to align with the evolving global economic realities. A beginning was made by reducing Customs duties on several items, including mobile phones.

Similarly, a review of the Income-tax Act, 1961, was announced. The idea again is to make the tax law simple, which will help reduce litigation and provide certainty to taxpayers. The FM also announced changes in the capital gains tax structure and increased the securities transaction tax (STT), which spooked the stock market, though it recovered by the end of day's trade. Long-term capital gains tax is proposed to be increased to 12.5 per cent from 10 per cent, and short-term capital gains tax to 20 per cent from 15 per cent. STT is to be increased in the derivatives segment. The aim is partly to contain speculative activity in capital markets, including by households. The capital market regulator had also expressed concerns in this regard in the past.

The FM also proposed to make the new income tax regime more attractive. Salaried taxpayers are expected to save up to ₹17,500 in income tax. The total hit to the Budget owing to the tax proposals is estimated at ₹7,000 crore per year.

Among other important announcements, the government has decided to abolish the angel tax to give a boost to the start-up ecosystem. Besides the tax outgo, it led to disputes and instilled fear among investors. Several announcements for MSMEs both in the manufacturing and services sectors, such as the credit guarantee scheme, credit support during times of stress, and a new assessment model will be expected to help firms in this segment grow. Promoting rental housing for industrial workers should also benefit both businesses and workers.

There were concerns in the market that political compulsion would force the government to significantly increase expenditure, which could compromise fiscal management. However, no such thing happened and the government is on course to contain the fiscal deficit below 4.5 per cent of GDP by the next fiscal year. Retaining the capital expenditure outlay was not unexpected because it was increased in the Interim Budget and stands at 3.4 per cent of GDP. In sum, the government managed to balance economic and political objectives.