Economists see reforms in the air ahead of Budget

RUCHIKA CHITRAVANSHI
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Following the lacklustre growth numbers in the second quarter (Q2FY25), economists believe the upcoming Union Budget for 2025-26 should focus on reforms that will stimulate consumption, manufacturing and spur employment.

India's growth unexpectedly slowed to 5.4 per cent in the second quarter, due to low capital formation, weak consumption, besides adverse weather impact.

"We anticipate the government will continue to prioritise and enhance efforts towards skill development and employment generation, maintaining the positive momentum. This would help harness the demographic dividend, drive economic growth from both supply and demand sides and boost consumption through higher incomes," said Rumki Majumdar, economist, Deloitte India.

In the July Budget, Finance Minister (FM) Nirmala Sitharaman announced initiatives such as employment-linked incentives and internship programmes.

Economists reckon the upcoming Budget has to continue support to the MSME sector and industrial clusters with export potential and high labour intensity.

"I also feel there is a need for some consumption stimulus. FM may reinforce some of the reforms agenda announced in the last budget," said Rajani Sinha, chief economist, CareEdge.

Economists say Budget's focus should be to stimulate consumption, manufacturing, and propel employment. They also want the Centre to continue support to the MSME sector

While a comprehensive review of the Income-tax Act has been on the cards, economists believe that in order to boost consumption the FM must consider tax breaks to put more money in the pockets of people.

"We need to have income tax breaks across the board to increase consumption which has been a major challenge. At the same time capital expenditure has to be expedited to push investment and draw in more private interest," Madan Sabnavis, chief economist, Bank of Baroda said.

In the earlier pre-Budget discussions with the finance ministry, the economists were divided on whether the government should take an approach of consumer demand-led development or investment and export-led growth.

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Economists bat for revised Customs duty structure

If it is any indication, Sitharaman recently spoke about the greater multiplier effects of capex in the economy compared to revenue expenditure.

She had said: "It is not going to benefit if we just spend money or put money in the hands of people to promote immediate consumption...the multiplier that it gives is far lesser than the multiplier that will gain when people are given jobs, and capital assets are built."

Sabnavis also suggested that the finance ministry should consider the production-linked incentive (PLI) scheme for small and medium enterprises to push output and also link PLI with employment as part of the reforms it plans to take in the upcoming financial year.

Economists believe a revised Customs duty structure to rationalise and simplify it for ease of trade, removal of duty inversion may be on the cards

Among other major reforms, economists believe a revised customs duty structure to rationalise and simplify it for ease of trade, removal of duty inversion, and reduction of disputes may also be on cards.

The Budget may take into account the risk of volatility in global trade, which has increased after the US election, with potential measures such as higher import tariffs and tax cuts to promote manufacturing in the US

"We expect the government to implement a range of measures to enhance the competitiveness of Indian products on the global stage. These may include tariff rationalisation, duty exemptions and remission schemes, which would help lower the cost of Indian exports," Majumdar added.

Economists believe that controlling inflation has to be a priority for the government and the Budget may address the issue by incentivising value chain development projects, promoting digital marketplaces to provide farmers direct access to buyers.

The Confederation of Indian Industry (CII) in its Budget proposals, has called for targeted interventions such as reducing excise duty on fuel which forms a substantial portion of the overall household consumption basket and bringing down marginal tax rates for personal income up to ₹20 lakh per annum. It has also suggested introducing consumption vouchers, targeted at low-income groups, to stimulate demand for specified goods and services over a designated period.

"While recent quarters have shown promising signs of recovery in rural consumption, targeted government interventions, such as increasing per unit benefit under its key schemes like MGNREGS, PM-KISAN and PMAY, and providing consumption vouchers to low-income households, can further enhance the rural recovery," said Chandrajit Banerjee, director general, CII.