Road map for India as an economic superpower

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The Union Budget 2023 is far more significant for the current situation that India and the world find themselves in; a weakening global economy, lingering Covid troubles, unabated Russia-Ukraine conflict and a sticky headline inflation that is impacting growth plans. For me, the Budget is an opportunity to drive economic growth, target maintaining good fiscal health, position India as an attractive investment destination, spur private and foreign investment, streamline and align taxes, and ensure a better investment climate. This Budget will also continue the weighty task of sustaining social welfare schemes.

Focus on reining in fiscal deficit: According to current data, tax collections, particularly GST, both year-on-year as well as estimates, remain buoyant, hence we expect the government to meet its fiscal deficit target of 6.4 per cent. Moreover, the Union government has not fully spent the capital expenditure that it had budgeted for.

While higher subsidies are expected to push overall expenditure by around ₹2.5 trillion above the budgeted figures, the receipts are also expected to see an upside of around ₹1.8 trillion over FY2023 BE (Budget estimates), stemming from higher corporate taxes, income tax and CGST collections. Thus, the central government seems to be on track to meet its FY2023 BE fiscal deficit target with a run rate of 59 per cent in 8MFY23.

It is estimated that the government will target a fiscal deficit at sub-6 per cent of GDP in FY24 — quite a distance from the stated target of 4.5 per cent by FY26. There is an expected moderation in tax revenue growth due to the slowdown in nominal GDP growth to 10-11 per cent, from the projected 15-16 per cent for FY23. While the debt sustainability is not a big worry, the public debt/ GDP level — currently at 82 per cent compared to 72.8 per cent in FY20 — is poised to stay above 80 per cent for at least the next few years.

Thus, fiscal prudence is necessary and a path towards 4.5 per cent as targeted by FY26. With slowing exports due to the global slowdown, the current account deficit (CAD) is expected to moderate to 2.3 per cent of GDP in FY24 from a higher 2.9 per cent in FY23. Global crude oil price has been one of the key stable variables for the last six months and its future trajectory depends much on an economic recovery in China and across the world, impacting the CAD.

Maintaining growth momentum: At 6.8 per cent growth, India will be among the best performing economies in the world, backed by a strong urban consumption, buoyancy in services and stable growth in manufacturing. However, investment remains muted and one of the Budget objectives has to be attracting investments to support economic growth. This includes policies across capital, labour and taxes. From the government perspective, investments in infrastructure, healthcare, education and other social welfare themes will continue to be a necessity.

To the finance minister's comfort, India is expected to remain resilient with a growth rate of around 6 per cent in FY24 after notching up a higher 6.8 per cent in FY23. A marked slowdown in global growth and the lagged impact of policy rate hikes will continue to be the hurdles to growth. Manufacturing sector growth may remain moderate but contact-based services will return to the pre-Covid levels.

Increasing FDI: The Budget is also an opportunity to "position" India as the top destination for foreign investment. Every upward jump in ease of doing business indices, strategic interventions in schemes like PLI to ensure clarity in incentives, and constant comparison with competing economies will give us a leg up. This Budget gives us the opportunity to make the PLI a grand success. Thus, the implementation of existing deadlines as well as an expansion of the scheme across other needy sectors will be important to sustain the economic growth.

Improve private investment: Private investment needs to pick up from the current patchy levels and the Budget must provide more incentives for the same. The corporate sector is bogged down by the demand uncertainty and quantitative tightening. Though inflationary pressures seem to be moderating, a favourable policy environment — including some out-of-the-box steps in capital formation, healthcare, education and labour — is key to revival of private corporate investment cycle.

A large rural mural must emerge: The star of the emerging India, "Bharat", has shown much promise in recent months, hence we expect the Budget to focus on steps to boost rural demand and consumption. Projects and policies that would improve rural incomes and productivity would be crucial. A sustained government spending will ensure "Bharat" participating in the overall economic growth.

Room to rationalise tax rules: By all appearances, tax collections may continue to remain elevated next year, helping the government trim the fiscal deficit target to 5.8 per cent next year. But the scenario is also ideal to make a few pivotal changes in taxation rules. At the moment, there are many different tax rates and holding periods for different asset classes. Even within the same class of assets, there are diverging tax rates for residents and non-residents. Thus, there is an urgent need for rationalisation of the capital gains tax by bringing in uniformity in rates, holding period and indexation for similar assets. The housing sector, which has grown well for most of the last fiscal, must be given more tax incentives. An upward revision in personal income tax brackets and more tax deductions would go a long way in boosting consumption.

Climate transition rules to be set: Climate change may get enough attention in the Budget. The government may reward companies for developing new technologies and adopting sustainable business practices. Policy-wise, the Budget may announce some benefits to the EV sector.

On a concluding note, we have general elections in 2024 — that may induce some populism across the board since our country thrives as a political economy; we believe the finance minister will eye long-term growth with stability, with a road map for sound fiscal management and good governance, given the narrow bandwidth for any fiscal excesses.

That would indeed make this Budget the foundation for the next 25 years, as she promised.

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(Disclosure: Entities controlled by the Kotak family have a significant holding in Business Standard Pvt Ltd)