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UNION BUDGET 2024: EXPECTATIONS AND PROJECTIONS

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As India prepares for the unveiling of its budget for the fiscal year 2024-25 (on 23rd July 2024), expectations and projections are building up regarding the government's financial priorities and strategies. The Economic Survey will be published on 22 July 2024. This will be the first budget of the Prime Minister Narendra Modi-led NDA government in its third term.

According to the interim budget announced in Feb'24, the GOI plans to invest over 11 lakh crores in long-term infrastructure projects. Moreover, the Centre plans stricter norms for project execution accountability. Aimed at enhancing accountability, these norms aim to curb cost escalations and ensure efficient project execution.

According to the Ministry of Statistics and Programme Implementation (MoSPI), out of 1,873 infrastructure projects, 449 faced cost overruns of Rs.5 trillion, with 779 projects delayed as of March 2024. The average delay among these projects was 36.04 months. Discussions are ongoing to introduce a framework assigning responsibility at each project stage by year-end, aimed at preventing unnecessary financial burdens due to delays.

There is also anticipation that the government is working towards a strategy to tackle non-tariff barriers faced by exporters by setting up a committee and launching a portal. Further strategic alignments of custom tariffs in line with the existing Production Linked Incentives (PLI) might also take place.

One of the primary expectations from the common public is a revision in income tax slabs and rates to provide relief to middle-class taxpayers. There is hope for an increase in the basic exemption limit or a reduction in tax rates, which would leave more disposable income in the hands of taxpayers.

Further, there is an anticipation for a revision in income tax slabs and rates to provide relief to individual taxpayers. At present, India has multiple tax slabs depending on the income bracket. Many taxpayers hope for a rationalization of these slabs or a reduction in tax rates to lower the burden on middle-class taxpayers.

There is further hope for enhancements or reintroduction of deductions and rebates that were available in previous years but may have been withdrawn or reduced in recent budgets. These could include deductions for medical expenses, education expenses, home loan interest, and contributions to savings schemes like Public Provident Fund (PPF) and National Pension Scheme (NPS). It is expected that such demand side measures would enhance the overall effective aggregate demand, hence sustaining the domestic business.

However, a balance is required between fiscal expenditure and fiscal revenues. The interim budget pegged fiscal deficit target at 5.1 per cent of GDP for 2024-25. While there is fiscal consolidation argument of around 4.9 per cent of GDP for FY25, the record dividend transfer of ₹2.11 lakh crore along with substantial tax collection provides scope of strategic growth-inducing public investments that should crowd-in private investments and spur domestic consumption. Anticipation emerges that Budget 2024 may introduce a provision that brings overseas credit card spending above ₹7 lakh under the Liberalised Remittance Scheme (LRS).

At present, spending over ₹7 lakh in a financial year using debit cards, forex cards, and certain other methods attracts a 20 per cent TCS or Tax Collected at Source, but credit card transactions are exempt from this tax. The forthcoming budget might revise these regulations.

Given the effects of COVID-19 pandemic and the importance of healthcare infrastructure, there is an expectation for increased spending on healthcare facilities and services, including investments in hospitals, healthcare professionals' welfare, and initiatives to improve healthcare accessibility and affordability. India's healthcare expenditure, including provisions for clean water and sanitation, is expected to achieve the target of 2.5 per cent of GDP by 2024-25, despite the Centre's allocation falling short at 0.8 per cent of GDP in 2023-24. States, however, boosted healthcare spending to 1.58 per cent of GDP last year, resulting in a combined effort of 2.13 per cent of GDP.

The Centre's allocation primarily directed 48 per cent towards water and sanitation, while family welfare funding decreased to 0.26 per cent in 2023-24 from 0.28 per cent in the 2018-19 budget. Efforts to achieve the 2.5 per cent target by 2025, set by the National Health Policy in 2017, face challenges, with central allocations falling short by Rs. 1.5 trillion from 2018-19 to 2023-24.

Despite concerns over declining healthcare spending, increased state allocations may help reach the target. The central government is considering doubling the beneficiary base of its Ayushman Bharat Pradhan Mantri Jan Arogya Yojana (AB-PMJAY) over three years. It is planning to extend this health insurance scheme to all those aged above 70 years. The proposals, if given a go ahead, would entail an additional expenditure of Rs.120.8 billion per annum for the exchequer as per estimates prepared by the National Health Authority.

The issue of unemployment remains one of the most critical challenges for the government. The budget may focus on sectors with high employment potential such as MSME, manufacturing, construction, and services. Initiatives to support entrepreneurship, skill development, and small businesses are also anticipated.

Given recent inflationary pressures, there is a hope for measures to stabilize prices of essential commodities and control inflation. Policies to manage food prices and ensure availability of essential goods at reasonable prices are crucial for household budget management. India's retail inflation rose to 5.08% annually in June, moving away from the RBI's 4% target, impacting interest rate cut discussions. The Fed's rate cut expectations contrast with the RBI's stance. High prices for tomatoes, potatoes, and onions in several other cities have been driven by supply disruptions following extreme heat and subsequent heavy rainfall. Vegetable inflation escalated to 29.32% in June from 27.33% in May, with onion and potato prices soaring by 58.49% and 57.59% respectively. The government is expected to maintain a close coordination with the central bank in this regard.

Enhancing digital infrastructure and promoting digital literacy are expectations from the budget. Initiatives to expand broadband connectivity, improve digital governance, and promote digital payments could empower citizens and businesses alike.

According to the "Report of India's G20 Task Force on Digital Public Infrastructure", India's digital public infrastructure (DPI) – digital identity, fast payment system along with consent-based data sharing - has demonstrated how 1.4 billion individuals can access socio-economically important services in the field of finance, health, education, e-Governance, taxation, skills etc.

This infrastructure is a result of strong partnership between the public & private sectors, unlocking innovations to address the size and diversity of the Indian population. Such digital highways can significantly improve productivity of private and public sectors.

With increasing emphasis on sustainable development and climate resilience, provisions for renewable energy projects, environmental conservation efforts, and green technologies are expected to be part of the budget agenda. These initiatives align with India's commitment to balancing economic growth with environmental sustainability.

The launch of the SDG India Index in 2018 provided the impetus for the localisation push, reaffirming States and UTs as key stakeholders in this transformative journey. The SDG India Index has been consistently improved over the years to provide a comprehensive and comparative analysis of progress on the goals. The Index represents the articulation of the comprehensive nature of the Global Goals under the 2030 Agenda while being attuned to the national priorities. The composite score for India improved from 57 in 2018 to 66 in 2020-21 to further to 71 in 2023-24.[1]

The budget is also anticipated to outline policy reforms aimed at enhancing ease of doing business, attracting investments, and promoting entrepreneurship. Measures to streamline regulatory frameworks, improve governance, and enhance fiscal management are likely to be emphasized to foster a conducive business environment.

With a focus on improving the quality of education and enhancing access to education, there is anticipation for reforms and increased allocations in the education sector. This may include investments in schools, teacher training programs, and initiatives to promote skill development and vocational training.

Record dividend transfer of ₹2.11 lakh crore from the RBI to the government this year and substantial tax collections have provided certain leeway for the government for strengthening some of the existing schemes and to propel further growth-inducing investments. Increased allocation towards R&D[2] in high-technology sectors such as semiconductors, medical devices, and clean technologies are also expected. Sector-specific issues, for instance for MSMEs might also be likely. Overall, the budget is likely to focus on strategically improving domestic growth by trying to boost domestic manufacturing, investments while maintaining the fiscal discipline carefully.

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[1] "Release of SDG India Index 2023-24"(12 July 2024) Posted On: 12 JUL 2024 7:02PM by PIB Delhi [https://pib.gov.in/PressReleasePage.aspx?PRID=2032857].

[2] As of June 2024, India's gross expenditure on research and development (GERD) as a percentage of GDP was around 0.69%. See "India's R&D Funding, breading down the numbers" (14 March 2024) the HinduBusinessLine, https://www.thehindu.com/opinion/lead/indias-rd-funding-breaking-down-the-numbers/article67947662.ece.