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UNION BUDGET 2024-25: TRENDS AND ANALYSIS

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The post-election Union Budget 2024-25 has tried to balance between the fiscal consolidation path and carrying out the growth momentum of the economy. It is expected that the nominal GDP to increase by 10.5% in FY25. Fiscal deficit has been pegged at 4.9% of GDP or ₹16.13 lakh crore in FY25. India's real GDP grew by 8.2 per cent in FY24, posting growth of over 7 per cent for a third consecutive year, driven by stable consumption demand and steadily improving investment demand.[1]

On the supply side, gross value added (GVA) at 2011-12 prices increased by 7.2% in FY24, with growth remaining broad-based. Net taxes at constant (2011-12) prices grew by 19.1% in FY24, facilitated by relatively strong tax growth, both at the centre and state levels and rationalisation of subsidy outlay.

Given the huge turnover in the capital market, to combat volatility, the short-term capital gains would henceforth attract a tax rate of 20% increased from 15%, whereas the long-term capital gains have been increased to 12.5% from 10%. The overall exemption limit of capital gains on certain financial assets has also been increased to ₹1.25 lakh per year.

[1] As highlighted by the Economic Survey 2023-24.

Furthermore, concerns on growing retail participation in derivatives has prompted the Security Transactions Tax (STT) on futures and options of securities increased to 0.02% and 0.1% respectively.

Nonetheless, a flat imposition of 12.5% tax on long term capital gains including gold and real estate, in certain cases might distort the net tax benefit in the face of the removal of the indexation benefits, despite the reduction of the tax on real estate from 20% to 12.5% (which including surcharge and cess effectively appears as 14.95%).

While one of the core themes of the budget is the simplification of the existing tax structure, the tax and non-tax revenues remain a "golden goose" for the government. For instance, the Centre's Gross Tax Revenue (GTR) for FY24 has been revised upwards to ₹34.4 lakh crore, which is almost ₹1.0 lakh crore higher over the Budget Estimate (BE) for FY24. Further, the GOI has budgeted 11.7% growth to ₹38.4 lakh crore as the FY25 projections. The tax buoyancy for FY25 is estimated at 1.1. GST collection target is budgeted to increase by 11% to ₹10.6 lakh crore over FY24 revised estimates.

On the other hand, the non-tax revenue (NTR) for FY25 has been budgeted at ₹ 5.46 lakh crore which is roughly ₹1.7 lakh crore higher than the RE of FY24, due to higher dividends from RBI and other non-tax receipts. Fiscal deficit has been pegged at 4.9% of GDP or ₹16.13 lakh crore in FY25 (lower than 5.1% of GDP or ₹16.85 lakh crore in interim budget FY25 presented in Feb'24) compared to 5.8% of GDP in FY24 RE (₹17.34 lakh crore).

The total dividend from the RBI, nationalised banks and financial institutions is estimated at ₹2.3 lakh crore for FY25, whereas the RBI is expected to transfer at least ₹1 lakh crore in FY25 to the central government. On 22nd May 2024, the Central Board of the Reserve Bank decided to transfer ₹2.11 lakh crore as surplus to the Central Government for the accounting year 2023-24. To further strengthen the Reserve Bank's balance sheet, the risk provisioning under the contingent reserve buffer (CRB) for 2023-24 was increased to 6.50 per cent of the balance sheet from 6.0 per cent in 2022-23.

For FY25, Government has set a target of ₹50,000 crore of disinvestment as against ₹30,000 crore revised estimate for FY24. The government-initiated divestment of its stake in IDBI Bank in May 2021, awaiting RBI approval to ensure bidders meet regulatory standards. The fit and proper criteria of the shortlisted bidders of the IDBI Bank's disinvestment process is with the RBI.

With IDBI Bank's market cap nearing ₹950 billion, the government aims to raise approximately ₹290 billion, despite concerns over transaction terms' attractiveness. According to the media news, the plan envisages the sale of 60.7% in the bank including GOI's 30.5% and LIC's 30.2%.

For FY25, the Gross Government Borrowing is budgeted at ₹14.01 lakh crore (revised downward from the ₹14.13 lakh crore estimated at the interim Budget). and net borrowing requirement is pegged at ₹11.63 lakh crore. The likely inflow in G-sec yields after the inclusion of India's global bond indices is expected to reduce the yields and cost of borrowing. The yield on the 10-year Indian benchmark (7.10 GS 2034) G-sec softened to 7.01 per cent on June 12 from 7.03 per cent on May 15 due to a decline in crude oil prices, larger-than-expected dividend transfer by the Reserve Bank for 2023-24.

This budget provides special attention to MSMEs and manufacturing, particularly labour-intensive manufacturing. This budget has formulated a package covering financing, regulatory changes and technology support for MSMEs to help them grow and compete globally, as mentioned in the interim budget. For facilitating term loans to MSMEs for purchase of machinery and equipment without collateral or third-party guarantee, a credit guarantee scheme will be introduced, which will operate on pooling of credit risks of such MSMEs. A separately constituted self-financing guarantee fund will provide, to each applicant, guarantee cover up to ₹100 crore, while the loan amount may be larger. The GOI has encouraged banks to provide term loans to small businesses and top up loans during stress.

Despite the existence of the scope of critical improvement, the Budget has provided a future path of sustained growth momentum with a clarity with its nine priorities, namely- Productivity and resilience in Agriculture, Employment & Skilling, Inclusive Human Resource Development and Social Justice, manufacturing & services, urban development, energy security, infrastructure, Innovation, Research & Development (R &D) and next generation reforms.

Even with many challenges, India remains a bright spot with continued macroeconomic stability and commendable economic growth achievements. According to media news, India is rapidly closing in on China's position as the largest country in the MSCI emerging markets index, driven by rising share prices, earnings growth and stock sales. An upcoming MSCI index review could elevate India's weighting to more than 20%, placing it just behind China. The inclusion of India's G-sec indices in global bond indices have reflected further growth momentum.

Largely, the Budget with its growth intention has declared certain announcements with thrust on MSMEs, skill development, employment generation, rural focus in line with vision of Viksit Bharat. The measure for energy security, infrastructure and urban development, women participation in labour force, skill development, next generation reforms show warmth. The messages are well constructed statement of intent, established in enhanced growth prospects for India, the nation which is the fastest emerging economy according to global agencies.