Pre-Budget Analysis 2024

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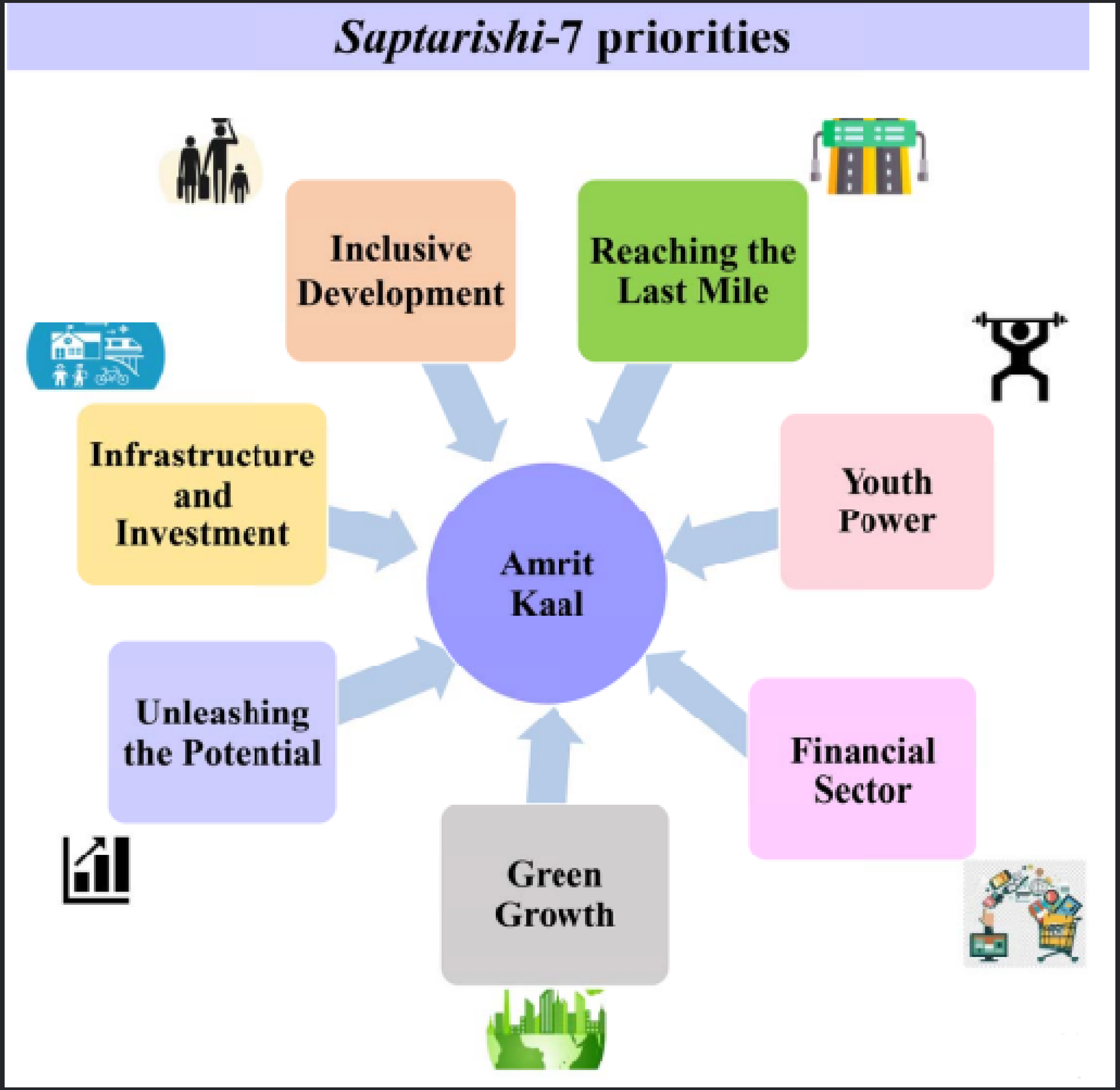
Introduction

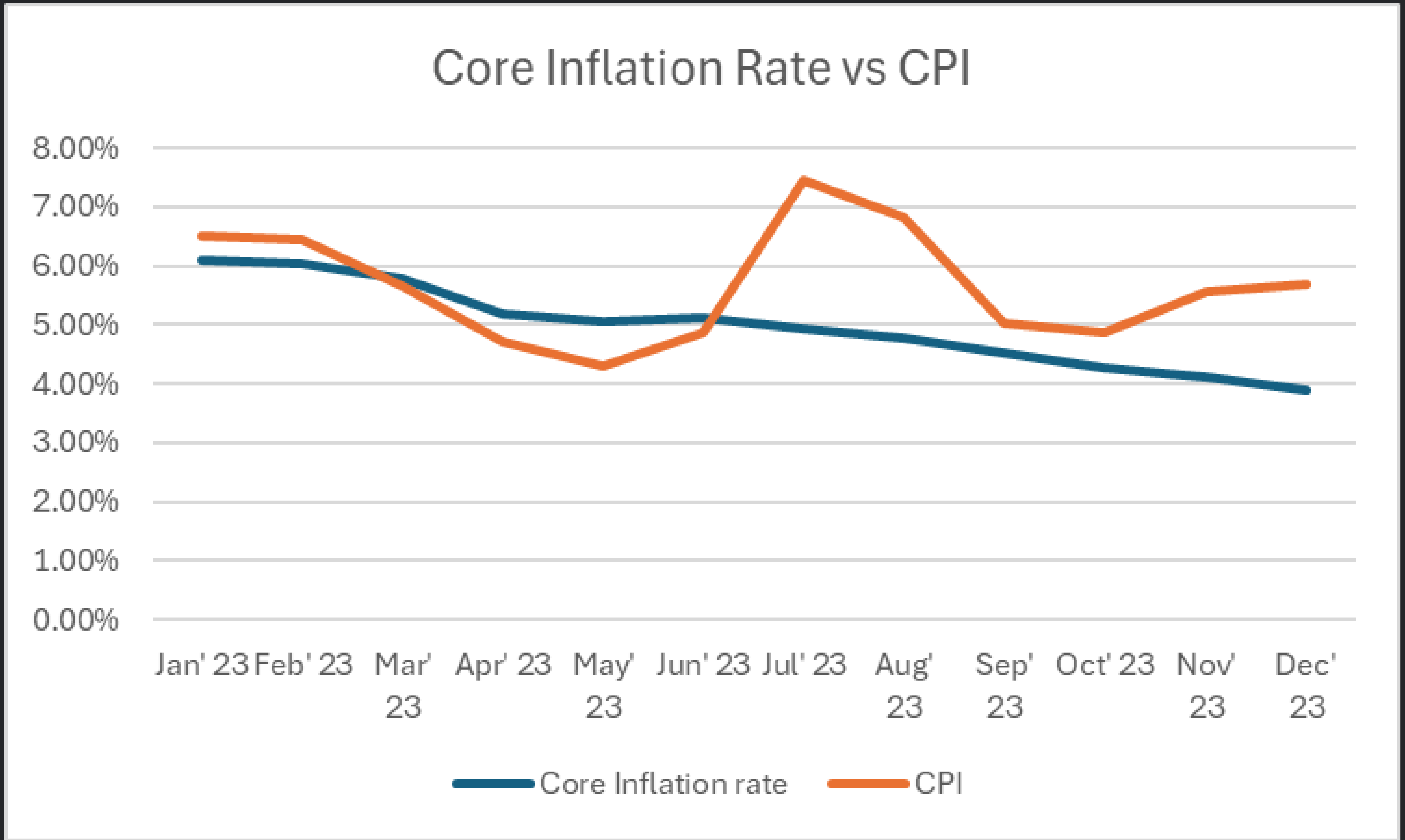
The interim budget for the year 2024 is expected to be presented on the 1st of February 2024. Since this is the last budget to be presented before the 2024 General Elections. This report analyses the key expectations of the budget and brings out possible comparisons of the budget. Also, this budget is an important tool for the incumbent government to win over people’s support.

Key expectations of the salaried individuals include an increase in the basic exemption limit and a higher HRA (House Rent Allowance) in both Old and New Tax regimes that can offer the middle class some relief against high inflation rates.

Hiking deduction limits and increasing Employer’s contribution to PF rates are key points of discussion in the Pre-Budget Analysis.



CURRENT ECONOMIC SCENARIO: INFLATION



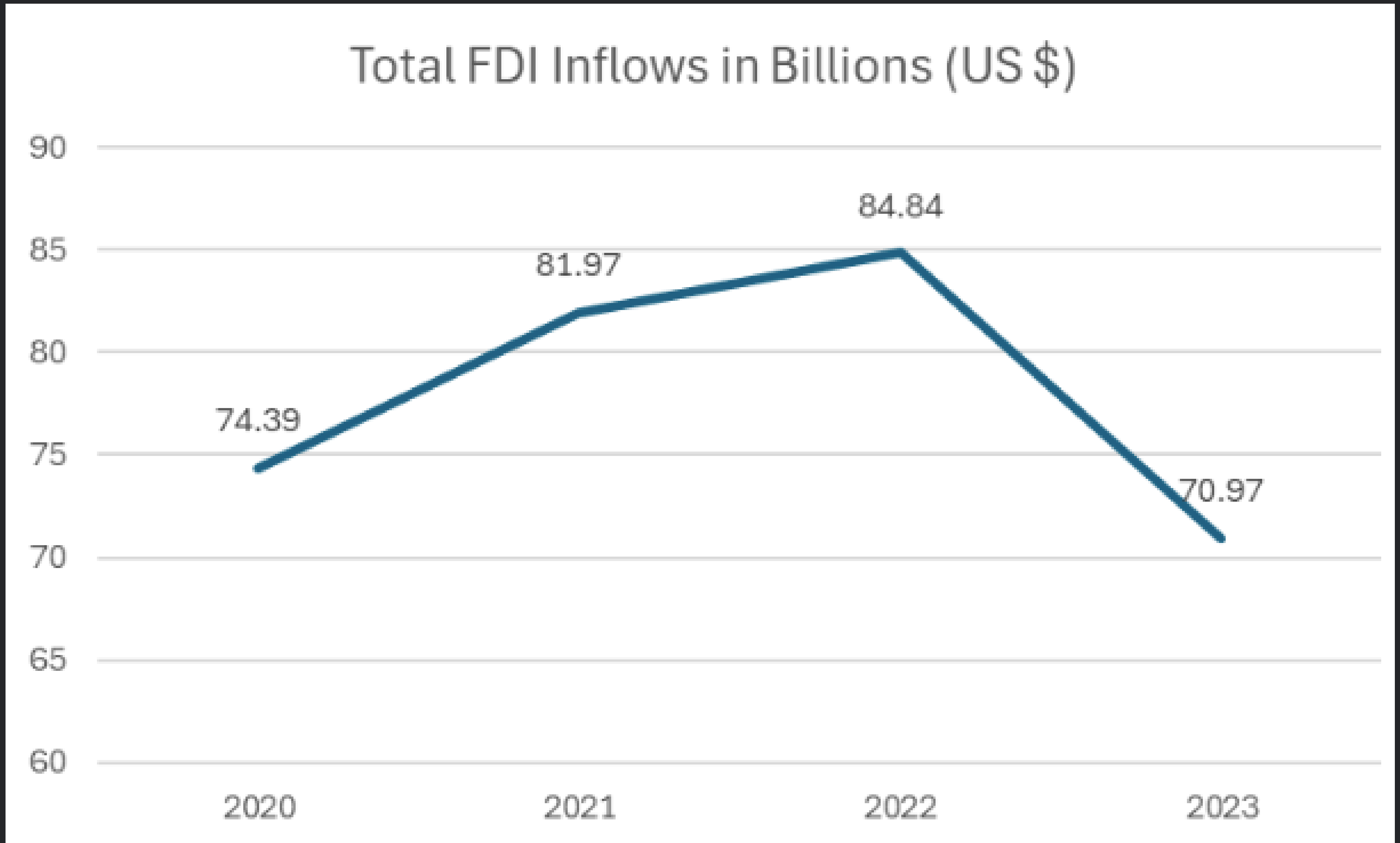
The Indian economy witnessed a great year, closing 2023 with a GDP of $ 3.73 trillion, GDP per capita at $ 2,610, and a projected GDP growth rate of 6.3 percent against the global average of 2.9 percent.

The Consumer Price Index (CPI) headline inflation has witnessed a nearly 2 percent decline since October 2023, attributed to the decreased cost of fuel and a correction in commodity prices. Core inflation, excluding food and fuel, has reached 3.89%, marking its lowest point since the aftermath of COVID-19. This suggests that deviations from the 4 percent target rate in headline inflation are primarily driven by food price shocks, with the current CPI inflation standing at 5.69%. The stability observed can be attributed to a retracement in global energy prices, encompassing crude oil, coal, and natural gas, thereby alleviating input costs for businesses. Notably, there are no apparent demand-pull pressures in core inflation components.

Inflation stemming from cereals and pulses remains in double digits, with retail cereal inflation at 10.65% and retail pulse inflation at 19.79%. The persistent momentum in food inflation is being addressed by the government through export prohibitions aimed at stabilizing domestic prices. Despite stable global demand, ongoing supply chain disruptions are anticipated in 2024, fueled by geopolitical tensions, necessitating regular monetary and fiscal interventions to navigate these challenges.

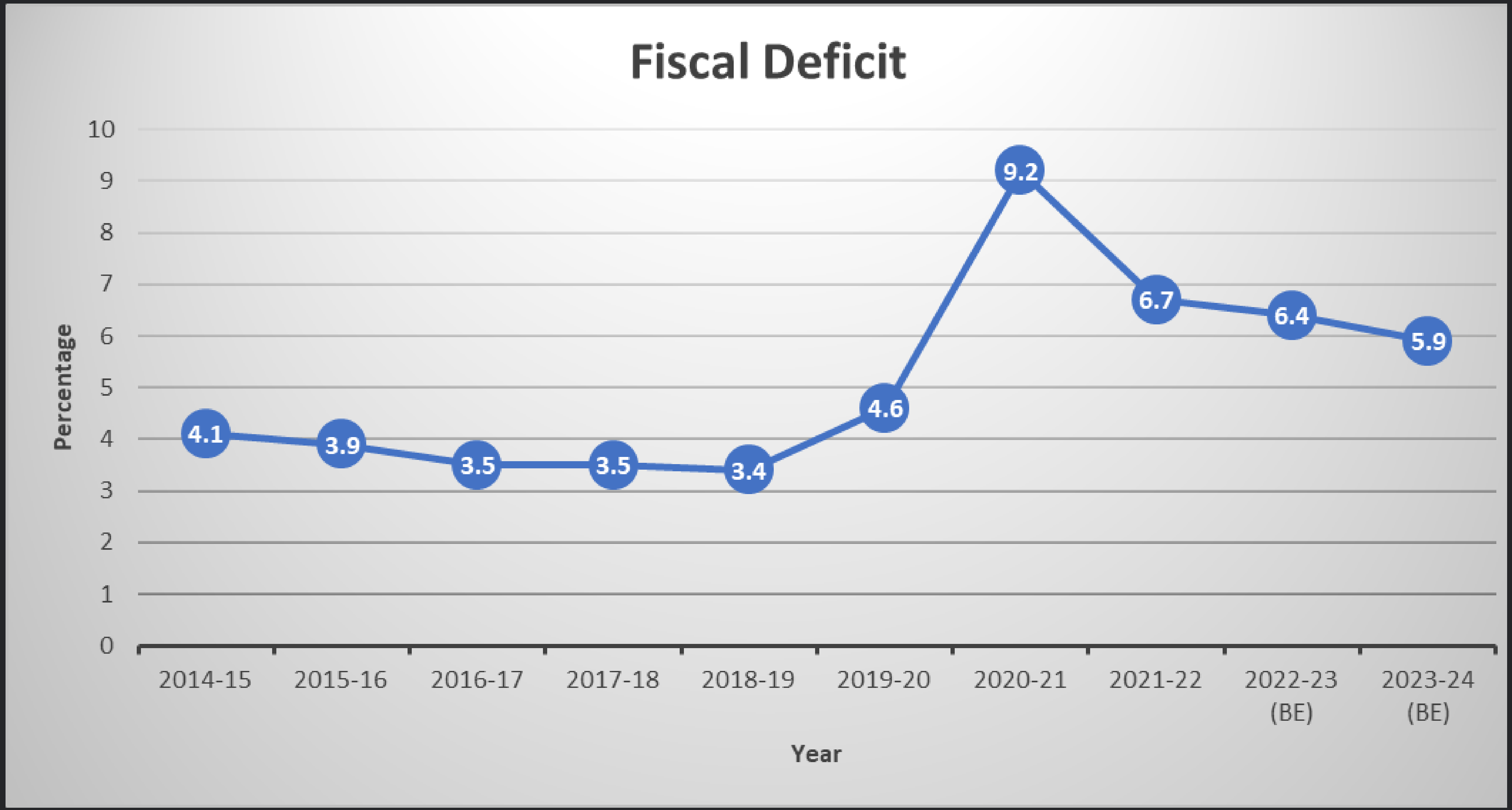
CURRENT ECONOMIC SCENARIO: FOREIGN INVESTMENTS

For instance, compared to November 2022, India's trade deficit is almost half in November 2023. Although exports declined by 5.43 percent on a year-on-year basis for the period January-October, imports declined by 7.31 percent in the same period, improving the trade balance. The decline in exports was expected following the export restrictions on rice and other food commodities to stabilize domestic inflation. While there was a reduction in the exports of petroleum products and precious stones, there was significant growth in the exports of telecom instruments, electric machinery, and drug formulations—highlighting possible key sectors for the economy. Further, on the external sector front, according to IMF estimates, both Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI) inflows have increased in 2023, and are projected to be US$ 44.4 and US$ 33.9 billion respectively, in 2024. However, the net FDI inflow dropped down to $4.5 billion during Apr-Sep 2023 (FY24) from a typical run rate of $20 billion during Apr-Sep of the last seven fiscal years (FY17-FY23). FDI has never played a large role in India's investment. Net FDI inflow has broadly hovered around 1-1.5% of GDP. But the concerning aspect is that despite the gaining momentum in China+1 and India's production-linked incentives to woo foreign investors, FDI inflow hasn't increased materially. As per government press releases in June 2023, 733 applications have been approved under PLI across 14 sectors. However, less than 10% of PLI investment commitments have been received from global companies. Most of the China+1 benefits to India have so far come in the form of increased export demand.



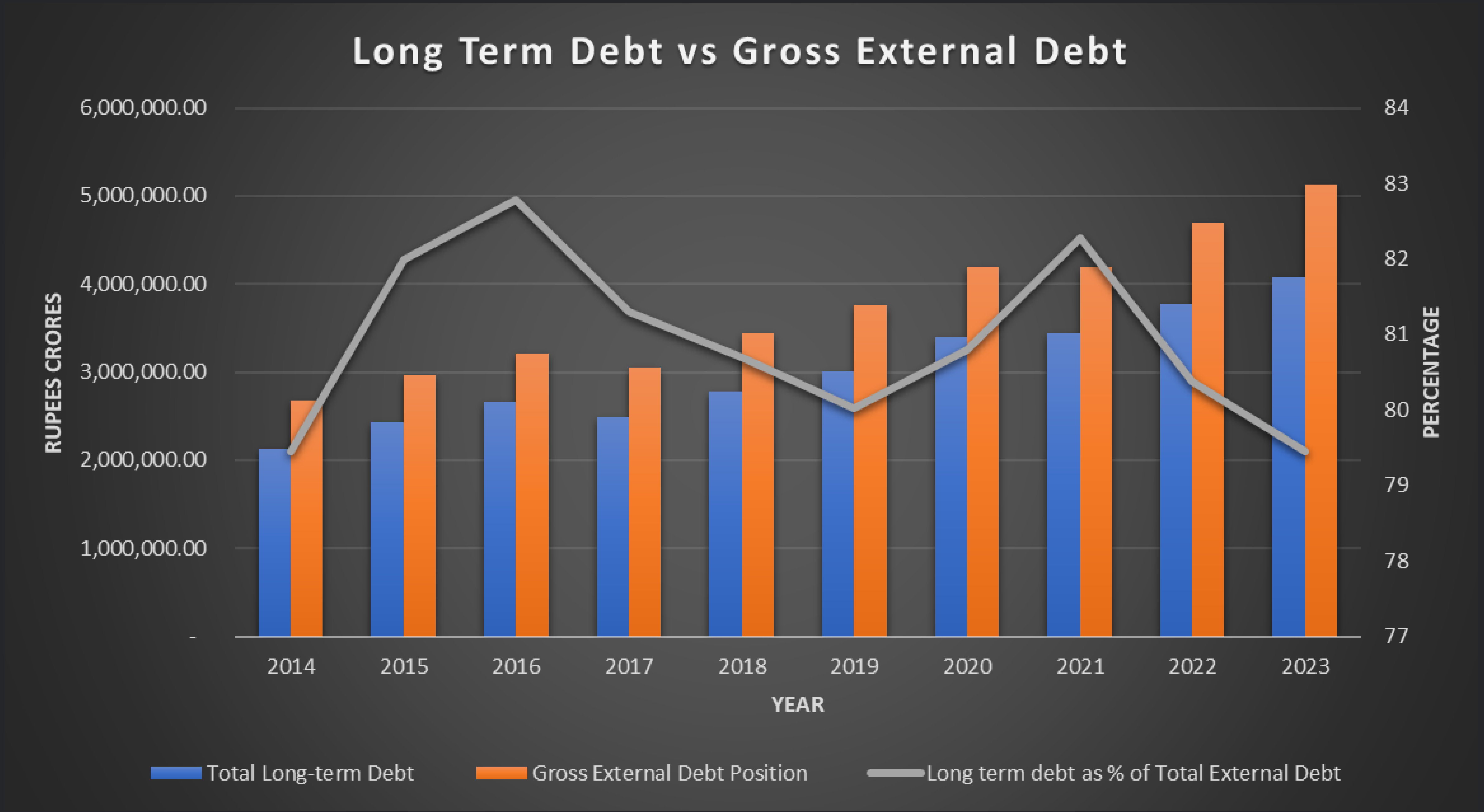
The total foreign direct investment inflow into India dropped to 70.9 billion U.S. dollars in the financial year 2023. This was a 16 percent decline from last year. This decline is due to the global slowdown in total FDI inflows.

Fiscal Deficit



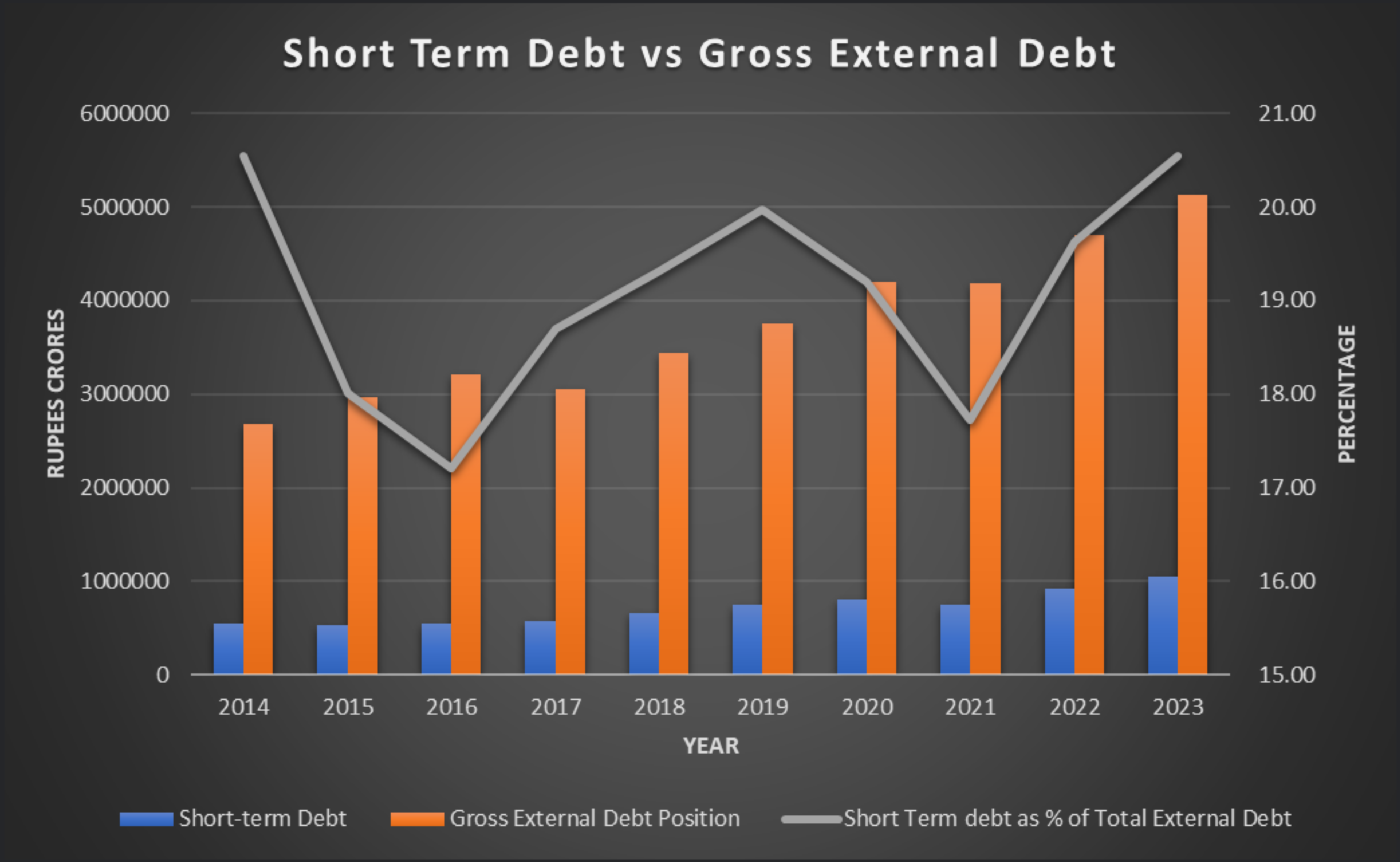
- The fiscal deficit as a percentage of GDP reflects the gap between government expenditure and revenue. From 2014-15 to 2018-19, India witnessed a gradual reduction in fiscal deficit, indicating relative fiscal discipline.
- However, in 2019-20, the deficit rose to 4.6%, likely due to economic challenges, exacerbated by the COVID-19 pandemic in 2020-21, leading to a significant spike at 9.2% of GDP. Subsequently, in 2021-22, there was a decrease to 6.7%, showing signs of economic recovery.
- Turning attention to more recent developments, as of November 2023, India's fiscal deficit stands at ₹9.06 lakh crore, representing 50.7% of the full-year budget estimate. This marks a notable improvement from the corresponding period in the previous year when the fiscal deficit stood at 58.9%. The government's estimated fiscal deficit for the entire fiscal year 2023-24 is ₹17.86 lakh crore, equivalent to 5.9% of the GDP.

Long-Term Debt vs Gross External Debt



- The total long-term debt consistently increased, indicating a sustained reliance on borrowing with a maturity period exceeding one year. This growth reflects the country's ongoing financial commitments that extend over a more extended timeframe.
- The gross external debt position, which combines both long-term and short-term debt, exhibited a consistent upward trajectory. This implies an overall expansion of the country's obligations to foreign creditors over the years.
- Despite these trends, the percentage of long-term debt relative to the total external debt showed some fluctuations but generally remained within the range of 80%, suggesting a stable reliance on longer-term financing sources.

Short-Term Debt vs Gross External Debt



- There is a general upward trend in the absolute amount of short-term debt from 2014 to 2023. The figures have consistently risen, indicating a potential increase in the country's reliance on short-term borrowing over this period.
- While the absolute amount of short-term debt has increased, the percentage of short-term debt as a proportion of total external debt has remained within a relatively narrow range, fluctuating between 17.22% and 20.55%. This suggests that the increase in short-term debt is somewhat proportionate to the overall external debt, which may be seen as a stabilizing factor.
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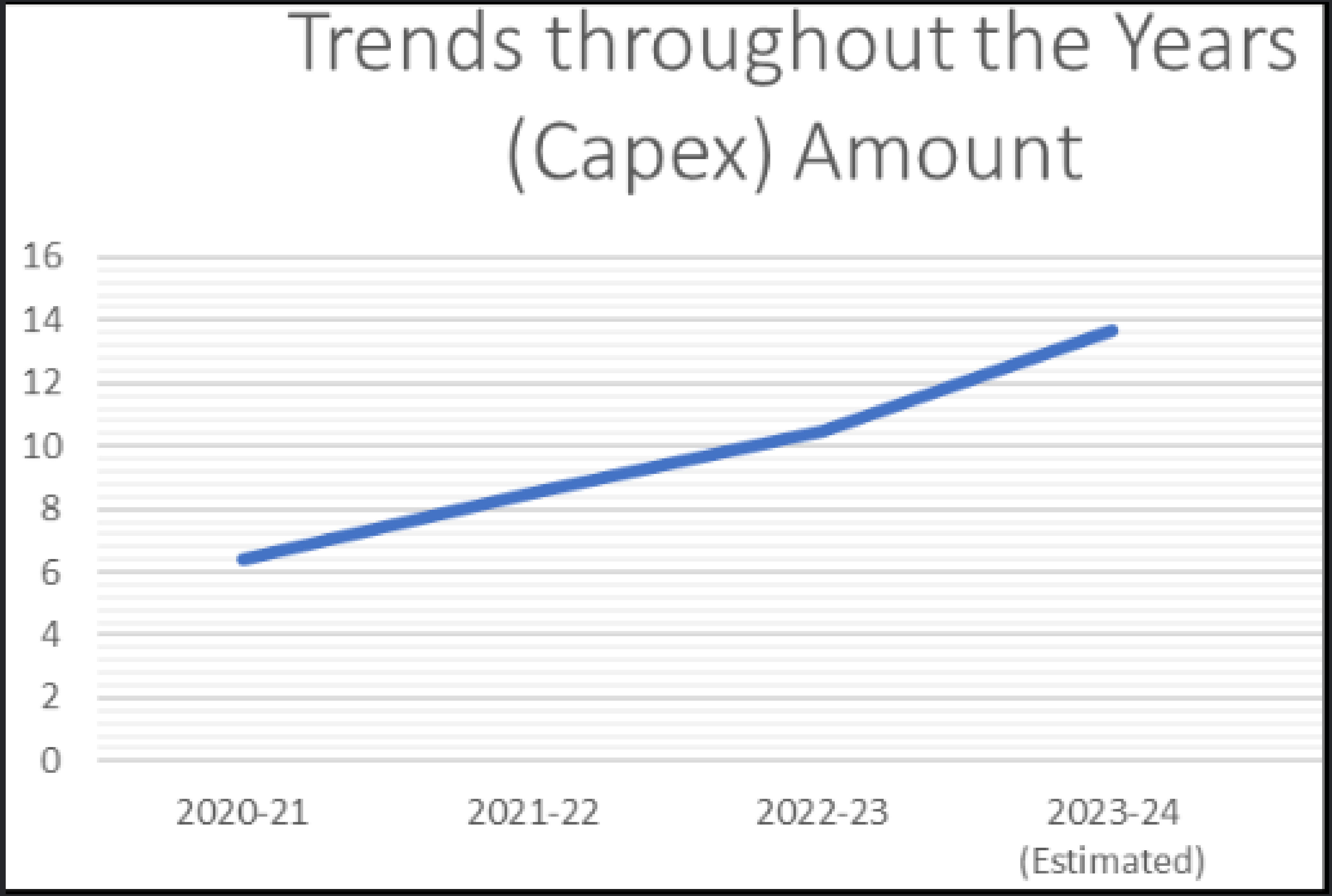
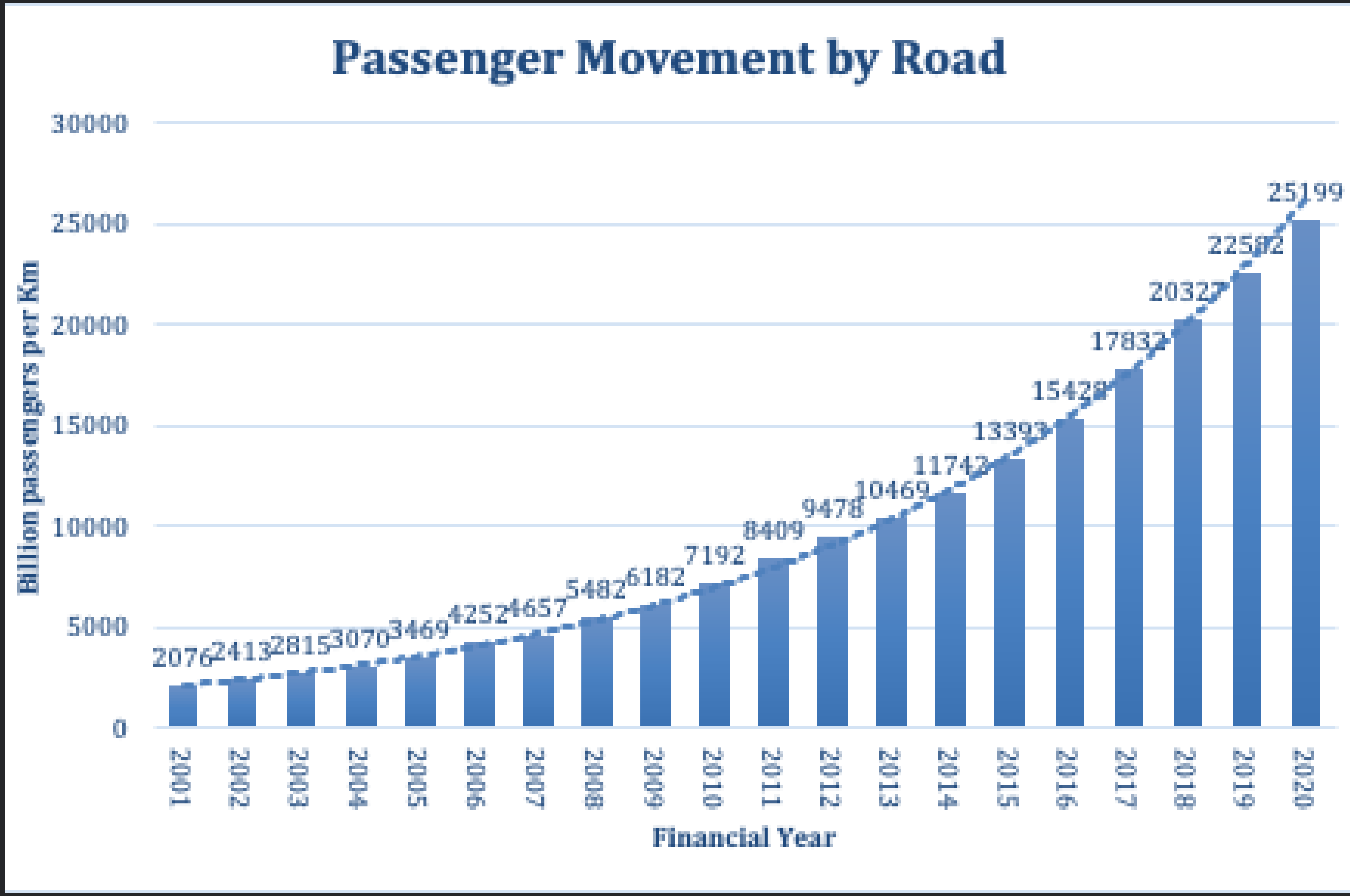
Revenue vs Capital Expenditure

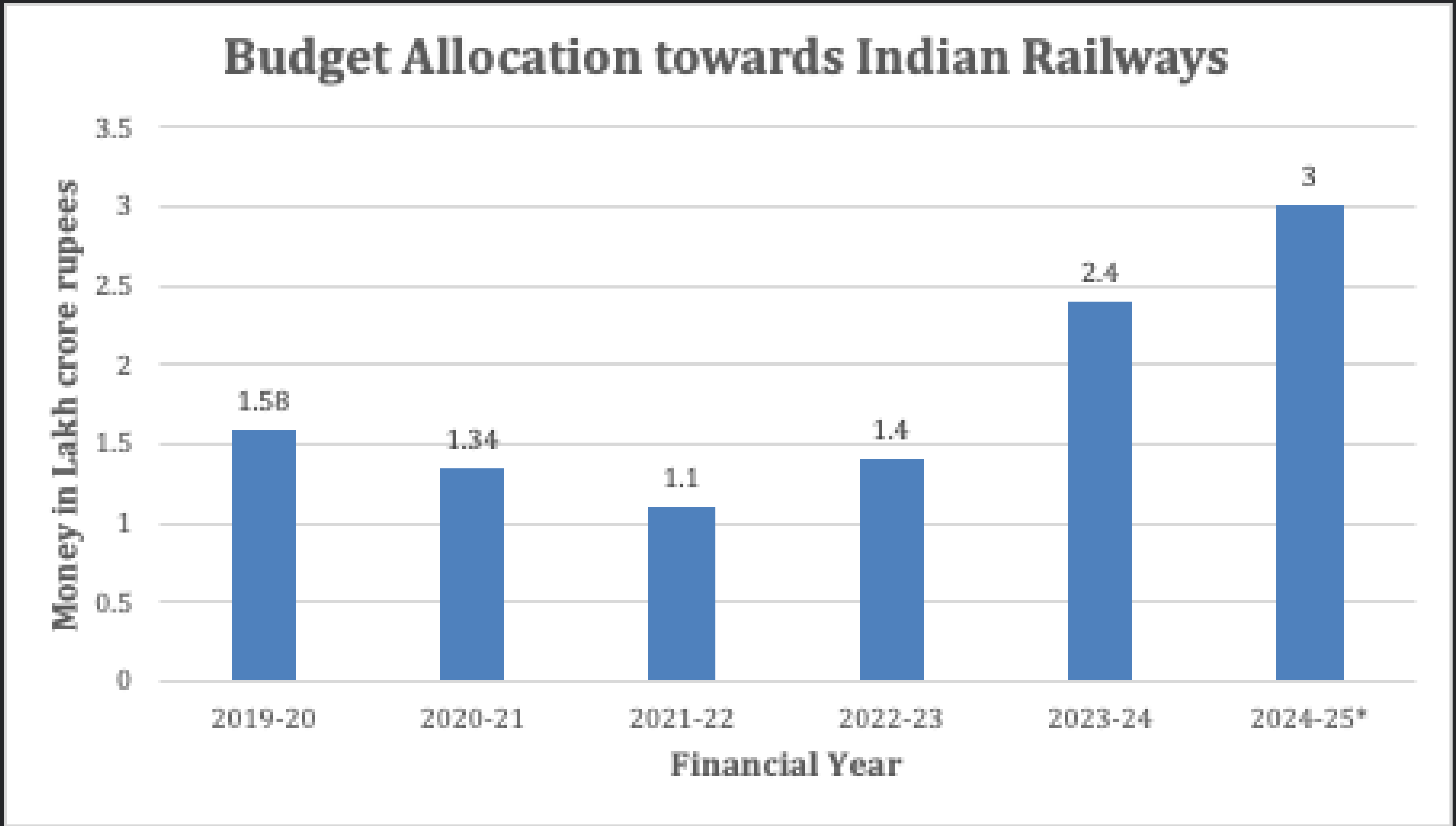


The present government has prioritized Capital Expenditure with the CAPEX rising on a YoY basis, with a growth of 28.57% from 2022-23 to 2023-24. Further studies by Crisil and Jefferies predict that CAPEX as a percentage of GDP will reach nearly 30% in FY24, a decade-high, that will aid India's resilience against a potential global slowdown. Moreover, the government has consistently exceeded its budgeted Capex targets in recent years. In FY22-23, the government expended Rs. 7.36 lakh crore compared to the revised estimate of Rs. 7.28 lakh crore. And for FY24, it has already crossed the 50% mark of the Rs. 10 Lakh Crore that was announced in the budget. The planned increase in capital or investment spending is set to continue, rising from the revised estimate of Rs.7.3 lakh crore in 2022-23 to Rs.10 lakh crore in 2023-24. Contrary to expectations, the budget allocations indicate significant reductions in social and welfare expenditures, deviating from the usual trend of increased spending before elections

Rapidly Transforming Transport Sector

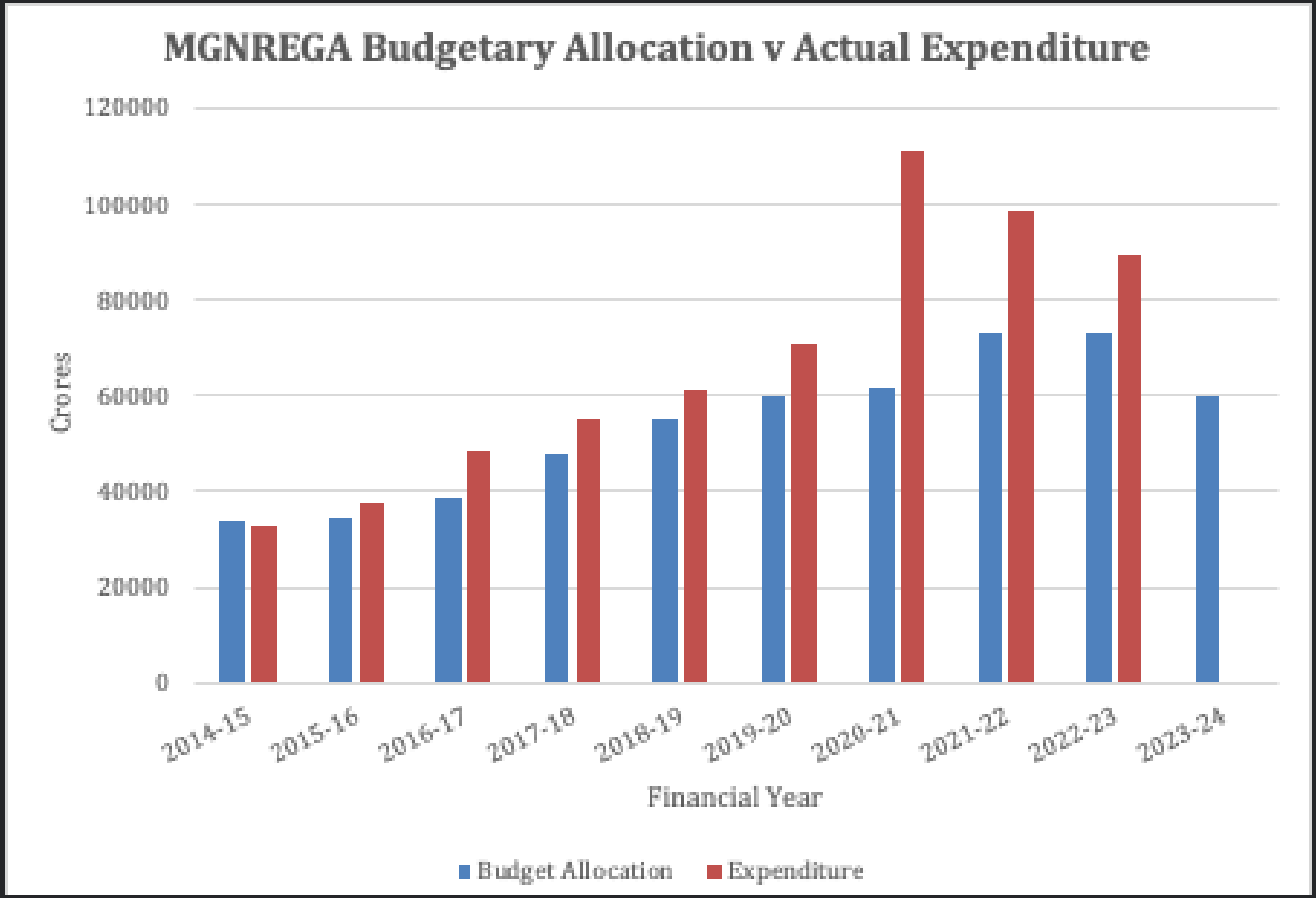


India's road network is said to have grown approximately 59% over the last nine years to become the second largest development network in the world, spanning 1,45,240 km as of June 2023, compared to 91,287 km in 2013-14. This has been on account of the increased budgetary allocation to the Ministry of Road Transport & Highways which saw a substantial increase in its financial allocation from a meager Rs.25, 872 crore per year during 2009-14 to a whopping Rs.2.7 trillion during 2023-24, amounting to a 940% increase in its annual budget. Not only has the expenditure towards the growth of this sector increased over the years but there has also been an increase in the revenue collections from tolls, which has risen from Rs.4470 crores to Rs.41342 crores in 2023. Considering the increasing number of passengers using roads and highways, alongside increased freight transportation by road, there is a demand for better transportation networks in the country, resultant of which the Ministry of Road Transport and Highways has requested an increased budgetary allocation of Rs.3.24 lakh crore for FY2024-25, which is a 25% rise from the previous years to meet the transportation network demands.



The NDA government has made successful strides in improving the railways network in India in recent years and aims to overhaul the national transporter by increasing capital expenditure in the sector for not only the makeover of Indian Railways but also for the addition of modern and faster trains with improved safety features. The estimated capital expenditure for railways is likely to increase 25-fold from 2023-24, approximating a budgetary allocation of more than Rs.3 lakh crore in 2024-25. With an allocation of Rs.2,40,000 crores in the 2023-24 Union Budget, the Railways made significant strides towards the creation of new railway lines, improving safety features, and towards the Rashtriya Rail Sanraksha Kosh.

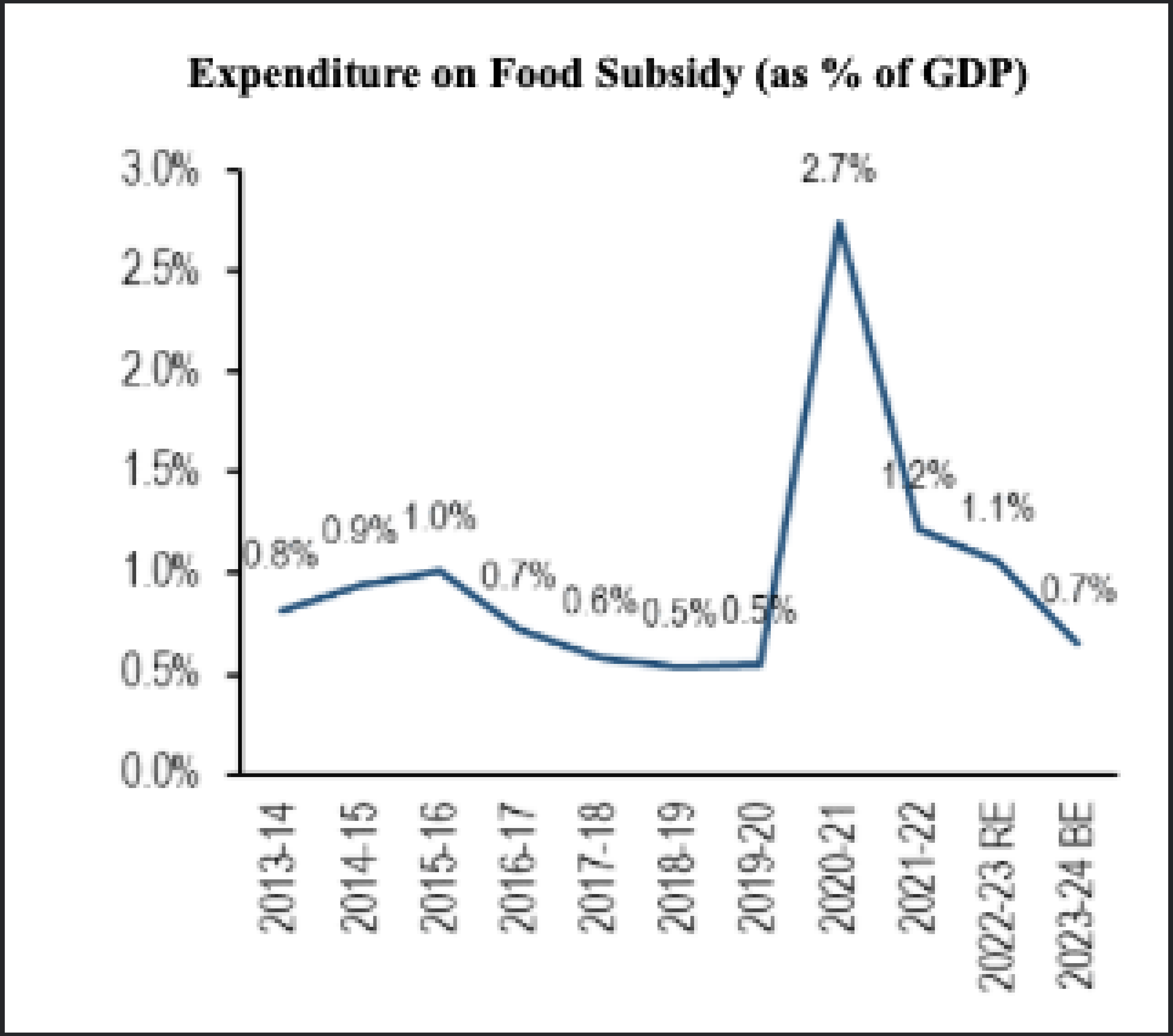
Rural Development: An untapped potential



In the run-up to the General Elections, the focus of the upcoming budget would be to infuse more funds into the hands of the public, which experts propose can be on account of potential adjustments in tax slabs, an increase in standard deductions for those an increase in funds under schemes such as MGNREGA and higher pay-outs for farmers, who form key vote banks during elections. Recognizing the potential of the MNGREGA scheme, the government increased allocation towards the same under the Atmanirbhar Bharat stimulus package to foster inclusive growth. With increasing monsoon uncertainty and job crunch in urban areas, there is bound to be a substantial allocation under the MGNREGA scheme for 2024-25.

Over the years, it has been realized that there is significant untapped potential in the rural economy beyond agriculture which requires the attention of the government. To ensure inclusive growth, it is expected that there will be additional allocation towards funding the Agricultural Accelerator Fund in the 2024-25 budget, which would foster and stimulate entrepreneurial activity in rural India, especially to promote agri-startups. The AAF has been allocated Rs.2200 crores till the FY2028-29 and has already been utilized by providing 348 start-ups financial supports amounting to Rs 31 crores in 2023-24. This fund is an extension of the Innovation and Agri-Entrepreneurship Development Programme under the Rashtriya Krishi Vikas Yojana., which has provided financial assistance of Rs.106.25 crores to 11,534 start-ups since 2018-19. The budget for the rural development and agricultural departments is expected to be substantial in the forthcoming budget since nearly 70% of the voters reside in the rural areas of India, which could be swayed by budgetary allocations that favor them.

Fiscal Prudence and the Way Forward



The present financial year saw a considerable expenditure on subsidies with Rs.1.97 lakh crores for food and Rs.1.75 lakh crore for fertilizers. The poll-bound year will necessitate an increased subsidy for food, approximating Rs.2.2 lakh crore in the interim budget to facilitate and account for the higher food inflation. The increased subsidy would account for the fluctuations in the minimum support price and the distribution of free food grains under the Pradhan Mantri Garib Kalyan Anna Yojana. Economists suggest that the Capital Expenditure push of the Modi government might slow down in FY2024-25 amidst their focus towards fiscal consolidation and to bring down the fiscal deficit to 4.5% of the GDP by FY26 from the present 5.9%.

Expectations from the Interim Budget

- The interim budget often generates huge expectations among the general public. People from various sections eagerly await insights into how the budget may impact them individually. Given that the interim budget for 2024 is scheduled to be unveiled just before the general elections, the stakes remain high.

- Though generally the focus of the government is to prioritise those at the bottom of the social and political sphere, the ‘taxpayers’ of the country this time have high hopes. One effective way to address the concerns of middle-class voters in the budget is by providing relief in income tax. Given that the previous interim budget granted income tax rebates for individuals earning up to Rs 500,000, those on the lower income spectrum will likely anticipate similar measures in the upcoming interim budget.

- There have long been demands to increase the standard deduction limit after it was made part of the new income tax regime in 2023. This will be a much-needed relief for the salaried middle class.

- **Salaried individuals who receive House Rent Allowance (HRA) as a component of their salary and are currently residing in rented accommodation are anticipating an upward revision in the existing HRA exemption limit under Section 10(13A).**

- The present tax scenario in India presents considerable potential for a more investor-friendly framework. With the impending release of the interim Budget for the fiscal year 2024-25 on February 1, 2024, taxpayers are optimistic about potential announcements, including potential reductions in corporate tax rates for new manufacturing enterprises, incentives for exports through “tax holidays,” and a push towards research and development.

- With India’s current score of 45 on the Global Pension Index, the social security of the country is in shambles. The government should extend the benefits of the National Pension System to the New Tax Regime.

- Going by the past trends and data from the recent assembly elections in Chhattisgarh where women voters outnumbered men shows the growing interest and expectations from the section of the society which has relatively low representation in India’s economy. Anticipations are high for measures that promote women entrepreneurs by providing expeditious and accessible funding solutions. There is a call for an increase in the allocation of funds towards various schemes and initiatives dedicated to the welfare and safety of women like the Nirbhaya Fund, the Indira Gandhi National Widow Pension Scheme, Saksham Anganwadi and Poshan 2.0, among others.

Suggestions for a balanced budget

- Connectivity within a nation is crucial in facilitating the transport of goods, raw materials as well as people, which in turn fosters growth and development. There is a demand for better transportation networks in the country, Ministry of Road Transport and Highways has requested an increase in budgetary allocation by 25% to meet the transportation network demands and to limit outside borrowing by the ministry for its projects to reduce its debt in the long run, alongside aiming to become self-reliant both in terms of raw materials as well as finances. The goverment should focus on allocating more funds towards the development of better infrastructure and connectivity

- There is significant untapped potential in the rural economy beyond agriculture which requires the attention of the government. To ensure inclusive growth, additional allocation towards funding the Agricultural Accelerator Fund in the 2024-25 budget would foster and stimulate entrepreneurial activity in rural India, especially in promotion of agri-startups.

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Conclusion

While it is necessary to exercise fiscal prudence to achieve our goals of reducing the fiscal deficit, it must be acknowledged that we are entering a poll-bound year and the interim budget would largely cater to the needs of the populace to consolidate votes. Thus, implying a balance between growth-oriented programmes, while emphasizing rural development and social scheme, with allocation for credit availability. With the hope and expectation to regain power, the Modi government may continue to follow its long-term growth and development plans which would be evident in the interim budget, however, there may remain scope for surprises since accurate budget predictions in a poll-bound year continue to remain difficult.