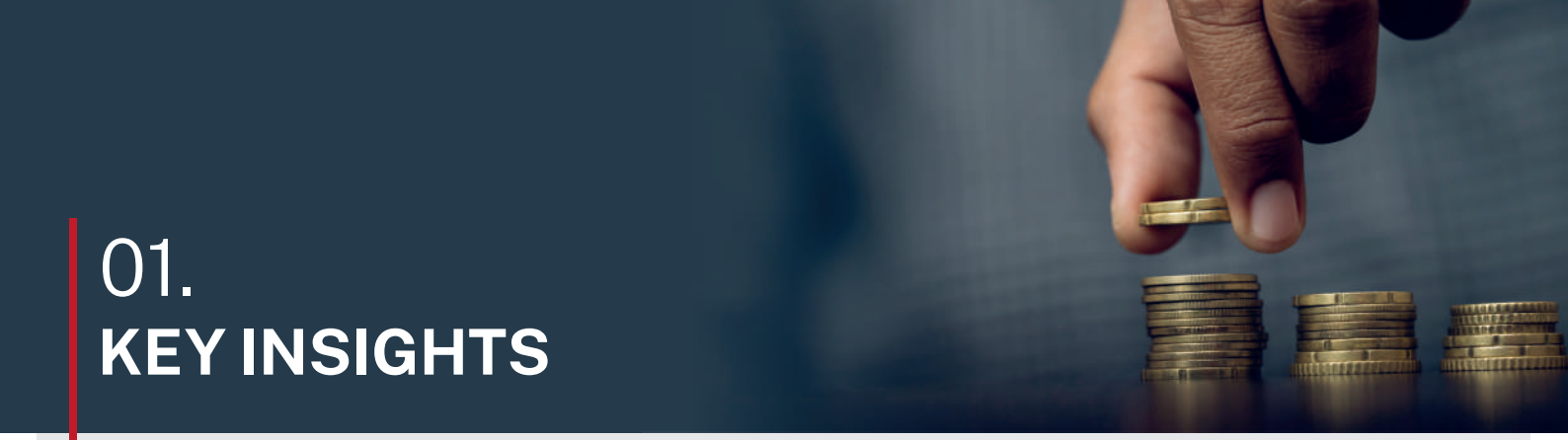
KIRTANE & PANDIT

Budget Edition July 2024

# The Ecoknowmic™

## Post Budget Economy Review



# 01. KEY INSIGHTS

## Economic Backdrop

- Global economy is expected to grow at 3.2% to 3.3% in next two years, similar to 2023, with advanced economies expected to outperform developing economies.
- Indian GDP for FY 2023-24 grew at 8.2 % y/y and is expected to grow at 6.5% to 7% in the coming year – close to pre-pandemic trajectory.
- While Services sector leads the GDP composition with 54.7% share, private consumption has been a crucial and steadfast cog in GDP growth in FY2023-24.
- Inflationary pressures have seen a downward trajectory recently, though the inflation levels are still above the 4% CPI target set by the RBI.
- There has been overall improvement in the Current Account Deficit, as it stood at 0.7% of GDP in FY 2023-24 as against deficit of 2% in FY 2022-23.
- Net FPI inflows stood at USD 44.1 billion during FY 2023-24 against net outflows in the preceding two years, whereas Net FDI inflows witnessed moderation from USD 42 billion during FY 2022-23 to USD 26.5 billion in FY 2023-24.
- Forex reserves, sufficient to cover 11 months of projected imports and INR being one of the least volatile exchange rate show overall stability in the external sector.
- The government has followed a path of fiscal consolidation by moderating the growth in revenue expenditure, but at the same time, improving the quality of expenditure by progressively enhancing the share of capital expenditure

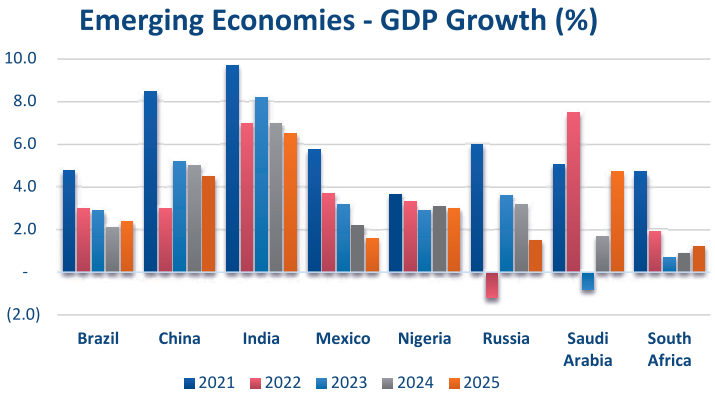
## Important Budget Proposals

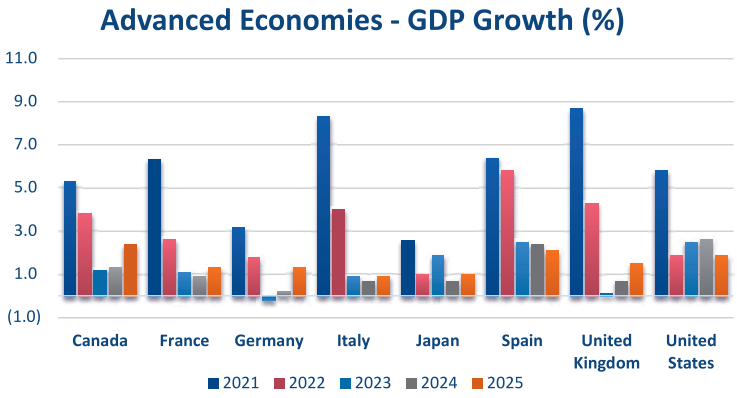
- Set in focus a theme of employment, skilling, MSMEs, & middle class, with a package of schemes & initiatives over a 5-year period with a central outlay of ₹ 2 lakh crore.
- In line with the strategy set out in the interim budget, this budget has outlined sustained efforts on 9 priorities like Agriculture, Employment, Infra, Energy security etc. in pursuit of 'Viksit Bharat', for generating ample opportunities for all.
- Proposed highest allocation to the expenditure on Defence, Rural Development, Agriculture & allied activities, Home Affairs & Education. Provision of ₹11 lakh crore (3.4% of GDP) is made for overall infrastructure development.
- While proposing a significant rise in revenue receipts & expenditure, the Government has estimated fiscal deficit of 4.9% of GDP for FY 2024-25.
- Proposed various tax provisions focusing on simplifying taxes, improving tax payer services, providing tax certainty and reducing litigation while also broadening the tax base to enhance revenues for funding the development and welfare schemes.

# 02. GLOBAL SCENARIO

The global economy continues on its path of recovery and a certain degree of normalcy after a rather tumultuous period in the recent past. There has been a general upside in income growth in most of the major economies in the world, with the exception of Japan and the US in recent months. As cyclical factors wane, distortion in economic activities among economies has declined as everyone looks towards heading back to normal economic activity. A few of the headwinds from the past do remain. Results in general elections across the globe have sprung a few surprises leading to a certain degree of uncertainty among global investors as they monitor the policy measures of the newly formed governments. Inflationary pressures have been rather sticky across the globe leading to the prospects of prolonged monetary tightening. In addition to these headwinds, the global economy is also exposed to the effects of the ongoing geological conflicts across the globe.

As per the World Economic Outlook, IMF's latest publication, the global growth, at 3.3 percent in 2023, is projected to continue at the same pace in 2024 and 2025 at 3.2 percent and 3.3 percent respectively.



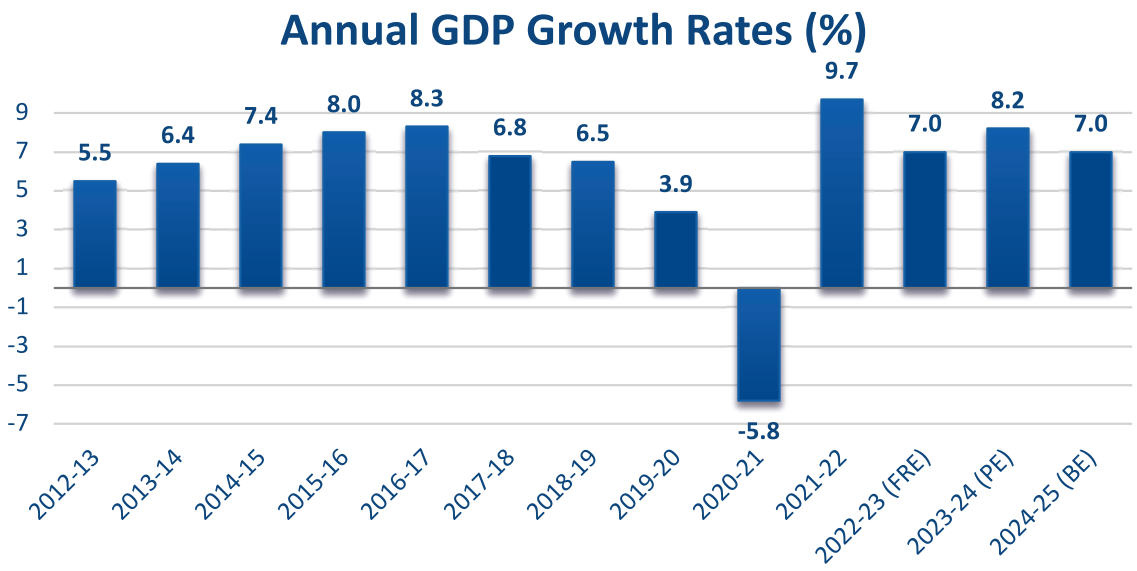




The above graphs show the growth trends of all the major economies across the globe. The US, in the last quarter, due to moderating consumption and a negative contribution from net trade, experienced a decline in growth, after a period of sustained economic performance. Similarly, due to the shutdown of a major automobile plant and supply side disruptions, Japan also experienced a slight dip in economic activity. The EU on the other hand has shown signs of continuing on its path to recovery buoyed by improvement in service activity. China, at least temporarily, seems to have put the real estate debt crisis on the back burner, as some improvement in domestic consumptions facilitated in the uptick of economic activity. Chinese exports also showed signs of improvement. The near-term impact of flooding in Brazil and the moderation of demand in Mexico is expected to affect growth in the short run.

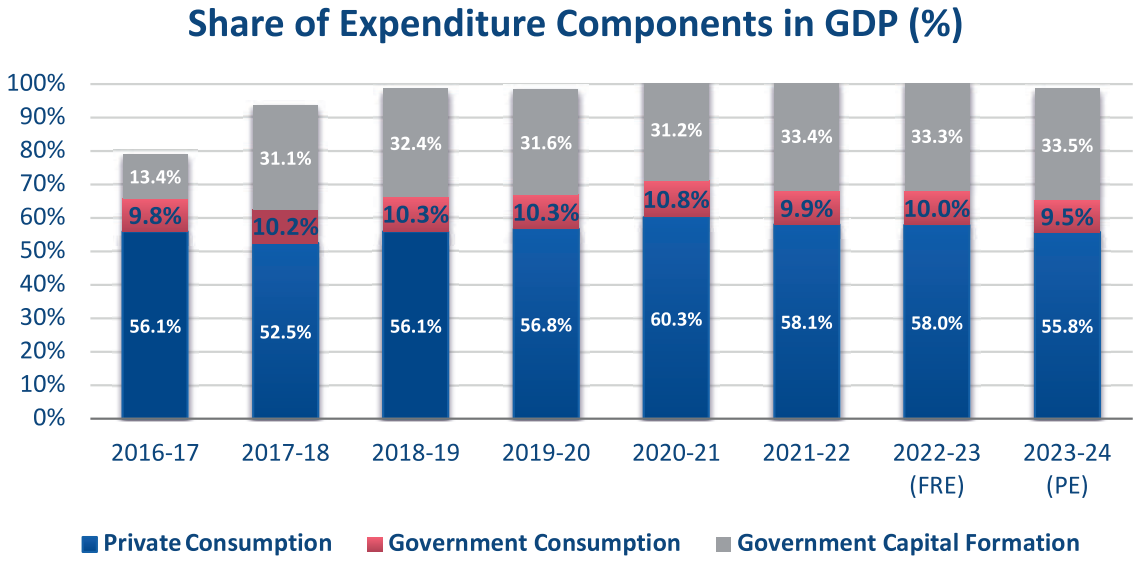
With inflation still above the comfort zone in the US, policy normalization is expected to be delayed. This can have an effect on the global economy as other central banks, especially in the developing nations, might take longer to head towards policy normalisation so as to not risk external triggers due to interest rate differentials.

# 03. INDIA GDP

The Indian economy continues to be defiant in the face of challenging global economic conditions. The annualised GDP data is a reflection of this with the latest projections by the Government indicating an annualised growth of 8.2% (Provisional Estimates) in 2023-24 as compared to 7.0% (First Revised Estimates) in 2022-23. The economy is expected to continue on similar lines as GDP is expected to grow at 6.5% to 7% in 2024-25 according to the budget estimates.




Taking cognisance of the volatility in the global market there has been a clear indication by the government to shift its focus towards the domestic economy. The government has been at the forefront of this endeavour with a combination heavy investment in infrastructure, reduction in taxation to facilitate capital formation as well as sector specific relief measures through various policies.



The private sector is expected to now play a pivotal role in the Indian growth story in the coming years. A look at the expenditure components in the above graphs tells that the government fixed capital formation (GFCF) and the government fixed capital expenditure (GFCE) still contribute heavily towards the overall growth in GDP. With the corporate sector experiencing steady and profits and with higher interest margins for banks, the government is hopeful that the private sector will come to the fore in contributing to the growth story.

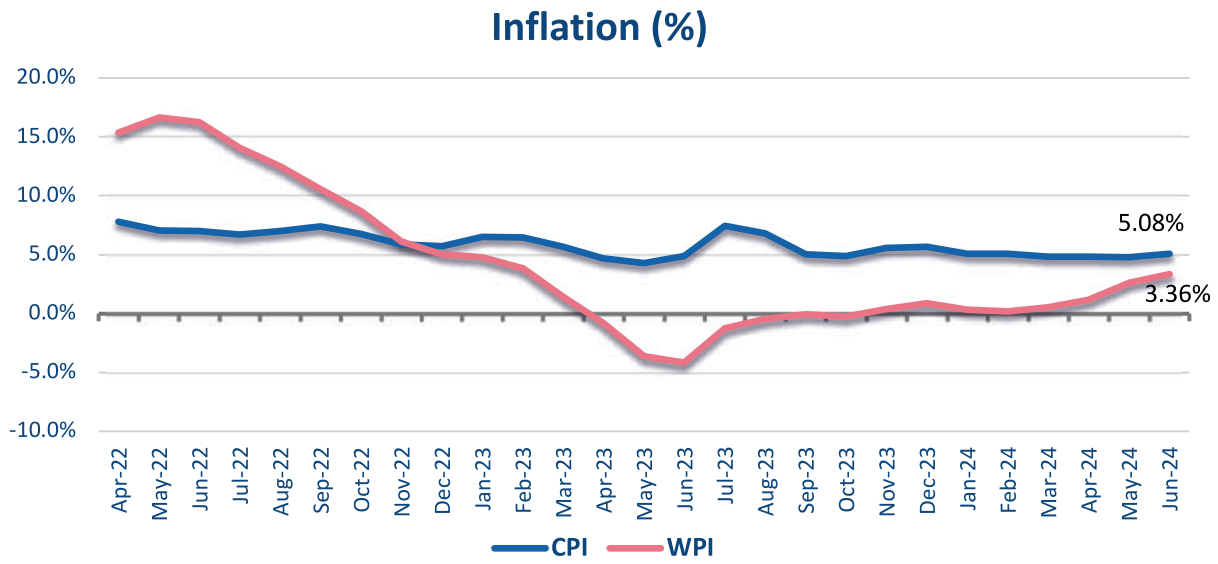
Looking at the Gross Value Added (GVA), the services sector continues to drive growth for India. The agricultural sector did experience growth in FY 2023-24 albeit at a slower pace. Erratic weather conditions throughout the year along with inconstant monsoons affected the agricultural output. However, the expectations of a normal monsoon this year is expected to revive the agricultural sector and revive domestic demand. Agriculture remains a top priority for the government and although it has provided subsidies and tax exemptions, the government aims at further focussed assistance in this sector. Aimed at aiding agriculture, the government in its budget as targeted in improving the productivity and resilience in Agriculture.

The manufacturing sector recovered from a disappointing 2023 and clocked a growth of 9.9 percent in 2024. Decline in input prices greatly helped the manufacturing sector. The manufacturing sector is expected to grow in the near future mainly underpinned by growth in the consumer goods industry along with intermediate and investment goods. With the global economy showing signs of improvement, exports orders are also expected to further supplement the growth. Improved investment in M&E and IP products may go a long way in facilitating growth in the manufacturing sector. The government has introduced measures in its budget mainly targeting the MSME sector to help facilitate growth in the manufacturing sector.

As mentioned above, the services sector continues to be the main contributor to the growth. The services sector has registered a growth of 7.6% in 2023-24 (PE). Indicators such as GST collections, e-way bills etc point to a robust performance of the services sector. Services such as trade, transport, real estate and ancillary services which majorly impacted during the pandemic have made a credible comeback. Further, financial and professional services were expected to drive the services sectors growth.

# 04. INFLATION & MONETARY POLICY

Major global events such as the pandemic, geo-political tensions and the subsequent supply chain bottlenecks led to heightened inflationary pressures around the world and India was no exception. This was compounded by irregular monsoon in the last couple of years leading to increase in food prices due to poor agricultural output.



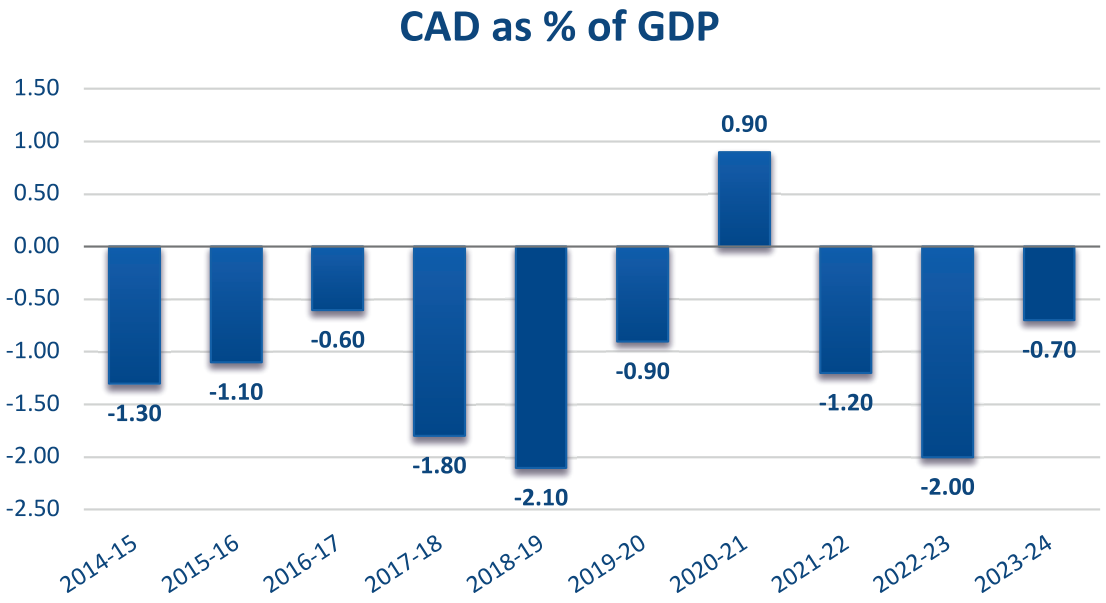

A combination of prudent monetary policy and trade policy along with administrative measures such as open market operations, subsidies, stock management etc. helped in mitigating price rise to some extent. Retail inflation (CPI) declined to 5.4% in FY 2023-24 as compared to 6.7% in FY 2022-23. The decline in global fuel prices and commodity prices led to decline in LPG, petrol, diesel prices along with a decline in energy, metals, minerals prices as well. This has helped in easing the inflationary pressures in recent months. Although Wholesale Price Index (WPI) has remained below the CPI since November 2022, it's rising curve may suggest due caution in near future.

Core inflation has declined in recent months although food inflation remains sticky. Higher prices in vegetables, especially onion and tomatoes, and pulses have contributed to higher food inflation. With the onset of the southwest monsoon, which the IMD has predicted to be normal, food prices pressures are expected to dissipate in the coming months.

The Bank Rate (6.75%) and Policy Repo Rate (6.5%) have remained the same since February 2023. In its latest meeting, the Monetary Policy Committee (MPC) maintained its focus on controlling inflation to achieve a medium-term CPI target of 4%, within a tolerance range of (±2%).

# 05. THE EXTERNAL SECTOR

The external sector has largely countered the headwinds of subdued economic performance, geopolitical tensions and supply chain disruptions across the globe. Despite such conditions, the Current Account Deficit (CAD) to GDP ratio declined to -0.7% in FY 2023-24 as compared to -2.0% in FY 2022-23. A combination of moderation in merchandise imports leading to decrease in merchandise trade deficit and rising service exports have led to improvement in the CAD to GDP ratio. The improvement in the yearly CAD ratio was also aided by a small surplus in current account transactions in fourth quarter of 2023-24 wherein CAD to GDP ratio came in at (+)0.6%, with a surplus of USD 5.7 Bn. This surplus was mainly led by rising services exports and growth in remittances.

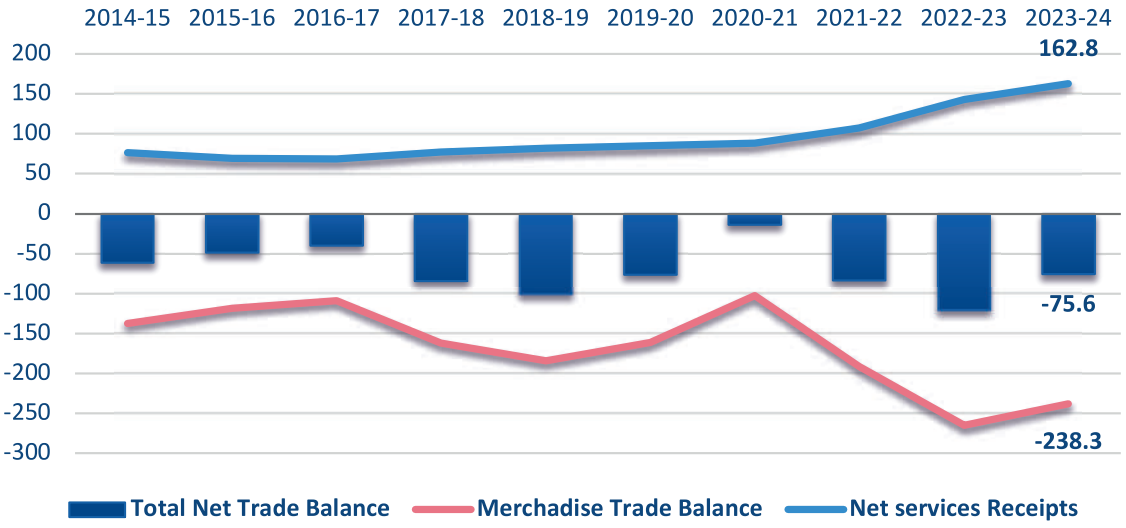



Following the Russia Ukraine conflict, the volume of global trade contracted by 1.2% in 2023 after recording an expansion of 3% in the preceding year following. Further, potential conflicts of Panama Canal and the Suez Canal are expected to cause further disruptions in global trade. Despite this background however, India has emerged as an important player in the overall global trade due to its proactive geopolitical strategy and diversified trade relationships.

Service exports has seen growth in recent years and is expected to continue on its growth trajectory. Net services receipts grew to USD 162.8bn in FY2023-24 from 143.3 bn in FY2022-23. Within the services export gamut, software/IT services and business services exports has been the main contributing factor. This has also led to proliferation of Global Capabilty Centres (GCC). A plethora of MNCs have set up their GCC in India which is an impressive growth story in itself. Global growth in telecommunications and internet facilitated business process outsourcing can be a source of disruption in the future.

Merchandise exports have largely been subdued in recent years and this was exacerbated by the pandemic. There has however been a noticeable shift in this trend in second half of FY 2023-24. Even with the shift in trend, the overall exports in FY 2023-24 declined as compared to FY 2022-23 mainly due to a slowdown in India's major export partners.

## Trade Balance in USD Bn.

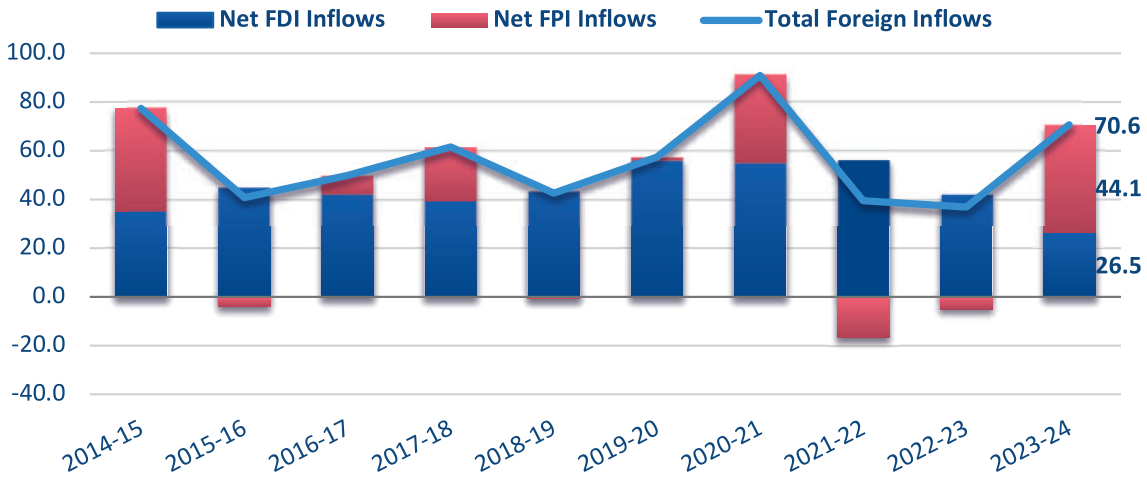



However, an overall decline in global commodity prices greatly helped contain the total import bill, leading to decline in the overall trade deficit. Merchandise trade deficit declined to USD 238.3 bn in FY 2023-24 as compared to USD 264.9bn in FY 2022-23.

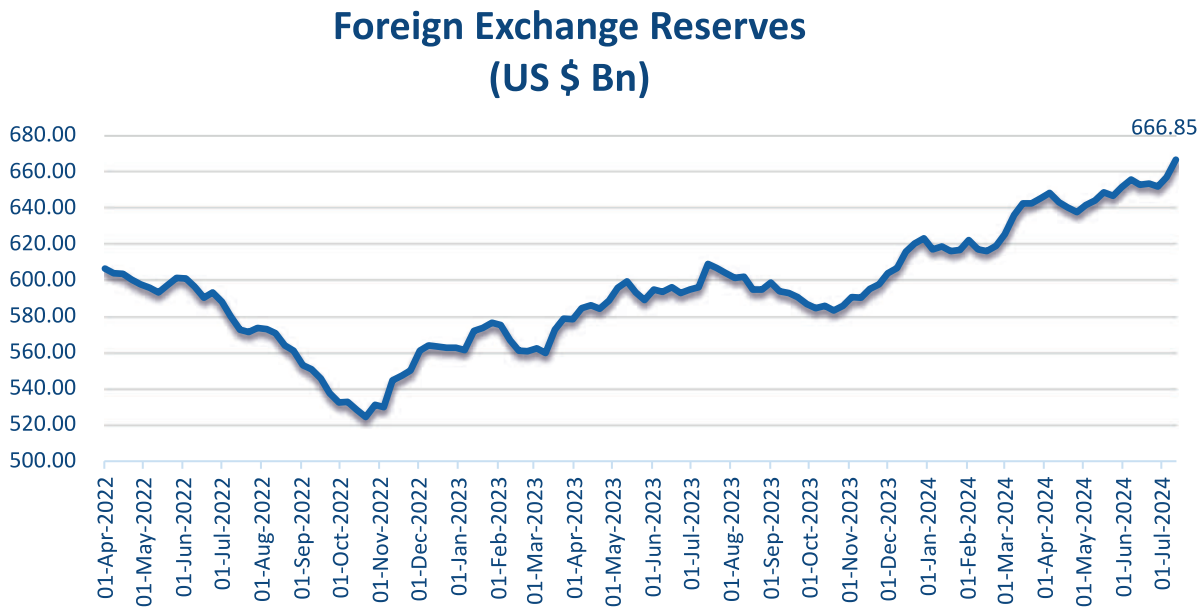
In recent months, improvement in the exports of toys, footwear, smartphones as well as the recent surge in defence have all contributed to the improved performance of the overall exports. The government on its part has taken several steps to facilitate the growth of exports such as the implementation of Single Window Interface for Facilitation of Trade (SWIFT) and other such initiatives. With global economic activity gaining traction, both merchandise and services exports are expected to build on their recent performance in the medium run.

Net FDI inflows have experienced a subdued performance in recent months mainly due to lower investments in sectors such as services, pharma, auto, telecom computer hardware and software. A surge in repatriation/disinvestment is also a major contributing factor for the decline in net FDI inflows. Global factor such as geopolitical tensions, subdued economic activity as well stringent monetary policies by central banks across the globe have all led to decline in FDI flows globally, affecting India as well. There has been a shift in the trend of investment intensions from traditional sectors such as chemical to more futuristic sectors. There needs to an increased focus on these new segments to attract global investors.

## Total Foreign Inflows (USD Bn.)



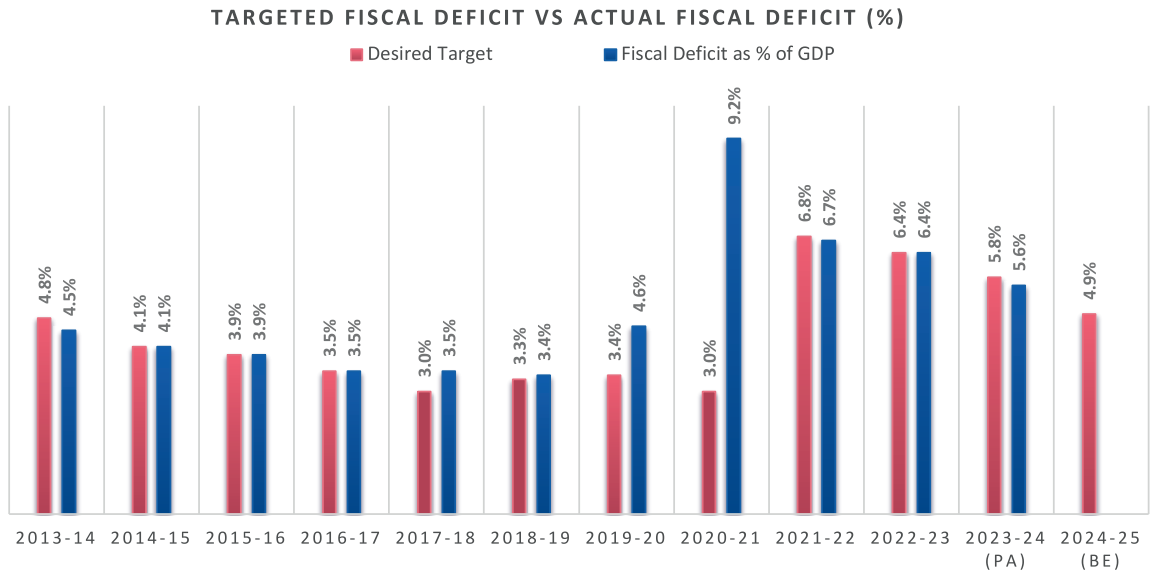
Even with the challenges faced by the external sector the forex reserves remain robust. As of 12th July 2024, the forex reserves are at USD 666.85 bn. The robust forex reserves provide additional caution to the external sector during times of high volatility.



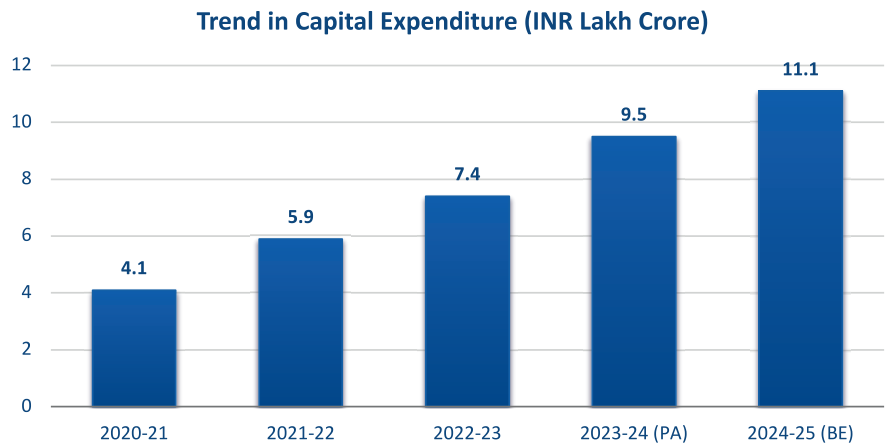

The external sector has been resilient so far and will have to navigate through possible headwinds such as a fall in demand from major trading partners owing to decline in economic activity, further disruptions leading to increase in trade cost, price volatility and global commodities as well as trade policy changes. The government has proposed to simplify rules and regulations relating to FDI & ODIs to facilitate foreign direct investments, nudge prioritization, and promote opportunities for using Indian Rupee as a currency for overseas investments. This should positively affect the external sector performance in the coming years.

# 06. FISCAL SCENARIO

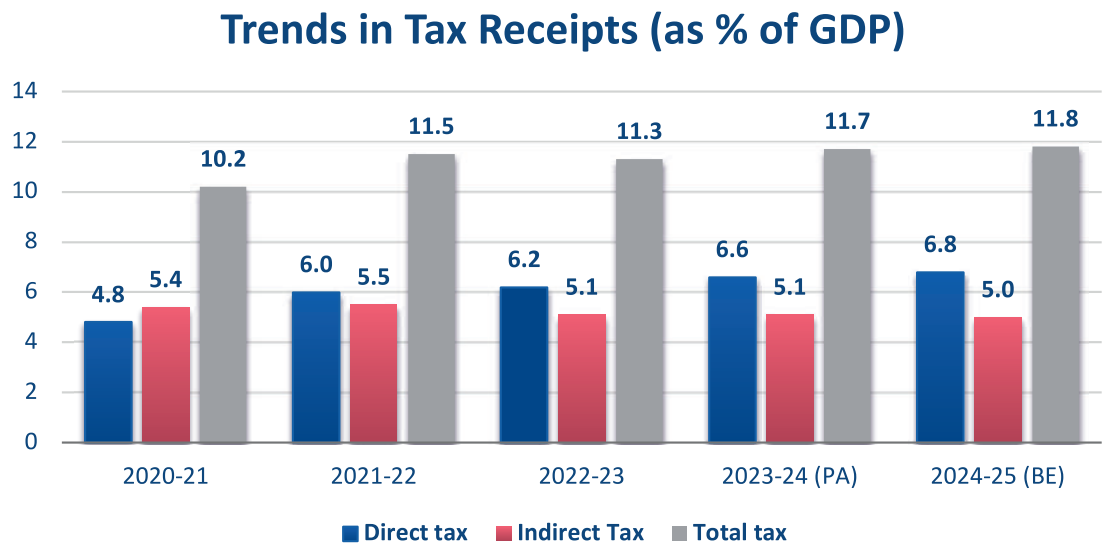
Post the surge during the pandemic, the fiscal deficit has been on a consistently declining trend. According to the latest budget estimates (BE), the fiscal deficit to GDP ratio is expected to decline to 4.9% as compared to 5.6 % PE (provisional actuals) in 2023-24. The Government seems to be committed to staying the course of the fiscal consolidation path announced in 2021and accordingly aims to reach a fiscal deficit below 4.5% next year.




The graph above is an indication of the fiscal prudence that the government has tried to achieve and the target it sets for itself in the coming year. The total expenditure through the budget is expected to rise to INR 48.20 lakh crore in 2024-25 (BE) as compared to the expenditure through budget of INR 44.90 lakh crore in 2023-24 (RE). This is a noticeable jump in the total budget outlay for the year. Looking at the budget outlay, the defence sector has the highest allotment of INR 4.55 lakh crore followed by rural development with INR 2.66 lakh crore and agriculture and allied activities at INR 1.52 lakh crore. MGNREGA gets the highest allotment among the budget schemes at INR 86,000 crore with solar grid being allotted INR 10,000 crore. Having said that a provision of ₹11 lakh crore (3.4% of GDP) is made for overall infrastructure development suggesting continuation in significant investment in building and improving infrastructure by the government in previous decade.

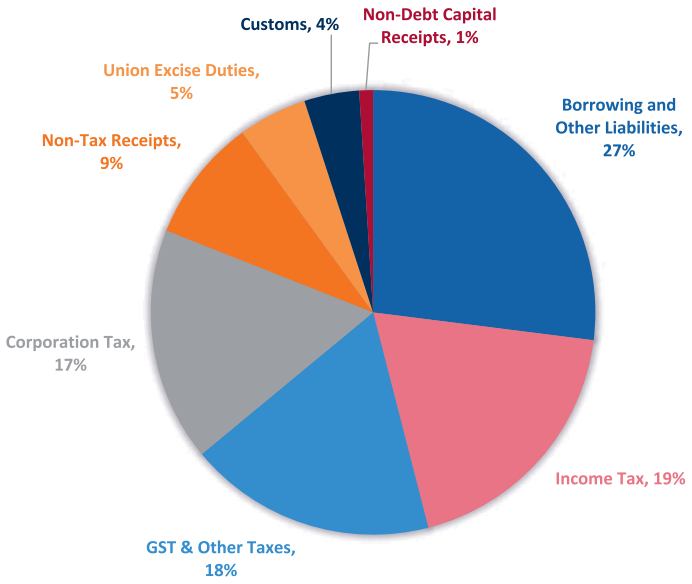


On the receipts side, revised estimates indicate a total tax revenue of INR 34.37 lakh crore in FY 2023-24 with budget estimates indicating a growth in overall tax collection at INR 38.40 lakh crore in FY 2024-25. Higher tax compliance due to various measures implemented by the government including procedural reforms, expenditure restraint and increasing digitisation has helped in tax buoyancy in the last couple of years. In the budget estimates for FY 2024-25, the government expects the highest contribution from taxes on Income at 11.87 lakh crore, followed by GST at 10.62 lakh crore and corporation tax at 10.20 lakh crore.

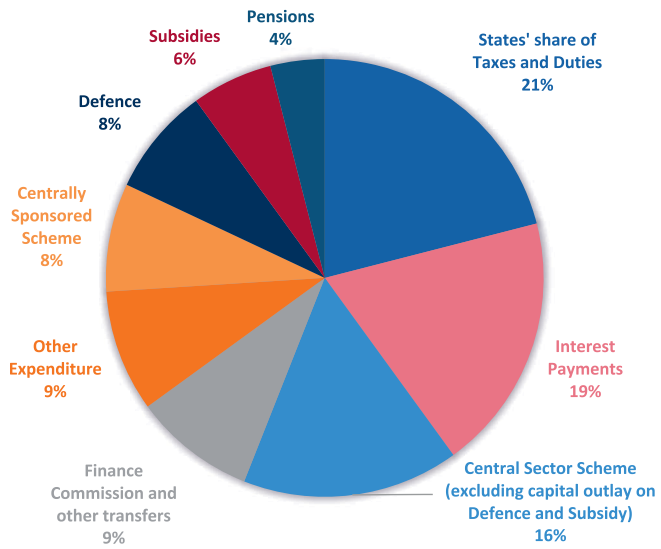



Overall, as mentioned above the fiscal deficit for FY 2024-25 is estimated at 4.9 per cent of GDP. Below is a representation of important sources of funds for the government as well as important outlay avenues for application of these funds in FY 2024-25.

## SOURCE OF FUNDS




## APPLICATION OF FUNDS



# 07. IMPORTANT BUDGET PROPOSALS

*Roadmap to "Viksit Bharat"*

In line with the broader theme of 'Viksit Bharat' proposed in the interim budget, the government has defined its particular focus on employment, skilling, MSMEs, and the middle class in the coming years. With a dream of making India a 'Viksit (Developed)' economy, the first budget of Modi 3.0 government envisages sustained efforts on the following 9 priorities for generating ample opportunities for all sections of the economy.

## Productivity and resilience in Agriculture

With a provision of INR 1.52 lakh crore for agriculture and allied sector, the government intends to work on the following specific components –

- Transforming agriculture research for raising productivity
- Release of new 109 high-yielding & climate-resilient varieties of 32 crops
- Natural Farming support to 1 Cr farmers with 10,000 bio-input resource centres
- Strengthen production, storage & marketing for pulses and oilseeds for self sufficiency
- Large scale clusters for vegetable production & promote Supply Chain participants
- Digital Public Infrastructure for Agriculture in 400 districts & 6 Cr farmers
- Financial support for Shrimp Production & Export
- National Cooperation Policy for development of the cooperative sector

## Employment & Skilling

The government plans to implement 3 'Employment Linked Incentive' schemes, as part of the Prime Minister's package, based on enrolment in the EPFO and focusing on –

- One month wages to first-time employees
- Incentives to employees and employers for EPFO contributions for first 4 years
- Reimbursement of EPFO contributions to employers for 2 years for new hires
- These schemes intend to cumulatively benefit around 2.90 Cr persons.

For advancements in skilling, the government has proposed skilling programs for -

- 20 lakh youth over a 5-year period
- With upgradation of 1,000 Industrial Training Institutes in hub and spoke arrangements
- Course content & designed being aligned with industry needs

Facilitation of higher participation of women in the workforce through setting up of working women hostels is also proposed in the budget. Additionally, proposed facilities for Skilling Loans up to INR 7.5 lakhs & Education Loans of up to INR 10 lakhs are expected to benefit around 1.25 lakhs student every year.

## Inclusive Human Resource Development and Social Justice

The government aims for all-inclusive development, focusing on farmers, youth, women, and poor. A "saturation approach" is proposed to be used to reach all eligible people through programs like education and healthcare and with specific schemes for craftsmen, artisans, self-help groups, and women entrepreneurs. This includes

- Allocation of more than ₹3 lakh crore for schemes benefitting women and girls.
- A "Purvodaya" plan for the eastern region (Bihar, Jharkhand, West Bengal, Odisha, and Andhra Pradesh)
- Improving the socio-economic condition of tribal communities covering 63,000 villages benefitting 5 crore tribal people.
- More than 100 branches of India Post Payment Bank will be set up in the North East region.
- 3 crore more houses under PM Awas Yojana

## Manufacturing & Services

This budget seems to provide special attention to MSMEs and manufacturing, particularly labour-intensive manufacturing with a package covering financing, regulatory changes and technology support for MSMEs to help them grow and also compete globally. Measures specified in this respect include -

- Credit Guarantee Scheme for MSMEs for purchase of machinery & equipment
- New assessment model for MSME credit in built in public sector banks
- Credit Support to MSMEs during Stress Period
- Increased limits for Mudra Loans from INR 10 lakhs to INR 20 lakhs for 'Tarun' category
- Enhanced scope for mandatory onboarding in TReDS for facilitating MSMEs' liquidity
- Expand reach of SIDBI branches in 168 MSME clusters
- Financial support for setting up MSMEs for Food Irradiation, Quality & Safety Testing
- E-Commerce Export Hubs to be established in PPP model

Additional measures for promotion of Manufacturing & Services include -

- Internship opportunities to 1 crore youth in 5 years in 500 top companies
- Development of investment-ready "plug and play" industrial parks in/near 100 cities
- Rental Housing for industrial workers
- Reforms in Shipping & Mining industries
- Development of DPI applications & Integrated Technology Platform for IBC eco-system
- Services for accelerated voluntary closures of LLPs
- Setting up of additional National Company Law Tribunals & Debt Recovery Tribunals

## Urban Development

Another priority for the fulfilling the dream of 'Viksit Bharat' is urban development, which would include the following particular aspects -

- Development of 'Cities as Growth Hubs' orderly development of peri-urban areas
- Creative redevelopment of cities
- Transit Oriented Development plans for 14 large cities with a population above 30 lakh
- Central assistance of ₹ 2.2 lakh crore in 5 yrs. for housing needs of 1 Cr families
- Water Supply and Sanitation projects and services for 100 large cities
- Development of 100 weekly 'haats' or Street food hubs in select cities
- Moderation of Stamp Duties, particularly for purchases by women

## Energy Security

The Government will bring out a policy document on appropriate energy transition pathways that balances the imperatives of employment, growth and environmental sustainability. The government aims to ensure energy security through the following key initiatives -

- Encouraging rooftop solar installations and provide free electricity to 1 Cr households
- PPP model to develop small and modular nuclear reactors
- AUSC technology for thermal power plants, improving efficiency & reducing emissions
- Roadmap for industries promoting cleaner production
- Energy audits and financial support to MSMEs

## Infrastructure

As evident from the numbers over the years, the Government has made significant investment in building and improving infrastructure, which has had a strong multiplier effect on the economy. The endeavour remains to maintain such strong fiscal support for infrastructure over the next 5 years as well with provision of ₹11.11 lakh crore (3.4% of GDP) made for the infrastructure. This will in the form of -

- Long-term interest free loans for infrastructure investments by state governments
- A market-based financing framework for private investment in infrastructure
- Phase IV of PMGSY for all weather connectivity to 25,000 rural habitations
- Irrigation and Flood Mitigation assistance to affected states
- Promoting tourism to make India as a global tourist destination with focus on specific projects at places with spiritual / religious / educational significance

## Innovation, Research & Development

The Government's plans for inculcating Innovation & R&D includes –

- Operationalization of the Anusandhan National Research Fund for basic research and prototype development
- Setting up a mechanism for spurring private sector-driven research and innovation at commercial scale with a financing pool of INR 1 lakh crore
- Setting up a venture capital fund of INR 1,000 crore for expanding the space economy by 5 times in the next 10 years

## Next Generation Reforms

The government intends to formulate an economic policy framework which will initiate and incentivize reforms for improving productivity of factors of production, and facilitating better efficiency of markets and sectors. This will be done through the following reforms -

- Land related reforms like Unique Land Parcel Identification Number or Bhu-Aadhaar for all lands, Survey of map sub-divisions, Linkages to the farmers' registries, Digitizing Land records in urban areas with GIS mapping, Digitization of cadastral maps etc.
- Labour related reforms like integration of e-shram portal for employment & skilling
- Capital and entrepreneurship related reforms, including simplification of FDI/ODI regulations, provision of 'variable company structure', developing taxonomy for climate finance, Improvement in data governance, collection, processing and management of data and statistics etc.

***Data Sources***

*Union Budget 2024-25 | Ministry of Finance | Reserve Bank of India | Ministry of Statistics and Programme Implementation*
*World Economic Forum, International Monetary Fund | Ministry of Commerce & Industry*

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