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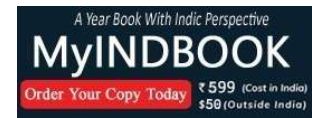


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# India's Interim 2024-25 Budget: A Constructive Step towards Viksit Bharat

In Economics 10:54 AM, Feb 05, 2024

Mukul Asher (<https://myind.net/Home/authorArchives/2097>)



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### The Context

The interim 2024-25 budget of the Union government of India presented on 1 February 2024 is a constructive step towards a Viksit Bharat by the end of Amrit Kaal in 2047. The government's vision for Viksit Bharat as stated by the finance minister in her Budget Speech is that of "*Prosperous Bharat in harmony with nature, with modern infrastructure, and providing opportunities for all citizens and all regions to reach their potential.*"

It should be stressed that while the focus is usually on the Union budget, economic and other policies are undertaken throughout the year, many of which have significant implications for progressing towards Viksit Bharat.

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An example is the setting up of the Constitutionally mandated 16<sup>th</sup> Finance Commission. Its Terms of Reference (ToR) are-

1. The distribution between the Union and the States of the net proceeds of taxes which are to be, or maybe, divided between them under Chapter I, Part XII of the Constitution, and the allocation between the States of the respective shares of such proceeds;
2. The principles that should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India and the sums to be paid to the States by way of grants-in-aid of their revenues under article 275 of the Constitution for purposes other than those specified in the provisos to clause (1) of that article; and

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3. The measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and Municipalities in the State based on the recommendations made by the Finance Commission of the State.

The Commission may review the present arrangements on financing Disaster Management initiatives, with reference to the funds constituted under the Disaster Management Act, 2005 (53 of 2005), and make appropriate recommendations thereon.

The Commission shall make its report available by 31st October 2025 covering a period of five years commencing on the 1st April 2026<sup>1</sup>.

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As policies and performance of the states and urban and rural bodies are vital in enhancing the quality of economic and social management, the well-constituted 16<sup>th</sup> Finance Commission is expected to play a key role in the coming years.

An interim budget is presented in the year in which general elections are to be held. The tenure of the current 17<sup>th</sup> Lok Sabha is to end on June 16, 2024. The Election Commission of India will announce the dates of the general election to take place before then. India's full budget for 2024-25 will be presented in July 2024 by the government which is entrusted with the responsibilities of governance after the elections.

The Economic Survey, which is usually published before the budget will also be published in July 2024. Instead, a document entitled, *Indian Economy: A Review* was published by the Department of Economic Affairs (DEA) in January 2024<sup>2</sup>.

Since 2005-06, India has registered a significant decline in multi-dimensional poverty from 29.17% in 2013-14 to 11.28% in 2022-23 which is a reduction of 17.89%. As a result, 248 million persons escaped multidimensional poverty in the last nine years<sup>3</sup>.

**Key Characteristics of the Budget**

These are prudent economic and fiscal management, future orientation and broad-based development initiatives enhancing economic welfare. Each is discussed in turn.

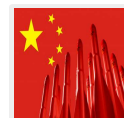
**Prudent Economic and Fiscal Management**

In the current global environment, where many diverse activities are getting weaponized, especially against the rising power of India, sustaining sound macroeconomic management and fiscal prudence are vital.

The Budget projects India's nominal GDP in 2024-25 at INR 327.7 trillion, (USD 3.95 trillion @ USD 1=INR 83). This represents a nominal GDP growth of 10.5 percent over the 2023-24 period. At this rate, using the 72 rule, India's nominal GDP is expected to double in 6.86 years.

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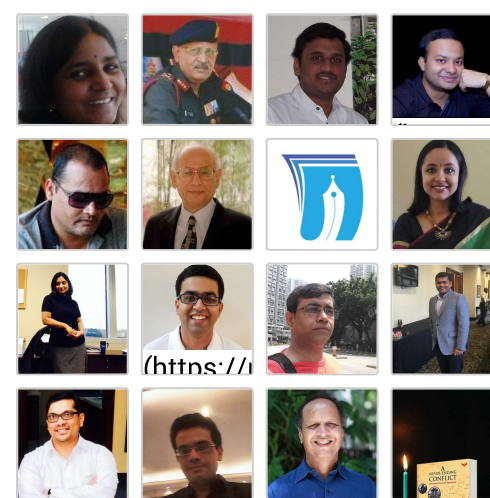
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It is noteworthy that the IMF has recently raised India's real GDP growth to 6.5 percent in 2024-25 and in 2025-26, lending further credibility to the 10.5 percent projected nominal growth<sup>4</sup>.

The Budget also reports on good progress on fiscal consolidation by the union government. For 2024-25, the fiscal deficit is projected at 5.1 percent of GDP, a substantial decline over 2023-24. The Revenue (or Current) deficit is projected to decrease to 2.0 percent of GDP from 2.0 percent in the previous year, again a sharp drop.

This has occurred despite a sustained increase in capital expenditure. In 2024-25 of the total expenditure of INR 47.7 trillion, 11.1 trillion (23.2 percent, equivalent to 3.4 percent of GDP), is for capital expenditure, Roads, railways, defence, and transfer to states for capital expenditure account for the bulk of capital expenditure.

The 2024-25 Budget projects revenue of INR 47.65 trillion, of which INR 30 trillion is Revenue or current receipts, and the remaining re-capital receipts.

The tax revenue is projected to be INR 26.02 trillion, with a share of individual Income Tax (19 percent), Corporate Income Tax (17 percent), and GST and related taxes (18) percent. This distribution is leading India towards a modern broad-based tax system, though the share of the population paying income tax needs to rise further.

There is widespread consensus that the finance minister and her team deserve commendation for taking initiatives over the years to make the fiscal and other numbers credible and more comprehensive.

Visible fiscal consolidation will provide a strong signal to the foreign portfolio and direct investors, especially as Indian bonds are increasingly included in global indexes, such as the J. P. Morgan Bond Index.

The finance minister has also announced that a White Paper on public finances and economic management for the period prior to 2014 will be presented. A whitepaper is an in-depth report on an issue and can provide learning and problem-solving for the future.

#### Future Orientation

Many measures and programs indicate the future and long-term orientation of the interim budget. Only the illustrative measures are cited-

First, the budget recognized that India must create a climate of innovation, an essential requirement for productivity-led growth, and make young start-ups involved. It proposes to establish a program amounting to INR one lakh crore, with a fifty-year interest-free loan. The corpus will provide long-term

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financing or refinancing with long tenors at low or nil interest rates. This will encourage the private sector to scale up research and innovation significantly in sunrise domains. We need to have programmes that combine the powers of our youth and technology.

Second, a new scheme is to be launched for strengthening deep-tech technologies for defence purposes and expediting 'Atmanirbharta'.

Third, the finance minister quotes Prime Minister Modi that the recently announced India-Middle East-Europe Economic Corridor "will become the basis of world trade for hundreds of years to come, and history will remember that this corridor was initiated on Indian soil." This is a pathbreaking initiative to secure the future maritime security of India vital for the country which will be the third largest economy (currently fifth) in a decade or so from now. IMF has projected India's share in the growth of global GDP in 2023 to be 15.4 percent (second highest), with a good possibility of it increasing further.

### **Broad-Based Development Initiatives Enhancing Household Welfare**

These are designed to move households (and other economic agents) from entitlement to an empowerment mindset. Select examples of the above in the Interim Budget are as follows.

First, the Budget proposes that through rooftop solarization, ten million households will be enabled to obtain up to 300 units of free electricity every month. The following benefits are expected-

- Savings up to fifteen to INR eighteen thousand annually for households from free solar electricity and selling the surplus to the distribution companies;
- Charging of electric vehicles;
- Entrepreneurship opportunities for many vendors for supply and installation;
- Employment opportunities for persons with technical skills in manufacturing, installation, and maintenance.

Second, INR 100,000 (one Lakh) income for rural women, called the Lakhpati Didi Scheme. Eighty-three lakh SHGs (Self-Help Groups) with ninety million women are transforming the rural socio-economic landscape with empowerment and self-reliance. Their success has assisted nearly ten million women to become Lakhpati Didis already. The Budget buoyed by the success, it has been decided to enhance the target for Lakhpati Didi from 20 million to 30 million.

The third example is the promotion of the tourism sector, including domestic tourism, which can be expected to promote livelihoods and enhance household welfare. The Budget proposes that

The States will be encouraged to comprehensively develop iconic tourist centres, and brand and market them on a global scale. A framework for a rating of the centres based on the quality of facilities and services is to be established. Long-term interest-free loans will be provided to States for financing such development on a matching basis. To address the emerging fervour for domestic tourism, projects for port connectivity, tourism infrastructure, and amenities will be initiated on Bharat's islands, including Lakshadweep.

For the above to be realized, a strategic focus on Swacch (clean) Bharat program will be essential, and this would in turn require changing the mindset of the Indian people.

### Challenges

Sound economic, social, and political economy management has positioned India well toward progressing towards Viksit Bharat. However, several challenges need to be competently addressed.

The DEA report identifies the following four major challenges. The Report is confident that the government's track record and contemplated policies and programs, including those in the interim budget will help in addressing the challenges

First, in an increasingly integrated global economy, India's growth outlook is not only a function of its domestic performance but also a reflection of the spillover effects of global developments. Increased geoeconomic fragmentation and the slowdown of hyper-globalization are likely to result in further friend shoring and onshoring, which are already having repercussions on global trade and, subsequently, on global growth.

Second, the trade-off between energy security and economic growth versus energy transition is a multifaceted issue having various dimensions- geopolitical, technological, fiscal, economic, and social, and the policy actions being pursued by individual countries impacting other economies.

Third, the advent of Artificial Intelligence (AI) poses a big challenge to governments around the world due to the questions it poses to employment, particularly in services sectors. This was recently highlighted in an IMF paper estimating that 40 percent of global employment is exposed to AI, with the benefits of complementarity operating beside the risks of displacement

In a recent survey of 1490 global leaders conducted by the World Economic Forum, 53 percent identified AI (Artificial Intelligence) generated misinformation and disinformation as the second highest risk for 2024 (after extreme climate) for the global economy<sup>5</sup>.

There are some extreme views on the impact of AI which also cannot be ignored by the policymakers. To quote, "*think about a world in which a big chunk of white-collar work can be done at low or zero marginal cost, meaning there's very little or no extra cost for each additional task or project. Or, going further, imagine a world in which the marginal cost of scientific and technological research, specifically, falls close to zero*"<sup>6</sup>.

Fourth, domestically, ensuring the availability of a talented and appropriately skilled workforce to the industry, age-appropriate learning outcomes in schools at all levels and a healthy and fit population should remain important policy priorities in the coming years. A healthy, educated, and skilled population augments the economically productive workforce.

The global context is that for the very first time in the history of humanity – humans have been around for 200,000 years – global fertility is below the population replacement rate of 2.15. India's fertility rate was 2.139, just about the replacement rate, albeit with wide variations among the states and districts, and among different groups. This has significant implications for cross-state migration of workers and for the provision of amenities. It is hoped that the group proposed in the budget to study demographics would consider these aspects as well.



## Concluding Remarks

The brief analysis of the 2024-25 Budget presented in this column strongly suggests that it represents a constructive step toward Viksit Bharat.

While the good government and commendable focus on moving households and other economic agents from entitlement to empowerment so they can reach their potential, there are also responsibilities that the people and organizations should aim to fulfill if the vision of Viksit Bharat is to be realized.

Thus, among many others, Nilesh Shah, the Managing Director (MD) of Kotak Mahindra Asset Management has argued that we Indians need to build a national character that would enable progress towards Viksit Bharat. This will require changes in mindset in several areas, an intangible that history suggests enables even natural resource-poor countries such as Japan and South Korea to become Viksit in a relatively short time.

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