The Tribune
ESTABLISHED IN 1881

Job-oriented Budget

Employment, skilling take precedence for Modi 3.0

EMPLOYMENT was undoubtedly the leitmotif of Modi 3.0's first Budget. This 10-letter word figured no less than 33 times in the text of Finance Minister Nirmala Sitharaman's speech. With employment — or rather, unemployment — being one of the key factors that contributed to the BJP's underwhelming performance in the recent Lok Sabha elections, the government has been under pressure to prioritise jobs and skilling in a bid to win over disgruntled young voters. The Budget has made a provision to incentivise job creation in the manufacturing sector through a scheme linked to recruitment. This is significant for the world's fastest-growing major economy, which cannot afford to let its march be impeded by a crippling job crisis.

Overall, the Budget has a package of five schemes aimed at facilitating employment and skilling, with an allocation of Rs 2 lakh crore. While the focus on employability is a step in the right direction, much will depend on the industry's cooperation and the government's support. Both will have to work in tandem to make a difference on the ground. The ruling party has also tried to reach out to its core vote bank — the middle class — by enhancing the standard deduction for salaried employees and the deduction on family pension for pensioners. This class has been grappling with rising prices; more money in the pocket due to this relief can give a much-needed push to consumption.

The Budget bears the unmistakable stamp of coalition compulsions, with major announcements being made for Bihar and Andhra Pradesh to boost development through special financial packages. Both states are ruled by parties that are indispensable allies of the BJP at the Centre. However, this disproportionate emphasis on the duo, duly slammed by the Opposition, has exposed the hollowness of the government's grand slogan of *Sabka Saath, Sabka Vikas*.

Vision for agriculture

Focus on sustainability, income for farmers

THE 2024-25 Budget introduces significant provisions aimed at transforming the agricultural sector with a focus on sustainability, productivity and economic growth for farmers. One crore farmers are envisaged to be initiated into natural farming within two years. This enterprise is to be complemented by establishing 10,000 bio-input resource centres for sustainable farm practices. To enhance vegetable production and streamline the supply chain, the Budget emphasises promoting Farmer Producer Organisations (FPOs), cooperatives and startups. Playing a critical role in the collection, storage and marketing of vegetables, these entities will help farmers receive better prices and reduce post-harvest losses.

Another notable initiative is the release of 109 new high-yielding and climate-resilient varieties of 32 field and horticulture crops. It aims to address climate change challenges and ensure stable agricultural production. A review of the agricultural research setup is also planned. In a bid to reduce the country's dependence on imported edible oils, the Budget introduces measures to boost the cultivation of mustard, groundnut, sesame, soybean and sunflower. Digital Public Infrastructure (DPI) is set to revolutionise the sector by covering farmers and their lands within three years.

However, these ambitious provisions face implementation challenges. The widespread adoption of natural farming practices requires substantial training and support, which may strain resources. Establishing 10,000 bio-input resource centres and enhancing FPOs necessitate better coordination and investment. Promoting climate-resilient crop varieties and boosting oilseed production hinge on robust extension services. DPI initiatives also require overcoming technological barriers and ensuring equitable access. Addressing them is vital for realising the Budget's vision.

ON THIS DAY...100 YEARS AGO

The Tribune.

LAHORE, THURSDAY, JULY 24, 1924

Jail reform

ONE of the most urgent of all reforms in India is the reform of the prison system. Much has been said on this subject during the last few years both in the press and on the platform, and a Commission has enquired into the whole question and submitted its report. The main features of the system, however, remain substantially what they were before the present agitation was set on foot. There is, however, no room for despair, when it is borne in mind that in England itself, prison reform has been a somewhat tardy process. The change that has now taken place in that country is thus described by the *Daily Chronicle*:– "English prisons used to be about the worst in Europe. They were farmed out to gaolers, whose prime purpose was to exploit criminals and debtors for their own profit. The death rate was appalling and those who were not killed were brutalised. Those days are happily long past. The Prison Bill of Health has for years been extraordinarily good. And of late, the Commissioners and Governors, who are their chief agents, have striven more and more to aid the moral recovery of the unfortunate men and women committed to their charge. Here, as in so many other fields, a better knowledge of psychology has inspired reform. The aim became preventive rather than punitive. Now, it is curative. Much is done to help prisoners to make good not only to wean them away from crime but also to make them independent, self-respecting and reputable citizens." There is no reason why with persistence, vigour and determination, it should be possible to achieve the same result in India within a comparatively short time.

Biden out, but Trump may still win

At this stage, Republican nominee appears to have a head start over any Democratic rival

SHYAM SARAN
FORMER FOREIGN SECRETARY

CHALLENGE: The best bet for the Democrats is Kamala Harris, but a lack of a broad consensus over her candidature will diminish any positive outcome from Joe Biden's exit from the race. REUTERS

US President Joe Biden announced on July 21 that he was dropping out of the presidential elections due in November. After his poor showing in the one-to-one TV debate with Donald Trump on June 27, there had been a rising crescendo of influential voices in the Democratic Party calling upon Biden to stand down as a candidate and allow a younger nominee to face Trump, the Republican candidate, in the elections. It has taken a precious three weeks since the debate for Biden to yield to pressure from within his party to finally stand down. There will be limited time available for party managers to home in on a credible candidate for endorsement at the Democratic Party convention scheduled to start on August 19. Although Biden has endorsed Vice-President Kamala Harris as the candidate he supports and has urged the party to rally behind her, there are indications that key figures like former President Barack Obama and former House Speaker Nancy Pelosi may prefer another candidate. Any contestation at this late stage can only diminish any raised hopes which may have been generated by Biden's announcement.

Assuming Harris does get the party's endorsement at the party convention next month, how do her chances stack up against Trump?

Harris has both Black and Asian credentials and should be able to mobilise the non-White constituency. She is a strong champion of women's rights and has been vocal in opposing anti-abortion laws. As a potential first woman President of the US, she may appeal to the large female constituency across the racial divide. She has taken a strong position on the Gaza war, calling for an immediate ceasefire, which contrasts with Biden's continuing though reluctant support to Israel. This may be a nuanced difference with her boss but may make her more congenial to the pro-Palestinian Arab-Americans and a large section of the US youth. While these may be her assets, the downside would be the very limited time she has to mobilise support for her candidacy within the party in the less than four weeks available to her. She cannot afford to have a contested candidacy at the party convention. A quick and consensus endorsement by the party immediately in advance of the convention will free her to concentrate on campaigning against Trump rather than her possible contenders within the party. Even if she wins a contested candidacy at the party convention, legitimacy as a presidential contender will be contrasted with the overwhelming endorsement Trump has already received as the Republican nominee. And Trump would already have a head start in the campaign much before Harris gets her act together. Campaign finance may also be an issue. Some large contributors to the Democratic Party had held back on their contributions after Biden's poor showing at the June debate with Trump. Will they open their purse strings for Harris? There are many doubts on this score. Trump has no problem at all on the finance front. Taking all these factors into account, Biden stepping down and Harris being inducted into the race at this late stage is unlikely to improve the Democrats' chances significantly.

> Trump's close brush with death is likely to galvanise his supporters to come out in large numbers to vote for him.

If not Harris, who? None of the possible contenders has the name recognition that Harris has and would have even less time to pose a serious and credible challenge to Trump. The best bet for the party is Harris, but a lack of a broad consensus over her candidature will diminish any positive outcome from Biden's exit from the race.

Trump has a solid base of support, perhaps as much as 40 per cent of the voting population. The assassination attempt against him has given him the benefit of the inevitable sympathy factor. But more than that, his close brush with death is likely to galvanise his supporters to come out in large numbers to vote for him. There is no comparable galvanising factor on the Democratic side. Enthusiasm among Democratic supporters may be of a lesser order. At this stage of the political game, therefore, Trump appears to have a head start over any Democratic rival.

It is likely that Trump will heighten US contention with China, and not only on the trade issue. He has said that he will end the Ukraine war but not how. The large financial and military support the US has extended to Ukraine might be more easily suspended or significantly reduced. The European countries are unlikely to be able to make up for reduced US support. This may lead to Ukraine agreeing to a ceasefire along the existing battle-lines. This will be a plus for Russia though it is not expected that sanctions against Russia will be eased. A transactional Trump may seek a quid pro quo for that.

The worst affected, potentially, could be Europe. The pressure on European allies in NATO to do more for their own security will mount and tariffs against European products may increase. There may be less pressure on allies in the Indo-Pacific given the China factor.

It is not clear whether Trump will force an end to hostilities in the Gaza war as he intends to do with Ukraine. The support to Israel is unquestioned and Israeli Prime Minister Netanyahu may feel encouraged to further escalate the war. But even Trump may not want to get embroiled in a wider regional war involving Hezbollah in Lebanon and Iran. It would be interesting to see how Trump handles these contradictory aims in West Asia. His instinct would be to focus on the Indo-Pacific without distractions elsewhere. This should be welcome to India.

There should be reasonable confidence in the Modi government on navigating a Trump 2.0 presidency with the experience gained in its earlier incarnation. Relations with India have enjoyed bipartisan support in the US. This is likely to continue. For the Modi government, on balance, a Trump presidency may appear more congenial. The two leaders enjoyed good chemistry during the previous Trump administration. That would be an asset if Trump comes back. There may also be expectations of less US focus on human rights and minority issues. What may be more difficult to navigate is an even more fluid and disruptive international geopolitical terrain which Trump will inevitable foist on the world.

THOUGHT FOR THE DAY

"The only way to make our democracy stronger is if we fight for it. — Barack Obama"

Unfair means, from slips to chips

SONIK BHATIA

TECH adventurer Elon Musk recently posted on X that in the future, 'there will be no phones, just Neuralinks'. He shared an image of himself, generated using artificial intelligence (AI); it showed a neural network-like design on his forehead. A chip embedded in the brain will presumably control the computer as well as the phone. If everything falls into place, it would be possible to gather information merely by thinking.

For better or worse, technology is evolving rapidly in terms of features and uses. Unscrupulous elements are increasingly using smart devices to cheat in exams. When we were students around three decades ago, we were frisked for paper slips and pocket guides. The examination hall used to reverberate with the warnings of invigilators: 'Anybody having slips or other help material should hand it over or face the consequences.' The terror of the flying squad was palpable even among innocent students; they used to look frantically under or around their desks for any slip somebody might have thrown away after using it.

The situation is entirely different now. The day is not far when a medical certificate would have to be furnished before entering the exam centre. It would say: 'I have not got any chip or device implanted inside my brain or elsewhere for the purpose of copying.' What's more, a team of doctors might be deployed to frisk students 'biologically' with state-of-the-art devices. Only after getting the all-clear would the students be allowed to appear in the test.

I remember my own experience as an invigilator. An examinee with a shock of curly hair caught my attention. Some strands were protruding unusually and seemed incongruous with the hairline. I overheard him muttering each question and its answer to himself. My suspicion grew because in those days, cases of misuse of then newly developed Bluetooth technology were coming to light. I told a senior colleague about my suspicion that some device was concealed in the student's hair. It turned out to be true — a small Bluetooth device was recovered. A few years later, I read a news report that a student was caught cheating with a micro Bluetooth device which was surgically implanted in his ear. One wonders how the invigilator dealt with this novel case and 'recovered' the proof to establish the use of unfair means.

With AI coming into the picture now, the importance of NI (natural intelligence) is set to be undermined. Already, the nation is facing a huge embarrassment over the failure of the authorities to conduct foolproof competitive exams. The cheats are having a field day, even as students possessing NI are finding themselves at the receiving end in one exam scam after another.

LETTERS TO THE EDITOR

Resilience of Indian economy

With reference to the front-page news report 'Economy robust, GDP to grow at 6.5-7%'; things look bright for the future of our country. It is notable that despite a number of natural and man-made disasters, the Covid-19 pandemic and ongoing wars in Ukraine and Gaza, our economy continues to grow at a fast pace. It is a reflection of the Indian economy's remarkable resilience in the face of geopolitical challenges. The Economic Survey has rightly underscored the collaborative approach between the Centre, the state governments and the private sector. All-out efforts should be made to achieve the ambitious vision of Viksit Bharat by 2047.

GOVIND SINGH KHIMTA, SHIMLA

Supreme Court saves the day

The Supreme Court has rightly stayed the directives issued by certain state governments mandating food and beverage shops along the Kanwar Yatra route to display the names of the owners. The orders issued by the authorities are antithetical to the principle of secularism and could promote discrimination on the basis of caste and religion. It is unfortunate that the powers that be take steps that can disturb communal harmony, compelling the apex court to step in. It is imperative that the *yatra* is not politicised. However, it would be wise to direct the eatery owners to display a list of the items on offer. Cooperation between the government and the public is necessary to ensure a smooth pilgrimage.

RAJ KUMAR KAPOOR, ROPAR

State must stay out of religion

The directives recently issued by the authorities of some state governments — that have now been stayed by the Supreme Court — making it compulsory for eateries along the Kanwar Yatra route to display the names of the owners or operators were unwarranted. The move was a communal dog whistle. Such steps not only deepen religious and caste divides but also harm small businesses, primarily those owned by the members of a particular community. To ensure that the *yatra* remains peaceful, the authorities don't need to issue diktats that can be used to target a religious group.

VARSHITA BHURA, ZIRAKPUR

Democrats must pull up their socks

US President Joe Biden has withdrawn from the presidential race at last, a move that many believe was prompted by widespread criticism of his performance in the Oval Office. With this, Kamala Harris, a woman of colour, is set to face Donald Trump in the November elections. Notably, Trump's campaign has gained momentum of late. The failed attempt on the former President's life during a recent rally has only boosted his popularity. Fielding an experienced woman to take on the Republican contender is not enough. The Democratic Party must take concrete steps to prove to the electorate that Kamala is better positioned to lead the country than Trump.

SHAURYA LALL, ZIRAKPUR

Netas must learn from USSS boss

Refer to the story 'Our significant failure: Secret Service chief on Trump shooting'; the director of the US federal law enforcement agency, Kimberly Cheatle, has done well to take full responsibility for the attack that wounded former President Donald Trump during a recent rally in Pennsylvania. Though the United States Secret Service (USSS) chief had initially rebuffed the calls to resign, she did admit in no uncertain terms that the assassination attempt on the ex-President was the agency's most significant operational failure in decades. Contrast this with how the ministers, law enforcement officials and bureaucrats here in India respond to a lapse. Our leaders can learn a thing or two about accountability from the USSS boss.

AVINASH GODBOLEY, DEWAS (MP)

The quota quandary

Widespread violence recently broke out in Bangladesh over a quota that reserved 30 per cent of the government jobs for the relatives of veterans who had fought in the 1971 war of independence. The stir brought back memories of the unrest in India in 1990 following the adoption of the Mandal Commission Report, which had pushed the total reservation in government jobs for the SC, ST and OBC categories to 49.5 per cent. Political parties in India must draw lessons from the Bangladesh episode and change their stance on reservation.

VINAY KUMAR MALHOTRA, AMBALA CANTT

Letters to the Editor, typed in double space, should not exceed the 200-word limit.
These should be cogently written and can be sent by **e-mail to: Letters@tribunemail.com**

12.5%
tax rate on long-term gains on all financial and non-financial assets

20%
tax rate on short-term gains on specified financial assets

"The provisions of the Budget will remove bottlenecks in supply chain and lend strong support to industries"

KALYAN KRISHNAMURTHY, CEO, Flipkart group

ANGEL TAX, EQUALISATION LEVY DROPPED

FM's tax measures seek to widen net, cut litigation

LOOKING UP

Gross tax receipts (₹ trn)

	Total	Direct taxes	Indirect taxes
FY24 Provisional Actuals	34.64	19.55	14.96
FY25 Budget Estimates	38.4	22.07	16.96

Source: Budget documents

SHRIMI CHOUDHARY
New Delhi, 23 July

Deepening the tax base, reducing litigation, and ensuring tax certainty for taxpayers with a long-term vision to reform the taxation framework have been emphasised in the Budget.

Also, Sitharaman did away with angel tax and equalisation levy. She also announced a comprehensive review of the decades-old Income Tax Act in six months.

The end of angel tax for all investor classes will spur investment in startups, a sector that has been starved of funds since the onset of the so-called funding winter. Angel tax is applicable when shares issued by a privately held company exceed their fair value. The tax was introduced in the 2012 Budget to arrest fund laundering for domestic investors. Later, it was extended to foreign investors.

The proposed amendments to the angel tax regime will be made effective from April 1, 2025, and will be applicable from assessment year 2025-26.

"First of all, to bolster the Indian start-up eco-system, boost the entrepreneurial spirit and support innovation, I propose to abolish the so-called angel tax for all classes of investors," Sitharaman said in her Budget speech.

Amit Maheshwari, tax partner, AKM Global, said: "Since its introduction, the startup community has seen waves of tax scrutiny on account of this levy. However, suitable guidelines and safeguards are expected in that respect."

Big Tech such as Amazon, Netflix, and Google will be relieved over the removal of the equalisation levy, which was a 2 per cent tax on the profits of non-resident digital companies providing services to Indian firms. This is in line with the global tax deal pursuant to the pillar one solution developed at the OECD (Organisation for Economic Cooperation and Development) G20 inclusive framework.

The proposed removal of the 2 per cent levy will come into effect on August 1, 2024. The 6 per cent levy on online advertisements and related services will continue. Other than tweaking the slabs of personal income tax, raising capital gains tax on listed securities, and taxing buybacks in the hands of the recipient, there are tax exemptions for venture capital funds, retail schemes, exchange-traded funds, and others located in International Financial Services Centres, such as the GIFT City in Gujarat.

Corporation tax payable by foreign companies has come down from 40 per cent to 35 per cent; and de-penalising of not reporting small foreign assets is up to ₹20 lakh. Other than these, there is a new block assessment scheme for search and seizure. For reassessment, the time limit has come down from 10 years to five, accompanied by a rationalisation of the procedure. "The cut in the tax rate for foreign firms and the abolition of the equalisation levy were a surprise. Logically these would be replaced with alternative levies in the runup to implementing Pillar one obligations," said Rohinton Sidhwa, Partner, Deloitte India. Just as significant is the measure to provide immunity from penalty and prosecution to the benamidar on full and true disclosure by amending the Benami Transactions (Prohibition) Act, 1988. Benami transactions pertain to properties held by a person but paid for by another. The amendment will also rationalise the time limits for attachment of property and reference to the adjudicating authority.

Budget slashes Customs duty on slew of items, assures rationalisation of GST

SHREYA NANDI & SHRIMI CHOUDHARY
New Delhi, 23 July

Finance Minister Nirmala Sitharaman on Tuesday tweaked the basic Customs duty (BCD) on a slew of items such as mobile phones, gold, critical minerals, telecom equipment, marine products, among others, to give a leg up to domestic manufacturing and boost export competitiveness. At the same time the FM assured further rationalisation of the goods and services tax (GST) regime.

"My proposals for Customs duties intend to support domestic manufacturing, deepen local value addition, promote export competitiveness, and simplify taxation, while keeping the interest of the general public and consumers paramount," Sitharaman said while announcing the Union Budget 2024-25.

On GST particularly, she said: "It has decreased tax incidence on the common man, reduced compliance burden and logistics cost for trade and industry; and enhanced revenues of the central and state governments. The Budget also proposes several amendments in the central GST Act in line with the recommendations of the GST Council."

The finance ministry will also do a comprehensive review of the rate structure over the next six months to "rationalise and simplify it for ease of trade, removal of duty inversion and reduction of disputes".

For instance, in the interest of consumers, the government has proposed to reduce the import duty on mobile phone, mobile PCBA and mobile charger to 15 per cent from 20 per cent. The decision comes against the backdrop of a three-fold increase in domestic production and almost 100-fold jump in exports of mobile phones over the last six years, a clear signal that the mobile phone industry has matured.

Mobile phones, telecom equipment now attract a lower rate of Customs duty

Import duty on gold, silver, platinum and jewellery has been reduced to enhance domestic value addition in these precious metals.

Gems and Jewellery Export Promotion Council (GJEPC) Chairman Vipul Shah said the reduction in import duties on gold and silver to 6 per cent and platinum to 6.4 per cent is a major boost for the industry.

THE FINE PRINT

Setting the stage for India's sustained economic growth

ZARIN DARUWALA

The full Budget for FY25 signals policy continuity and retains focus on fiscal consolidation, a central tenet of the previous government. It also underscores the government's key focus areas which are fiscal prudence, job creation, infrastructure capital expenditure (capex), and simplification of the tax regime.

The fiscal deficit for FY25 was pegged at 4.9 per cent, well below the 5.1 per cent target presented in the Interim Budget in February 2024. The government has judiciously used available fiscal headroom from the higher-than-expected RBI dividend and strong tax collections to increase expenditure in key sectors such as agriculture and labour, while simultaneously accelerating fiscal consolidation. Further, the government has also laid out a credible plan to achieve an even lower fiscal deficit of 4.5 per cent of GDP by FY26. The projected decrease in government borrowing, combined with the ongoing inflows related to India's bond index inclusion, is positive for fixed-income markets and will help reduce borrowing costs across the economy. Reining in the fiscal deficit also augurs well for a sovereign rating upgrade.

It is worth noting that the share of capex in total expenditure (3.4 per cent of GDP) remains at the highest level since FY05, while maintaining fiscal prudence. This bodes well for capital formation, employment, and the manufacturing sector. A special package was announced for eastern states that included fiscal support for the construction of roads, airports, medical colleges, power plants, etc.

The Budget had a strong focus on employment generation with measures including a wage incentive for first-time employees entering the formal sector, three new schemes for job creation, and support for the MSME and agri sectors, which are large employment generators. There was also an emphasis on skilling with the announcement of a plan to skill two million youth, an internship programme for young students, and an annual interest subvention scheme of 3 per cent for 100,000 students.

Several support measures were announced for the MSME sector, which accounts for about 30 per cent of GDP and provides employment to over 120 million Indians. The measures include credit guarantee schemes, doubling of the Mudra loan limit, as well as guaranteed funding for stressed companies. Further, Covid-related learnings from the ECLGS — a scheme that benefitted 119 million MSMEs and CGTMSE — have been incorporated.

THE PROJECTED DECREASE IN GOVT BORROWING, COMBINED WITH ONGOING INFLOWS RELATED TO INDIA'S BOND INDEX ENTRY, IS POSITIVE FOR FIXED-INCOME MARKETS

The Budget has several business-friendly measures such as the plan to simplify the GST regime, overseas investments, FDI, Esops, TDS, etc.

The creation of a platform for the debt resolution process, and an increase in the number of debt tribunals will improve the efficiency and transparency of the Insolvency and Bankruptcy Code (IBC) process.

On individual income tax, a higher standard deduction and expansion of slabs were announced — both applicable under the new simplified tax regime. These will provide a fillip to household consumption while spurring higher adoption of the new simplified tax regime. Abolishing the angel tax is a very progressive step and will encourage new investments in the startup sector.

On the sustainability front, the announcement to set up the Critical Mineral Mission for domestic production, recycling of critical minerals, overseas acquisition of critical mineral assets, and the exemption of customs duties on 25 critical minerals, will ensure access to strategic rare earth supplies, and help achieve net-zero emission targets.

To conclude, this Budget has shown the government's strong commitment to policy continuity, job creation, and infrastructure thrust, while maintaining fiscal prudence.

The multiplier effect of the measures announced is likely to accrue in the coming years and put India on the path to sustained economic resilience.

The writer is CEO, India and South Asia, Standard Chartered Bank

MODI 3.0: THE ROAD AHEAD

TAXATION BOOST

TAX COLLECTIONS TRENDING HIGHER

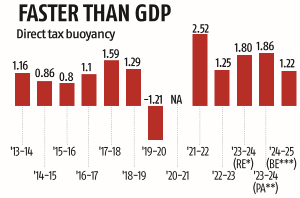
Gross tax receipt (as % of GDP)

BE: Budget Estimates

Source: Budget documents

DIRECT TAX MOPUP GROWING FASTER THAN GDP

Direct tax buoyancy



Note: Direct tax buoyancy is the ratio of change in gross direct tax revenue relative to change in GDP. As both GDP and tax growth rates were negative, tax buoyancy has not been computed for FY21; *Revised Estimates; **Provisional Actuals; ***Budget Estimates

Sources: Income Tax Department, Budget documents, BS calculations

CHALLENGES

- Better compliance from businesses, as well as inflation contributed to record collections. Sustainability of this growth is likely to be closely watched
- Higher collections have also resulted in calls to simplify the goods and services tax (GST) structure, which can be challenging given contentious issues such as the inclusion of petrol under GST

TAKEAWAYS

- Intent to simplify and rationalise the tax structure under GST. There will also be a move towards expanding it to other sectors
- Simpler TDS structure and tax regime for charities. Changes to reassessment and search provisions and capital gains taxations

'Panel of secretaries working on simplification of FDI rules'

A government panel is working on simplification of foreign direct investment (FDI) rules, including speed of approval of proposals as well as switching to an automatic approval mode, Commerce and Industry Minister **PIYUSH GOYAL** told Shreya Nandi in New Delhi in a post-Budget interview. Edited excerpts:

The Budget talks about simplification of FDI rules...
We have worked out a few things that the committee of secretaries is examining. There will be simplification in terms of processes, procedures, and speed of approval. We could put some items in automatic approval mode instead of (government) approval mode. It's a mixed bag, there are many things there. They will put it up with the finance minister, then the Prime Minister, and then it will go for Cabinet approval.

Does it mean that Foreign Investment Promotion Board (FIPB) type of a structure will be back again to speed up FDI proposals' approval process?
I don't know what will happen and what will not happen.

Q&A

There has been a surge in gold and silver imports over the last few months. What's the rationale behind the reduction in import duty?
A reduction in the basic customs duty (BCD) of gold to 6 per cent (from 15 per cent) will reduce smuggling. This decision was taken keeping a few things in mind. The wedding season is around the corner, plus now the economy is in a good shape. When the economy was in trouble, during Covid-19, we needed to put stronger curbs on gold imports. Now we are in a strong position, foreign exchange reserve is strong. When formal gold is imported (through the official route), it only helps our economy further, in the sense that it is a part of our wealth creation. Duty reduction in gold and silver will result in employment and business growth. Value addition in gold jewellery will also boost exports, including e-commerce exports.

To what extent is the decision on removing angel tax boost startups?
More importantly, there was always this concern about valuation since startup shares can't be valued at book value or asset value. It is very often an idea value or potential value. You have to recognise and respect that the idea gets the value and not just the asset.

"AS FAR AS E-COMMERCE EXPORT HUBS ARE CONCERNED, WE WILL START WITH 10-15 HUBS, JUDGE THE INTEREST OF TRADE, BUSINESS AND EXPORTERS. IF WE GET A GOOD RESPONSE, WE WILL SCALE THEM UP. WE CAN IDENTIFY THAT DURING CONSULTATION WITH THE INDUSTRY"

PIYUSH GOYAL
UNION COMMERCE AND INDUSTRY MINISTER

The Budget also talks about industrial parks and e-commerce export hubs...
People are saying it is only Bihar and Andhra Pradesh, but (the fact is) there are 12 industrial parks and they are all over the country. Often you announce only one or two as an example, but the details come in due course.

As far as e-commerce export hubs are concerned, we will start with 10-15 hubs, judge the interest of trade, business and exporters. If we get a good response, we will scale them up. We can identify that during consultation with the industry.

Budget speech saw no mention of a production-linked incentive (PLI) scheme, but the customs duty structure was rejigged...
Well, the final print will be clearer after some time. But she (FM Nirmala Sitharaman) has talked about employment-linked incentives. There are different ways of incentivising manufacturing.

Customs duty rationalisation is expected over the next six months. Will there be proposals from the commerce and industry ministry?
We work as one government. As each of these schemes are rolled out, various ministries will come up with proposals. Pharma, chemicals and other industries may have some proposals.

Business Standard
NEW DELHI | WEDNESDAY, 24 JULY 2024

Fiscal balance amid coalition compromises

Tinkering with rates proposed in the Budget does not change the protectionist stance and there is a need for rethink on the issue

POLICY PILLARS

M GOVINDA RAO

The much-awaited first Budget of the third Narendra Modi government is on predicted lines. This is the seventh straight Budget presented by the finance minister. The Budget attempts to set priorities for the long-term goal of achieving "developed-country" status in the centenary year of Independence. At the same time, it has taken cognizance of coalition compulsions and has acceded to the demand from the allies whose continued support is critical. Most of the revenue and expenditure numbers are quite close to those presented in the Interim Budget except for a substantial increase in non-tax revenue due to a higher dividend of ₹2.1 trillion as against ₹1 trillion given in the Interim Budget. There is a marginal improvement in the deficit estimates.

The Budgets presented by Finance Minister Nirmala Sitharaman have acquired three desirable features. First, they are more transparent and there are no hidden items and off-Budget liabilities. That helps to understand the macroeconomic implications better. Second, in the post-pandemic era, there has been a concerted attempt at fiscal consolidation towards containing the fiscal deficit target of 4.5 per cent of gross domestic product by 2025-26. The minister has promised to continue to reduce the fiscal deficit even thereafter, bringing it down each year to steer central government debt on the declining path, though the extent and the timing of this are unclear. Finally, fiscal consolidation has been done while significantly increasing the capital outlay to keep up growth momentum in the economy. The capital outlay of the Union government relative to gross domestic product (GDP) has shown a steady increase from 1.7 per cent in 2019-20 to 3.4 per cent in the 2024-25 Budget.

As mentioned above, the deficit numbers are marginally better than those presented in the Interim Budget. The fiscal deficit is now estimated at 4.9 per cent (of GDP) instead of 5.1 per cent and the revenue deficit is estimated at 1.8 per cent as against the estimated 2 per cent in the Interim Budget. As compared to the provisional actuals, the fiscal deficit is lower by 70 basis points from 5.6 per cent to 4.9 per cent and the revenue deficit is lower by 80 basis points from 2.6 per cent to 1.8 per cent. It may not be difficult to reach the fiscal deficit target of 4.5 per cent, or even better it next year.

The additional dividend of ₹1.1 trillion received from the Reserve Bank of India over the estimate presented in the Interim Budget was used mainly to meet the demands of the two major coalition partners. While the Union government desisted from conceding "special-category" status to Bihar and Andhra Pradesh, the pivotal coalition partners were able to extract substantially higher packages. Bihar was able to get an allocation of ₹26,000 crore for a two-lane bridge over the Ganga in Buxar and another ₹21,000 crore for a new 2,400-Mw power plant in Pirpainti. Besides, several road-connectivity projects, new airports, medical colleges, tourism projects, and sports infrastructure have been promised to the state. The state is also a part of the proposed "Purvodaya" — an all-round development of the eastern part of the country. Andhra Pradesh was also able to strike a good bargain. The state will receive ₹15,000 crore for building a new capital as promised in the Andhra Pradesh Reorganisation Act. The finance required for the completion of the Polavaram irrigation project will be provided. The Budget has also promised to provide funds for creating essential infrastructure such as water, power, railways, and roads on the Visakhapatnam-Chennai industrial corridor and the Hyderabad-Bengaluru industrial corridor. Additional funds have been allocated for capital investment in backward regions of Rayalaseema, Prakasam, and North Coastal Andhra. Even though it is a southern state, it is part of the "Purvodaya" project. The outlay on these is likely to be substantial not only this year but also in the years to come.

The problem with such asymmetric arrangements is that they lack objectivity. These decisions arise from the configuration of political power and the ruling party can always entice other outfits to align with it to demand more funds. This is against the long-term interests of having a healthy and sustaining federalism. There is a mechanism for objectively making transfers through the constitutionally mandated Finance Commission, an expert body that could be entrusted with the task of assessing the requirements. The coming years will see more such demands from coalition partners, and it remains to be seen how to avoid them.

The time has come to withdraw the option of paying income tax in accordance with the old regime and rationalise the rates in the new

Achieving "developed-country" status requires being competitive. No country has achieved a consistent 8 per cent annual average growth rate for a long period by keeping tariffs at elevated levels. Tinkering with rates proposed in the Budget does not change the protectionist stance and there is a need for rethinking on the issue. Similarly, the time has come to withdraw the option of paying income tax in accordance with the old regime and rationalise the rates in the new. The best-practice approach to tax reform is to have a broad base, low and less differentiated rates, and a simple system. Loading the tax policy with several objectives by giving tax preferences only increases compliance costs and creates distortions. There are six rates of personal income tax now and these can be reduced to three without losing revenue. Hopefully, the rationalisation will be done sooner rather than later. The finance minister touched upon expanding the base of goods and services tax (GST), and hopefully that will be taken up in the next GST Council meeting.

The writer was member, Fourteenth Finance Commission, and was director, National Institute of Public Finance | and Policy

Sustaining the India story

The quality of expenditure continues to improve

MACRO PICTURE

AKASH PRAKASH

ILLUSTRATION: BINAY SINHA

There was a lot of interest in the Budget from global investors. How would the government react to its weaker electoral performance? Would we see a lurch towards populism as has been seen in the recent state Budgets? Would we see some new reform measures in line with the transformational change rhetoric from the government pre elections?

The finance minister has maintained her fiscally conservative stance and thankfully shows no change in economic direction. The quality of expenditure continues to improve. Capital expenditure (capex) continues to be prioritised. When we compare this Budget with the figures given in the Interim Budget of February, some trends are clear. Revenue receipts for FY25, as expected, are higher by almost ₹1.28 trillion over the figures presented in February 2024, but this is entirely due to higher non-tax revenues of ₹1.46 trillion [largely the Reserve Bank of India (RBI) dividend]. Net tax revenues, surprisingly, are shown lower by ₹18,000 crore (entirely due to the higher share of states by ₹27,500 crore). So how was this revenue windfall of ₹1.28 trillion planned to be spent? Revenue expenditure is budgeted to be up by ₹54,744 crore over the interim numbers despite interest payments falling by ₹27,500 crore. So revenue expenditure ex interest payments is up by ₹82,244 crore, only 3.33 per cent. The balance of the revenue windfall was used to lower the fiscal deficit by ₹72,182 crore. The fiscal deficit target was cut to 4.9 per cent of gross domestic product (GDP) from the original Interim Budget target of 5.1 per cent. So yes, there was a revenue windfall for this year but more than half of it was used to lower the deficit, rather than increase revenue expenditure. All the fear of the government turning populist has been just plain wrong.

None of the windfall was used to increase capex, a possible acceptance that there are limits to effective absorptive capacity by the government. Capex has trebled in the last five years, and is now likely to grow slower from here.

Looking at the fiscal deficit, we had an 80 basis point correction in FY24 (6.4 per cent to 5.6 per cent) and are now targeting another 70 basis point correction in FY25 (5.6 per cent to 4.9 per cent). Despite this contraction, we have been able to maintain 7 per cent GDP growth. The fiscal correction needed to get to the 4.5 per cent FY26 target is much less and will be a smaller drag on future growth.

Looking at the Budget arithmetic for FY25 over the actuals for FY24, the numbers look credible as has been the case the past few years. Revenue receipts are budgeted to be up by 14.68 per cent, driven by a 36 per cent rise in non-tax revenues (RBI dividend). Net tax revenues are budgeted to be up only 11 per cent, very conservative in my view, given that nominal GDP is targeted to grow at 10.5 per cent. Revenue expenditure ex interest payments is growing at only 4.78 per cent, with capex poised for another 17 per cent increase — again improving the composition of expenditure. The revenue deficit is down ₹1.85 trillion (2.6 per cent to 1.8 per cent of GDP) and the fiscal deficit is down in absolute terms by ₹40,358 crore.

Subsidies are poised to drop by ₹32,000 crore in FY25, with significant increases in outlays for education by 15 per cent and health by 13 per cent. Rural development has also seen an increase in outlay of 11 per cent to ₹2.65 trillion. There has been no increase in outlays for the rural job scheme under the Mahatma Gandhi Rural Employment Guarantee Act, the Jal Jeevan mission, or the PM Garib Kalyan Yojana. The only scheme that has a large increase is the PM Awas Yojana, which has gone up from ₹54,000 crore to almost ₹85,000 crore (56 per cent jump).

Strategic disinvestment seems to be more or less dead. There was no mention of selling public-sector banks or any other government companies. The disinvestment target remains at ₹50,000 crore, a level similar to that of previous years. There seems to be no attempt to use the elevated valuations of public-sector stocks to accelerate monetisation.

In the coming year, market borrowing will drop by ₹14,500 crore in absolute terms for G-Secs and by ₹31,000 crore for small savings. The debt receipts number will drop by even more because cash is drawn down. Rates should remain benign.

From a market perspective the increase in long-term capital gains for equities is disappointing. The entire revenue-raising exercise seems to have fallen on the equity markets as we are going to have higher long-term and short-term capital gains tax and also higher securities transaction tax. Beyond making India less attractive to global investors, who pay no tax anywhere else in the world, it also puts into play tax policy uncertainty. What will be the ultimate long-term capital gains tax rate? This may not matter today because India is delivering high returns, but will in the longer run as we have to compete for capital. Our vibrant capital markets are a competitive advantage, and we are going to raise only about ₹30,000 crore from these tax hikes? Is it worth risking market sentiment for such a small raise?

The schemes to encourage employment make sense. Encouraging companies to hire fresh workers and provide internships is a good idea. Government subsiding part of the cost reduces friction in hiring. However, implementation is the issue. Similarly, skilling is a critical need and it is good to see the focus on this in the Budget.

The plan to encourage research in agriculture and launch new varieties of weather-resistant crops is also a critical need. The plan to encourage digitisation of land records and reform urban planning is very significant. It can be a game changer if implemented fully.

The focus on ease of business, energy transition and micro, small and medium enterprises is all sensible. As always implementation will have to be observed.

Thankfully angel tax is gone. The reduction in effective tax rates for the middle class through higher standard deduction and rationalisation of tax rates will release about ₹30,000 crore for this section of society. It is much needed and will boost flagging consumption. We would have hoped to see meaningful direct tax reform instead of a committee, but at least there is a time limit given for the report. It is good to see the focus on productivity, the ultimate driver of sustained economic growth.

Net net this is a reasonable Budget. The finance minister has maintained fiscal discipline, and avoided the temptation to dole out freebies. Borrowing has been contained, some structural reform has been attempted, and measures to tackle unemployment and skilling have been put into motion. Nothing very exciting but nothing to derail the India story either.

The writer is with Amansa Capital

A commitment to tax certainty

TAX & GROWTH

MUKESH BUTANI

Catapulted by a historic third mandate by the populace of India, the National Democratic Alliance (NDA) government looked ahead to a trifecta of growth, gumption, and glory. Even as the global order reels under the spectre of policy uncertainties and an uncertain political environment, India has steered its course as a champion for sectoral transformations and societal exceptionalism.

Tax, as a much-vaunted euphemism for social superpowers, acts as a conduit for both revenue and taxpayers of the world's largest democracy. The marvellous post-Covid recovery and burgeoning tax collections, with a decadal high of 11.8 per cent tax-to-GDP, bear testament to the ceremonious approach of tax administrations. This, further supported by record direct tax and goods and services tax collections has bolstered Finance Minister Nirmala Sitharaman's endeavour to maintain the fiscal deficit road map. A 7 per cent growth in FY25 will further add to tax buoyancy, as higher corporate earnings and increased tax compliance, coupled with GST momentum due to higher demand, are reasonable assumptions.

The first Budget of the Modi 3.0 was expected to mirror the aspirations of Indian interests *en masse*. Ms Sitharaman, through a series of fiscal announcements, has vindicated the the Prime Minister's vision. From a tax standpoint, the Budget announced relief for individual taxpayers and entrepreneurs, including the abolition of the draconian angel tax. Accordingly, crucial sectors like energy, manufacturing, telecom, and manufacturing will witness a transcendental impact. A comprehensive review of the extant 1961 tax law in the next six months will precede amendments.

Tax certainty and effective dispute resolution are the shibboleths of announcements made in the Budget, including another scheme for settling past tax disputes. In this light, the 2024 Finance Bill II edifies the government's push for foreign investment and entrepreneurial incandescence through a chain of announcements, such as streamlining of re-assessment timelines, introduction of the Vivaad se Vishwas Scheme 2024, extending the scope of safe harbour rules, and rationalisation of assessments involving transfer pricing, a major challenge for multinationals.

The introduction of the tax dispute settlement scheme promises a transformative impact on India's tax landscape. Beyond its immediate allure of settling long-standing tax disputes without the burden of interest and penalties, the scheme holds the potential to alter the litigation landscape.

This not only provides relief, but also aims to reduce the strain on India's judicial system, known for its backlog of tax disputes. The scheme is expected to bring about a wave of resolutions and a clear path to certainty. Reduced litigation burdens and clearer tax positions are expected to enhance investor confidence and improve the overall business climate. It emerges as not merely a fiscal strategy but a pivotal step towards fostering an environment of trust, clarity, and economic ebullience in India's tax ecosystem.

The vituperative stranglehold of angel tax has been abolished, which has been a long-standing demand of the startup and venture investment ecosystem. This adds to the expansionist investment arsenal for entrepreneurs. It will consequently help reduce the financial burden and compliance costs while ensuring easy flow of capital.

In line with the industry's longstanding demand, the capital gains tax regime has been rationalised. The proposed two holding periods, 12 months and 24 months for short-term and long-term capital gains, respectively, along with a tax rate of 20 per cent for certain short-term capital gains and 12.5 per cent for major long-term capital gains, ensure a fair and equitable taxation system. The removal of indexation for long-term capital gains calculations and the parity in taxation between residents and non-residents further reinforce the fairness of amendments. While the proposals streamline the rates, the tax burden on market investors will increase.

Budget also proposes simplifying reassessment procedures. Instead of the existing 10-year time limit, a year under normal reassessment can be reopened for a maximum of five years and six years in case of a search. The reduced time limits will help achieve tax certainty and minimise disputes.

Equipoised on the contours of fiscal consolidation, revenue proliferation, and attainment of tax certainty, the Budget announcements usher a new era of tax rationalisation and simplification. As an enabler, Finance Bill II heralds a springtime symphony for revamping the architecture of nation's premier tax legislation.

The writer is with BMR Legal

Need a long-term vision

INDIRECT TAXES

V S KRISHNAN

Why does the Budget in India evoke so much hype and expectation? Normally, it should be regarded as a routine annual accounting exercise, as in many other countries. The reason for this difference in India lies in the reforms of the 1990s when the Budget became a medium for announcing widespread policy reforms and signalling medium- and long-term priorities.

In this Budget, the emphasis was more on programmes than on policies, reflecting the government's serious concerns about employment, especially youth unemployment. The priorities outlined by the government sought to address this area in many ways. What was gratifying, however, was that the government continued to signal its commitment to fiscal prudence by keeping the fiscal deficit as a percentage of gross domestic product or GDP at 4.9 per cent for the current fiscal year (against the target of 5.1 per cent) and promised to reach 4.5 per cent next year.

On the taxation side, both for indirect and direct taxes, the approach has been to simplify procedures and slowly phase out the multiplicity of schemes and exemptions. The other priority area has been to reduce tax litigation. In this endeavour, the value limits for filing appeals in the legacy tax cases on the indirect tax side like excise and service taxes has been enhanced. Priority has also been accorded to digitisation of taxpayer's services so as to make the tax payment experience less stressful.

The introduction of goods and services tax (GST) has precluded policy announcements in the Budget, as these are decided by the GST council jointly by the Centre and the states. The Finance Minister, however, did mention that going forward there would be rationalisation of rates and simplification of the procedures so as to improve the ease of doing business. The specific proposals have been on the Customs side where the government has again thrown away the opportunity to bring down the average Customs duty rate of 18 per cent to less than 10 per cent. Within this, the Budget could have outlined a three-tier duty structure — with minimum rate on raw materials/components, a slightly higher rate on intermediates, and the highest rate on finished products. This would also have corrected the inverted duty structure across the board. Instead, the government has opted for a sector-by-sector approach. It has reduced the basic Customs duty on raw material/components for a number of industries, which have done well on the export side like marine export (stock and feed for shrimps), gold jewellery, and platinum (significant reduction on the basic customs duty for gold jewellery and platinum), mobile phones and accessories like chargers, and on certain components used in electronic products.

The Budget also significantly reduced import duty on capital equipment used for manufacturing solar cells and panels, and on critical minerals used in strategic sectors like space and nuclear power. It also provided relief for specific inputs used by labour-intensive industries such as leather and textile.

To address the problem of duty inversion in textiles, the government reduced basic Customs duty on inputs like methylene diphenyl diisocyanate (MDI) used in the manufacturing of spandex yarn. In consonance with India's climate goals, the government increased basic Customs duty on plastics like PVC Flex banners, which are non-biodegradable and hazardous for the environment and health, to cub their imports.

However, more could have been done for these industries to achieve the employment objective by giving import duty reliefs on a wide spectrum of raw materials/components.

An interesting aspect of the Budget speech was that the government would prepare a 'economic policy framework' for reforms in factor markets, such as land (impacts agriculture and urbanisation), labour (impacts health and education), and entrepreneurship, to boost total factor productivity growth. This is significant because the reforms of the 1990s concentrated on product market and tariff policy reforms. The new framework can provide interesting ideas for reforms, especially in the regulatory framework. However, the reforms that the central government could implement alone have largely been completed, and factor market reforms would require active cooperation and consultation with state and local governments.

The Budget could have outlined a three-tier Customs duty structure — with minimum rate on raw materials, a slightly higher rate on intermediates, and the highest rate on finished products. This would also have corrected the inverted duty structure across the board

Perhaps, this is an opportune time to create a GST Council-like structure for land and labour market reforms. Such an institution can help build consensus for these reforms. One idea that the government could borrow from the earlier Empowered Committee of Chief Ministers (implementing the earlier vat reform) is to vest leadership in these bodies with chief ministers or finance ministers from Opposition-ruled states, thereby fostering greater buy-in for the reforms. This would align with the recent observation of the Prime Minister that "*desh* is more important than dal".

Therefore, the clarion call for moving towards a "Viksit Bharat" must be three cheers for cooperative federalism.

The writer is former member, CBIC

It's a Copycat, 'Kursi Bachao' Budget: Cong

Chides Naidu and Nitish for not getting special category status for states, despite their push

Team ET

The Congress has called the budget a poor "copycat" of many of the Opposition party's election manifesto promises. Citing the budgetary attempt to please the key BJP allies—TDP and JDU—with a slew of announcements for Andhra and Bihar, the Congress also dubbed it as a "kursi bachao" (save the seat of power) budget but claimed that many of these promises would be limited to paper and chided Chandrababu Naidu and Nitish Kumar for not getting their push for special category status for their states.

"The Modi government's 'copycat budget' could not even copy the Congress' Nyay Patra properly! The Modi government's budget is distributing half-hearted 'rewadis' (freebies) to dupe its coalition partners so that the NDA survives. This is not a budget for the "progress of the country", it is a "save Modi government" budget!" said Congress president Mallikarjun Kharge.

Leader of the Opposition in the Lok Sabha Rahul Gandhi quipped: "Kursi Bachao" Budget. Appease Allies: Hollow promises to them at the cost of other states. Appease Cronies: Benefits to AA with no relief for the common Indian. Copy and Paste: Congress manifesto and previous budgets".

Former finance minister P Chidambaram said he wished the budget copied more from the Congress manifesto: "I am happy that the Hon'ble Finance Minister had an opportunity to read the Congress manifesto after the LS 2024 elections. She has virtually adopted the ideas underlying our proposals on Employment-Linked Incentive scheme (ELIS), the Apprenticeship Scheme with an allowance to the apprentice, and on the abolition of the Angel Tax. I wish she had adopted many more ideas from the Congress manifesto".

Oppn Voices

'Kursi Bachao' Budget. Appease Allies: Hollow promises to them at the cost of other states. Appease Cronies: Benefits to AA with no relief for the common Indian. Copy and Paste: Congress manifesto and previous budgets

RAHUL GANDHI, Leader of Opposition, LS

Unemployment is the biggest challenge facing the country... The response of the government is too little and will have only little impact on the grave unemployment situation. The claim that the schemes announced by the FM will benefit 290 lakh persons is highly exaggerated

P CHIDAMBARAM, Former Finance Minister

YOGEESH

INDIA Bloc CMs to Boycott Niti Meet

New Delhi: The INDIA bloc floor leaders' meeting, presided over by Congress president Mallikarjun Kharge on Tuesday night, felt Opposition-ruled states were ignored in the budget. In protest, the CMs of INDIA bloc parties-ruled states and other representatives will boycott the Niti Aayog governing council meeting on July 27. INDIA bloc MPs will hold a joint protest outside Parliament on Wednesday morning and demand in the House that the government explain the "budget discrimination" against the Opposition-ruled states, they said. Trinamool Congress representatives said the party's final decision on this will have to be taken by their leader Mamata Banerjee. Banerjee may join the INDIA boycott of the Niti Ayog meet or will attend the meeting only to register her protest, Opposition leaders said. Team ET

DESPITE LEAK OF QUESTION PAPERS IN HAZARIBAGH, IN OTHER JHARKHAND TOWNS AND PATNA...

No Retest of NEET-UG Exam, No Indication of Systemic Breach: SC

There's lack of material to substantiate that sanctity of exam stands vitiated, says top court

Team ET

New Delhi: The Supreme Court on Tuesday held that ordering a retest of the entire NEET-UG examination would "not be justified" although it held that "it is not in dispute" that the question paper was leaked at the examination centres in Hazaribagh, other Jharkhand towns and Patna.

The reason: From the material available on record and preliminary investigation by the Central Bureau of Investigation (CBI) "there is absence of material sufficient to reach the conclusion that the sanctity of the entire examination stands vitiated," it ruled.

A bench, headed by Chief Justice of India DY Chandrachud, ruled that the material available on record is "not indicative of the fact that there is systemic breach" of the examination.

Refusing to order a retest, the court factored in the result furnished by the National Testing Agency (NTA). The CJI said that "to obviate controversy" the bench has "independently scrutinised" data produced by NTA.

"The data produced on record city wise, centre wise and comparison is not indicative of a systemic leak of the question paper which would indicate that the sanctity of the examination was compromised," he added.

The bench will pronounce its detailed judgement later, the CJI said. "In a matter like the present, it is imperative that the final conclusion of the court be recorded in the present stage since there is an urgent need to provide certainty and finality to the dispute which affects the careers of over two million students. The reasons for the ultimate conclusion will follow later," the order reads. The CJI said that the "disclosures" made by the CBI to the top court reveal that a total of 155 students were beneficiaries of wrongdoing (paper leak). The said 155 students were from centres at Hazaribagh and Patna.

The CBI had submitted three status reports to the top court in a sealed cover on July 10, July 17 and July 21.

The SC also did not alter the seven-member committee constituted by the government to ensure that the examination process is made more "robust and insulant to any kind of malpractice" in future. The committee is headed by former chairman of ISRO, K Radhakrishnan. However, the bench ordered that the committee "will abide by the directions in the final judgement with regard to areas to ensure the process of conducting the NEET-UG and other examinations is strengthened" so that systemic flaws are "not repeated in future".

Why No Retest

The court stated that "the tainted need to be distinguished from the untainted. In the instant case, the material available is able to distinguish the tainted from the untainted."

Directing a fresh NEET-UG for the present year would be replete with serious consequences, some of which for over two million students who have appeared in the examination

Ordering a retest would have "cascading effects on the course of medical education; prejudicial impact on availability of qualified medical professionals in the future and serious element of disadvantage to marginalised group of students for whom reservation has been made in allocation of seats"

ANI

Petitioners speak to the media after the Supreme Court refused to order a re-exam of NEET UG 2024 in New Delhi on Tuesday

YOGEESH

NEET Counselling Likely to Begin this Week: Pradhan

New Delhi: Welcoming the SC order, education minister Dharmendra Pradhan said all steps would be taken to make NTA a 'zero-error' organisation. He indicated that NEET counselling will begin within this week. He termed opposition leader Rahul Gandhi's comments on the exam system as amounting to 'misleading students'. Team ET

Accused Hatched Conspiracy Two Months before Exam to Identify Vulnerable Centre

Individually met candidates to mobilise them, secured post-dated cheques: CBI

Team ET

New Delhi: The accused involved in "stealing" the NEET-UG examination 2024 had hatched a conspiracy "two months before" the exam "to identify a vulnerable centre". The accused individually approached candidates and their parents to "mobilise" them and secured post-dated cheques in lieu of supplying the leaked paper.

The CBI informed the top court that one of the accused Pankaj Kumar alias Aditya entered the examination centre at Oasis school in Hazaribagh at 8.02 am on May 5 (the day the exam was to be held), broke open the trunk containing the examination paper, took pictures of the paper, and resealed it with a lighter. He stepped out of the examination centre at 9:23 am (as captured by the CCTV camera) and WhatsApped the picture of the stolen exam paper to his accomplice who was present with seven solvers (all students) in a hotel room.

To ensure that no one else receives a copy of the stolen paper including the solvers, the accused had taken away mobile phones of the seven solvers. After the seven solved the examination, Pankaj digitally shared the answer sheet to the candidates at the two centres in Hazaribagh and two centres in Patna.

Interestingly, the stolen paper resealed by Pankaj was given to a girl candidate who had flagged the same during the examination. It has been claimed by the CBI that the accused had tried to burn the solved copies of the paper. The half-burnt copy of the paper which, like every single exam paper contained a unique number, was recovered. It is from this unique number that the CBI was able to zero-in on the centre (in Hazaribagh) from where the paper leak took place.

The modus operandi was detailed by the CBI counsel in the top court on Tuesday. The CBI however is yet to seize the mobile phone from which the leaked paper was digitally shared. The CBI is yet to arrest the kingpin in the case — Sanjiv Mukhia.

The accused had destroyed the mobile phone used to share the solved copies of the leaked paper. The CBI has so far seized 18 mobile phones from the accused and sent them for forensic examination. Meanwhile, the Centre informed the top court that the top 100 students in NEET-UG are spread over 95 centres, 56 cities and 18 states/UTs. The figure was presented by the Centre to buttress its claim that the "breach" at one centre had "no cross-country impact" on the sanctity of the examination.

Modus Operandi

- Accused entered the exam centre at Oasis school in Hazaribagh at 8.02 am on May 5
- He broke open the trunk containing the exam paper, took pictures of the paper, and resealed it with a lighter
- He then WhatsApped the picture of the stolen exam paper to his accomplice who was present with seven solvers (all students)
- After the seven solved the paper, the accused digitally shared the answer sheet to candidates

YOGEESH

Consolidation Inc

Amazon was under pressure to divest stakes from sellers on the platform

Pressure has come from smaller sellers, regulatory authorities

Appario was last remaining major seller in which Amazon itself held a stake

Appario is being sold to Clicktech, another major seller on Amazon

This will allow Appario to continue selling on the marketplace

YOGEESH

CCI Approves Appario's Sale to Clicktech

Team ET

Bengaluru: India's antitrust watchdog has approved the sale of Appario, the largest seller on Amazon India, to its peer Clicktech, another major seller on the platform. The Competition Commission of India on Tuesday said it has approved the "proposed combination involving, inter alia, Amazon Asia-Pacific Holdings, Frontizo Business Services, Appario Retail, Haveri LLC and Clicktech Retail".

On April 3, ET had reported that Clicktech was buying Appario as part of the ecommerce major's plan to divest stakes in sellers on its platform. Clicktech is promoted by the Vinod Poddar group, which has interests in steel and coal processing, real estate and plastics.

Amazon is fully acquiring Appario's parent firm from its JV partner Patni Group

Appario was the last remaining major seller in which Amazon itself held a stake. In October 2022, Amazon said it would delist Appario from the platform over the next year, amid protests from smaller sellers and regulatory pressures. Amazon is fully acquiring Appario's parent firm, Frontizo Business Services, from its joint venture partner, Patni Group. Appario is the wholly-owned subsidiary of Frontizo. Post the transaction, Frontizo will become a wholly-owned subsidiary of Amazon, while Appario will be owned by Clicktech.

On November 24, ET reported that Amazon and Patni Group were exploring options for Appario Retail to be able to continue selling on the marketplace. This is the second time Amazon is divesting its stake from a seller entity to comply with local ecommerce norms. In 2022, Amazon delisted and shut down its then-largest seller Cloudtail, where it held a stake alongside Infosys founder NR Narayana Murthy's Catamaran Ventures. Cloudtail's inventory was bought out by firms such as Clicktech and Cocoblu Retail, with several of Cloudtail's employees and management joining the new entities that would go on to be major sellers on Amazon.

HUL Net Rises 3% on Back of Gradual Rural Demand Recovery

Team ET

Mumbai: Hindustan Unilever (HUL) said profit rose 3% and sales increased 2% in the June quarter amid a gradual recovery in rural demand, softening commodity inflation which led to price cuts and sustained sales of premium products.

Quarterly sales at Unilever's India unit, the country's largest consumer goods company, rose to ₹15,166 crore from ₹14,931 crore a year earlier, while net profit grew to ₹2,538 crore from ₹2,472 crore a year ago. The company's performance is considered a proxy for broader consumer sentiment in India. HUL's volumes, or the number of products it sells, rose 3% in the first quarter. Growth in the coming quarters will be driven mainly by volumes or higher offtake of products rather than price hikes, it said.

"On a two-year compounded annual growth rate, rural growth is still slightly behind and lagging urban but we see that changing in the recent past. The second green shoot we see is that many of our very highly rural focus portfolios, probably also helped by hot summer, such as hair care, low unit price packs, personal wash and laundry portfolio, have also clocked positive volume growth," HUL managing director Rohit Jawa said on Tuesday after the earnings announcement. "The sensitivity of the government towards driving consumption bodes well for the rural structure, because of the investments into rural housing or other ways of creating employment through infrastructure spending, which continues to be at a high level."

Torrent Pharma Q1 Net Rises 21% at ₹457 cr

PTI

New Delhi: Torrent Pharma on Tuesday has reported that its profit after tax increased 21% year-on-year to ₹457 crore in the first quarter ended June 30, 2024, aided by a robust performance in the domestic market.

The drug-maker had reported a profit after tax (PAT) totaling ₹378 crore in the April-June quarter of the previous fiscal.

The company said that its India revenues rose 15% year on year to ₹1,635 crore in the June quarter

Revenue for the first quarter stood at ₹2,859 crore, as against ₹2,591 crore in the year-ago period, Torrent Pharma said in a statement.

The company said its India revenues rose 15% year-on-year to ₹1,635 crore in the June quarter, aided by robust performance in focus therapies.

Shares of the company on Tuesday ended 3.58% at ₹3,137.15 apiece on the BSE.

Deposit Equity Amount in Escrow by July 31: NCLT to IIHL

Team ET

Mumbai: The bankruptcy court in Mumbai directed the successful bidder of Reliance Capital (RCL), Hinduja group-owned IndusInd International Holdings (IIHL) to deposit the equity amount into the escrow account by July 31.

On Tuesday, the division bench of judicial member Virendra Singh G Bisht and technical member Prabhat Kumar in its oral order gave an extension to IIHL till August 10 to complete the formalities to implement the resolution plan for the bankrupt firm Reliance Capital.

A detailed order was uploaded at the time of filing this report.

The National Company Law Tribunal (NCLT) in its oral order also clarified that whatever cash is there during the extended period will go to the Committee of Creditors (CoC). The company is seeking an extension from the tribunal to implement the resolution plan citing pending regulatory approvals and compliance requirements. On February 27, the tribunal approved IIHL's ₹9,650 crore resolution plan for the Anil Ambani-promoted company's acquisition by IIHL through the insolvency resolution process.

The administrator has admitted ₹25,345 crore of claims from lenders as of June 8, 2023. Meanwhile, the Torrent Group has also challenged the approval of IIHL's resolution plan at the Supreme Court.

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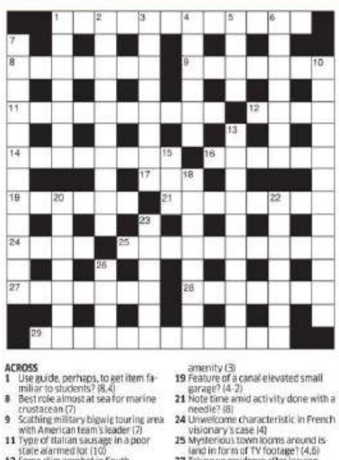
NON-SEQUITUR

Crossword 9033



ACROSS

1 Use guide, perhaps, to get item familiar to students? (8,4)
8 Best role almost at sea for marine crustacean (7)
9 Scathing military bigwig touring area with American team's leader (7)
11 Type of Italian sausage in a poor state alarmed lot (10)
12 Some slim acrobat in South American capital (4)
14 Waiter is shifting hanging plant (8)
16 Bestow an award on comedian Stan (6)
17 Long period covered by better amenity (3)
19 Feature of a canal elevated small garage? (4-2)
21 Note time amid activity done with a needle? (8)
24 Unwelcome characteristic in French visionary's case (4)
25 Mysterious town looms around island in form of TV footage? (4,6)
27 Taking up residence after leaving Latvia's capital and surroundings (7)
28 Darren's organised minor tasks? (7)
29 Press notable for representing athlete's finest feat (8,4)

DOWN

1 European has impressions about British boards? (7)
2 Minor actor with sense about role ultimately? That's irrelevant (10)
3 A generic novel for writer Dale (8)
4 Son facing mess first off gets agricultural implement (6)
5 Show strong emotion left trapped by unsound scheme (not half) (4)
6 Something dishonest in terrible tour? It's an atypical thing (7)
7 Varied welders mull over opening of shop for poorer residents? (4-8)
10 Last chairman sacked for fraudulent expertise? (12)
13 One bus rate sorted out in seaside resort (10)
15 Part of a curve in sanctuary from a flood, we're told (3)
18 American mistakenly read law getting unfair treatment (1,3,4)
20 Copper shortly screened liquid container? (7)
22 Barnet might get such coverage? (7)
23 Standard applied to old drinking vessel (6)
26 Missing note, ties together proposals (4)

SOLUTION TO No. 9032:
ACROSS: 6 One-armed bandit. 9 Indigo. 10 Hatchets. 11 Newsreel. 13 Outcry. 15 Mallet. 17 Ordeal. 19 Barrel. 20 Acrimony. 22 Euphoria. 24 Ghetto. 26 Demisemiquaver.
DOWN: 1 Countermeasure. 2 Deli. 3 Creole. 4 Abattoir. 5 Inch. 7 Exhale. 8 Interplanetary. 12 Solar. 14 Therm. 16 Enlarged. 18 Safari. 21 Rigour. 23 Hail. 25 Envy.

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HIDATO

FIND THE PATH - SOLVE THE PUZZLE

Yesterday's puzzle solution.

7 LITTLE WORDS

CLUES	SOLUTIONS
1 leaves-to-be (4)	
2 Lando of "Star Wars" (10)	
3 like an undecided jury (4)	
4 taking a long trip (10)	
5 tangled (7)	
6 Serbian tennis star Ana (8)	
7 wearing a hood (6)	

COW	BU	CA	BR	NG
URN	ED	HU	VIC	LRI
ANO	SS	AWL	DS	ING
IAN	LED	EY	JO	IV

UNION BUDGET 2024-2025

BUDGETING FOR THE COMMON GOOD

The FM has addressed unemployment and rural distress while sticking to fiscal discipline

FINANCE MINISTER NIRMALA Sitharaman deserves full marks for a Budget that continues on the path of fiscal consolidation while spending a little more to boost demand. The unambiguous focus on jobs, skilling, small and medium units, and the rural economy is probably the result of lessons learnt from the fractured election verdict. The Budget clearly reflects the changed political dynamics, including the government's reliance on coalition partners, and the realisation that unemployment and rural distress played a role in the electoral setback. It's a blessing in disguise as the Budget measures suggest a shift to a more equitable growth and are aimed at addressing unemployment and supporting small enterprises. These include an increase in social welfare spending, helped by a bigger dividend transfer from the Reserve Bank of India, and relief for both small taxpayers and investors.

At ₹48.2 trillion, the Budget is not expansionary; the surplus has been split between additional revenue expenditure of ₹55,000 crore and the consolidation of the fiscal deficit to 4.9% of the gross domestic product. The lower net market borrowings of ₹11.6 trillion will help keep interest rates in check. Importantly, the intent to reduce government debt over the years should soon earn India a rating upgrade. Indeed, it's a very conservative Budget with gross tax revenues tipped to grow by 10.8%, at an assumed buoyancy of only 1.1 compared with 1.4 last year, and the nominal GDP at 10.5%. A 70 basis point contraction in the deficit might not impart a negative fiscal impulse because the quality of the expenditure is good with more capex, and also because the RBI dividend is coming in more as a transfer from overseas rather than any local financial repression.

The unchanged capex outlay of ₹11.1 trillion should drive home the message to the private sector that it is time to start investing meaningfully. The increase in the allocation of interest-free loans to state governments by 15% will help boost infra spends, while the ₹10 trillion for affordable housing will help boost construction activity. The government is clearly looking to help small enterprises with credit and to create jobs with an outlay of ₹2 trillion on five new schemes. Several skilling, apprenticeships, and training programmes have been talked of, targetted at 40 million youth. These are good ideas and the private sector must do its bit. There are sops such as cash transfers for first-time formal workers and incentives for Employees Provident Fund Organisation contributions.

> OF THE MANY OTHER TAX CHANGES, THE RELIEF TO THE SMALL TAXPAYER WHO GETS AN ADDITIONAL ₹17,500 IN HIS POCKET WAS OVERDUE

The government will also extend support to small entrepreneurs with higher Mudra loans of ₹20 lakh to those eligible. Some measures sound imprudent — asking state-owned lenders to assess credit risks for micro, small, and medium enterprises rather than rely on external agencies, covering units without a formal accounting system — but banks must support these units in times of stress. Since the government is providing a credit guarantee, they cannot demur. There is also an agenda to push manufacturing with the setting up of a dozen industrial parks. The FM has spoken of simplifying foreign direct investment norms, which should be accompanied by easier labour norms and regulatory certainty. There is mention of more public private partnerships — and the promise of viability gap funding to promote projects. To boost local manufacturing, the government has cut import duties on a range of goods such as precious metals and copper. However, protectionism through higher tariffs, such as those on select telecom machinery — cannot make Indian firms competitive. The decision to abolish the angel tax is a good one because the risk of losing out on big investments, in a bid to prevent a few cases of deliberate undervaluation, is simply not worth it. Moreover, doing away with the 2% equalisation levy is also a good move.

Of the many other tax changes, the relief to the small taxpayer who gets an additional ₹17,500 in his pocket was overdue given the high inflation of the past few years. The cut in the corporate tax rate to 35% for foreign companies will encourage investments including in global captive centres, which are big employment generators. The markets may be miffed about the higher short-term capital gains tax on financial assets of 20% as also the move to tax the gains from buybacks in the hands of the recipient, but well-to-do individuals can afford this. As has been pointed out, more than 60% of the capital gains is being collected from persons with an annual income of over ₹1 crore. The relatively well-off may agonise over the withdrawal of indexation benefits on the sale of real estate, but they have enough going for them. It was time to do something for the common man.

The Budget has adopted an apt stance for the present macroeconomic context, and poll outcomes have led to a focus on employment; but Viksit Bharat ambition calls for significant structural reforms

Fiscal stance just right

SUDIPTO MUNDLE
CHAIRMAN, CENTRE FOR DEVELOPMENT STUDIES

SHYAM KUMAR PRASAD

THIS IS A first take on the Budget, without a detailed scrutiny of the voluminous Budget documents. I assess the Budget through a lens consisting of three factors. First, is the fiscal stance of the Budget appropriate for the present macroeconomic context? Second, the outcome of the May elections has important political implications for the Budget; how have these been addressed? Third, this is the first of five Budgets through which the present government will set the course for Viksit Bharat, India's aim of becoming a developed country by 2047. How has this long-term goal been addressed?

On the first question, despite a challenging external environment, India's macroeconomic position is very comfortable. With sustained annual growth of 7% or more, it is the fastest-growing major economy globally. Inflation remains moderately elevated mainly on account of high food price inflation, still above the Reserve Bank of India's (RBI) 4% target but within the 5% ceiling of its tolerance band.

The current account deficit is also very comfortable at less than 1%. In this macroeconomic context the fiscal stance of the Budget seems just right, following Nirmala Sitharaman's now well-known fiscal approach: High public capex to lead growth; this combined with fiscal consolidation, progressive reducing of the fiscal deficit; meeting this dual goal by containing revenue expenditure within limits as enabled by revenue growth.

All three features are prominent in today's Budget. There is again a large increase in capital expenditure, amounting to over ₹11 trillion, or 3.4% of GDP. The zero interest, 50-year capex loan scheme for states has also been retained and expanded. Despite this, the fiscal deficit has been budgeted at 5.1% of GDP, a sharp reduction from 5.9% last year. This assumes robust revenue growth of 14.7%, which in turn assumes buoyant tax revenue growth in addition to the large transfer of the RBI surplus.

Meanwhile, revenue expenditure growth has been budgeted to grow by only 6.2%, especially compressing traditional safety net projects, thereby leading to the sharp deficit reduction.

On the second question — that of the response to election outcomes — the post-mortem made clear that the government has to focus on employment growth. Also, with its reduced majority, the Bharatiya Janata Party-led central government is now heavily dependent on Nitish Kumar and N Chandrababu Naidu, both of whom demanded special category status or special packages for their states, Bihar and Andhra Pradesh. How has the Budget responded to these compulsions?

A host of schemes are aimed at productive employment generation in labour-intensive sectors under four of the nine Budget priorities: agriculture, employment and skilling, inclusive development and social justice, and development of micro, small, and medium enterprises. These have been prioritised over the two traditional pillars of the social safety net, namely food subsidies and the relief employment scheme under the Mahatma Gandhi National Rural Employment Guarantee Act.

The demands of Bihar and Andhra Pradesh have been addressed by a special package for the entire eastern region, covering not just for these two states but also Jharkhand, West Bengal, and Odisha. The package includes road, rail, and power projects. In addition, there are special infrastructure support programmes for Bihar, such as the Kosi flood control project and tourism related projects in Bodh Gaya, Rajgir, and Nalanda.

In Andhra Pradesh, a generous provision has been made for the Amaravati capital project and economic corridor projects from Vijayawada to Chennai and Bengaluru, and schemes for the backward Rayalaseema region.

On setting the course for Viksit Bharat, the schemes for infrastructure development and for productive employment generation, skilling, and promoting labour-intensive sectors will contribute to this long-term goal. But Viksit Bharat will also require significant structural reforms along a wide front. The finance minister indicated that a forthcoming economic policy framework will guide the next generation of reforms. Details are awaited, especially for systematic tax reforms. Some ad hoc tax measures have been announced, such as the elimination or reduction of basic customs duties in indirect takes.

There are also some changes in the personal income tax rates and the tax on short-term capital gains. But the big whammy here is the elimination of indexation in sale of property for tax on long-term capital gains. Hopefully, this will be rolled back. Otherwise, it could play havoc with the property market, with knock-on effects in financial markets and other sectors of the economy.

Views are personal

Towards manufacturing growth

KUMAR MANGALAM BIRLA
CHAIRMAN, ADITYA BIRLA GROUP

> The government has signalled a determination to be fiscally disciplined, stomach for reforms, and sense of equity

BUDGET 2024 IS an emphatic statement of continuity and stability. It signals the government's determination to be fiscally disciplined, its stomach for reforms, and its sense of equity to ensure sustained growth for all sections. It outlines nine key priorities that will set the foundation for India to become a developed nation by 2047. The capacity to think beyond the short-term and take a long-term view of economic policy has been a hallmark of the Modi government. The government has consistently increased capex over the last several years, which has had a multiplier effect on growth and investment. Budget 2024 remains true to that commitment, with the capex allocation pegged at over ₹11 trillion, or 3.4% of the GDP.

Central to the Budget proposals is the government's unequivocal commitment to fiscal consolidation, a strategy that has consistently served India well. The fiscal deficit target for FY25 is set at 4.9% of GDP, reflecting the government's ongoing efforts to steadily reduce the deficit. This target is in line with the broader objective of lowering the fiscal deficit below 4.5% of GDP by FY26, as outlined in the fiscal consolidation glide path announced in 2021.

The Budget has introduced several initiatives to develop infrastructure focusing on energy transition and local manufacturing. The proposal to rationalise duties, allowing for the purchase of imported cutting-edge equipment or raw materials while safeguarding domestic manufacturers is commendable. These measures aim to create a level playing field for domestic manufacturers, enhancing their competitive positioning and operational efficiencies. For example, the hike in basic customs duty (BCD) on solar glass used in manufacturing solar cells or modules will stimulate domestic production, and help the country achieve its renewable energy (RE) and solar installation targets. Similarly, the reduction of customs duties on 25 critical minerals, coupled with reductions in BCD for some, will bolster the processing and refining of the minerals. This move ensures their availability for important sectors of the economy.

> THE BUDGET HAS INTRODUCED SEVERAL INITIATIVES TO DEVELOP INFRASTRUCTURE FOCUSING ON ENERGY TRANSITION AND LOCAL MANUFACTURING

The government is also planning to develop investment-ready "plug and play" industrial parks with complete infrastructure in or near 100 cities. This initiative will be rolled out in partnership with states and private sector companies. These parks will enhance manufacturing's cost efficiency.

The Critical Mineral Mission is an equally powerful initiative. It underscores a strategic commitment to sustaining economic growth through robust investments and self-reliance.

This Budget also prioritises labour-intensive manufacturing, aiming to address unemployment concerns with the introduction of three schemes. The schemes also emphasise the need for public-private partnerships to enhance skill development. Employee wage subsidies and employer support schemes will go a long way to incentivise hiring, particularly new talent. These schemes are expected to contribute greatly towards achieving the target of creating eight million jobs by 2036, as outlined in the Economic Survey.

The Budget has also introduced policy measures aimed at accelerating the transition from fossil fuels and enabling companies to secure affordable credit for green projects, which are crucial for reducing carbon emissions. To bolster the storage and integration of RE, the government is poised to launch a comprehensive pumped storage policy. This initiative promises to offer a large-scale solution for storing surplus electricity, enabling a more seamless incorporation of renewable sources into India's energy mix.

Finally, the Budget outlines a series of next-generation reforms across sectors. These include land-related reforms, labour reforms, and measures to enhance ease of doing business. The government also plans to develop a comprehensive economic policy framework to guide the next phase of reforms and sustain high growth rates.

Budget 2024 skillfully balances maintaining fiscal discipline, accelerating growth through an infrastructure push, and prioritising key areas such as farmer prosperity and energy transition.

Focus on jobs, skilling and the middle class

MUKESH BUTANI
HARSH SHUKLA
RESPECTIVELY MANAGING PARTNER & MANAGING ASSOCIATE, BMR LEGAL

> The Budget proposals have laid down a road map for formalising the value chain

EMBOLDENED WITH "MAKE in India, making for the world", PM Modi's belligerent effort to establish India as a manufacturing hub found resonance in the Union Budget. Buoyed by the "Vikas bhi, virasat bhi" motto, the Budget has promisingly centred around employment, skilling, micro, small, amd medium enterprises (MSMEs), and the middle class.

Given the ongoing conflicts leading to supply chain constraints and rise in ocean freights, the global growth rates are unlikely to rise. This has resulted in protectionism and mercantilism, influencing India's trade dynamics and economic stability. As the global economy struggles to grapple with these, the trade map has stirred the energy and fertiliser imports for India.

As India embarks to an aatmanirbhar (self-reliant) approach, the Budget of the new government presented an opportunity to augment its participation in global supply chains. The proposals have laid down a road map for formalising the value chain by promoting financial inclusion, facilitating logistical and infrastructural support. The proposals on credit availability have reaffirmed much-needed support to MSMEs. The Economic Survey highlighted challenges faced by MSMEs on formalisation and inclusion, limited access to finance, markets, technology, and digitalisation, infrastructural bottlenecks, and skilling. The Budget has addressed these challenges with a slew of measures, including a credit guarantee scheme for purchase of machinery and equipment, credit support during stress, and increased Mudra loans.

India has accelerated its China Plus One strategy. Amid growing trade tension between China and the US, large corporations have reacted to a cataclysmic change in global manufacturing, with many eyeing de-risking themselves from China. So far, India has been a minor participant in the global value chains (GVCs) for electronics manufacturing. Shifting parts of the value chains to India may have been encouraged by an umbrella of schemes such as production-linked incentives, Scheme for Promotion of Manufacturing of Electronic Components and Semiconductors, and Electronics Manufacturing Clusters. The government has announced setting up of 12 industrial parks under the National Industrial Corridor Development Programme, offering "plug and play" infrastructure. This could be a game changer and attract companies looking to set up manufacturing bases in India.

India's tariff structure has been a bone of contention for investment and the creation of manufacturing hubs. However, as a strategic move to attract GVCs setting up in India, the finance minister has announced duty exemption on 25 critical minerals. This allows India to augment its gap in downstream manufacturing capability. This would also supplement growth in technological advancement since these critical minerals comprise raw materials for sunrise sectors such as electronic vehicles, green energy, and semi-conductors.

"With a three-fold increase in domestic production, and (almost) hundred-fold jump in the export of mobile phones past six years", the finance minister said. It affirmed that the Indian mobile industry has matured. With the aim to deepen manufacturing and encourage value addition, the Budget proposes reduction in basic customs duty on mobile phones, mobile printed circuit board assembly, and mobile chargers to 15%. Keeping the momentum of domestic manufacturing, the Budget is expected to bring stability of policies including incentives, attracting foreign direct investment and fuelling exports.

To address the economic survey challenge on employability, the Budget has strived to empower the youth. Measures to augment skills, which include upgrade of 1,000 industrial training institutes, job creation incentives, and interest subvention on education loans, feature prominently.

Budget 2024 brings William E Simon's words to mind: "The nation should have a tax system that looks like someone designed it on purpose." India's future depends on skilling and employing the youth, and building a resilient manufacturing global hub. As India draws the foundation of a developed economy by 2047, the Budget resonates with the nation's desire to facilitate the trade dynamics and ease of doing business. Budget 2024 has taken significant steps towards these goals as India embarks on a journey to robust growth and inclusive stability.

*With assistance from **Lopamudra Mahapatra**, associate, BMR Legal*

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UNION BUDGET 2024-2025

Of prudence and plumbing

SAJJID Z CHINOY
CHIEF INDIA ECONOMIST AT JP MORGAN

The Budget is fiscally and financially prudent and correctly focuses on fixing the economy's plumbing

TO UNDERSTAND THIS year's budgetary choices and trade-offs it's first important to appreciate the global and domestic context. Two conflicting forces seem to be at play. First, even as global growth has remained resilient, global disinflation has been gradual and halting, such that interest rates in some parts remain at multi-decade highs. Add to this elevated geopolitical uncertainty and the prospect of a US election that could upend the world order, and the global backdrop borders on the hostile. At home, despite strong growth last year, India's combined public debt/GDP actually edged up. All this would suggest there was no room for macroeconomic adventurism. Fiscal deficits would need to keep coming down. The only question was, how much?

But there were other forces pulling in the opposite direction. Thus far the heavy lifting on investment in India has been undertaken by the public sector. But given the aforementioned fiscal and debt constraints, the investment baton will eventually have to be handed over to the private sector. The good news is that corporate balance sheets are the healthiest in years. The challenge is that firms need more demand visibility to invest with conviction. This is dramatically accentuated by events in China. The sheer quantum of manufacturing excess capacity there has created fears of a China Shock 2.0, wherein China's excess capacity (and deflationary impulses) are being exported around the world. Consider this: the US Treasury estimates China's planned production capacity of electric vehicles in 2030 will be above 70 million, even as total global EV sales that year will be just 44 million! All this simply raises the bar on demand visibility for the private sector to invest around the world, including in India. Where will that visibility come? In India's case, with the public sector having to retrench, it will have to come from private consumption and exports.

This, then, was the delicate balance the Budget had to pull off. Remain fiscally prudent and yet sow the seeds for private consumption and exports to lift more structurally.

On fiscal prudence and the budgetary math, policymakers have checked all the boxes. First, this year's deficit is pegged at 4.9% of GDP, even lower than the interim Budget. This, in conjunction with last year's larger-than-expected consolidation, means the Centre's fiscal deficit will be reduced by a sizeable 1.5% of GDP across two years, which will go a long way in helping with inter-temporal debt sustainability. Second, assumptions on the revenue side are very conservative. After a realised tax buoyancy of 1.4 last year (gross taxes growing at 13.5% on nominal GDP growth of 9.6%) the assumed buoyancy is just 1 this year (taxes are budgeted to grow at 10.8% on nominal GDP growth of 10.5%). Third, the extra resources the government had (~0.4 % of GDP) vis-à-vis the interim Budget were used in a balanced manner, with half being assigned for more consolidation and the other half to increase revenue expenditures. Fourth, the quality of discretionary expenditure (measured as the ratio of capital to revenue expenditures, ex interest) has doubled from 0.2 in 2020 to 0.4 in 2024. Fifth, one potential concern of reducing the deficit too quickly is the contractionary impact on aggregate demand. Fortuitously, this year's consolidation is helped by the large RBI dividend, a large fraction of which was non-contractionary because it accrued from foreign interest income and rupee revaluation profits. Therefore, even as this year's fiscal consolidation is a sizeable 0.7% of GDP, the contractionary impulse is less than half of that. A case of fiscal consolidation without commensurate economic compression.

SHYAM KUMAR PRASAD

The fiscal prudence was accompanied by financial vigilance. The relentless rally in equity markets and the surge in futures and options create the prospect of financial stability risks down the line. It was therefore important to throw some sand in the wheels, which the authorities did in the form of increasing capital gains and securities transaction tax. In doing so, the Budget has sent an important signal that asset prices should not veer too far away from underlying economic fundamentals.

Fiscal and financial prudence apart, the real contribution of this year's Budget is in starting a much-needed conversation on the plumbing of different parts of the economy. With fiscal space exhausted, demand will have to come from structurally lifting consumption and exports growth. In turn, the fate of private consumption is inextricably linked to quality employment. In particular, a growing concern over the last two decades is that even as India is undergoing its demographic transition, manufacturing has been becoming increasingly capital-intensive. The key to boosting quality employment, apart from higher growth rates, is therefore to redress the balance between capital and labour in the production process. The Budget signalled important first steps in this regard by announcing several "employment-linked incentives" that will provide incentives to both employees and employers. Of course, incentives will only work if workers exceed a minimum threshold of employability to compete with capital, for which skilling and education are so crucial. On this account, the Budget announced new skilling and internship programmes, alongside skilling and education loans. To be sure, making labour a more attractive factor of production will require a thousand small steps. And combined spending on health, education, skilling and health — which for now is the same share of GDP as last year — will eventually have to go up. But at least we have started that conversation and begun to take explicit measures to address the challenges.

Similarly, on the exports front, it was refreshing to see customs duties across several sectors reduced or done away with. A foundational theorem in trade theory is that an import tariff is equivalent to an export tax. If we can continue on this path of rationalising tariffs, we are simply making our exports more competitive.

Finally, the Budget spoke about the need to undertake factor-market reforms encompassing land, labour, and capital in conjunction with the states. It also spoke about developing a vision for the financial sector and undertaking a comprehensive review of the Income Tax Act, all important cogs in the structural reform agenda. Implementation, however, is now the key.

What is the bigger message? We live in a dangerous and unpredictable world. Cyclical policy space is largely exhausted. Sustaining growth will require the less flashy task of fixing the economy's plumbing. This will be a hard slog but is unavoidable to improve competitiveness and ensure the fruits of growth are more equitably distributed across the factors of production. The Budget must be commended for acknowledging this and starting down this path.

Views are personal

Infra outlays: A strategic downplay

SINCE 2014, THE National Democratic Alliance government has consistently, and rightly, followed the economic mantra of having large dollops of infrastructure spend by the Centre, pump-priming economic growth with its well-known multiplier effects. Indeed, the strategy worked — including in the stressful Covid period. Across the last few years, India saw Union Budget infra allocations increase every year by 25-30%; and witnessed concomitant GDP growth.

But the first smoke signal of this strategy being reset came from the Interim Budget in February, where the infra allocation was raised by only 11% to ₹11.1 trillion. Most infrastructure sector analysts dismissed this as merely a holding operation till the new government assumed office, with an expected 30% increase to around ₹13 trillion in the final Budget.

The next serious signal came from the Economic Survey. It postulated two clear drivers — "bottoms-up growth", and the private sector rising to fulfil investment and employment aspirations. The silence on "infrastructure-led growth strategy" was ominous.

The final sign of the reset came from the Budget speech, which mentioned that aggressive infrastructure outlay trends of the past were being moderated to achieve fiscal consolidation and accommodate other priority areas. Substantial investments of the past decade were also alluded to.

The same increase of 11% has been announced, taking the figure to ₹11.1 trillion as against the more ebullient expectation of ₹13 trillion in the first year of the new government. Moreover, there has been no emphatic mention of highways, ports, airports, waterways et al, which where the hallmarks of previous Budget speeches.

VINAYAK CHATTERJEE
FOUNDER AND MANAGING PARTNER, THE INFRAVISION FOUNDATION

The Budget signals a move out of the era of large infra spends pump-priming the economy

So, if the Centre steps aside somewhat, who else is to share the burden of heavy-lifting for Indian infra? The Budget speech alludes to states increasing their share, multilateral development banks revving up their act again, and hopefully the revival of public-private partnership that will draw in the elusive private sector capex.

For ground-level initiatives, the Budget must be lauded for identifying a plethora of practical programmes, notwithstanding the special packages for Bihar and Andhra Pradesh, which clearly pass the test of political expediency. They include urban rejuvenation, plug-and-play industrial parks, energy security, rural housing and roads, land digitisation, tourism infrastructure, irrigation and flood mitigation—all adding up to a clear recognition of areas that need "fixing" to enable a "bottoms-up" strategy for growth. The ₹2.66 trillion earmarked for rural infra clearly hits the bullseye, as does the special emphasis on all-round development of the eastern region.

However, many of these initiatives will hopefully start showing results in 3-5 years. The moot point is that in this transitional period, central government outlays would still need to be relatively large to keep the GDP clipping at 7-8%. Unfortunately, the relatively lower growth in outlay is likely to significantly diminish the power of this pump-priming engine. This is a significant apprehension emanating out of this year's Budget.

Striking a different note, one of the key reasons for reducing the increase in infra allocations is fiscal consolidation. It is not necessary under all circumstances to genuflect at the altar of fiscal rectitude. One school of macroeconomists would rightfully argue that a nation like India crying out for job creation, demand generation, and logistics and infra assets could well do with controlled fiscal expansionism, provided it was linked to asset creation and not wasteful expenditure. Thus, there is nothing sacrosanct about dropping the fiscal deficit to 4.9%, if the same at 5.5% could give the additional fiscal space for a higher infra outlay. This would get the extra three-times multiple to turbocharge the economy.

Overall, the FY25 Union Budget does point out to a change in direction of India's macroeconomic growth path.

Many hits and a few misses

BIBEK DEBROY
ADITYA SINHA
RESPECTIVELY, CHAIRMAN AND OSD, RESEARCH, EAC-PM

Significant pros of the Budget include lowering the fiscal deficit target and attention to energy transitions, while one of the cons is the hike in LTCG tax

DURING THE 1973 UNION Budget, then-finance minister Yashwantrao Chavan lightened the mood when a pigeon disrupted proceedings, humorously noting that even pigeons were eager for the details. This anticipation continues today. However, each Budget comes with its own hits and misses and this year's Budget is no different. Five key areas stand out, showcasing ambitious targets and innovative policies aimed at driving economic growth and addressing critical issues.

First, the Union government has lowered its fiscal deficit target for FY25 to 4.9% of GDP, down from the 5.1% target set in the interim Budget. This is crucial for maintaining fiscal discipline and bolstering investor confidence. Sticking to this glide path is essential to reduce the fiscal deficit to 4.5% or less by FY26, ensuring macroeconomic stability, attracting foreign investment, and potentially securing a sovereign rating upgrade.

Second, the government, while acknowledging the employment issue, has announced a comprehensive package for employment and skilling, targeting 4.1 crore youth with a central outlay of ₹2 trillion over five years. This includes various schemes like Employment Linked Incentive, support to first-time employees, incentives for manufacturing job creation, and support to employers. Additionally, a new centrally-sponsored scheme for skilling, in collaboration with state governments and industries, is expected to benefit 20 lakh youth over five years.

Third, the Budget pays special attention to micro, small, and medium enterprises (MSMEs), particularly in manufacturing. Measures include a credit guarantee scheme, a new assessment model for MSME credit, financial support during stress, and enhanced scope for mandatory onboarding in Trade Receivables Discounting System. The new assessment model for MSME credit will leverage digital footprints to better evaluate creditworthiness, expanding access to financing. This approach moves beyond traditional asset- or turnover-based criteria, allowing more MSMEs, including those without formal accounting systems, to obtain funds. Improved risk assessment will reduce default rates, supporting financial stability.

THE NEW ASSESSMENT MODEL FOR MSME CREDIT WILL LEVERAGE DIGITAL FOOTPRINTS TO BETTER EVALUATE CREDIT-WORTHINESS, EXPANDING ACCESS TO FINANCING ●●●

Fourth, the Budget outlines strategies for energy security, including the PM Surya Ghar Muft Bijli Yojana for rooftop solar installations, a policy for promoting pumped storage projects for electricity, and R&D in nuclear energy. The development of advanced ultra-supercritical thermal power plants and support for traditional industries to shift to cleaner energy forms are also highlighted. These measures aim to ensure sustainable energy availability.

Fifth, the Budget emphasises next-generation reforms across various factors of production, including land, labour, capital, and entrepreneurship. Key reforms include land-related actions for digitisation and improved land management, labour-related services integration, and capital-related financial sector strategy. These reforms are designed to enhance productivity, efficiency, and competitiveness.

However, the Budget has two significant misses. The first is the hike in the long-term capital gains (LTCG) tax from 10% to 12.5% on all financial and non-financial assets. This increase can deter long-term investments by reducing potential returns, making it less attractive for investors to commit their funds for extended periods. In principle, it also leads to a hike in cost of capital. Moreover, this may lead investors to hold on to underperforming assets to avoid the tax hit, distorting investment decisions and potentially reducing market efficiency. While Securities and Exhange Board of India and Reserve Bank of India have raised concerns about the surge of money from banks into the stock market and mutual funds, increasing the LTCG might be counterproductive in the larger scheme of things.

The second significant miss is the proposal to withdraw the benefit of indexation for calculating LTCG on the resale of houses and properties. While the LTCG tax rate on property sales is being lowered from 20% to 12.5%, the removal of the Cost Inflation Index adjustment increases the net tax liability. This move may stifle investment in the sector.

True to sustainability

ARUNABHA GHOSH
CEO, COUNCIL ON ENERGY, ENVIRONMENT AND WATER (CEEW)

The Budget recognises that transition to sustainability is not just about energy, and sends positive signals for greener industrialisation

THE 2024 BUDGET is encouraging for two reasons. First, it recognises that the sustainability transition encompasses not just energy, but should also include water, waste, air, and resilience. Second, its focus extends beyond renewable energy (RE) and indicates some positive directions for greener industrialisation.

The Budget's sustainability provisions offer promise in four ways.

First, RE has been given a strong push, but we need to double down on the business models and opportunities available for distributed energy. It is encouraging to see 1.28 crore registrations for the PM Surya Ghar Muft Bijli Yojana. But to achieve scale, it needs better consumer awareness, demand-side incentives, and robust regulatory ecosystems. Energy storage systems must be distributed to optimise the flow and trade of electrons across consumers. In order to reduce vulnerabilities in RE supply chains, customs duties to boost domestic manufacturing should be supplemented with understanding our comparative advantages for cleantech components and using trade relationships to position domestic manufacturers within global value chains.

Second, the Budget clearly highlights three areas critical for sustainable industrial development. The hard-to-abate sectors are key for our industrial base. The Council on Energy, Environment, and Water (CEEW) has produced the first-of-their-kind marginal abatement cost curves to achieve net zero in the steel, cement, aluminium, and fertiliser sectors. More than the capex and opex required, policies will trigger markets — pushing energy-efficient technologies, emission-linked mandates, and incentivising RE and green hydrogen. Related to this is reducing critical mineral vulnerabilities. India published a list of 30 critical minerals last year, and now the Budget has announced a Critical Mineral Mission. Lastly, the bulk of our industrial base are micro, small, and medium enterprises, which account for more than 40% of exports. Their energy transition will depend on a cluster-focused approach. These clusters will need easy access to credit, energy efficiency options, and export facilitation, with development finance institutions potentially playing a catalytic role.

THE MOST ENCOURAGING SIGN IS THAT WE ARE DEFINING THE ARCHITECTURE OF CLIMATE FINANCE, AND NOT JUST THE QUANTUM OF MONEY ●●●

Third, the transition towards a sustainable economy will gain more traction when the quality of life of citizens improves. This starts with preventing loss of lives and livelihoods due to rising extreme climate events. It is encouraging that the Budget has allocated resources for states such as Assam, Bihar, Himachal Pradesh, Sikkim, and Uttarakhand for flood relief and rebuilding. We must expand the coverage of early warning systems, which currently cover only 33% of the population exposed to floods, increase investments in nature-based solutions, and engage with communities as change agents.

In urban centres, reusing treated wastewater (as the Budget indicates for 100 cities) could help reduce the water crises. CEEW's analysis suggests that reusing treated wastewater for irrigation could have generated ₹966 billion in revenue in 2021 alone. To trigger this, we must empower urban local bodies to create water reuse policies and establish safe reuse standards.

Finally, the Budget can serve as a test bed for a more comprehensive approach towards dealing with air pollution. Two announcements are encouraging — solid waste management in 100-plus cities and crop residue management. Better stubble management can be implemented during this cropping season to show when the government wills it, there is a way.

All of this needs money. The most encouraging sign is that we are defining the architecture of climate finance, and not just the quantum of money. The Budget announced the aim to define climate taxonomies. This would help mobilise external finance for India's net-zero transition and be useful for financial sector regulators such as Sebi to avoid greenwashing.

The Budget has identified many bricks in the larger structure of the Indian economy. Laid down correctly, they can serve as strong foundations for a sustainable and prosperous India.

Views are personal

UNION BUDGET 2024-2025

Focus on jobs; markets spooked

MOHIT MALHOTRA
CHIEF EXECUTIVE OFFICER, DABUR INDIA

THE STANDOUT FEATURE of the Union Budget 2024-25 was its focus on speeding-up fiscal consolidation, with the fiscal deficit being revised down 20 basis points from the Interim Budget to 4.9%.

Although finance minister Nirmala Sitharaman has rolled out a string of measures in the Union Budget — aimed at job creation, rural development, women empowerment and infrastructure investment — the announcement on the capital gains tax seems to have come as a big dampener for the market.

Focus on infrastructure development

The Budget's push on urban and rural growth will help boost rural consumption and also increase discretionary spending.

This year's Budget has had a sharp focus on urban as well as overall infrastructure development. Urban housing needs of as many as 10 million urban poor and middle-class families are being addressed, with an investment outlay of ₹10 lakh crore.

In addition, the government's decision to allocate ₹2.66 lakh crore for rural development — including rural infrastructure — and its continued focus on rural infrastructure development are major steps in the right direction.

These measures would further boost overall consumer demand in the hinterland, which is already showing green shoots of revival.

> Revised tax rates and slab revisions would mean more disposable income in the hands of consumers

Consumer goods companies

The above step will, in turn, have a positive impact on consumer goods companies with a strong rural footprint. We, for example, have been investing ahead of the curve to expand our rural presence, which has grown by 22,000 villages to 122,000 in the previous fiscal. These Budget measures will encourage us to further expand this coverage – as we are working towards enhancing our footprint to 130,000 villages this year.

> THE BUDGET'S PUSH ON URBAN AND RURAL GROWTH WILL HELP BOOST RURAL CONSUMPTION AS WELL AS INCREASE DISCRETIONARY SPENDING

Education and skilling needs addressed

Increased allocation in the Budget towards education, skilling and employment, and special employment-linked incentive schemes for employees and employers aptly demonstrated the government mindset to significantly improve employment and employability in the country.

The Union Budget's special focus on skilling 2 million youth over the next five years through centrally-sponsored schemes, upgrading of 1,000 industrial training institutes (ITIs), and the provision of skilling loans are some steps in the right direction.

These steps will go a long way in driving consumerism. The support for higher education loans and the push for women in the workforce are other big pluses. The impact of these measures on skilling, employment, and job creation will be profound.

Tax rates and slab revisions

The government has increased standard deductions from ₹50,000 to ₹75,000, revised tax rates under the new tax regime, and slab revisions would result in savings of around ₹17,500 in net taxes in the hands of the individual. This would also mean more disposable income in the hands of more consumers and would lead to sustained demand for branded consumer goods.

Women empowerment, gender diversity

A highlight is the focus on enhancing women's participation in the workforce by investing in establishing working women hostels, creches, and women-specific skilling programmes. It is a progressive move that will help improve gender diversity in the workforce and create a supportive environment for women workers, fostering empowerment and economic independence. This will empower women to become more independent and earn a dignified living.

I feel that this year's Union Budget will help unlock our demographic dividend and pave the way for a brighter, more skilled future — or should I say the 'Amrit Kaal' — for our youth, preparing them to meet the demands of a dynamic and highly competitive world.

Transformative tax reforms welcome

DINESH KANABAR
CHIEF EXECUTIVE OFFICER, DHRUVA ADVISORS

THE FINANCE BILL, 2024, heralds several amendments aimed at refining and attempting to simplify India's direct tax regime to a large extent. The focus of the Bill is on enhancing the tax landscape, easing taxpayer difficulties, and rationalising provisions.

The Bill brings notable amendments to the capital gains tax regime, such as a uniform holding period for determining long-term capital gains (LTCG). While the period of holding for all listed securities remains 12 months, any other asset class held for more than 24 months will qualify for LTCG, simplifying the earlier disparate holding periods. On the tax rate front, especially for capital gains arising on listed securities (equity shares, equity-oriented mutual funds), the short-term capital gain (STCG) tax has been increased to 20% from 15%, and the LTCG tax raised to 12.5% from 10% (with marginal relief on basic exemption limit increased from ₹1 lakh to ₹1.25 lakh). The LTCG tax rate for assets other than listed securities has been reduced to 12.5% for all taxpayers without any indexation benefit. The government has thus adopted a give (reduced tax rate on LTCG) and take (indexation benefit/increased tax rate on listed securities) approach, while rationalising the capital gains tax regime.

> The Finance Bill, 2024, introduces several direct tax amendments that streamline compliance, encourage investment, and broaden the tax net. These changes reflect a balanced approach to tax administration

Unlisted bonds/debentures (including those convertible into equity) shall be deemed to be taxed as STCG irrespective of their period of holding before transfer. This will affect private equity investments done through convertible debentures, which provide their own set of advantages commercially, to consider the tax impact before the same are offloaded as such.

Then there is taxability of buyback of shares, which, over the years, has undergone changes. Earlier, it was taxable as capital gains in the hands of shareholders. Now, buyback tax on distributed income is payable by the company undertaking buyback, and shareholders are exempt from taxation. The Bill (with effect from October 1, 2024) characterises buyback as the same as dividend income. While the entire buyback consideration is taxable as dividend income at applicable rates in the hands of shareholders, the cost pertaining to shares bought-back will be construed as capital loss for the shareholder which is available for set-off against other capital gains as per applicable provisions.

The most controversial taxation of share premiums received by privately held companies is proposed to be done away with. This amendment will simplify compliance, especially for startups and small businesses, encouraging capital formation and entrepreneurial growth.

The tax rate of foreign companies has been reduced to 35% from 40%, giving relief to their branch/permanent establishment operating in India. The withdrawal of 2% equalisation levy on e-commerce transactions with foreign players is a welcome decision. The levy was introduced as an interim measure until BEPS (Pillar 1 and Pillar 2) provisions are introduced. But the ambiguity surrounding the applicability, compliance and discharge of equalisation outweighed the intended increase in tax collection, resulting in its ultimate abolition.

There are considerable changes in terms of rationalisation and simplification of tax compliances, procedures and for reducing tax litigation. Major amongst them are reduction in TDS rates (from 5% to 2%) on various payments, reduced timelines for reassessments (from 10 years to 5 years) in specific cases involving income escaping assessment for more than ₹50 lakh and reintroduction of tax amnesty scheme (i.e. Vivad se Vishwas).

In summary, the Bill introduces direct tax amendments that streamline compliance, encourage investment, and broaden the tax net. These changes reflect a balanced approach to tax administration, promoting ease of doing business while ensuring robust revenue collection.

A step towards economic resurgence

RASHESH SHAH
CHAIRMAN, EDELWEISS

THE UNION BUDGET 2024, presented by finance minister Nirmala Sitharaman, signifies a crucial juncture in India's economic trajectory. Characterised by fiscal prudence, structural reforms and social welfare initiatives, it can propel India towards a $4-trillion economy. It lays foundation for long-term growth, addressing immediate economic concerns and maybe with a potential real growth rate of 7-7.5%, while positioning India for sustained prosperity.

The government's commitment to fiscal discipline, targeting a fiscal deficit of 4.9% of GDP, is notable. This approach is essential for maintaining macroeconomic stability and attracting FDI. The huge increase in capital expenditure by 33% to ₹11.11 lakh crore underscores the government's focus on infrastructure development, job creation and economic stimulation, and will catalyse growth.

The government's plan to borrow ₹14.01 lakh crore can provide an impetus to bond markets. This move, coupled with targeted investments in infrastructure, sets the stage for robust economic revival.

There's emphasis on the housing sector. PMAY Urban 2.0 aims to provide housing for 1 crore poor and middle-class families, with an investment of ₹10 lakh crore aligning with the goal of "Housing for All" by 2030. This initiative is projected to significantly contribute to GDP growth, with the housing sector expected to account for 13% of GDP by 2030.

> While the Budget lays foundation for growth, challenges remain. Private investment needs to pick up pace, and interest rates need to decline. Addressing current sluggishness in consumption is critical

The proposed ₹1.5 lakh crore long-term interest-free loan for state governments will empower them to enhance infrastructure spending and implement critical reforms. It is expected to stimulate economic activity at the grassroots level.

The Budget introduces three Employment-Linked Incentive schemes, which incentivise job creation in manufacturing, provide wage subsidies for new workforce entrants, and support employers in hiring additional employees. The commitment to skilling is evident in the planned upgrade of 1,000 ITIs, skill loans up to ₹5 lakh, and financial support for higher education loans.

The Budget recognises the pivotal role of MSMEs in India's economic landscape. Measures to enhance credit access and simplify regulatory processes for MSMEs are timely. Initiatives such as the ₹100 crore credit guarantee scheme, increase in MUDRA Yojna loan limit, and the opening of 24 SIDBI branches are expected to provide substantial support to this sector.

By empowering MSMEs, the Budget aims to foster entrepreneurship, innovation and regional economic development.

There are measures to stimulate consumption, such as reducing personal income tax rates, increasing the standard deduction to ₹75,000, and implementing direct cash transfers. These are aimed at enhancing disposable income, driving both rural and urban consumption.

The emphasis on R&D in green technologies and AI positions India as a frontrunner in innovation. These investments are crucial for fostering a sustainable and technologically-advanced economy.

But challenges remain. Private investment needs to pick up pace, and interest rates need to decline, for sustained growth. Addressing the current sluggishness in consumption is also critical.

The Budget is reassuring on the India growth story. It addresses immediate concerns while laying the groundwork for long-term sustainable growth. The focus on fiscal discipline, infrastructure development, employment generation, MSME empowerment, and digital transformation is essential for enhancing India's economic resilience. As we move forward, it's crucial to monitor the implementation of these measures. By fostering a conducive environment for growth and innovation, India can thrive on the global stage.

Budget needed a bold new vision

SALMAN SOZ
MEMBER, INDIAN NATIONAL CONGRESS

> Continuity of an economic framework that has kept India in the throes of high unemployment, low personal savings, rising personal debt, and lacklustre private sector investments is not a recipe for prosperity

THE BEST THING I can say about Nirmala Sitharaman's latest Budget is that it offers the country a sense of continuity. We have heard speeches like her latest one before. There is praise for the government, no account of past commitments, rhetoric of developed India, and virtue signalling of continuity. But continuity of an economic framework that has kept India in the throes of high unemployment, low personal savings, rising personal debt, and lacklustre private sector investments is not a recipe for prosperity. With India facing monumental challenges like climate change and tech disruption, the NDA's Budgets increasingly seem out of step with India's realities and ambitions. We need a different path.

As with most Budgets, there are aspects to like in this one. I like the idea of decriminalising TDS delays. I also like the announcement of a review of the Income Tax Act. I like the idea of an Employment-Linked Incentive scheme, something that the Congress Party's manifesto had promised. The government also announced an internship scheme.

The lowering of fiscal deficit is in part due to less-than-budgeted spending in schemes for insurance, housing, urban development, rural roads, education, etc, all of which serve the less well-off sections of society. For the most part, there is tinkering around the edges with a small tax benefit here and a new spending proposal there. It is not a remarkable Budget... for the most part.

What is remarkable is that on the big issues that confront the economy, the Budget has little to offer. On jobs, the issues that matter are about weak private sector investment growth, the poor condition of the MSME sector, and lagging human capital development. Despite a massive tax cut and the quadrupling of corporate profits between 2020 and 2023, private investment has not picked up in a meaningful way.

MSMEs — crucial for employment generation — have been hit hard by pandemic and demonetisation before that. Many businesses struggle to access credit and sustain operations, and the Production-Linked Incentive scheme seems not to successfully cater to this sector.

The Budget is also remarkable for solidifying the approach to taxation that exacerbates economic inequality. In new India, taxation has a new hierarchy. At the top is income tax (19% of overall revenue). GST, which is mostly paid by the bottom 50% of Indians, accounts for 18% of revenue. Corporate tax is now in third place at 17% of revenue. It would have been nice of the finance minister to thank India's middle- and low-income classes for financing a large part of the government's Budget.

Finally, Budgets are an opportunity to reflect on the future. We face grave challenges in climate change and tech disruption. The finance minister did not coherently lay out the government's approach to these issues. Similarly, the government exhibits a lack of seriousness about tech disruption, which offers both opportunities and threats. The politics of Bihar and Andhra Pradesh received more attention than India's climate and tech challenges.

I conclude with what should be our starting point — education and health. While the central Budget is not the main driver of these sectors, national-level policies have increasingly infiltrated the domain of states. In the process, the BJP has created a messy human capital environment. We wait for the day when a new government will help unleash a progressive human capital revolution.

Striking the right chord with tourism, technology and talent

RITESH AGARWAL
FOUNDER & GROUP CEO, OYO

INDIA'S STATUS AS an outlier amid global economic uncertainties is no accident. Stable political environment, high investment in public infrastructure and a demographic boom have set us apart. This year's Budget was an opportunity to build on that momentum, and finance minister Nirmala Sitharaman has hit the right notes.

Infrastructure is a priority with allocations aimed at improving connectivity and supporting regional growth. Tourism also found prominence, underscoring plans to promote India as a leading global destination, with the Economic Survey highlighting the surge in foreign tourist arrivals in 2023 — a total 9.2 million visitors, a year-on-year increase of 43.5%.

While that augurs well for our global standing, the real opportunity lies in the domestic circuit, especially with a rising middle-class that is not shy of spending on travel. Indians are moving beyond oft-travelled destinations, further expanding the potential of domestic tourism.

Infrastructure will be the cornerstone of tourism growth. This sustained infrastructure push would boost tourism and see the emergence of new tourist places, especially in rural and semi-urban India.

Spiritual tourism has picked up pace and it is encouraging to see the government retain that focus with plans to build corridors at the Vishnupad and Mahabodhi temples that will follow the Kashi Vishwanath Temple blueprint. Apart from cultural preservation, infrastructure projects in religious towns lead to broader regional development, with Varanasi and Ayodhya examples of such an approach.

It has been a difficult year for startups as some companies continue to reel from the slowdown in funding. Only two startups achieved unicorn status in 2023, a marked decrease from previous years when that figure stood at 23 and 39, respectively. The abolition of angel tax on all classes of investors could potentially be a major catalyst for the startup ecosystem.

> FROM E-COMMERCE TO SPACE-TECH, START-UPS HAVE EMERGED AS TRAILBLAZERS, AND ARE POISED TO POWER THE NEXT WAVE OF GROWTH

As more Indian startups harbour global ambitions, the departure from angel tax would help reduce the financial burden on young startups and attract funding from beyond Indian shores.

From e-commerce to space tech, startups have emerged as trailblazers, pioneering innovation and problem-solving on a large scale. They are poised to power the next wave of economic growth.

As we set our sights on becoming the world's third-largest economy, it is worth noting that countries with a highly skilled workforce are better positioned to draw investments, spur innovation, and engage in profitable international trade. The Indian workforce is reported to have one of the largest skill gaps in the world, a problem that is exacerbated by socioeconomic disparities and constant migration of labour from one sector to another.

A new central scheme for skilling in collaboration with states that will equip 2 million youth over five years would go a long way in addressing that gap. The decision to offer internships to young job aspirants in '500 top companies' would enable us to build a future-ready workforce.

Among the standouts of the last decade or so has been the rapid digitalisation of the Indian society. India's robust digital public infrastructure (DPI) was unveiled before the global audience at last year's G20 Summit, and the finance minister's clarion call for private companies to develop DPI applications at scale would foster innovation. Aimed at areas such as e-commerce, education, health, logistics and urban governance, the initiative could boost fields like AI, with algorithms being eventually integrated into the DPI.

As India continues to lay the groundwork for a robust and inclusive economy, the vision of 'Viksit Bharat' is becoming a reality. With strategic investments in infrastructure, tourism, skilling, and technology, the nation is well-positioned to harness its demographic dividend.

THE HINDU

Shuffling the deck

The Budget sought to be many things to many people, but fiscal responsibility remained in focus

Finance Minister Nirmala Sitharaman's first Budget of the BJP-led NDA government's third consecutive term in power is a distinct attempt to tell India's voters that it has heard the angst-ridden message from the country's unemployed youth loud and clear. With the BJP having suffered reverses in the general election in the face of a concerted Opposition campaign that spotlighted issues agitating young voters such as a palpable lack of jobs, the Minister was keen to redress matters ahead of the slew of State elections later this year. Asserting that the poor, women, youth and farmers were the four 'castes' that this government was focused on serving, Ms. Sitharaman stressed that this year's Budget laid particular emphasis on "employment, skilling, MSMEs, and the middle class". As a part of this effort, a package of five schemes and initiatives have been proposed with a view to facilitating employment, skilling and other opportunities for 4.1 crore youth over a five-year period with a central outlay of ₹2 lakh crore. The centrepiece is a scheme to provide a month's wage as subsidy to all persons newly entering the workforce in a formal sector job, which would entail the employer registering the employee at the Employees' Provident Fund Organisation (EPFO). The direct benefit transfer of one-month salary, subject to a cap of ₹15,000, would be made in three instalments to first-time employees. The key caveat is that the employer would have to refund the subsidy if the first-timer's employment ended within 12 months of hiring. Other schemes are an incentive support for job creation in the manufacturing sector, one offering direct support to employers who boost the number of jobs registered with the EPFO, and another, a skilling programme in concert with States, and the private sector that leverages the existing network of ITIs to boost the employability of the youth. The fifth in this quiver of schemes, predictably credited as being under the aegis of the Prime Minister, is an interesting move to facilitate internship opportunities to the youth in 500 top companies. The scheme, which appears to mirror a similar proposal contained in the Congress manifesto, entails the interns being paid a monthly allowance of ₹5,000 and a one-time assistance of ₹6,000, with the participating corporates expected to bear the training cost for the 12-month period as well as 10% of the internship allowance from CSR funds. Targeted at unemployed persons aged between 21 and 24 who are not engaged in full-time education at the time of applying, the Minister said this scheme would, over a five-year period, potentially provide one crore youth with a chance to gain exposure to a real-life business environment and varied professions. All these schemes will, however, need to be weighed against the backdrop of the fact that India needs to, on average, generate 78.5 lakh non-farm jobs annually until 2030, as the Chief Economic Adviser highlighted in his Economic Survey, largely to absorb the workforce exiting agriculture.

In yet another acknowledgment of the primacy of the political economy in policy making, Ms. Sitharaman has sought to quell the strident Opposition charge of being too cosy with large corporates by making a concerted bid to address some of the challenges faced by the lynchpin MSME sector. Beginning with a credit guarantee scheme to help MSMEs in the manufacturing sector obtain loans to finance their purchases of machinery and equipment without collateral or a third-party guarantee, the Budget's proposals for the key employment-providing sector have been tailored to ease their access not only to debt financing and working capital, but also to business opportunities as potential suppliers to a wider pool of central public sector enterprises and large corporates. MSMEs, however, may wait to see the outcome of yet another Budget assurance by the Minister – that the government will work to further simplify the GST regime and rationalise the tax structure – before cheering, given the difficulties they encounter with the indirect tax system. For the middle-class, Ms. Sitharaman's menu of offerings is focused almost entirely on tax relief for the salaried. In a bid to entice more taxpayers to wholeheartedly embrace the new Income-Tax regime, the standard deduction has been raised and the tax slabs with their relevant tax rates revised so as to leave a little more money in the hands of the salaried, post taxes. Pensioners are also set to benefit by a marginal increase of ₹10,000 in the deduction allowed on family pensions.

Ms. Sitharaman's Budget for 2024-25 yet again sticks to the government's fiscal consolidation path, with the Fiscal Deficit proposed to be pared to 4.9% of GDP. To achieve this fiscal goal, the Minister has quietly set about paring spending on several social sectors including school and higher education that saw cuts in their shares of Budget outlays. The most egregious reduction though must be the cut in share of spending on the rural job guarantee scheme – MGNREGA – with the Budget Estimate pegging the spending on the scheme at a nine-year low share of 1.78% of overall outlay, down from 1.92% in the Revised Estimates for 2023-24. Subsidies too across the board, from fertilizers to food and petroleum have been pared. And glaring in its absence in Ms. Sitharaman's speech was any mention whatsoever of what was once the country's single-largest employer, the Indian Railways. Political compulsions, as expected, resulted in significant allocations for Bihar and Andhra Pradesh, the States with the BJP's crucial allies in power. All told, Ms. Sitharaman seems to have balanced the political and fiscal compulsions to some extent.

Union Budget 2024-25 — no signs of learning

C.P. Chandrasekhar
Senior Research Fellow, Political Economy Research Institute, UMass, Amherst, U.S.

Just before Nirmala Sitharaman presented her seventh consecutive Budget as Union Finance Minister of a coalition led by the Bharatiya Janata Party (BJP), which managed to gain power for the third time on an underwhelming mandate, signals from the government seemed to suggest what its thrust may be. The Economic Survey 2023-24 made clear that while India's industrialists and business elite were "swimming in excess profits", the priority of the government was not to tax away that excess for developmental purposes, but to ease the burden of regulation on business and goad the private sector into generating productive jobs out of "enlightened self-interest". Business must lead the march to Viksit Bharat 2047, and the job of the government is to persuade the private sector not to shy away from leadership.

Outside government, speculation was rife on two matters. The first concerned the possible response of the National Democratic Alliance (NDA) to the signal from the parliamentary elections that the strategy of sidestepping core economic problems – varying from rural distress and widespread unemployment to inflation, especially food price inflation – could prove costly. The second related to the scale and the structure of the pay-off to allies, the Telugu Desam Party (TDP) and the Janata Dal (United), or the JD(U), from Andhra Pradesh and Bihar, respectively, who are crucial to keep the post-election coalition government led by the minority NDA in power.

Initiatives and their slotting

The speech did not disappoint by sidestepping these issues, though the beneficiaries of the schemes meant to address them are likely to be disappointed by their scale and efficacy. Embarrassed perhaps by the hordes applying for the few half-decent jobs available, Part A of the Budget speech spent much time on the means to increase employment, especially for the educated unemployed. Multiple initiatives were announced, which broadly fell in two buckets.

One contained schemes that amounted to providing employment subsidies, either directly or indirectly to employers. The scheme to provide ₹15,000 in three instalments to all new employees with salary up to ₹1 lakh a month appears to be directed to those employed in the formal sector. But it is more than likely that the availability of this benefit would influence the compensation package offered by companies attempting to internalise that subsidy. Another set of subsidies, such as the ₹3,000 a month contribution for two years to be made by the government against provident fund subscriptions, accrues directly to employers.

A second bucket consists of schemes, varying from subsidised internships and interest subvention for educational loans, which attempt to 'skill' workers largely at state expense, in ways that are expected to make them more employable. The assumption is that it is not inadequate and inappropriate growth, but a skill set mismatch between what job aspirants have to offer and industry needs, that is responsible for unemployment.

Combine this with direct tax concessions for foreign firms and indirect tax adjustments to favour domestic manufacturing, and the picture that emerges is that the unemployment problem is sought to be tackled by persuading private capital with transfers to hire the unemployed in "productive" jobs. The underlying perception, which misses why high growth does not deliver more jobs is that business wants to hire but finds the available labour force too expensive or unsuited, skill-wise.

This mismatch between the problem at hand and what the Budget offers is even more stark when it comes to agriculture. While peasants unable to make both ends meet because crop production is economically unviable have been demanding procurement at a legally guaranteed minimum support price, the Budget promises to implement a long-term programme to raise productivity and production. Farmers who have been on the streets for years now are unlikely to be impressed.

The mismatch between the problem at hand and what the Budget offers is stark be it on welfare or even taking care of key political allies

What the key allies have got

The disappointment is likely to be greater among the NDA's allies. The JD(U) in Bihar has been promised a combination of sundry transport, power, education, sports and religious tourism infrastructure as an implicit quid pro quo for political support, which is a far cry from the large sums that it was expected to receive if granted the special status it demands, but has been denied. The TDP has been offered support to build its new capital at Amravati, on which Chief Minister N. Chandrababu Naidu has staked his prestige and fortunes. But what is shocking is that these promises have not been backed up by significant financial support from the Centre, with much or almost all of the spending to be financed with borrowing, especially from the multilateral development banks (MDBs), facilitated by the Centre. Why the MDBs should listen to the NDA leaders is not clear. But even if they do so, this would only increase the debt burden of these States. Moreover, given the restrictions that have been placed on borrowing by the States, it is unclear how debt for these purposes could be "additional" to what the State may have in any case chosen to incur.

Preoccupied with propaganda aimed at concealing the little that has been done in these politically-sensitive areas, the government in its first year in power has chosen to completely ignore the welfare schemes it made much of in the run-up to the election. Thus, total expenditure for the National Social Assistance Programme covering pensions and disability benefits, which stood at ₹9,652 crore in 2023-24 as per the revised estimates, has been allocated exactly the same amount in the Budget for 2024-25. That is the fate of the National Rural Employment Guarantee Programme, as well, where the allocation for 2024-25 is exactly the same as the revised estimate for expenditure in 2023-24. Despite the extension of the free foodgrain allocation under the National Food Security Act, the food subsidy is budgeted to fall from ₹2,12,332 crore (RE 23-24) to ₹2,05,250 crore (BE 24-25). It is only in the case of the Pradhan Mantri Awas Yojana (PMAY) that there is evidence of backing grandiose statements in the Budget with some increase in allocation.

The 'secret source' of funds

So, is there any larger ambition reflected in the Budget? There are two elements that stand out. One is the obsession with fiscal consolidation, with the fiscal deficit expected to come down from 4.9% of GDP in 2023-24 to 4.5% this year, and a promise of staying on that path subsequently. The other is the claim now made every year that the BJP-led government is taking capital expenditure to new heights, especially on infrastructure. Capital expenditure that rose from ₹7,40,025 crore in 2022-23 to ₹9,48,506 crore in 2023-24, is budgeted to rise further to ₹11,11,111 crore in 2024-25. With tax revenues not expected to register any special buoyancy, how are these conflicting targets expected to be achieved? The well known 'secret source' is once again dividends and surpluses from the Reserve Bank of India and leading public financial institutions, which, having risen from ₹39,961 crore in 2022-23 to a huge ₹1,04,407 crore in 2023-24, are budgeted to spike again to ₹2,32,874 crore in 2024-25. But even these funds garnered through transfers within the state are not available for welfare spending or meaningful support for allies on whom the government depends. Prime Minister Narendra Modi and his advisers have either not learnt their lessons or believe there is none to be learnt.

A message of fiscal stability, growth continuity

Yuvika Singhal
Co-Head, Research, QuantEco Research

Shubhada M. Rao
Founder, QuantEco Research

The FY25 Union Budget has sent out a strong message under the new administration – there remains an unequivocal focus on stability (fiscal) and continuity (of sustainable growth impulses) amidst a new chiselled focus on providing growth a more inclusive character in India.

Focus on 'weaker building blocks'

The 8.2% GDP growth in FY24, while commendable, was driven by an uneven K-shaped segmentation. The premiumisation of consumption, as seen in the robust demand for luxury cars, houses and goods, coincided with stagnant wages, low fast-moving consumer goods sales and (food) inflation continuing to vociferously bite those at the bottom end of the income pyramid. The fiscal deficit, at 5.6% of GDP in FY24, still high compared to pre-COVID-19 pandemic levels, provided the needed growth impetus via capital spending at a time when the private capex cycle remained much on the sidelines. Against this background, the FY25 Budget, through a panoply of measures, has addressed the weaker building blocks, *viz*. to improve the quality of employment, fortify agriculture and bring in the micro, small and medium enterprises (MSMEs) into a meaningful roleplay in India's manufacturing renaissance. This will pave the path to establish a Viksit Bharat by 2047.

From an agriculture perspective – currently a key priority – promotion of Atmanirbharta in pulses and oilseeds, a focus on agriculture research (bearing in mind the realities of climate change), large-scale clusters for vegetable production, and Digital Public Infrastructure (DPI) in agriculture for coverage of farmers and their lands, are all likely to support the *Annadata* (i.e., farmer). A thriving agriculture sector will allow the government to deliver on its promise of foodgrains under the Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY), now extended for five years.

The strong message from the Union Budget is about giving growth in India a more inclusive character

On employment generation

The Budget entailed an energised focus on employment generation, for the youth especially, within the ambit of the formal workforce. A new scheme offering incentives to employers as well as employees who join the workforce for the first time, was announced at an outlay of ₹10,000 crore through the Ministry of Labour. Other fresh schemes incentivising internships with an outlay of ₹2,000 crore, and for skilling youth in collaboration with State governments and industry were envisaged. This somewhat resonates with the tripartite compact (between Centre, States, private sector) that the Economic Survey had recommended on the eve of the FY25 Union Budget to deliver on the rising aspirations of Indian youth.

Outlay towards housing saw a massive jump in the FY25 Budget. For urban Pradhan Mantri Awas Yojana (PMAY), the government allocated 37% more funds in FY25 versus FY24, which though impressive, pales into some degree of insignificance when compared to the 70% jump budgeted for the rural counterpart of the scheme. Housing for all remains a key hallmark of the government, which now embarks on its version 2.0.

The PLI Scheme too got a handsome raise of 75% in the FY25 Budget, driven by higher allocation to the auto sector. This was accompanied by tweaks to sectoral custom duties in a bid to support domestic manufacturing and deepen local value addition. Financing constraints, typically faced by MSMEs, were addressed via promise to facilitate term loans to MSMEs for purchase of machinery and equipment without collateral. To facilitate improved and undisrupted lending, banks will now be allowed to develop in-house credit assessment and a facilitation backed by the government to continue to extend credit to MSMEs even during stress times.

Most of these measures will dovetail handsomely with the macro focus of pushing a job-led growth in the medium term. Commendably, the government has succeeded in maintaining the fiscal discipline whilst extending a wide gamut of measures to stimulate the economy.

Looking ahead

Compared to the interim Budget's fiscal deficit estimate of 5.1% of GDP, the government pruned the FY25 headline deficit target to 4.9%. It kept the intended 70 basis points consolidation over FY24 intact, as in the interim Budget. This allows for a smoother transition to 4.6% fiscal deficit to GDP in FY26.

The display of intent to continue to consolidate its fiscal position well beyond FY26, preserves the trust that this government has earned from economy watchers in the last few years, despite facing the pressure of new demands by regional partners.

While the capex target was left unchanged at ₹11.1 trillion, the gains from the Reserve Bank of India's transfer of a record high dividend of ₹2.1 trillion earlier this year were divided between higher welfare spends and a reduction in fiscal deficit.

All this will serve India well, at a time when domestic bonds have embarked on a maiden journey of getting included in global bond indices. In the face of greater scrutiny of India's fiscal metrics by international agencies, now more than ever, an adherence to fiscal discipline prepares the groundwork for the possibility of a sovereign rating upgrade in the future.

LETTERS TO THE EDITOR

Union Budget 2024-25

Contrary to the previous Budgets, it is quite appreciable to note nine priority items have been framed for focused attention and to ensure overall development. E-vouchers and financial support to students for a sum of up to ₹10 lakh for higher education in domestic institutions and upgrading 1,000 ITIs as a hub and spoke model are novel steps. Budgetary support for early completion of the Polavaram project, aid for a capital in Andhra Pradesh and other infra-related works under the A.P. Reorganisation Act will be a bonanza for the State. The announcements on large infrastructure projects in Bihar is another nod to a key coalition partner at the Centre. The expectations that senior citizens had about relief on tax deducted at source on their interest income have been belied. The Budget remains quite silent on the railways sector, which is quite unusual and surprising.

R.V. Baskaran,
Chennai

The full Budget presented in Parliament yesterday is deeply disappointing. There was no mention of the Railways, especially with its safety record sullied by a trail of consequential accidents. The Budget also mirrors political partisanship as evident from the flagrant neglect of the non-BJP-ruled States. Incidentally, the present Budget justifies the need for a separate railway budget.

N. Sadasivan Pillai,
Guntakal, Andhra Pradesh

The Union Budget appears to disincentivise the old regime of taxation. The need is to link income-tax threshold as well as slabs to the Consumer Price Index so that exemptions will be automatic and realistic and not be subject to the whims of bureaucrats. Taxpayers should raise their voice against injustices.

A. Shreevas,
Chennai

The Budget is a huge disappointment, especially for government employees and pensioners. The income-tax structures, of the old and the new, can only lead to confusion. There is no mention of frozen DA. Small-scale savings and the interest earned by the common man on hard-earned savings of a lifetime need a thorough review. The subject of medicines and taxation is another area that needs scanning.

Balasubramaniam Pavani,
Secunderabad

Driven by a compelling instinct of political survival, a much chastened Prime Minister has made the Union Finance Minister announce a flurry of disproportionately generous monetary help and projects to Andhra Pradesh and Bihar. The poor whose real income has been falling and made worse by galloping food inflation, have been ignored. Equally conspicuous by its absence was any mention of a comprehensive plan for rail safety or a road map to meet the needs of a majority of rail passengers.

S.K. Choudhury,
Bengaluru

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[OUR TAKE]

Continuity and employment

Budget retains welfare-with-prudence focus. Govt heeds electoral lesson on need for jobs

Ahead of Budget 2024, the big question was whether the Bharatiya Janata Party's (BJP) sub-par performance in the summer's national election would push the government into unveiling a populist budget, especially with assembly elections due in Maharashtra, Haryana, and Jharkhand later this year. The budget presented by finance minister (FM) Nirmala Sitharaman has answered this question in the negative by shunning populism in favour of the government's templated approach of welfarism, reforms, and fiscal prudence, but, despite the length of the FM's speech — it was her second shortest budget speech after her speech while presenting the interim budget on February 1 this year — still sought to create a positive political narrative, a big theme that touches lives, make a real difference, and which the government can speak about.

The big theme of Budget 2024 is jobs, or employment. Mrs Sitharaman announced a bouquet of five schemes, with an aggregate spend of around ₹2 lakh crore, aimed at incentivising companies to create jobs, and at training young people to be ready for jobs (including an apprenticeship programme that can expose young people to the biggest and the best companies in the country). Irrespective of data, it was clear that India was not creating as many jobs as it needed, nor providing young people with the required skills to be employable, and this is perhaps the first budget to attempt to solve both problems, and in scale. Much (as it always does) will depend on the implementation, but this is, on paper, exactly the kind of intervention the most populous country in the world (and also the one with the largest working-class population, a distinction India will hold till 2049) needs. It is also a more productive response to the angst that was perhaps responsible for the BJP's performance in the Lok Sabha elections; after all, more jobs is exactly what India needs at the moment. But the BJP's choice of employment as its big theme for the budget suggests that it also believes it can build a political narrative around it. To be sure, there are other things it can do between now and the elections that could also help — for instance, in the case of Haryana, a tweak in the Agniveer recruitment scheme for the armed forces.

There are other political exigencies that the budget has responded to more traditionally. With the BJP dependant on Andhra Pradesh's Telugu Desam Party, and Bihar's Janata Dal (United) — both are senior partners in the respective National Democratic Alliance governments in the two states — for its majority in the Lok Sabha, it was a given that the budget would announce a package of some sort for both. It has done just that, with an emphasis on infrastructure, and the first reactions of the two partners indicates that they are satisfied, at least for the moment. That should remove any question marks (if indeed, any existed) over the stability of the BJP-led NDA government.

The budget has generated a lot of conversation around taxes; it has made more changes in direct and indirect ones (the duty inversion in customs duties of several products has been addressed, making local manufacturing more competitive) than many budgets in recent years. Stock market investors are unhappy about the increase in long term capital gains tax to 12.5% from 10%; and real estate investors are happy at the reduction in the same tax from 20% to 12.5%, but unhappy that the benefits of indexation (it increased the acquisition value of the asset by taking inflation into account) have been scrapped; and some middle-class taxpayers who have opted to be taxed under the new tax regime are cheering the slight changes in the definition of income slabs, and the increase in standard deduction, but there is a larger message behind these changes in taxes. Read along with the FM's statement that suggests that a new direct tax code is in the works (or will soon go into the works), there is clearly a move towards simplification of the tax framework.

And, finally, the economics of the budget show that the government has, in reality, not moved away from its established template. This is not a contractionary budget, so the focus on welfarism continues; as does the emphasis on capital expenditure (it remains at 3.4% of GDP). But neither has come at the cost of busting the bank. The budgeted fiscal deficit, at 4.9% (lower than the 5.1% mentioned in the interim budget) is a sign of fiscal prudence and macroeconomic stability that has become characteristic of the Indian economy under this government. Continuity is good, as long as the jobs get created.

The Indian middle class expected more

Continuity, capex, jobs and capital gains taxes lie at the heart of this year's Budget

Monika Halan

Budget 2024 came at a rare moment in the history of Indian budgets. Tax revenues are up, bank and corporate balance sheets are cleaned up, reserves are looking good and a surprise bonus from the Reserve Bank of India has bolstered the ability of the government to spend without compromising the fiscal consolidation process. But there are two clouds on the horizon — slowing consumption growth and tepid private sector investment. There was a third issue in front of the government — the middle class wanted a break from the increased taxation it has faced over the years. While Budget 2024 has not addressed all these issues to everybody's satisfaction, it has started the walk on the path that does.

The lower end of the middle class has got a tax break with the tax slabs and standard deduction going up in the new tax regime. Slab levels are up by a lakh up to the ₹12 lakh slab level. Standard deduction is up from ₹50,000 to ₹75,000. The total benefit of these changes is a maximum of ₹17,500 for the taxpayer. The old tax regime under which people can claim a multitude of deductions saw no change.

The big changes have been in the capital gains space. Capital gains, or profits from assets, are taxed differently depending on how you hold and for how long you hold them. It is messy and complicated. A promise has been made to clean it up and the direction seems to have been set. As suggested in an earlier column in these pages (https://www.hindustantimes.com/opinion/eat-the-rich-but-do-it-in-a-logical-way-101719846246923.html), the direction is to standardise the rates and the holding periods eventually. In this process, listed stocks and equity mutual funds have been hit by an increase in both the short- and long-term capital gains tax which now stand at 20% and 12.5%, up from 15% and 10%, respectively. Looking out for the small investor, the tax-exempt profit has been hiked from ₹1 lakh to ₹1.25 lakh in a year.

Real estate has both won and lost. Its long-term rate has dropped from 20% to 12.5%, but it has lost the indexation benefit. Indexation allows the investor to inflation-adjust the buying price thereby reducing the profit and hence the taxation. Debt fund profits continue to be taxed at slab rate but there is a window till April 1, 2026, to rethink this and standardise the rates with other asset classes.

The government and regulators are worried about the runaway futures and options (F&O) market that might be causing the tail to wag the dog. The worry is that large hedge funds with smart algorithms and technology are earning millions of dollars sitting outside the country at the cost of the tiny Indian retail investor who sees the F&O market as a casino and is losing money.

The securities transaction tax (STT) has been hiked on both futures and options to dampen the interest. More steps are awaited from the Securities and Exchange Board of India to put in place a framework that is fair and discourages investors from unsuitable products while allowing the F&O market to hedge the risks as is its primary mandate.

The worry of economists that India is in a phase of jobless growth found place in the budget that had a slew of proposals to boost jobs. Mostly aimed at first time workers, the government is willing to spend money to move people into formal employment as reflected in the Employees Provident Fund Organisation (EPFO) employment numbers. But there are lots of hoops to jump through before this money will be given. One of which is that the employee must go through a financial literacy course before she can claim the next instalment of a promised handout! Another route is to nudge the top 500 companies to hire interns for a year with the government paying for most of the cost, with the cost of training and 10% of the stipend coming from the firm's Corporate Social Responsibility money. This is a voluntary scheme for companies. It might be a good idea for those firms who find it difficult to get skilled workers — an incentive scheme like this might allow them the runway to find, train and then hire these workers.

From 35,000 feet, the Budget 2024 story is this: The government will continue to tax the top 10% of the population heavily. It will tax assets and income and luxury goods and services. Despite a big middle class push this year for tax breaks, the government has not blinked — it might pay a political price, but that is five years later. The government is going to continue on the prudent path of sensible borrowing — this means keeping deficits gliding down and spending borrowed money largely on capital investment.

It has taken note of the issue of jobs and is trying to incentivise the private sector to hire more and the workers to go to work. So, the big picture looks good, but it is the details that will tell the real story.

Monika Halan is the author of the Let's Talk Money book series. The views expressed are personal

The worry of economists that India is in a phase of jobless growth found place in the budget that had a slew of proposals to boost jobs ANI

The elusive quest for jobs in Viksit Bharat

Yamini Aiyar

"We particularly focus on employment, skilling, MSMEs". Finance minister (FM) Nirmala Sitharaman's opening statement, as she presented the first full budget of the newly elected government, clearly indicates that, Prime Minister (PM) Narendra Modi and his government have finally acknowledged that without quality jobs, the path to Viksit Bharat will remain elusive. But in its prescriptions, the budget lays bare the unresolved tensions in economic policy making that brought us to such a pass. These tensions may not be new, but they have sharpened in the last decade. And this budget offers little by way of solutions.

The first is the formal versus informal economy, and the role of government in enabling transition pathways for better quality jobs. The Economic Survey highlights that corporate profits have nearly quadrupled between FY20 and FY23. In sharp contrast, the recently released Annual Survey on Unincorporated Sector Enterprises for roughly the same period, shows a decline in the growth of enterprises in manufacturing, and with it, a decline in employment, from 2015-16. These two contrasting facts highlight the reality of India's growth model — a model that favoured growth via the small formal, corporate sector, leaving unincorporated enterprises that make up the informal economy, where the bulk of India is employed, to bleed. This is India's K-shaped economy — actively facilitated by policy missteps of the last decade from demonetisation to the Covid lockdowns, which exacerbated the jobs challenge.

The budget's big ticket interventions — the Employment Linked Incentive (ELI) schemes, the internship programme and skilling — taken on their face value may well be reasonable interventions. But like previous budgets of the Modi government, they cater to the formal sector — the ELI incentives are linked to EPFO, the internships are in 500 top companies — leaving unaddressed the vast informal economy where the real distress is. Not only does the budget ignore distress in the informal sector, it also doesn't recognise the need to devise transition pathways to formalisation in the long term. Nothing has been learnt from the havoc caused by forced formalisation of the last decade. Rather than a policy road map and transition pathways, we got new schemes and some political squabbling over who owns the idea, the Congress or the Bharatiya Janata Party!

Two important elements of such a road map did find mention in the budget: MSME's and urbanisation. For MSMEs, there is old wine in the form of credit guarantees and factor market reforms. And for the urban transition, housing (Pradhan Mantri Awas Yojana allocations increased by 18% over FY23 revised estimates) is prioritised along with a commitment to develop cities as growth hubs. But, as economist Amit Basole reminds us, the binding constraint for MSME growth is poor quality infrastructure, particularly in the small and census towns (local roads not highways, transport, power). This reality has been forgotten in the rush to formalise via blunt policy instruments, including those deployed in the proposed ELI. To get there, we needed a new policy imagination. One that, as Basole argues, prioritises capital expenditure for local roads and railways rather than highways and Vande Bharat. Moreover, we need to refocus social policy such that it addresses vulnerabilities of urban workers, including via an urban employment guarantee and enhanced portability of safety-nets like cash transfers. None of this is on the agenda.

The second tension relates to welfare policy. This budget offers no directional change. Allocations for key welfare schemes remain stagnant, as they did in the interim budget. Its welfarist stance notwithstanding, the Modi government, in its successive avatars, has been a conservative welfare spender. Between 2015-16 and 2024-25, social sector spending as a proportion of total government expenditure fell from 23% to 19%. Fiscal space for Modi ki Guarantee was squeezed out of health, education, and nutrition.

Underprioritising critical investments in human capital is not unique to this last decade. However, technology created a new site of tension between human capital and cash transfer. DBT-based transfers sold as "guarantees" are far more visible and therefore electorally salient than investments in the public system needed for delivering health and education. Indeed, Samgra Shiksha, the flagship scheme for school education, saw a slight drop in allocation over the interim budget. The windfall from the Reserve Bank of India could have been used effectively, but that requires a policy imagination that goes beyond tinkering with deficit targets. We will continue on the path of skilling on the back of an education system where 50% children in standard 5 can barely read a standard 2 text!

The third is Centre-state tensions. In the Economic Survey and budget speech, the need to work in coordination with states to achieve the next generation of reforms found repeated mention. However, this requires a commitment to federalism, missing in this government's DNA. The ruling parties in Bihar and Andhra Pradesh extracted their pounds of flesh, but that is the price of coalition politics. For the rest, devolution to states as a percentage of gross tax revenue is stuck at 33%, a far cry from the 15th Finance Commission recommendation of 41%. There remains no foundation for cooperative, competitive federalism, and the blame game will continue.

In her speech, the FM promised to formulate an economic policy framework. But if this framework continues to paper over the challenges, and refuses to confront the role that policy missteps of the last decade played in exacerbating the jobs challenge, we will get an economy that will continue to hobble, stuck in a K-shaped Viksit Bharat.

Yamini Aiyar will be a visiting senior fellow at Brown University from 2024-25. The views expressed are personal

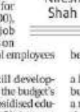
Underprioritising critical investment in human capital is not unique to this decade HT

[AMIT SHAH] UNION HOME MINISTER

The budget fuels the nation's pace on the path of emerging as a developed nation by ushering in a new era of employment and opportunities

HT

The budget echoes the Developed India vision



Nilesh Shah

Finance minister Nirmala Sitharaman has meticulously assessed India's economic vitality. Her seventh consecutive budget demonstrates this amply. There is a marked focus on uplifting the disadvantaged sections, including the poor, women, youth, and farmers.

Budget 2024 unveiled a comprehensive strategy built on nine foundational pillars — agriculture, employment, inclusive development, manufacturing and services, urban development, energy, infrastructure, innovation/research and development, and next-gen reforms. These pillars will serve as guiding principles aimed at fostering broad-based opportunities and sustainable progress across the country.

Central to the budget's agenda is the enhancement of agricultural productivity and resilience to achieve $100 billion from agricultural exports. A significant allocation of ₹1.52 lakh crore has been made to the agriculture and allied sectors, underscoring the government's commitment to modernising farming practices and bolstering rural economies. The budget introduces three pivotal employment schemes linked to enrolment in the Employee Provident Fund Organisation (EPFO). These initiatives include a Direct Benefit Transfer equivalent to one-month salary for first-time employees (up to ₹15,000), incentives for manufacturing job creation, and employer subsidies on EPFO contributions for additional employees over a two-year period.

Youth empowerment and skill development feature prominently among the budget's initiatives, with provisions for subsidised education loans up to ₹10 lakh and a 3% interest subvention for higher education (only for domestic institutions). Furthermore, internship programmes have been launched to bridge the gap between academic learning and practical skills, enhancing employability across diverse sectors.

Small and medium enterprises (MSMEs), particularly those in labour-intensive manufacturing, receive targeted support. The budget raises the Mudra loan limit to ₹20 lakh for entrepreneurs who have successfully repaid loans under the Tarun category, aiming to stimulate entrepreneurship and economic resilience.

Under the PM Awas Yojana Urban 2.0, ₹10 lakh crore has been earmarked for addressing the housing needs of one crore urban poor and middle class families. Additionally, reducing the stamp duty for properties purchased by women is aimed at empowering them economically and socially. This will help inculcate a sense of security among the women of the country, which may appear small but is a very important step, from the point of view of furthering social progress. Infrastructure development, crucial for economic growth, retains a substantial allocation, of ₹11.11 lakh crore or equivalent to 3.4% of the GDP.

The budget also emphasises enhancing tourism infrastructure. Tourism will act as a catalyst in overall development of the economy as it will support local entrepreneurs; developing good roads, air connectivity and allied infra shall boost activity. This is expected to create jobs at the grassroots level.

The states of Bihar and Andhra Pradesh were the biggest beneficiaries in terms of development initiatives and infrastructure projects; hence, they may attract tourists from around the globe. Foreign tourists shall also help bring in much-desired forex flows, helping narrow the current account deficit. The budget also prioritises rationalising taxation policies to simplify compliance and reduce litigation. This budget has tried to rationalise tax rates with an increase in standard deduction for salaried employees, and benefits in tax slab in new tax regime.

The budget aimed at standardising the definition of long-term and short-term assets across various asset classes. It has tried to standardise the long-term capital gains (LTCG) tax at 12.5% and the short-term capital gains tax at 20%. However, the indexation benefit, that allows for inflation adjustment, has been removed from LTCG computation.

The budget has simplified the tax system to a large extent and also tried to reduce the tax burden on an overall basis. However, there is a marginal increase in equity tax. The reduction in import duty on gold and silver to 6% will make the imports cheap and is seen as a welcome move by the consumers.

Social security benefits are strengthened through increased deductions for National Pension System (NPS) contributions, incentivising savings and ensuring financial security for employees across private and public sectors. This move is expected to attract sustainable investments in debt and equity markets, fostering long-term economic growth.

In conclusion, the Union Budget for this fiscal presents a holistic approach to economic development, balancing fiscal prudence with targeted interventions for inclusive growth. By addressing various facets of the economy and prioritising social welfare, the budget sets a bold trajectory towards a prosperous and resilient India, echoing the vision of Viksit Bharat by 2047.

Nilesh Shah is managing director, Kotak Mahindra Asset Management. The views expressed are personal

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WORDLY WISE

IT'S NOT FROM THE BENEVOLENCE OF THE BUTCHER, OR BAKER THAT WE EXPECT DINNER, BUT FROM THEIR REGARD FOR THEIR INTEREST. — ADAM SMITH

The Indian EXPRESS

FOUNDED BY

RAMNATH GOENKA

BECAUSE THE TRUTH INVOLVES US ALL

HOPE DEFERRED: A HOLDING OPERATION

First budget of Modi 3.0 is circumscribed by the election verdict. On jobs and private investment, a patchwork of proposals; on taxation, some good ideas — a bold, reformist plan is elusive

UNION FINANCE MINISTER Nirmala Sitharaman's sixth full-fledged budget — the first in the Narendra Modi-led government's third term — does not adequately address the three major problems confronting the Indian economy: Investment, employment and consumption. It performs a holding operation instead of presenting a coherent economic framework to deal with these pressing concerns as well as the more long-term structural impediments to growth. Whether the lack of policy boldness or reform impetus in the budget has to do with the BJP being unable to secure a majority in the recent national elections isn't clear. The budget's focus seems to be more on the Modi government's efforts to cement its stability by securing the support of key allies, especially the JD(U) in Bihar and TDP in Andhra Pradesh.

Both states have been provided significant financial assistance. This includes Rs 15,000 crore to AP for the development of its capital Amaravati and the early completion of the Polavaram irrigation scheme, and a new 2,400 megawatts power plant, along with projects for road connectivity, flood control, airports, medical colleges and religious tourism for Bihar. Of course, a fiscal stimulus like this for Bihar has positive cascading effects. But there's no escaping the politics behind this economics — no wonder that other states are calling it out.

WITHIN THESE CONSTRAINTS — many of them self-imposed by a dispensation used to governing without the pulls and pressures of coalition compulsions — the budget has specific positives. It stays the course on fiscal consolidation. The finance minister has targeted the Centre's fiscal deficit at 4.9 per cent of GDP in 2024-25, a significant reduction from 5.6 per cent last year. Sitharaman has also restated her intention to bring down the deficit to below 4.5 per cent by next year. More importantly, the government aims to keep the annual deficit from 2026-27 at levels that ensure that its debt-GDP ratio is on a declining path.

This commitment to macroeconomic stability — also extending to low inflation and current account deficit — is necessary for long-term sustainable growth. Equally welcome are the proposals to abolish the angel tax for all investors in the start-up ecosystem, lowering of the corporate tax rate on foreign companies from 40 to 35 per cent, and further incentivising of the shift to the new income tax regime sans exemptions. The budget has raised the capital gains tax, on both short- and long-term assets, and also the securities transaction tax rate on futures and option trades in securities. This was in line with the Economic Survey noting that financial assets are "claims on real goods and services" and "it is a harbinger of market instability" if these are excessively high. The government believes, based on the evidence, that the markets are overheated and asset price inflation, whether in equities or real estate, could present a new source of macroeconomic instability. The stock markets didn't take kindly to the announcements initially, but recovered during the day. Ultimately, it is earnings, not irrational exuberance, that should drive prices.

THE ECONOMIC SURVEY had outlined the "real" challenges facing the country — the need to create an estimated 78.5 lakh jobs annually and the private sector not investing enough to enable the same. The government may have done its bit in capital spending, which is budgeted at Rs 11.11 lakh crore or 3.4 per cent of the GDP in 2024-25. But the augmented public investment is yet to really crowd-in private sector investments. The latter has not taken the baton, which alone can sustain a virtuous cycle of investments, job creation, income generation and consumption.

The budget does not offer a way out of the conundrum. What it has is a patchwork of proposals: Providing a one-month wage of upto Rs 15,000 to all new entrants in the formal workforce; reimbursing employers up to Rs 3,000 a month for two years for their contribution to the employees' provident fund; and a monthly allowance of Rs 5,000 for those doing a one-year internship at the top 500 companies. These schemes, however, do not tackle the primary problem of why corporates aren't investing in the first place — hard to believe how a financial transfer to those who have got jobs will create jobs.

Fixing that will call for steps to assuage genuine risk concerns of companies, investments in education and skill development, and factor market reforms. The budget has no big ideas that will inspire investor confidence or set in motion a process that will prepare the next generation for the disruptive changes that lie ahead. At best, it does no great damage. That is not what one would expect from the first budget of a government that claims a historic mandate in its third term.

But given that the next budget will be due in just over six months, the current budget, it can be argued, has a limited shelf life. Hopefully, by then the government would have learnt to work constructively with its coalition partners as well as manage a resurgent Opposition. That will then enable it to present a more ambitious economic plan that a country with a growing young population with rising aspirations desperately needs. That's the hope.

ACTS OF RESISTANCE

James C Scott's work nudged social scientists to look at ways in which marginalised struggle against power

IN THE LATE 1950s, when a young doctoral researcher at Yale University left for fieldwork in a Malaysian village of 70 families, several of his friends and teachers warned that the "unglamorous" move could prove detrimental to his career. About three decades later, the experience would provide James C Scott the basis for his groundbreaking work, *The Weapons of the Weak*. It explored the techniques used by peasants to resist state power and launched Scott as one of the leading figures of resistance studies. Scott, who died on July 19 aged 87, often described the book that explored the non-ideological ways in which the farmers opposed authorities — food dragging, evasion, gossip — as a piece of work that gave him the most satisfaction. "The greatest emancipatory value for human freedom and the promise for liberty," he was to write in one of his last works, *Two Cheers for Anarchism*, "have not been the result of orderly institutional procedures, but disorderly spontaneous action cracking open the society".

Scott's work has been a major influence on scholars — practitioners of the Subaltern Studies school, for instance — who believe that most resistances do not speak their name. It made social scientists realise that by paying attention only to formal organisations and public protests, they had pushed away a lot of resistance from their radar. *Weapons of the Weak* gave a new lens to examine acts such as jaywalking, army desertions — as opposed to mutinies — as struggles for citizenship rights. It nudged sociologists and economists to examine assembly-line slowdowns as a form of resistance against factory elites.

Other works — *Seeing Like the State* and *The Art of Not Being Governed* — placed Scott amongst the ranks of seminal critics of the hyper rationalism and overconfidence of the modern state. Ironically, as a student on field work, the anthropologist had given information to US intelligence on his Southeast Asian respondents. Scott has written about this experience as a matter of fact, and it is not known if he ever regretted his actions. What is well known, however, is his support for "open democratic politics as a process of gradual education".

Prudence and plumbing

With fiscal space exhausted, demand will have to come from structurally lifting consumption, exports

SAJJID Z CHINOY

TO UNDERSTAND THIS year's budgetary choices and trade-offs, it's first important to appreciate the global and domestic context against which it was presented. There seem to be two conflicting forces at play. First, even as global growth has remained resilient, global disinflation has been gradual and halting, such that interest rates in some parts of the world remain at multi-decade highs. Add to this, elevated geopolitical uncertainty and the prospect of a US election that could upend the world order, and the global backdrop borders on the hostile. At home, despite strong growth last year, India's combined public debt/GDP actually edged up. All this would suggest there was no room for macroeconomic adventurism. Fiscal deficits would need to keep coming down. The only question was how much?

But there were other forces pulling in the opposite direction. Thus far, the heavy lifting on investment in India has been undertaken by the public sector. However, given the aforementioned fiscal and debt constraints, the investment baton will eventually have to be handed over to the private sector. The good news is that corporate balance sheets are the healthiest in years. The challenge is that firms need more demand visibility to invest with conviction. This is dramatically accentuated by events in China. The sheer quantum of manufacturing excess capacity there has created fears of a China Shock 2.0, wherein China's excess capacity (and deflationary impulses) are being exported around the world. Consider this: The US Treasury estimates China's planned production capacity of electric vehicles in 2030 will be above 70 million, even as total global EV sales that year will be just 44 million! All this simply raises the bar on-demand visibility for the private sector to invest around the world, including in India. Where will that visibility come from? In India's case, with the public sector having to retrench, it will have to come from private consumption and exports.

This, then, was the delicate balance the budget had to pull off: It has to remain fiscally prudent and yet sow the seeds for private consumption and exports to lift more structurally.

On fiscal prudence and budgetary math, policymakers have checked all the boxes. First, this year's deficit is pegged at 4.9 per cent of GDP, even lower than the interim budget. This, in conjunction with last year's larger-than-expected consolidation, means the Centre's fiscal deficit will be reduced by a sizeable 1.5 per cent of GDP across two years, which will go a long way in helping with inter-temporal debt sustainability. Second, assumptions on the revenue side are very conservative. After a realised tax buoyancy of 1.4 last year (gross taxes growing at 13.5 per cent on nominal GDP growth of 9.6 per cent) the assumed buoyancy is just 1 this year (taxes are budgeted to grow at 10.8 per cent on nominal GDP growth of 10.5 per cent). Third, the extra resources the government had (around 0.4 per cent of GDP) vis-à-vis the interim budget were used in a balanced manner, with half being assigned for more consolidation and the other half to increase revenue expenditures. Fourth, the quality of discretionary expenditure (measured as the ratio of capital to revenue expenditures, ex-interest) has doubled from 0.2 in 2020 to 0.4 in 2024. Fifth, one potential concern of reducing the deficit too quickly is the contractionary impact on aggregate demand.

Fortuitously, this year's consolidation is helped by the large RBI dividend, a large fraction of which was non-contractionary because it accrued from foreign interest income and Rupee revaluation profits. Therefore, even as this year's fiscal consolidation is a sizable 0.7 per cent of GDP, the contractionary impulse is less than half of that. A case of fiscal consolidation without commensurate economic compression.

The fiscal prudence was accompanied by financial vigilance. The relentless rally in equity markets and the surge in futures and options create the prospect of financial stability risks down the line. It was, therefore, important to throw some sand in the wheels, which authorities did in the form of increasing capital gains and securities transaction tax. In doing so, the budget has sent an important signal that asset prices should not veer too far away from underlying economic fundamentals.

Fiscal and financial prudence apart, the real contribution of this year's budget is in starting a much-needed conversation on the plumbing of different parts of the economy. With fiscal space exhausted, demand will have to come from structurally lifting consumption and exports growth. In turn, the fate of private consumption is inextricably linked to quality employment. In particular, a growing concern over the last two decades is that, even as India is undergoing its demographic transition, manufacturing has been becoming increasingly capital-intensive. The key to boosting quality employment, apart from higher growth rates, is therefore to redress the balance between capital and labour in the production process. The budget signalled important first steps in this regard by announcing several "Employment-Linked Incentives" that will provide incentives to both employees and employers to increase formal sector employment.

Of course, incentives will only work if workers exceed a minimum threshold of employability to compete with capital, for which skilling and education are so crucial. On this account, the budget announced new skilling and internship programmes, alongside skilling and education loans. To be sure, making labour a more attractive factor of production will require a thousand small steps. And combined spending on health, education, skilling and health – which for now is the same share of GDP as last year – will eventually have to go up. But at least we have started that conversation and begun to take explicit measures to address the challenges.

Similarly, on the exports front, it was refreshing to see customs duties across several sectors reduced or done away with. A foundational theorem in trade theory is that an import tariff is equivalent to an export tax. If we can continue on this path of rationalising tariffs, we are simply making our exports more competitive.

Finally, the budget spoke about the need to undertake factor-market reforms encompassing land, labour and capital in conjunction with the states. It also spoke about developing a vision for the financial sector and undertaking a comprehensive review of the Income Tax Act, all important cogs in the structural reform agenda. Implementation, however, is now the key.

What is the bigger message? We live in a dangerous and unpredictable world. Cyclical policy space is largely exhausted. Sustaining growth will require the less flashy task of fixing the economy's plumbing. This will be a hard slog but is unavoidable to improve competitiveness and ensure the fruits of growth are more equitably distributed across the factors of production. The budget must be commended for acknowledging this and starting down this path.

The writer is Chief India Economist at JP Morgan. Views are personal

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A SETBACK FOR THE FARM

Neglect of agriculture R&D in budget risks growth and food security

ASHOK GULATI AND PURVI THANGARAJ

LET US START with the good news. In 2023-24, the Indian economy registered an overall GDP growth rate of 8.2 per cent, and it is likely to remain above 7 per cent in FY25 according to most projections. However, growth in the agriculture sector declined from 4.7 per cent in FY23 to 1.4 per cent in FY24. Against this backdrop, one would have expected that agriculture would get a booster dose in the budget.

Finance Minister Nirmala Sitharaman has provided a roadmap for the pursuit of Viksit Bharat @2047. She has identified nine key priority areas — productivity and resilience in agriculture, employment and skilling, inclusive human-resource development and social justice, manufacturing and services, urban development, energy security, infrastructure, innovation, research and development and next-generation reforms. Agriculture being at the top of the list raised hopes of a significant allocation for improving productivity and increasing climate resilience.

The best way to do that would have been to focus on agri-R&D. It's well known that the marginal returns of investing in agri-R&D are over 10 times — in other words, an extra investment of 1,000 crore will mean Rs 10,000 crore in terms of agri-GDP.

Such an investment could have pushed agriculture towards a higher growth trajectory. But, the budget expenditure numbers don't give such an assurance. The Department of Agricultural Research and Education (DARE) has received Rs 99.4 billion, a marginal increase of just 0.7 per cent from Rs 98.8 billion (RE) in FY24. This is way below expectations, and in fact, in real terms, it is a climbdown.

Our research shows that agriculture R&D Expenditure touched Rs 160 billion in 2020-21, with 89 per cent coming from the public sector and 11 per cent from the private sector. While these numbers give an idea of the scale, it is important to consider the percentage relative to agriculture's Gross Domestic Product (Agri-GDP), estimated as Agriculture Research Intensity (ARI). The ARI peaked at 0.75 per cent in 2008-09 and stands at 0.43 per cent in 2022-23. This will fall further in FY25, as the allocation to this segment has gone down in real terms. This is not good news for the country's food security as well as for arresting food inflation.

The vision of Viksit Bharat@2047 could remain unrealised if the agrarian-rural economy is left behind. Almost two-thirds of India still lives in rural areas and agriculture engages the largest segment of the working population (45.8 per cent in 2022-23).

The budget has allocated Rs 1.52 trillion for the agriculture and allied sectors. The Ministry of Agriculture and Farmers' Welfare received a budget of Rs 1.22 trillion (BE), an increase of just 5 per cent from Rs 1.16 trillion (RE) in FY24 — this barely compensates for inflation.

The allocation to the Ministry of Fisheries, Animal Husbandry and Dairying has increased 27 per cent — Rs 56 billion (RE) in FY24 to Rs 71 billion (BE). This is a good sign for this fast-growing sector.

Much of the support for the agriculture-food-rural sector has focused on welfare measures and subsidies. Food and fertiliser subsidies and the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) are the key components of this support. Although these measures are not directed at the agriculture ministry, they benefit the agri-food-rural sector, aiding either farmers or consumers. Significant income support from the Agriculture Ministry itself comes through programmes like PM-KISAN, credit subsidies, and PM-Fasal Bima Yojana.

In all, these welfare and subsidy measures are projected at Rs 5.52 trillion for FY25 — slightly less than the revised estimate of Rs 5.8 trillion for FY24. This support represents 11.5 per cent of the overall budget (Rs 48 trillion) and a notable 21.4 per cent of the central government's net tax revenue for FY25.

The food subsidy is budgeted at Rs 2.05 trillion, down from INR 2.12 trillion in FY24. Despite this decrease, the subsidy still predominantly benefits consumers rather than farmers. Providing free rations to more than 800 million people through the PM-Garib Kalyan Yojana is perhaps correct from a political perspective.

However, questions remain about the necessity of continuing this support for such a large population. This is especially pertinent in light of the FM's statement that approximately 250 million people have been lifted out of multi-dimensional poverty during 10 years of the Modi government.

The Government of India has reflected our concerns in the Economic Survey 2023-24 by recognising the need to reorient agricultural policies that have been working at cross-purposes, overlooking farmers' interests and inadvertently harming natural resources. Although these policies have increased agriculture productivity, they have diminished soil fertility, depleted groundwater, increased nitrous oxide and methane emissions and starved crops of nutrients.

They have also undermined public health by becoming a catalyst for a diet rich in sugar and carbohydrates, instead of fibre and protein. There is an urgent need to transform agriculture into an engine of growth through farming practices that benefit both farmers and the planet.

Effective policymaking through re-orienting subsidies, can generate higher value addition in agriculture, boost farmers' incomes and create opportunities for food processing and exports. Perhaps that has been left for the next budget.

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OUR VIEW

PTI

The budget is unruffled by 2024 election results

Apart from new hiring incentives, an optical tilt towards ally-run states and slight tax relief, it doesn't show much of a poll impact. With the state as big spender, it's mostly policy as usual

The first budget of India's new government was broadly under watch for two things. First, the degree to which it would be inflected by an election outcome that exposed a drop in the ruling party's appeal, and second, the buffer it would create against the potential pitfall of a middle-income trap on our way to 'developed' status. Both converge to one question: How to rebalance policy for the economy to emerge evenly and not have the lives of citizens diverge, with a vast chunk of our socio-economic pyramid falling further behind the rich. Admittedly, this puzzle is not easy to crack, nor wholly within the scope of India's fiscal plan for 2024-25. Yet, the base conditions have long been clear: rapid GDP growth amid stable inflation. Usually, a tight deficit favours both, but our pandemic recovery was led by government spending and its pullback has been slowed by private expenditure failing to fill in. With this year's deficit target set at 4.9% of GDP, finance minister Nirmala Sitharaman signalled no shift in that approach, though a bigger forecast of receipts allowed her to snip the interim budget's 5.1% figure. Till the private sector steps up, we can probably expect the state to play its big-spender role. The outlay for infrastructure was held steady at ₹11.1 trillion, the same as its interim estimate. This is a slightly smaller share of the budget's total expenditure pie, which was enlarged to ₹48.2 trillion, but it's still bulky.

What about election impact? An allocation skew in favour of Bihar and Andhra Pradesh, the support of whose leaders is critical to the government, was widely expected. But since it's mostly optical, it isn't a fiscal blow. Beyond that, a job-creation thrust is evident, this time by means of an employment-linked incentive scheme inspired by the government's props for factory production, apart from some support for internships. Outlays on welfare schemes, however, saw no notable change from their interim levels. As for tax relief for taxpayers under the new income-tax regime, the jury is out on its efficacy as a stimulus for consumption in the context of weak aggregate demand. But then again, tax policy alone can't be expected to spur consumer markets and stir 'animal spirits' for domestic investment in a country where taxpayers are a minority. The big taxation rethink was on capital gains, which has been simplified but stiffened, to the dismay of asset markets. That bugbear of startups, the 'angel tax,' will be axed—thankfully. Import tariffs have been rejigged to relieve a few sectors and redress overtaxed inputs, but these are selective tweaks. We await broader action on a jagged maze of duties that make it hard for local factories to fit snugly into global supply chains.

None of it reveals any revision of economic policy. The budget bears a distinct supply-side orientation, like past infra-focused budgets, with an emphasis on productive capacity. A bright spot in the FM's speech was her promise of factor-market reforms as part of a revised policy framework aimed at efficiency. From the viewpoint of near-term GDP growth, all this is fine, even welcome. Why fix what isn't broken? In any case, nobody expected a shift. Yet, outlays on health and education remain too small to justify lofty aspirations of development and India's welfare apparatus—with free food as its base—looks set to stay rudimentary. Even so, if the budget helps spread the gains of growth just a little better, it would aid the country's larger cause. To stay on course for a Viksit Bharat, our economy needs to emerge less unevenly.

GUEST VIEW

Modi 3.0 or NDA 2.0: Whose imprint does this budget have?

Barring a few sops for allies, its policy priorities suggest no change in the government's approach

ARVIND CHARI
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The question on everyone's mind has been whether India's new government would work as a Modi 3.0 administration (third term for Prime Minister Narendra Modi) or an NDA 2.0 one (the coalition's second run, its first being under A.B. Vajpayee from 1998 to 2004). The difference expected is in the government's socio-political conduct. It is also relevant from a socioeconomic perspective.

The formation of the government and selection of Cabinet ministers and the Lok Sabha speaker suggested broad continuity of a Modi 3.0 administration. The budget was to be the next test to ascertain what we could expect from a Modi government dependent on its coalition partners for survival.

Barring some sops, projects and other symbolic announcements for Bihar and Andhra Pradesh (home states of the two key allies), there wasn't much difference in the spending and taxation priorities of the new government. It very much seems to be Modi 3.0.

Let's analyse the *Economic Survey* and budget moves on three counts:

1) *Social stability*: India is a young and aspirational country. However, large parts are poor and unproductive. It is imperative for the political class to support the latter, if not for economic growth, then to ensure social stability.

What's good: Politicians have realized that being young, educated and under-employed is a potent combination, and large numbers of such youth pose a big sociopolitical and economic risk. The five employment initiatives announced are thus a good beginning. Their design and budget allocation, though, may not be ideal or adequate.

What's missing: Households and small businesses are yet to fully recover from the income destruction that began after demonetization and continued through the implementation of GST and the covid pandemic. The real disposable income of households has grown about 2.5% compounded annually since 2019. It is no wonder that consumption is weak and private investment hasn't picked up. We are yet to see a frank admission to this effect from the government, which may explain the lack of an explicit income boost.

2) *Economic development and stability*: The biggest assurer of social stability is growth. However, India has not been able to grow consistently above 6.5% a year, which is required to create jobs for its growing labour force and lift incomes. Yet, growing at 6.5% with stable outcomes also offers a growth dividend and this government has ensured as much.

Fiscal and macro stability: The government is prudent and tends to over achieve its fiscal commitments. It is on course to pull the fiscal deficit under 4.5% of gross domestic product (GDP) by 2025-26. However, the lack of an explicit point target after that shows the difficulty of reaching the 3% aim. Bond markets and the Reserve Bank of India are yet to fully reward this government with lower interest rates for its fiscal prudence and inflation control.

Growth and development: Public capex (Centre+states+public sector undertakings) is only about 7% of GDP. The private capex-to-GDP ratio is well below its 2012 peak. Growth impulses are thus delayed and dependent on a revival of household spending and business investment. In this context, we see no major push to increase annual GDP growth above 7%.

3) *Reforms and policy stability*: "Investment is an act of faith," said former prime minister Manmohan Singh in a July 1991 budget interview. Investors commit long-term capital based on expectations of certainty over policies, rules and taxation.

What's good: The announcement of a comprehensive factor-market review means that reforms of land, labour and capital to increase financial flows and improve absorptive capacity will be much anticipated. We hope the measures taken are kind to private participation. The decision to evolve an Indian taxonomy for climate finance is also good, for it can channel large amounts for a just and equitable transition.

What's missing: The government should spell out its trajectory of import duties and GST rates for all products and services. Many products and services have seen large import-duty hikes to support the 'Make in India' programme. These seem half-baked. We know that they reduced imports, but we do not know if they affected our exports of intermediate and finished goods. How will the private sector invest amid such tariff uncertainty? The decision to cut import duty on gold and silver is welcome. However, was it done to include them in the GST structure or save the government money on its sovereign gold bond payments?

What's bad: We have had endless talk about "comprehensive direct tax reforms." The finance ministry already has a document that goes back to 2008, the 'Parthasarathi Shome Direct Tax Code.' It would be prudent to adopt that document as our tax code and start afresh. This will prevent tax tinkering, an annual event for the most part, and provide certainty to domestic as well as foreign investors. India should remind itself repeatedly that it requires long-term risk capital from domestic and foreign investors across capital markets, real estate and the infrastructure sector to fulfil its ambition of becoming a developed nation.

10 YEARS AGO


mint

India won't back WTO protocol

MINT METRIC

by Bibek Debroy

Who will get the cooler seat?
Caused a fight at a wedding meet.
Incensed at loss of pride,
Marriage called off by a Ballia bride.
Required vows were left incomplete.

MY VIEW | MUSING MACRO

An overdue pivot to human capital and employment

AJIT RANADE

is a Pune-based economist.

This was the first budget of the government led by Narendra Modi in his third term as India's Prime Minister. It has laid the contours for Modi 3.0 economic policies, with an emphasis on jobs, skilling, small businesses, sustainability and energy security. It was also the record seventh time that finance minister Nirmala Sitharaman presented a budget. Her budget proposals show admirable fiscal restraint and conservative assumptions on revenues. Even though another full budget presentation is due in six months, this was an important occasion to articulate an economic strategy.

The major thrust of the Union budget proposed for 2024-25 is on job creation and helping small businesses. The former is through employment and skilling incentives, while the latter is by providing collateral free loans to MSMEs and enabling access to export markets. There is also an increase in the tax on capital gains. In some ways, one can read this as a pivot towards labour-intensive growth, which includes enhancement of human capital. For the past few years, the Union government has raised the share of spending on infrastructure such as roads and airports. These hard assets have been created at a rapid pace and are visible. Public spending on infra has been a significant driver of growth. But job creation has not been keeping pace, and rural wages have been stagnating. Small businesses that generate jobs have been struggling. The micro reality behind the economy's macro health has been that consumer spending is growing slower than GDP, which is worrying. Instead of only providing incentives to production and revenues, the government has now focused on incentivizing job creation.

India needs to invest in human capital massively for long-term, sustainable and inclusive growth. That investment needs to reach a benchmark of 6% of GDP, which is twice of what it is now. This investment must come both from private and public resources. Public funds are necessary for funding primary education and partly also secondary education. The social spillover effects of it are tremendous and long-lasting. But college education and beyond, including skilling and training, cannot be funded by taxpayers. This is because the benefits of higher education and skills accrue largely to the individual and only secondarily to society at large. The spillover benefits of skilling and college degrees and diplomas are in terms of entrepreneurship, innovation and job creation, but are still not a strong justification to provide it all free. The key challenge for skilling India is that the vast majority of the youth eager to be trained cannot afford the true cost of quality education. Also, most of the skilling happens on the job. Hence, the best way is to incorporate it into a national apprenticeship programme, which has portable accreditation. Even the proposed internships for 10 million youth in top-tier companies will be a step towards learning by doing. The fees for skilling and higher education should be borne by the student, the primary beneficiary. It is here that the budget does well, by ensuring easy and inexpensive access to student loans. In the coming years, this should be a dominant way of funding higher education in India.

The budget pays welcome attention to resources that are vital for the future of our economy

Similarly, a collateral-free loan scheme has been announced for small businesses, apart from government-provided credit guarantees. Small businesses have also been helped by e-commerce linkages to export markets. Since MSMEs account for the lion's share of value addition in industry, exports and employment, this thrust is welcome.

Beyond jobs, skilling and MSMEs, the budget's prominent macro feature is fiscal responsibility. The FM chose to use half of the fiscal bonanza from the Reserve Bank of India to reduce the deficit. This commitment to fiscal consolidation is commendable. As India is an outlier when it comes to debt servicing (a third of its tax revenues go into meeting interest expenses), fiscal prudence is very important. If anything, the assumptions made on next year's tax revenues look conservative.

India needs a comprehensive relook at its income-tax strategy. The direct tax net needs to be much wider and tax slabs should not go from zero to the top rate within a span of just a few lakh rupees. The top tier must kick in at high incomes, say above ₹1 crore. But exemptions must go. A new comprehensive economic framework for next-gen reforms is on its way, Sitharaman said. This new framework must place India in an advantageous position to exploit global value chains. Hence, the trend should be towards lowering import duties across the board. The import duty on gold was cut from 15% to 6% because a lot of duty leakage was happening via the route of duty-free imports from the UAE into GIFT city. Besides, high duties on precious metals are eventually counter-productive, since they invite smuggling. It was also good to hear about future-looking initiatives such as the promotion of private public partnerships in the field of small modular nuclear reactors and in the space economy. It's also good that a realistic assessment has been made of India's difficult transition away from fossil fuels.

Higher taxes on capital gains might be temporary spoilers for the stock market. But India's macro performance stands out in the world for its resilience and high growth, with moderate inflation. Now with policies to incentivize job creation and skilling, along with fiscal consolidation, there is no reason why high economic growth cannot be sustained. Sooner or later, India's financial markets will acknowledge this strength.

THEIR VIEW

The budget assures us continuity in spite of significant uncertainty

It augurs well for us that fiscal consolidation is underway without any sacrifice of capital expenditure on infrastructure

BIBEK DEBROY
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AP

There was an interim budget for 2024-25. That's not meant to be wished away. Part of the year is over. That's not meant to be wished away either. The budget for 2024-25 is not a discrete and stand-alone event. It's part of that backward-looking continuity. Modi 3.0 has been voted in with a mandate of five years, with a Viksit Bharat template. The budget presented on Tuesday is part of that forward-looking continuity. This continuity is anchored in conservative assumptions, given uncertainty (political flux, elevated asset prices and shipping disruptions). As finance minister Nirmala Sitharaman's speech states, there are "significant" downside risks for growth and upside risks for inflation (though core inflation is under control). A day earlier, the *Economic Survey* estimated real GDP growth of 6.5% to 7% in 2024-25, at least half a percentage point lower than what most would have projected. It is best to be cautious and assume the downside, rather than be excessively optimistic and presume the upside. In a similar vein, the budget assumes nominal GDP growth of 10.5% (implying a low GDP deflator) and cautious disinvestment receipts (set at ₹78,000 crore with an emphasis on the monetization of assets). Therefore, if the budget promises a fiscal deficit of 4.9% as a proportion of GDP, it is believable. So is 4.5% of GDP for 2025-26, the government's pre-announced goal. In part, this is because support for Bihar and Andhra Pradesh is through multilateral development agencies and not through the budget.

The budget has traditionally been perceived through a tax lens, direct as well as indirect. It would have been unreasonable to expect it to bring about a change in indirect taxes (of the domestic variety), since that's the purview of the Goods and Services Tax (GST) Council. To quote Sitharaman, "To multiply the benefits of GST, we will strive to further simplify and rationalize the tax structure and endeavour to expand it to the remaining sectors." Who can quarrel with that? There are issues with import duties too and many people have rightly argued that basic customs duties are too high and that they lead to inverted rates of protection, compounded by regional trade agreements (RTAs). Accepting the problem does not mean one can jump headlong into solving it. *A priori*, it is not easy to determine what is a raw material, vis-à-vis an intermediate good. With a spaghetti bowl of RTAs, most favoured nation (MFN) rates vis-à-vis levels of special ones are also not that obvious. Instead of *ad hoc* and arbitrary tinkering (there are some changes in the budget), the finance minister said, "I propose to undertake a comprehensive review of the rate structure over the next six months to rationalize and simplify it for ease of trade, removal of duty inversion and reduction of disputes." Given the complexities and a clear deadline of six months, one should not complain. A similar point can be made about direct taxes, the terminal goal being a simplified and exemption-less system. The budget tells us that 58% of corporate taxes are from the simplified tax regime and more than two-thirds of personal income tax payers have opted for the new system. If the comprehensive review of the Income Tax Act is to be completed in six months, that can't be grudged either.

Next generation reforms need to boost India's productivity and that's contingent on making factor markets (land, labour and capital) more efficient. The catch is that these are often on the state list or concurrent list. "Effective implementation of several of these reforms requires collaboration between the Centre and the states and building consensus, as development of the country lies in development of the states."

Potentially, ULPIN (Bhu-Aadhaar), digitization of cadastral maps, surveys, land registries and their linking to farmers' registries, with similar exercises in urban areas, can be transformative, and can unlock the potential of non-performing assets. But the proof of the pudding is in the eating. These ideas have been floating around for a long time and the track record of states pushing for such reforms is not impressive. The budget doesn't spell out how such changes can be incentivized. On labour reforms, for example, state-level performance on issuing orders under the four new codes has been desultory.

The *Economic Survey* highlighted what was already known. Despite higher economic growth, there has been a problem with employment and job creation. Accordingly, the budget has schemes on employment and skilling, as it also does for micro, small and medium enterprises (MSMEs). For both informal labour and MSMEs, the basic constraint remains one of establishing identity.

The budget mentions a nine-point agenda. Apart from what I have mentioned, there are ideas on agriculture, human resource development, manufacturing and services, energy security, infrastructure, innovation and research and development. This year, capital expenditure is projected at 3.4% of GDP. A distinguishing feature of the Narendra Modi government's approach has been fiscal consolidation and rectitude. Since covid, and even earlier, capital expenditure has been the key. The multiplier benefits of capital expenditure are higher than those of revenue expenditure and the multiplier benefits of revenue expenditure are higher than those of tax reductions. This is not just basic public finance theory, but is also borne out by empirical studies for India. For purposes of the budget, revenue expenditure (even subsidies) is often taken as exogenous in the short run and is sticky downwards.

That the budget has not given up its fiscal consolidation objective (despite pressures to the contrary) and has reduced the fiscal deficit ratio to 4.9%, as opposed to 5.1% expected earlier, without sacrificing capital expenditure on infrastructure is the big picture story. That augurs well for forward-looking continuity.

MINT CURATOR

Could the stock market's next black swan be climate change?

Investors haven't priced in the hard impact that equities may suffer

MARK GONGLOFF
is a Bloomberg Opinion editor and columnist covering climate change.

BLOOMBERG

A new study suggests stock valuations will suffer far more than pencilled in

Fighting climate change is difficult partly because humans are weird. It's difficult to get them to care about their own future well-being much less that of entire future generations. People blow retirement funds. You think they care about their imaginary great-grandkids? But people do care about stock prices. Entire media empires and lucrative careers have been built out of talking about stock prices. Unlike the fuzzy details of unborn descendants' lives, stock prices are concrete. Line go up, line go down. Simple.

So maybe this will get some attention: Climate change will be really, really bad for stock prices.

Failing to do more to slow the planetary heating caused by greenhouse-gas emissions will gouge 40% from global equity valuations, estimates a new study by the EDHEC-Risk Climate Impact Institute. Accounting for climate-change-pepping 'tipping points' such as Amazon-rainforest dieback or a Big Burp of gas from melting permafrost, market losses rise to 50%. On the other hand, if the world gets its act together and limits warming to 2° Celsius above pre-industrial averages, then the hit to stock prices will be just 5% to 10%.

A key thing to note here is that these won't be one-time losses, lead author Riccardo Rebonato, a finance professor at EDHEC Business School in London and former Pimco executive, warned in a webinar. There will be no reversion to the mean. More likely is a long journey through the wilderness like Japan's Lost Decades.

"After covid we had a massive GDP loss but then a rebound. Here it seems to be like a headwind, a continuous headwind, without a rebound," Rebonato said. "It could be the Climate Lost Generation in equity returns." The EDHEC paper forecasts much bigger stock-market losses than most other studies do, Rebonato noted. That's partly because other studies focused on the costs of a transition to renewable energy rather than the far greater havoc climate change will inflict on growth.

Rebonato's study, which takes both transition and damage into account, is more consistent with the recent National Bureau of Economic Research paper estimating a 12% blow to global GDP for every 1° Celsius of warming. And the Potsdam Institute for Climate Impact Research recently warned a 19% drop in global incomes by 2050 is already baked in, even if we cut emissions aggressively starting today. It estimated $38 trillion in losses every year as a result of a chaotic climate.

Many researchers ignore climate damage on the theory that, because it's far in the future, the market will heavily discount it. But the EDHEC study argues investors will value money more and more as the economy weakens. So, in the early days of climate change, when economic growth is still okay, investors won't care as much about future losses. But as warming grinds on and the losses mount, those losses will become more painful. Discounting, like glaciers and snow, will slowly melt.

And like objects in the rear-view mirror, climate-change damage is already closer than it appears. Weather disasters cost the global economy $1.5 trillion in the 2010s, according to the World Meteorological Organization, up nearly tenfold from the 1970s in real terms. The reinsurer Swiss Re suggested insured losses from natural catastrophes will double over a next decade. But such numbers understate the potential effects of climate change on economic growth. As Rebonato notes, extreme heat, sea-level rise and other long-lasting impacts will do much more damage to human health and productivity than newsy disasters like hurricanes or wildfires.

"Perhaps we are focusing too much on catastrophic events rather than on chronic damages," Rebonato said. "There is a chronic aspect in terms of the loss of productivity, the loss of efficiency, which is less visible and more insidious and will create a continuous drag." Hence the Lost Generation. The EDHEC study is another reminder that the $215 trillion (and rising) estimated price tag to avoid the worst heat will eventually pale in comparison to the cost of not bothering. And Rebonato considers these estimates conservative. His model assumes central banks will cut rates if growth slows, for example, but a warming world could make inflation harder to tame,

One other key finding of the EDHEC study is that these damage estimates aren't close to being priced into markets yet. Many analysts have searched for a climate risk premium over the years and found only traces. To an extent, that makes sense: We can only guess at the damage at this point. And maybe markets assume we'll avoid the worst. But we could also be like those people failing to save for retirement, sleepwalking towards a day when our failure to imagine the future leaves us with no future at all.

MY VIEW | THE LAST WORD

The Union budget has some hits and a few misses too

INDIRA RAJARAMAN

is an economist.

The Union budget for 2024-25 follows on from the pre-election interim budget presented on 1 February. The minister is the same, but circumstances have changed. The uppermost issue was how the pressing demands of the two new, politically salient regional coalition partners from Bihar and Andhra Pradesh could be accommodated within the long-standing commitment to a fiscal deficit (FD) below 4.5% of GDP by 2025-26.

The FD budgeted for 2024-25 in the final budget, at ₹16.13 trillion (4.9 % of GDP), is lower than the 5.1 % of GDP targeted in the interim budget. The latest GDP estimate for 2024-25 of ₹326.37 trillion is close to that used in the interim budget. Even so, the absolute reduction in the FD budgeted, by ₹72,000 crore, is more informative than in terms of percentages of GDP.

Will this exemplary display of fiscal rectitude fend off the warning from Moody's Ratings that poor water management in major cities might affect the country's credit rating? The final budget does have a provision for improving water supply and sanitation in 100 large cities through "bankable projects" funded by multilateral banks (MDBs), but this does not begin to address the urgency and severity of the problem. MDBs take their time even to formulate a project report, as the World Bank's President Ajay Banga readily confessed at the Morocco meetings last year. Climate action seems to have been largely waved away to the *Economic Survey* (dealt with further below).

There are special provisions for Bihar and Andhra Pradesh. In the current fiscal year, Andhra will get support of ₹15,000 crore to fulfil promises made at the time of state re-organisation in 2014, with "additional amounts in future years." Funding for the large Polavaram irrigation project is also promised, but does not seem to have been provided for in the current year. Bihar gets a special share of funds for flood control (₹11,500 crore), road and bridge connectivity (₹26,000 crore), mega power projects (₹21,400 crore) and tourist development of religious centres, but only a part of these might impinge on the current fiscal year. Some of these are also proposed to be submitted for MDB funding.

The lower FD was achievable because budgeted total revenue in 2024-25 is ₹31.29 trillion, higher than the interim number by ₹1.28 trillion. That increase does not come from taxes, because net tax revenue to the Centre, after deduction of taxes shared with states, is actually lower than the interim number by ₹18,000 crore. The rise in total revenue is on account of non-tax revenue, which is roughly ₹1.5 trillion higher than the interim expectation, entirely driven by the Reserve Bank of India's (RBI) jumbo dividend of ₹2.11 trillion. (The dividend was declared after the interim budget, based on RBI accounts for fiscal year 2023-24). Non-debt capital receipts are about the same as expected in the interim budget (slightly lower).

Its farm, jobs and skilling initiatives are good but it has little to offer on the climate emergency

So it is the enhanced RBI dividend alone that protected expenditure, while the FD was actually reduced. Jockeying within total expenditure has left capital expenditure exactly where it was, at ₹11.11 trillion, but within that, the provision for 50-year loan assistance to states for capital expenditure has been raised from ₹1.3 trillion to ₹1.5 trillion. The big two subsidies, food and fertilizer, remain exactly where they were in the interim budget, notwithstanding the recent hike in the minimum support price. The PM Kisan scheme for farmers also remains where it was, at ₹60,000.

In terms of the best initiatives of this budget, I would pick out three. The first is its focus on agriculture, in particular research funding for climate-resilient crops.

The second is the expansion of the Trade Receivables Discounting System (TReDS) platform, through which businesses can find buyers for their dues at a discount.

The third is the integration of company internships into Corporate Social Responsibility (CSR) funding.

There is a very elaborate set of five imaginatively conceived schemes for employment and skilling, with a total budgetary commitment of ₹2 trillion. The scheme for industrial training institutes is especially well designed. The problem is that these schemes are intricately structured, and will call for a large complement of bureaucratic time spent on administration and checking.

Climate change gets two chapters in the *Economic Survey*. Chapter 6 deals well with green transition challenges, but has paragraph 6.20, which says "Economic growth enhances the ability of a country to take adaptation action and builds resilience. Therefore, from a developing country's perspective, continued economic growth is the best insurance against climate change." What about our kind of economic growth, which destroys water bodies to build offices and residences, thereby shifting the country into reverse gear on adaptation and resilience?

Chapter 13 of the *Economic Survey* extols the virtues of local food and medicinal systems in bringing down the incidence of ill health. But what is the remedy for ill health that is the result of spending sleepless climate-heated nights, straining for the sound of water trickling into collection pots, while calming children crying out for water?

The government must respond to the widespread awareness that the *garmi* (heat), fires and floods experienced this year could be worse in years to come.

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Opinion 06

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PAPER WITH PASSION

Optimistic outlook

The Economic Survey for 2023-24 emphasises the urgency of addressing inequality and unemployment

The Economic Survey for 2023-24 released on the eve of the Union Budget is optimistic about the Indian story of growth and development; however, it also indicates the areas of concern on which it suggests the Central Government to act on priority. It is customary to have the Economic Survey just before the budget as it sets the tone of the budget and puts things in perspective. This year round it is buoyant on growth and pegs India's GDP growth at 6.5 -7.0 % in this fiscal year. The Economic Survey, a comprehensive report that reviews the developments in the Indian economy over the past year, forecasts robust growth in various sectors. This optimism is grounded in several factors, including strong domestic consumption, increased investments, and favourable government policies. Interestingly this is despite the fact that most economies around the world are struggling to attain much lower levels of GDP. The survey underscores the Government's focus on infrastructure as a critical driver of growth. Ongoing projects in road, rail, and port development are expected to boost connectivity and efficiency, facilitating smoother trade and commerce. Besides, the rapid expansion of the digital economy is another significant area of growth. Though open to criticism, the Survey maintains that the 'Make in India' initiative continues to show promising results.

The survey notes that boosting exports, particularly in high-growth industries such as pharmaceutical, electronics, and textiles, could significantly enhance India's global economic standing. The Survey also talks about the problem area of the Indian economy. Agriculture, the backbone of the Indian economy, remains a priority. The survey recommends further reforms to increase productivity and ensure sustainable growth in this sector. Innovations in technology and better access to markets are crucial to achieving these goals. The Economic Survey rightly numerates various factors which could pull down the economy and be an impediment in the national growth. The biggest stumbling block is of course inflation. The survey suggests a balanced approach to monetary policy to manage inflation without stifling growth. Unemployment yet another constraint needs to be addressed on priority. The survey calls for policies that support skill development and entrepreneurship to harness the potential of the burgeoning young population. PM Modi reaffirmed the government's commitment to fostering an environment conducive to growth. Indeed, Finance Minister Nirmala Sitharaman's Budget for 2024-25 incorporates several suggestions made by the Economic Survey. Setting a roadmap for the third term of Modi Government, Union Finance Minister has defined nine priorities. These are agriculture, employment, human development, energy security, manufacturing, innovation, infrastructure and next generation reforms. These would indeed go a long way in reducing unemployment, curbing inflation and giving economy a push that would be inclusive and sustainable.

PICTALK

Hindu devotees offer prayers during the holy month of Shrawan at the Pashupatinath Temple in Kathmandu PTI

India backs Philippines in South China Sea standoff

ASHOK K MEHTA

As China continues its aggressive tactics, the Philippines, bolstered by international alliances, stands resilient against Beijing's coercion

My enemy's enemy is my friend is a fitting adage for India; 's support to the Philippines which is fighting a battle royale in the South China Sea with China. Chinese Coast Guards have been regularly intruding into the Philippines Exclusive Economic Zone (PEEZ) which they regard as part of the South China Sea under its default claim of 10 dash line that was rejected by an arbitration court at Hague under UNCLOS in 2016. Bash on regardless is PLA's dictum in coercing the Filipinos as they to us along LAC. Foreign Minister S Jaishankar visited Manila in May and expressed full support for the Philippines in its claims in PEEZ.

Foreign Ministry spokesperson after the 17 June clash said " We oppose destabilizing unilateral action to change status quo by force or coercion". Earlier in 2022 India made its first international sale of the Brahmos anti-ship missile system to the Philippines. I was in Manila last month, days after the 17 June incident comparable to our own Galwan clash on 15 June 2020. It was evident that the Chinese were bullying Filipinos in their waters. The 17 June incident has been flogged with Chinese but mainly Filipino accounts. In brief, Chinese Coast Guards are trying to force out Filipino Coast Guards from their outpost on Thomas Shoal 2 which they preemptively occupied in 1999 denying a free run to China in seizing unoccupied islands in PEEZ.

Like pirates, the Chinese Coast Guard are even poaching in EEZ of Asian countries. Chinese have unilaterally promulgated la in the South China Sea laws that allow them to seize for 60 days without trial, foreign vessels and even fire at them -which they have not done – if necessary.

Chinese Coast Guard is employing lethal weapons short of firearms like picks, axes, spears and rods to inflict casualties with medieval warfare equipment that the PLA used to surprise Indian troops in Galwan.Malaysia, Brunei, Vietnam and Indonesia have quietly accepted Chinese bullying while the Philippines backed by the US is pushing back. All these countries are hugely reliant on China for trade and BRI benefits. The Philippines like Taiwan is resisting Chinese coercion while balancing its economic relations with Beijing. Between 2000 and 2020 China committed a total of USD9.1 bn in financial support to the Philippines.

In Manila, after the violent incident near Thomas Shoal Chinese Coast Guard intercepted the Philippines Coast Guard that was trying to resupply its small island garrison. Seven Filipino sailors were wounded in the clash and one lost a thumb. Seven rifles were also impounded and have not been returned. President Bong Bong Ferdinand Marcos Jr who had recently warned China at Shangrila Dialogue of 'consequences' and vowed not to yield 'even an inch or a millimeter' has been blowing hot and cold as have his ministers also.

The Philippines has a Mutual Defence Treaty of 1951 with the US whose conditions are more specific and binding than the US-Taiwan Act. Still, no one wants to invoke the Treaty over the 'territorial integrity of a Shoal'. American Ambassador to the Philippines Mary Carlsson said in Manila on 24 June that China should settle disputes by international law and "not bully our partners in their backyard". The US is wary of opening another front after Ukraine, Gaza and the Red Sea, even as the risk of accidental escalation or misunderstanding is high in the Taiwan Straits. The US plans to revive and modernize Subic Bay and adjoining Clarks Airbase and is deploying the deadly Typhon missile system at some of their ten bases in the Philippines.

> IN MANILA, AFTER THE VIOLENT INCIDENT NEAR THOMAS SHOAL CHINESE COAST GUARD INTERCEPTED THE PHILIPPINES COAST GUARD THAT WAS TRYING TO RESUPPLY ITS SMALL ISLAND GARRISON

The Indian Brahmos missiles are located in Luzon facing the South China Sea and can reach out to Chinese-occupied Mischief Reef, Thomas Shoal 2 and Scarborough Shoal. It is believed that some 3 to 400,000 Americans reside in the Philippines and US-Philippines relations under Marcos Jr are back to its heyday. The Philippines is actively collaborating with QUAD-US, India and Australia.

Japan and the Philippines signed a defence agreement this month that will allow the deployment of troops on each other's territory with Tokyo pledging to provide additional defence aid. Similarly, Manila and Seoul are coordinating maritime coordination and joint exercises.

South Korean shipyards are likely to receive orders to build Coast Guard vessels for the Philippines. Canada and even the European Union are coordinating maritime activities in PEEZ. None of the Philippines' brave calls for standing its ground in the South China Sea and pledges of support from its friends and allies has deterred China in its show of force.

It fielded its aircraft carrier Shandong and the world's largest Coast Guard vessel 5901 in PEEZ while at the same time, it held talks with Filipino officials on de-escalation measures this month. The code of conduct in the South China Sea under preparation for over two decades is expected to be finalized in 2026.

However, the most recent agreement is about establishing hotlines at various levels for stopping maritime incidents. From the US and Indian perspective, the Chinese claimed preeminence in the South China Sea has to be contested by QUAD, AUKUS, the new trilateral between Japan, the Philippines and South Korea.Further resistance to the reunification of Taiwan must continue and Taiwan Straits remain free for navigation and overflights.

As China's economy declines, and Asian economies grow through new supply chains and the realization of India's Act East policy, Western collective deterrence will dampen Chinese bravado in the South China Sea. The Philippines will be the immediate natural southern pillar of the Indo-Pacific strategy.

(The writer, a retired Major General, was Commander, IPKF South, Sri Lanka, and founder member of the Defence Planning Staff, currently the Integrated Defence Staff. Views are personal)

To mitigate heatwave effects we must priortise innovations in RE

RATUL PURI

This climatic extremity underscores the urgent need for innovative solutions in the renewable energy sector

India is no stranger to scorching summers. Recently, the country has endured its longest and most intense heatwave in recorded history, with temperatures in some areas soaring to a blistering 50 degrees Celsius.

Heatwaves in India typically occur between March and June, with May being the peak month. The Indian Meteorological Department (IMD) defines a heatwave as a period where temperatures exceed 40°C in plains, 37°C in coastal areas, and 30°C in hills, with significant deviations from average temperatures. When this deviation reaches 6.5°C or more, it is classified as a "severe heatwave." The public health implications of such extreme temperatures are severe. Heatstroke, dehydration, and heat exhaustion become common, exacerbating pre-existing conditions like heart disease and respiratory issues. Vulnerable populations, including children, the elderly, and outdoor workers, are particularly at risk. The heatwaves also impact wildlife, causing water scarcity, disrupted food chains, and habitat loss. Livestock suffers from

heat stress, affecting milk production and overall health. Global warming has raised average temperatures, creating conditions ripe for extreme weather events. Heatwaves, in turn, drive up electricity demand, straining power grids to their limits.

A 2022 report from the World Meteorological Organization underscored the vicious cycle: greenhouse gas emissions from fossil fuel-based electricity production contribute to heatwaves, which increase power demand, further straining fossil fuel resources and exacerbating the climate crisis. This highlights the urgent need for large-scale renewable energy adoption.

India has ambitious renewable energy goals, aiming for 500 GW of capacity by 2030. However, the very heatwaves that renewable energy seeks to combat pose challenges, particularly for the solar energy sector. Solar panels, primarily using photovoltaic technology, are designed for optimal efficiency between 15 and 35 degrees Celsius. As temperatures rise, their efficiency drops, with prolonged exposure to high temperatures potentially reducing efficiency by 10-25%. This is because increased thermal agitation disrupts electron flow within the circuits, decreasing voltage output.

To address this challenge, several solutions are being explored. Monocrystalline panels, known for their superior performance under stress, could be a viable alternative for heatwave-prone areas, despite their higher cost. Advances in technologies like TOPCon (Tunnel Oxide Passivated Contact) are also promising, enhancing the efficiency and performance of solar components in harsh environments.

Additionally, incorporating advanced cooling systems, such as ventilation within panels, can manage excess heat. Using heat-resistant materials in solar panel construction could also help withstand high temperatures with minimal efficiency loss.

The intense heatwaves in India underscore the urgency of climate action. The renewable energy sector must innovate continuously to develop efficient and affordable solar panels capable of withstanding India's diverse weather patterns, from extreme heatwaves to heavy monsoons. Local geographical factors must be considered in design and deployment strategies.

The country's renewable energy sector must rise to the challenge by fostering resilient technologies that can withstand extreme weather events like heatwaves. This journey demands a multi-pronged approach to accelerate the development of heat-resistant solar technologies. Promoting public-private partnerships can facilitate the large-scale deployment of these advancements, making them more accessible and affordable. Only then can India ensure a cleaner, greener legacy for future generations.

(The writer is the Chairman of Hindustan Power Group; views are personal)

LETTERS TO THE EDITOR

THAT GOOD MORNING THUD

Madam — Day after day, month after month and year after year, I have waited, and have been rewarded with, the familiar thud of a bundle of newspapers at my doorstep. Two newspapers rolled into a cylindrical bundle, a Hindi one for my significant other, and an English one for myself, have made their presence felt at a fixed time, and at a designated landing spot — a coir doormat placed just outside of our front door. Kudos to our "paperwallah bhaiya" whose throw never misses the mat. And what's more, the bundle always aligns itself in the North-South direction, even after a seemingly careless throw.

The soft thud is much like the firing of a starter pistol before a sprint, albeit much less noisy. The familiar thud signals that yet another day has begun, and we have no time to fritter away. What remains now is to pour the hot coffee into our waiting tumblers, put on our specs and try to take the world in our stride.

Avinash Godboley| *Dewas*

MAMATA'S GOODWILL GESTURE

Madam — This is in response to the news report titled "Opposition curses NDA Sarkar" (July 22). A state government might not have any locus standi to offer shelter to foreign citizens within its border, but West Bengal Chief minister Mamata Banerjee must be appreciated for displaying such warmth for the innocent Bangladeshis running away from internal unrest. After all humanity must reign supreme over petty artificial international borders.

So instead of maligning Banerjee with all sorts of ridiculous accusations possible, BJP leaders must ask it's own government in New Delhi to act as gallant-hearted as Indira Gandhi (during the 1971 turmoil prior to formation of Bangladesh) and allow refuge to the escaping Bangladeshis in the neighboring Indian states including West Bengal.

Kajal Chatterjee |*Kolkata*

Joe Bide backs Kamala Harris

US President Joe Biden has endorsed Vice-President Kamala Harris as the Democratic Party's presidential nominee, marking the end of his re-election bid. Kamala Harris pledged to do everything in her power to unite the nation. If nominated, Kamala Harris would be the second woman, following Hillary Clinton, to run for the U.S. presidency. If successful, she would make history as the first female president of the United States. Despite being the world's oldest modern democracy, America has not yet elected a woman as president in its 236 years of electoral history. In contrast, India, a much younger democracy, elected Indira Gandhi as Prime Minister in 1966.Women face numerous hurdles in politics, including time poverty, lack of campaign funding, and fewer opportunities for political training and mentorship. Social media also facilitates personal attacks that disproportionately target women, potentially driving them out of politics, according to Silveria E. Jacobs, former Prime Minister of Sint Maarten.

If Kamala Harris breaks the American glass ceiling, it could inspire women worldwide to pursue politics and promote female leadership. Her achievement would symbolize progress and motivate more women to seek political office, enhancing gender diversity and representation in global political leadership.

Srinivas Madhav| *Hyderabad*

BANGLADESH BLUES

Madam — Apropos, "Trouble in Bangladesh," Jul 22. The tragic death of about 100 people in violence triggered by the students' protest demanding a roll-back of 30 percent job reservation for relatives of veterans who fought in the 1971 war in Bangladesh, has shown the Sheikh Hasina government in poor light. The quota provision has been under fire as it apparently benefits the supporters of PM Hasina, whose Awami League party led the independence movement.

She had defended it on the grounds that veterans deserved the highest respect for their contribution to the liberation, regardless of their political affiliation. However, the PM cannot afford to ignore the present realities. A merit-based system for jobs will help Bangladesh sustain its impressive economic march. Hopefully, the government will implement the apex court's order in letter and spirit. And there is also a lesson here for India, where unemployment is a major issue and several states have witnessed an uproar over quotas. Prioritising political considerations over ensuring a level playing field for recruitments is fraught with grave consequences.

The tragic deaths resulting from the students' protest against job reservations have cast a shadow over the Sheikh Hasina government. While the PM defends the quota for veterans, a merit-based system is essential for Bangladesh's economic progress.

The government must heed the apex court's order to ensure fairness. This situation also serves as a cautionary tale for India, where prioritising political considerations in job quotas could have serious repercussions.Now the apex court of Bangladesh has toned down the quotas it is likely that Bangladesh will once again have peace and chart on its path to progress. It will also be good for India- Bangladesh relations.

N Sadhasiva Reddy |*Bengaluru*

Send your feedback to: **letterstopioneer@gmail.com**

A thought for today

Good fortune is what happens when opportunity meets with planning

THOMAS EDISON

June 4 Changed July 23. But How Effectively?

When politics changes, so does budget-making. But can employer incentives create enough jobs?

The budget is the first clear proof that BJP has understood the election message. Not only are its numbers down in LS, there are assembly elections coming up in three states, where, too, the party has vulnerabilities. So, while investment in infra and welfare benefits were the cornerstone of its economic policy in its first two terms, this budget has seen a new turn. This time, FM's focus has been on employment and skilling and MSMEs, which are usually labour-intensive. The great discontent is on the jobs and livelihood front, and even if political speeches deny this reality, the budget accepts it front and centre.

Will jobs happen? | The big question is whether incentives for employers to take on more people and a govt-supported internship programme in big companies are enough to make a dent on unemployment. Congress, too, had a manifesto promise on internships. Doubts expressed for that idea apply to the budget's proposal as well. Even if 1cr young Indians get paid internships over 5 years in 500 top companies, and even if such internships help these young people get job experience, will they (a) become more employable and

(b) even if they do, will there be jobs for them? The real challenge is that private investment in labour-intensive sectors is not picking up. And private investment in industries like autos and machine goods is being guided by increasing levels of automation. So, while the budget identifies the problem, it has probably not identified the best solution.

Single no more | Running a single party govt means you can pretty much do what you want in budgets. But running a govt with help from moody allies, as BJP has to do now, means your friends will have to get benefits. JDU and TDP both made plenty of noises pre-budget. It's a credit to BJP that it still resisted the special status demand made by both allies. But it had to apportion a goodish portion of the budget's infra spend on Bihar and Andhra. This is a better way to help allies, as it allocates resources to specific deliverables, via projects. However, this robs Nitish and Naidu of the room to spend extra cash as they wish. Both seem happy for now. If both stay happy, this bit of the budget will be a win-win for BJP.

Got money? Pay more | The budget's political economy becomes clearer when one considers that low-income salaried people get some tax relief but the wealthy, investing classes see a jump in their tax burden. Capital gains taxes are up. Stock markets weren't thrilled about it. But GOI has clearly decided now's the time to pay attention to people who, GOI had thought, were happy only with a raft of welfare measures.

The Working Formula Doesn't Quite Work

Jobs: Business will hire people they don't need. Allies: Naidu, Nitish can't spend as they please

Narendar Pani

The budget reflects some of the concerns of a bruising electoral battle. It has several pointers to govt's approach to coalition politics, and to the challenge of employment that made its presence felt in the election. The degree of innovation reflected in the political tactics is, however, lacking in its economic strategy.

As expected, the budget had the full benefit of tax buoyancy. It projects an increase in Centre's tax revenue of more than ₹2.5L cr over provisional actuals of the last year. Some of this buoyancy has been used, quite responsibly, to bring fiscal deficit to 4.9% and effective revenue deficit to 0.6%. This comfortable financial situation should, ideally, have led to formulation of an effective economic strategy to place the economy on a higher orbit. But the budget does little more than lay out a list of nine priorities with promises of more to come. It speaks of an economic policy framework but sets the task for the future.

The budget is much more revealing in its response to political issues. An unwritten rule of Indian politics over the last few decades has been that growth and political benefits are to be treated as two separate activities. Across parties, govts have been inclined to follow a path of high growth with relatively low employment, so long as it gives them the resources to offer substantial welfare schemes. This strategy was questioned in this election, with a demand for jobs, not just doles.

The budget appears to recognise the limits of seeking to meet unemployment challenge entirely through welfare measures. It estimates subsidies on food, fertilisers and petroleum will all be lower than last year. While revised estimates last year turned out to be well above what was budgeted, govt does seem to have decided it wouldn't have the resources to keep addressing unemployment through welfare. Since govt does not also have the resources to provide sufficient jobs on its own, the new jobs would have to come from private sector.

The budget's political instincts are reflected in its efforts to link private sector jobs to govt. Thus, the subsidies to employers for jobs created, so that govt is associated with private sector jobs as well. More significant, with the subsidy of up to ₹15,000 for first-time employees, govt hopes to be associated with the joy of a first job, rather than subsidising those without jobs.

Of greater significance to GOI's stability is the budget's approach to regional players. In the past, regional parties in national coalitions have sought to claim their pound of flesh by demanding share of resources they could be directly associated with. State-level politicians have demanded packages over which they could exert substantial influence.

The budget has taken this bull by its horns. There's very little mention of packages for individual states.

The two regional parties that could affect GOI's stability – from Bihar and Andhra – find little joy in the budget. Bihar's been demanding a package and Andhra sought substantial financial support. The budget has reduced this demand to one of the Centre supporting efforts of these states to get loans from multilateral agencies.

Instead of statewide packages the regional parties can associate themselves with, the budget promises several project-specific allocations – promises of new airports, expressways, power plants, medical colleges and sports infra for Bihar. Andhra has also been promised project-specific support, including funds for Polavaram irrigation project. This support could be substantial given overall increase in capital transfers, but it'll be associated as much, if not more, with the Centre than with the regional parties.

It's difficult to predict how these political

Uday Deb

manoeuvres will pan out. Will the political benefit of associating with a first job be greater than the downside of increased anger of those who don't get a job? Would regional parties be happy with their power being reduced to campaigning for specific projects, without the ability to implement larger strategies for their states?

What's more certain is that the budget marks a shift towards an economy that expects employment subsidies and is broken up into individual projects. Is the way to greater employment through encouragement of labour-intensive industries or by rewarding businesses that employ persons they may not really need? Does the emphasis on individual projects take the focus away from the wider set of relationships in the economy? Whatever the answer to these questions finally turns out to be, the budget has introduced a policy dynamic the economy will have to learn to live with.

Lot Of Politics In This Economics

Post-poll budget aims to give BJP space to recover electorally

R Jagannathan

If, before LS elections, a confident BJP was happy to present an interim budget with nothing additional for the electorate, the first full budget of the new govt rushes to compensate for this lack by offering concessions and financial incentives. Election results showed that a mere promise, "Modi Sarkar ki Guarantee", was not good enough to impact the ballot box: this budget concretises what was vaguely guaranteed earlier.

The big political change after LS results is that BJP now needs to accommodate political demands of important allies. The budget was thus very vocal on infra projects and support for Bihar and Andhra Pradesh. This takes forward NDA govt's past emphasis on investing in infra, with a slight skew towards two states that sent the highest number of MPs as BJP allies.

Bihar gets an industrial node at Gaya as part of Amritsar-Kolkata industrial corridor, apart from several road connectivity projects, airports, medical colleges and better tourism infra. Andhra has been promised ₹15,000cr of financial support from multilateral development agencies for its new capital at Amaravati, additional funds for Polavaram irrigation project, a Kopparthy node on Vizag-Chennai industrial corridor, and grants for backward regions.

But the biggest theme of the budget was addressing the problem of high youth unemployment. While attempts to push job generation have been there in most NDA budgets, this one goes all-out in this direction. A big initiative is the offer of one month's wages (up to ₹15,000) for first-time employees registered with EPFO – which is expected to benefit 21mn youth.

Then there's a scheme to incentivise additional employment in manufacturing sector – both for employees and employers – as long as this shows up in EPFO numbers. A plan to incentivise apprenticeships in 500 large companies is expected to provide skilling opportunities to 1cr youth over five years, with govt providing ₹5,000 per month as internship allowance. These schemes are again broadly in line with Modi govt's philosophy of formalising jobs market.

Two other budget proposals, one related to MSMEs, and another related to urban growth, also play well into job creation. MSME sector, which was badly roiled by demonetisation and the subsequent push for GST, is being given special support. There's a credit guarantee scheme for MSMEs in manufacturing sector and a proposal for better credit support during stress periods. In start-up sector, vexing angel tax has been abolished. Limit for Mudra loans has been raised to ₹20L. This implies that the most important job-creating sector – small companies and start-ups – is being given a leg-up.

Plus, there's renewed emphasis on urban investment – again, a recognition that more people need to move out of farms to urban jobs. Cities will be developed as growth hubs, redevelopment of cities will be encouraged by policy interventions, and 14 large cities with over 30L population will be developed as transit hubs. Urban housing will be encouraged under PM Awas Yojana for 1L urban poor and middle-class families with an outlay of ₹10L cr, with 22% of it coming from Centre over next five years.

The disappointing part is the half-hearted benefits given to the salary-earning middle class, which do not compensate for the rise in the cost of almost everything. Markets also received a shock when long-term capital gains tax (LTCG) on all financial and non-financial assets was fixed at 12.5% – even as indexation benefits for real estate have been partly eliminated.

Net-net, Modi govt has read the message from the election results correctly and given itself economic and political space to recover.

Consume, Consume

More jobs = more purchases = more investment

Amish Mehta

With just 8 months left for this fiscal, the budget tracks the interim version – with a twist. It underscores govt's focus on four aspects to raise growth potential – fiscal rectitude – spending responsibly, not borrowing beyond means; facilitating infra buildout, which improves India's potential growth rate; lifting consumption via short- and long-term measures; and fettering food inflation, which lowers price anxiety, gives people the confidence to spend, and facilitates lowering of interest rates.

The twist? More spending funnelled to trailing segments of the economy, by providing about ₹55k cr additional on the revenue account. That said, revenue expenditure growth at 6.2% this fiscal will be slower than capital expenditure.

Here's how the four essentialities have been met:

Fiscal consolidation | Govt showed fiscal discipline aiming for lower fiscal deficit, met through borrowings, at 4.9% of GDP, compared with 5.1% in the interim budget. The huge ₹2.11L cr dividend – twice what was budgeted – from RBI is being used in two constructive ways: spending to address pain points and reducing fiscal deficit.

Lowering deficit to below 4.5% by next fiscal looks doable. That'll help keep govt's borrowing costs in check, support efforts to tame consumer inflation to 4% on a durable basis, and improve India's debt to GDP ratio, which remains higher than pre-pandemic levels. And having a fiscal buffer improves govt ability to handle shocks.

Lifting consumption | Increasing consumption, by reducing taxes and duties or increasing expenditure, provides a near-term boost. Raising budgetary fund allocation for PM Awas Yojana – by 70% for rural areas and 36.5% for urban over last fiscal – will support macro-objectives of fostering employment and creating assets. Last fiscal, consumption was weakest owing to sluggish rural demand, so higher allocations will afford some respite.

Private sector is incentivised to create jobs. The labour-intensive MSME sector gets support from credit guarantee and doubling of Mudra loan limit. The overall intention is to provide a lift to jobs, incomes and thereby private consumption.

Supporting capex cycle | Effective expenditure – including grants for creation of capital assets – is budgeted to grow 19.9%, marginally above 19.6% of previous fiscal. Infra-focused capex growth will outpace nominal GDP, which is positive for raising the economy's growth potential, and for private sector investments in linked sectors such as steel and cement.

A concern has been slow recovery of private sector investments despite competitive corporate tax rates, improving logistics, and incentives from PLI scheme. The budgetary push to consumption demand could help private investment sentiment in select consumption-oriented sectors. Rationalisation of import costs of critical minerals and telecom instruments will also support domestic value addition.

Controlling food inflation | The challenge for monetary policy is food inflation in this era of climate change. Fiscal measures aimed at enhancing agricultural resilience, and improvements in transport and storage infra have potential to sustainably reduce food inflation, if executed effectively.

India's GDP growth is expected to slow to 6.8% this fiscal from 8.2% last year because of higher interest rates and tighter lending norms. Urban areas, with higher exposure to credit, will likely feel the pinch more. The hinterland should do better with normal monsoon and higher govt funding for rural schemes.

Govt's cost of borrowing should decline. The 10-year govt security yield is expected to soften to 6.8% by March 2025 from 7% in March 2024, due to lower borrowings, RBI's policy rate cuts (likely after Oct), and higher foreign inflows stemming from India's inclusion in some global bond indices.

Having three budgets within 2024 and 2025, and political continuity, gives GOI latitude to tweak fiscal policies. Continuing fiscal prudence and policies are laying the foundation for sustainable and equitable growth.

The writer is MD & CEO, Crisil Ltd

Good Macros & A Bit Of Soak-The-Rich

Deficits on track. But capital gains tax changes can hurt investor confidence

TK Arun

Let us get this straight. This budget is sound on macroeconomic grounds. It keeps the fiscal deficit down at 4.9% of GDP, projects a shrinking of the primary deficit, indicating a shrinking trend for debt financing, and, yet, manages to keep capital expenditure high.

Deficit compression is achieved by shrinking total spending, from 15.5% of GDP in 2022-23 to 15% in 2023-24 and 14.8% in 2024-25. India is still too underdeveloped to enter the small-govt race. Point is to have fiscal capacity to spend more. That's on the right track, too. Tax/GDP ratios are moving up. GST lays audit trails to concealed income as well, and so not just GST collections but corporate and income tax collections are also high. We could do better.

This budget is politics, from word go. It offers a relief of ₹17,500 per I-T payer at low levels of income, apart from a whole host of benefits that will warm the cockles of job-seeking hearts. Plus, it gives a tax wallop to the rich. It does away with indexation benefit on capital gains on property, gold, and unlisted assets. Indexation, of course, strips nominal capital gains of the effect of inflation over the duration between acquisition and sale, to bring out actual capital gains. This benefit, which the budget proposes to terminate, will increase capital gains tax burden manifold. For properties, this applies to those bought in or after 2001.

To illustrate, the cost index, 100 in 2002, became 300 in 2020. If your property's value had trebled over the period, say, from ₹20L when you bought it in 2002 to ₹60L, when you sold it, it was all on account of inflation, and so you had to pay no tax. Now you cough up, at 12.5% on all of the capital gains.

This will probably not stand. Such tax regime changes have to be announced prospectively. Those who bought homes as investment were expecting to pay 20% capital gains, with the benefit of indexation. Now, they are told that rate of tax is only 12.5%, but forget that indexation bit. This betrays investor trust, and is bad for business.

Govt has finally acted East. And, lo and behold, Andhra Pradesh now finds itself a part of India's East, clubbed with Bihar, Jharkhand, Bengal, Odisha,

targeted for all kinds of investment in infra, tourism, industrial nodes, and corridors.

If anyone thinks that this sudden showering of investment is all about Nitish's and Naidu's coalition conditions, let them know that ugliness, as well as beauty, lies in the eyes of the beholder. While Biharis might quail at the thought of yet another bridge being thrust upon them, they would do well to remind themselves that the budget's special packages are being funded, to a large part, by multinational finance, and these come with extra conditionality and monitoring.

Some of the schemes are so woolly, a mammoth would freeze. Take the internship plan. One crore young people will intern at one of India's top 500 companies for a year over five years, with some pocket money from govt. Each company has to have 4,000 unemployables hanging around the premises for a year, and pay them an intern's compensation, only 10% of which would be counted as CSR. If a company doesn't want to add the cost of litigation to other expenses, it would pay the going minimum wage in a city, say ₹2L a year. Imagine the cost imposed on India's top companies, in terms of money, time and manpower spent.

One thing govt got right is to scrap angel tax altogether. Lowering the tax on foreign companies might bring in some additional activity. Tax incentives for global financial centres are a gold mine for tax lawyers, and might offer the rich, bleeding from the capital gains wallop, some solace. In the end, this budget might end up pleasing all, after all.

The Job Of Job Creation, Done Well

New incentives for employers and employees are built on govt's past successes

Krishnamurthy Subramanian

The standout feature of the first budget of Modi-led NDA govt is its emphasis on employment. Before analysing this, last decade's good track record on job creation needs to be recognised. High-quality data provided by PLFS and KLEMS databases clearly suggest that during FY14-23 India created 12.5cr jobs, compared to only 2.9cr during FY04-14. Even if we exclude agriculture, the jobs created equalled 8.9cr during FY14-23.

The 80L jobs required every year – as highlighted in this year's Economic Survey – must be seen in this context. The 8.9cr jobs created over a 10-year period translate into 89L jobs created every year on average. Therefore, with an unparalleled emphasis on job creation in the next five years, India should be able to create the required jobs. Also, total labour force in India is about 60cr. Thus, this need translates into 1.3% of the labour force. This is not a number about which fear-mongering carries any substance.

Employment's importance to the macro-economy is illustrated by the success story of township and village enterprises in China. While in 1980, there were about 14L TVEs with 3cr employees, by 1996, there were 2.3cr with 13.5cr workers contributing nearly 30% of China's GDP and 50% of the industrial output. By 1999, TVE exports accounted for 48% of China's total exports and much of these were labour-intensive products involving simple production techniques.

The budget measures also draw from the success of Atmanirbhar Bharat Rozgar Yojana implemented in Oct 2020. This scheme incentivised new hiring, including for those who had lost their jobs due to Covid. Under this scheme, govt covered both employee and employer contributions to EPF, which accounted for 24% of wages, for all new hires in firms with up to 1,000 employees. In the case of firms with more than 1,000 employees, employees' EPF contributions for all new hires, which amounted to 12% of wages, were covered.

Research shows that over 60L employees were hired under this scheme by over 1.5L firms. Around 2L establishments specialising in export services, textiles and trading-commercial sectors emerged as the top three contributors to job recovery and growth. Therefore, new budget announcements to incentivise both employers and employees for job creation are based judiciously on past successes.

Incentives also need to be shifted away from dwarfs to infants. Otherwise, these can create 'perverse' incentives for firms to stay small. Misuse of the age-based criterion can be easily prevented. If, for instance, a promoter starts a new firm, takes advantage of the age-based incentive for a period of 10 years, and then shuts down the firm to start another one and continues benefitting from the age-based benefits, the promoter's Aadhaar can alert authorities regarding this misuse.

Once small firms know that they would receive no benefits from continuing to remain small despite aging, their natural incentives to grow would get activated. MSMEs that experience growth not only generate increased profits for their promoters, but also contribute towards job creation and productivity in the economy. So, our policies must enable the growth of MSMEs by unshackling them. In sum, India@100 cannot become an inclusive and progressive nation without creating quality employment opportunities.

The writer is an executive director, IMF. Views are personal