Our Views

Budget 2024: Triveni of Fiscal discipline, focus on soft infrastructure and thoughtful consumption!

True to the style of this government, no matter what the political compulsions are, they genuinely believe in a long-term disciplined approach. This budget again demonstrated the government's commitment towards fiscal prudent path. This will help the country in the long term by improving its credit rating.

In the fiscal landscape for FY 24-25, the estimated fiscal deficit stands at 4.9% of GDP, showing a reduction from the earlier target of 5.1% set during the interim budget. A pivotal factor contributing to this decline is the historic dividend of INR 2.11 lakh crores declared by the RBI. The government has reaffirmed its commitment to fiscal consolidation, aiming for a fiscal deficit below 4.5% by FY 25-26. Net borrowing has seen a marginal reduction to INR 11.6 lakh crore, down from INR 11.8 lakh crore in FY 23-24. From FY 26-27 onwards, the government will endeavor to maintain the fiscal deficit each year such that debt to GDP ratio is on a declining path.

Major tax reforms shake the market!

There have been noteworthy reforms in income tax that could impact capital markets. The short-term capital gains tax on listed equity shares and mutual fund units has increased to 20% from 15%, while long-term capital gains tax has risen to 12.5% from 10%. The long-term capital gains tax on other assets has been reduced to 12.5% from 20%, albeit with the withdrawal of indexation benefit for all assets. In a move to attract foreign investment, the corporate tax rate for foreign companies has been reduced from 40% to 35%. Additionally, to support India's startup ecosystem and foster innovation, the 'Angel tax' has been abolished for all classes of investors.

Dividends and buybacks have always been considered as comparable means for companies to distribute accumulated reserves. At present, buyback is being taxed at the corporate whereas dividend is being taxed in the hands of the recipient. It is proposed that now a buyback will be treated at par with dividends, subject to applicable income tax rates with the option to claim the original cost of acquisition as a set-off of capital loss. This would end the arbitrage opportunity between dividends and buybacks.

The second part of Triveni focuses on building soft infrastructure.

Last few years we focused on building hard infrastructure like road, port, airport and railways. It was important that we focus on social infrastructure such as education, skill development and digitization.

If there is one overarching theme that weaves through the entire budget and its initiatives this year, it has been the emphasis and shift towards softer infrastructure. This strategic shift prioritizes long-term growth and prosperity by focusing on critical sectors like education, skill development, employment, and digital connectivity, all of which are crucial components for achieving our national goal of Viksit Bharat.

Youth take center stage

A standout feature of this budget is the visionary package comprising five schemes aimed at empowering youth with employment opportunities and skill development, with an allocation of INR 1.48 lakh crore. This includes initiatives like setting up working women hostels, childcare centres, specific skill development programs, and loans for skilling, demonstrating a commitment to inclusive development and women empowerment.

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Equally noteworthy is the focus on incentives for first-time job seekers and their employers, thereby fostering employment creation. Budget introduced a comprehensive internship scheme aiming to provide real-world business exposure for 1 crore youth in the top 500 companies over the next five years. This initiative underscores the government's commitment to enhance digital access and efficiency across the economy.

Digitizing land records – long time due!

The budget outlines key land reforms focusing on digitization, including a digital land registry for urban and rural areas to streamline records and enhance transaction transparency. These initiatives mark a significant move towards modernizing land administration and promoting inclusive property ownership.

The budget's urban housing initiatives focus on affordability and transparency. Key measures include interest subsidies for affordable loans, enhanced rental market transparency, and Public-Private Partnerships for dormitory-style housing with viability gap funding. These steps reflect a strategic shift towards a more inclusive and accessible urban housing market.

The third part of Triveni is thoughtful plan to boost consumption

There was an expectation that the government may resort to schemes like direct benefit transfers. However, the budget proposals have been thoughtfully crafted to boost consumption by supporting businesses.

Support for promotion of MSMEs

To provide an impetus to the MSME sector, a credit guarantee scheme has been introduced to provide the MSMEs access to institutional credit at competitive rates. Furthermore, a new mechanism is proposed for facilitating continuation of bank credit during stress period. In a bid to cover the MSMEs who do not have a formal accounting system, public sector banks will build a new credit assessment model based on the digital footprint of MSME in the economy, as compared to the traditional assessment of credit eligibility based only on asset or turnover criteria.

To further support agricultural income and the rural economy, the budget has concentrated on enhancing productivity and resilience in agriculture, as well as boosting public and private investment in post-harvest infrastructure and supply chains. These initiatives would have a long-term impact than just providing the subsidy to farmers.

In conclusion, this budget has been a departure from the normal narratives like fiscal deficit, capex, privatization and so on to newer areas like lower borrowing, lower deficit, softer infrastructure and thoughtful rural initiatives. **Now that the blueprint is ready, the devil lies in implementation.**

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