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AN ASTUTE UNION BUDGET 2023-24: WITH LOW SPACE FOR EXHILARATING

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Introduction

The Union Budget 2023-24 is largely a balanced and a growth-oriented budget. Given the global economic uncertainty and elections are forthcoming, the budget is merely in expected lines. While the fiscal deficit is estimated to be 5.9 per cent of GDP, and aimed to reach out a fiscal deficit below 4.5 per cent by 2025-26, it is apparently ambitious, and a bit vulnerable given the ambition set in capex and infrastructure development along with other goals. From the financing aspect, the gross market borrowings are estimated at ₹ 15.4 lakh crore, while the estimated net market borrowings are kept at ₹ 11.8 lakh crore, with balance financing is expected to come from small savings and other sources.

In expected lines, there are some tweaking regarding personal income taxes, whereas the rebate limit under the new tax regime is enhanced at ₹ 7 lakh (this is slightly a leeway provider as from the existing regime under Sec87A with less or up to ₹ 5 lakh income, the claim has enhanced to ₹ 25,000 from the earlier ₹ 12,500). A positive feature of this Budget is that for the income bracket in ₹12-15 lakh , the rate is reduced to 20%, whereas for all the lower than ₹ 15 lakh annual income, the tax rates are relatively reduced, thus possibly providing more scope for disposable income spending by population in relatively lower strata income group, which might be helpful in augmenting market demand for various other products and services.

The new tax regime is as follows:

₹0-3 lakh	Nil
₹3-6 lakh	5 per cent
₹ 6-9 lakh	10 per cent
₹ 9-12 lakh	15 per cent
₹ 12-15 lakh	20 per cent
Above ₹ 15 lakh	30 per cent

Source: Union Budget Speech 2023-2024 (1 February 2023).

The reduction of the highest surcharge rate from 37 per cent to 25 per cent in the new tax regime and the extension of the benefit of standard deduction to the new tax regime are also welcome moves. One positive feature is the reduction of the number of basic customs duty rates on goods, other than textiles and agriculture, from 21 to 13 as well as incentivizing green mobility. Though there are certain tweaks in the electric kitchen chimneys etc, a more in-depth thoughts are required to address the issue of overall inverted duty structure.

A brief analysis of the other features of the Union Budget 2023-24 for certain sectors are discussed as follows:

Support to the Agriculture Sector: The setting up of the Digital Public Infrastructure for Agriculture would be especially useful at addressing farmer-centric solutions through relevant information services, and a commendable policy step is the decision to set up an “Agriculture Accelerator Fund” to encourage agri-startups by young entrepreneurs in rural areas. In order to make India as a global hub for millets, the Indian Institute of Millet Research, Hyderabad is identified as the Centre of Excellence. The plan to set up massive decentralized storage capacity would also help farmers realizing remunerative prices.

Thrust on Infrastructure and Capital Investment: To enhance the infrastructure and productive capacity, capital investment outlay is being increased for the third year in a row by 33 per cent to ₹ 10 lakh crore, which would be 3.3 per cent of GDP, as well as almost three times the outlay in 2019-20. The ‘Effective Capital Expenditure’ of the Centre is budgeted at ₹ 13.7 lakh crore, which will be 4.5 per cent of GDP. The state governments are also encouraged for capital investment by the extension of the 50-year interest free loan. A capital outlay of ₹ 2.40 lakh crore has been provided for the Railways. While the increased outlay is a welcome move, however, the timing of execution of projects needs to be watched out, which is needed for creating an enabling infrastructure framework. The outlay for PM Awas Yojana is being enhanced by 66 per cent to over ₹ 79,000 crore.

Urban Infrastructure Development Fund: The Budget ’23-24 has announced of setting up of a UIDF in a similar manner to the Rural Infrastructure Development Fund (RIDF) managed by the National Housing Bank (NHB), that will be used by public agencies to create urban infrastructure in Tier 2 and Tier 3 cities, with an expected outlay of ₹ 10,000 crore per annum, while state governments will be encouraged to leverage resources from the grants of the 15th Finance Commission, as well as existing schemes, to adopt appropriate user charges while accessing the UIDF.

Incentivizing Lab-Grown Diamonds (LGDs): In line with the demand by the GJEPC, as well as to encourage indigenous production of LGD seeds and machines and to reduce import dependency, the budget has declared that a research and development grant will be provided to one of the IITs for five years. This environment-friendly LGDs would be helpful enhancing employment in India as well as to deploy India's handmade jewellery potential.

Energy Transition and Green Hydrogen Mission: With a target to reach an annual production of 5 MMT by 2030, recently launched National Green Hydrogen Mission, (with an outlay of ₹ 19,700 crores), is expected to facilitate transition of the economy to low carbon intensity, reduce dependence on fossil fuel imports, and make the country assume technology and market leadership in this sunrise sector. Further, this budget provides ₹ 35,000 crore for priority capital investments towards energy transition and net zero objectives, and energy security by Ministry of Petroleum & Natural Gas. Moreover, Battery Energy Storage Systems with capacity of 4,000 MWH will be supported with Viability Gap Funding, and a "Green Credit Programme" will be notified under the Environment (Protection) Act. This will incentivize environmentally sustainable and responsive actions by companies, individuals and local bodies, and help mobilize additional resources for such activities.

Thrust on MSMSE Sector: The revamped credit guarantee scheme announced in the last year, will take effect from 1st April 2023 through infusion of ₹ 9,000 crore in the corpus, which is likely enabling additional collateral-free guaranteed credit of ₹ 2 lakh crore, while the cost of the credit will be reduced by about 1 per cent.[1] Union Budget FY23 formulated policy goals in terms of revamping Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) with required infusion of funds and facilitate additional credit of ₹ 2 lakh crore and a 35 per cent increase in CAPEX extending the Emergency Credit Line Guarantee Scheme (ECLGS) up to March 2023 with additional cover of ₹ 5 lakh crores, which provided much-needed additional credit to more than 130 lakh MSMEs, helped many small businesses get back on the path to recovery, generated employment opportunities, etc.

[1] The MSME sector contributes to 45 per cent of India's Industrial Employment, 50 per cent of India's Total Exports and 95 per cent of all industrial units of the country. As per the Union Budget 2021-22, India has ~6.8 million Udyog Aadhar registered MSMEs.4 There are over 6 crore MSME units in India employing more than 11 crore individuals.5 As of July 1, 2021, the Prime Minister's Employment Generation Program (PMEGP) was expected to produce 5.95 lakh and 1.21 lakh jobs in micro companies over the years 2020-21 and 2021-22, respectively.