Infomerics Ratings

# Infomerics Valuation And Rating Pvt. Ltd.

SEBI REGISTERED / RBI ACCREDITED / NSIC EMPANELLED
CREDIT RATING AGENCY

Dr. Manoranjan Sharma
(Chief Economist)

# BUDGET EXPECTATIONS - 2024

25 January 2024

## Introduction

The Budget 2024, which is actually a 'Vote on Account', will be presented against the backdrop of decelerating global growth because of geopolitical tensions and the lagged effect of cumulative tightening of the central banks. While the US would outperform Europe, China's growth momentum could peter out in the second half of 2024. UK's recessionary concerns stem from shrinkage of UK's GDP by 0.1% in Q3 of 2023.
India has been the fastest-growing major economy for the third successive year. Despite global headwinds, including geo-political realignment, India's economy would continue its strong and resilient growth of 6.7% in FY 2024 and 6.2% in FY 2025. The first Advance Estimates of National Income 2023-24 placed macro-economic growth at 7.3% in FY 24 vis-a-vis 7.2% last year. However, the nominal GDP growth is estimated at 8.9% as against 16.1% in FY 23. These are likely to change following improved data coverage, actual tax collection and expenditure on subsidies, etc.

A renewed capex cycle, a well-capitalised banking system, robust credit growth, an upturn in the housing sector, rising domestic consumption, robust investment, growing services exports and "digitalization-driven productivity gains" are force multipliers. India would consolidate its global heft by important transformative drivers both on the demand and the supply sides.

Against this global and domestic canvas, there would be a reiteration of the centrality of the philosophy of growth with equity in conformity with the defined governmental agenda. The government's fiscal deficit rose due to pro-growth and subsidy initiatives post-COVID 19. Hence, as stressed in the FRBM Act, there would be a renewed thrust on prudent fiscal balances narrowing its fiscal deficit by 70 bps to 5.2 % of GDP in FY25, from 5.9 % in FY24.

Likely proposals include some pro-farmer measures, new initiatives to boost manufacturing, Make in India, ease of doing business, MSMEs, thrust on infrastructure, no income tax rebate, inclusion of a waiver of tax collected at source (TCS) on individual overseas credit and debit card expenditures up to ₹7 lakh per year. There could also be some measures relating to enhanced deduction under individual policy and senior citizens, climate concern, green growth and ESG and incentivising start-ups.

In sum, no big bang measures are likely.

**Impact of GST on the Budget math this year**

Of late, both the direct and the indirect tax collections in India have been on a roll and thus salubriously impacted the Budget calculus. Direct tax gross collections were at ₹ 17.18 lakh crore (upto January 10, 2024), which was 16. 8% higher than the gross collections for the corresponding period of last year.

With both corporate and personal income tax surging, such collections significantly outpaced the Union budget projection of 10 % growth in tax revenues. Direct Tax collection, net of refunds, stood at ₹14.70 lakh crore, which was 19.4 % higher than the net collections for the corresponding period last year. This collection is 80. 6% of the total Budget Estimates of Direct Taxes for FY 24.

The average monthly gross GST collection of ₹1.66 lakh crore in the first 9-month period this year represents a 12% increase compared to the ₹1.49 lakh crore average in the corresponding period of FY23. The gross GST revenue collected in December, 2023 was ₹1,64,882 crore, out of which CGST was ₹30,443 crore, SGST was ₹37,935 crore, IGST was ₹84,255 crore (including ₹41,534 crore collected on import of goods) and cess was ₹12,249 crore (including ₹1,079 crore collected on import of goods). Collections of this order are not a flash in the pan but are here to stay because this was the seventh month so far this year with collections exceeding ₹1.60 lakh crore. Sustained taxes growth and the welcome state of public finance augur well for macro-economic growth.

**Expectations for the Banking and Finance Sector**

The banking and finance sector has emerged as a major growth driver. This sector could be given an impetus by greater integration of new technologies, attracting more foreign investments, enhancing digital skills, creating productive employment, providing additional incentives for women borrowers, support for smaller sectors like MSMEs and microfinance, stronger regulatory framework for the fintech industry in India and higher loan-to-value (LTV) ratios in identified areas.

**Market Anticipations**

Since it is a 'Vote on Account' and things are going on reasonably well on the macro front, I would say "murph sez: if it ain't broke, don't fix it!". However, given the constraints of a 'Vote on Account', we do expect an accent on both incremental and structural reforms. Similarly, greater capex, higher infrastructure allocation and a renewed thrust on PPP arrangements is on.
The Production Linked Incentive (PLI) scheme of the Government of India, which is aimed at boosting manufacturing and reducing imports in conformity with the Atmanirbhar Bharat strategy, provides companies incentives on incremental sales from products manufactured in domestic industry to create

national manufacturing champions and to create 60 lakh new jobs, and an additional production of 30 lakh crore during next 5 years. The PLI scheme, which was initially introduced in 2020 and subsequently expanded in 2021, has hit the ground running because of stable policies, rapid digitization, and China + 1 realignment by attracting ₹2 trillion in investment commitments across 14 key sectors.

Given the renewed thrust on manufacturing and the success of the PLI scheme, it could be expanded to 20 sectors (e.g., toys, leather and footwear, components for new-age bicycles, chemicals, shipping containers, and machine tools) with ₹3 trillion allocated over 5 years. Simultaneously, outlay for identified sectors, viz., auto, pharma, and medical devices could be enhanced. However, since unclear award incentives and the stringent criteria for some sectors (e.g., speciality steel and solar photovoltaic cells) constrain the effectiveness of such schemes, linking PLI eligibility to skilling initiatives and hiring targets can promote inclusive employment, robust manufacturing and balanced regional industrialization. Towards this end, fiscal and non-fiscal incentives enhance cost competitiveness significantly versus alternate manufacturing destinations.

**Income Tax Proposals**

There is a burgeoning body of literature pioneered by American economist Arthur Laffer, who developed a bell-curve analysis (sometimes also described as inverted U) in 1974. The Laffer Curve substantiates the thesis that cutting tax rates can result in increased total tax revenue. Similarly, cross country evidence, including in India, clearly reveals that unusually high tax rates lead to a vicious circle reducing the tax pool. In line with this school of thought, there has been a steady reduction in income tax over the years. But given the nature of an interim budget, no major income tax changes are on. There is some expectation, however, that Standard deduction, which was last changed in 2019, could be hiked from ₹50,000 to ₹ 1,00,000. The roadmap for direct taxes stresses simplification, rationalisation, digitization including data mining, artificial intelligence (AI), reduced exemptions, equitable treatment of tax payers and addressing tax payer's grievances. Expanded and broadened tax base is necessary.

**Changes in Corporate Tax unlikely**

In line with the compelling necessity of providing an impetus to economic growth, structural transformation and employment, there has been a steady reduction in corporate tax rate in India from the all-time high of 38.95 **%** in 2001 to a record low of 25.17 **%** in 2019. Existing domestic companies with a turnover of **up to ₹ 400 crores** are now subject to a **25%** income tax rate, while a turnover **exceeding ₹ 400 crores** are subject to **30%** income tax rate. Given the steady reduction in corporate tax rate in India and the constraints of an interim budget, no tinkering with corporate tax rate is likely.

**Other Changes**

Gold imports may be drastically reduced in next 5/6 years through a "Modified Gold Scheme".

We also expect that overall net general government debt will fall from 86.5 % of GDP in FY 23 to stabilise below 85 % of GDP over the next three years.

## Potential measures to address surging inflation

Both the RBI and the government have to work in tandem to check the menace of inflation. Some fiscal policy measures are reducing import duties, banning exports or imposing minimum export prices, suspending the futures trading of commodities, raising the stock limit for commodities, etc. The Central government has made various efforts to control the prices of food items, viz., 140 new price monitoring centres have been set up to closely monitor wholesale and retail prices of essential commodities to provide some relief to the vulnerable sections of population.

## Key investment strategies for investors

India's stock market has been on a roll. But the best is yet to be! Why? Both because of global cues and domestic macroeconomic drivers. Globally, India's economy is the fastest growing among major economies on the back of growing demand, moderate inflation and stable interest rate regime. This makes India an out-performer and with steady growth of 6% over the medium-term, equities are likely to march northwards. On top of over 20% corporate earnings this year, corporate earnings are likely to rise further over the next six months.

Other strands of this debate include India's manufacturing PMI rising to 56 in November 2023 (the 29th successive month of rise in factory activity) from October's 8-month low of 55.5 and net FPI inflows of US$ 24.9 billion (up to Dec. 6, 2023) as against net outflows in the preceding two years. FPI Flows would be influenced by peaking U.S. dollar, the high-octane May 2024 elections and India's greater heft in global markets. Hence, my advice would be to stay invested despite occasional dips and troughs. As John F. Kennedy stressed way back in October 1963, "a rising tide lifts all boats".

## The Indian equity markets - Roadmap Ahead

The Sensex correction on January 23, 2024 was not entirely unexpected. In line with our prescient forecasts, the Sensex fell over 1000 points to end at 70,371; NIFTY fell by 1.5 % to close below 21,250. A deeper fall of 3 % was seen in mid and small cap indices. The capital market dip triggers were disappointing HDFC results, downgrading of RIL, stricter SEBI norms on beneficial owners with effect from February 1, net selling by FIIs, profit booking across sectors and fragile 22,000 NIFTY basis. The market capitalisation of all BSE-listed stocks fell to ₹ 366.3 lakh crore. Despite such steep dip, the long run Indian growth story in general and the capital market in particular continues to be robust and positive. There could, however, be occasional hiccups. William Shakespeare wrote in his play A Midsummer Night's Dream, "the course of true love never did run smooth". Similarly, the capital market never progresses in a linear and progressive unidirectional manner.