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PEOPLE & POLICY

Demystifying Policy for the People

WORKING PAPER SERIES

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Union Budget 2024-25: Budget Analysis

While the Union Budget 2024- 25 sets ambitious targets, it lacks the necessary structural reforms, transparency, and realistic projections required to address India's economic challenges comprehensively. The reliance on optimistic growth rates and speculative revenue increases, coupled with insufficient focus on key welfare schemes and transparent allocation of funds, highlights a disconnect between policy announcements and ground realities. This budget, therefore, appears to be more of appeasement of the political allies of the government, than a pragmatic roadmap for India's economic recovery and growth.

The Union Budget 2024-25, falls short of addressing several pressing concerns and seems overly reliant on speculative growth projections. The government plans to increase expenditure by 8.5% to Rs 48, 20,512crore, with a significant portion allocated to interest payments, which account for 24% of total expenditure and 37% of revenue receipts. This allocation raises concerns about the sustainability of the government's debt levels and its impact on future fiscal flexibility.

Receipts (excluding borrowings) are expected to rise by 15% to Rs 32, 07,200crore, driven largely by an 11% increase in tax revenue. However, the reliance on a nominal GDP growth rate of 10.5% seems overly optimistic given the current economic uncertainties and global economic slowdown. The targeted revenue deficit of 1.8% and fiscal deficit of 4.9% of GDP appear ambitious and could be difficult to achieve without significant structural reforms and expenditure rationalization.

The budget's allocation for new schemes, particularly the Rs 62,593 crore earmarked for the Department of Economic Affairs without detailed disclosures, lacks transparency and raises questions about the effectiveness and efficiency of such expenditures. The proposed changes in the income tax regime, including increased standard deductions and revised tax slabs, while beneficial to taxpayers, do not adequately address the need for a more progressive tax structure that can ensure equitable revenue generation.

Furthermore, the allocation for major welfare schemes such as MGNREGS, which remains static at Rs 86,000 crore, and PM-KISAN at Rs 60,000 crore, does not reflect the growing needs of rural and agrarian communities, especially in the face of inflation and economic distress. The budget's approach towards urban and rural development, though ambitious, lacks clarity on implementation strategies and timelines, particularly the proposal to build three crore additional houses under PM AwasYojana.

The government's disinvestment targets also seem unrealistic. The budget estimates Rs 50,000 crore from disinvestment in 2024-25, despite falling short of targets in previous years (54.3% of the target in 2023-24 and 71% in 2022-23). This overestimation raises concerns about the feasibility of meeting fiscal deficit targets without resorting to further borrowings.

Facts and Figures

1.Transfer to States:
The central government will transfer Rs 23, 48,980 crore to states and union territories in 2024-25, an increase of 11.9% over the actuals of 2023-24. This includes the devolution of Rs 12, 47,211crore from the divisible pool of central taxes and grants worth Rs 11,01,769crore

2. Deficits:
The revenue deficit is targeted at 1.8% of GDP in 2024-25, lower than the 2.6% of GDP in 2023-24.
The fiscal deficit is targeted at 4.9% of GDP in 2024-25, down from 5.6% of GDP in 2023-24.

3. Receipts Highlights:
Receipts (excluding borrowings) in 2024-25 are estimated to be Rs 32, 07,200crore, an increase of 15% over the actuals of 2023-24.
Gross tax revenue is budgeted to increase by 10.8% in 2024-25, slightly higher than the estimated nominal GDP growth of 10.5%.
Corporation tax is estimated to grow at 12%, and income tax at 13.6%.
GST revenue is budgeted to increase by 11%

4. Liabilities:
The central government's outstanding liabilities in 2024-25 are estimated to be 56.8% of GDP. These had increased from 48.1% in 2018-19 to 61% in 2020- 21, and have moderated thereafter.

5. Interest Payments:
Interest payments as a percentage of revenue receipts increased from 37% in 2013-14 to 42% in 2020-21. It is estimated to be 37% of revenue receipts in 2024-25

6. Allocations for Welfare:
Welfare of Women:
Rs 3,27,158 crore, an 18.9% increase.
Welfare of Children:
Rs 1,09,921 crore, a 17.4% increase.
Scheduled Castes:
Rs 1,65,493 crore, a 12.7% increase.
Scheduled Tribes:
Rs 1,24,909 crore, a 14.3% increase.
North Eastern Region:
Rs 1,00,893 crore, a 9.9% increase

7. Key Scheme Allocations:
MGNREGS: Rs 86,000 crore, unchanged from the revised estimate of 2023-24.
Pradhan MantriAwasYojana: Rs 84,671 crore, a 56.5% increase over the revised estimate of 2023-24.
JalJeevan Mission: Rs 70,163 crore, a slight increase of 0.2% over the revised estimate of 2023-24.
PM KISAN: Rs 60,000 crore, unchanged from the revised estimate of 2023-24.

A Critical Analysis of the Union Budget's

Social Sector Allocations

Despite rhetorical commitments to fostering a more prosperous and equitable society, the allocations to critical sectors such as health, education, and welfare for low and middle-income households tell a different story.

Capital Expenditure vs. Social Welfare

While capital expenditure on infrastructure projects is vital for long-term economic growth, the neglect of immediate social needs raises concerns. The Economic Survey cautions against the disruptions caused by geopolitical tensions and global supply chain fractures, yet it remains optimistic about India's economic resilience, citing stable inflation rates and robust capital markets. However, this optimism fails to address the consistent decline in social sector spending, which has dropped to well below 20% since 2009.

Declining Social Sector Spending

Critical social welfare programs continue to suffer from inadequate funding. The National Rural Employment Guarantee Act (NREGA), Pradhan Mantri Matru Vandana Yojana (PMMVY), National Social Assistance Programme (NSAP), Mid-Day Meal Programme, and Integrated Child Development Services (ICDS) have all seen significant cuts since the 2019-20 Budget. All though the Pradhan Mantri Awas Yojana has seen increased allocations, this alone cannot address the overwhelming demand for affordable housing. The minimal increase in the social welfare sector from 1.04% in FY24 to 1.17% in FY25 (Rs 56,501 crore) and the modest 13% increase in health sector allocations highlight the neglect of essential services.

Outcome-Based Budgeting

A Missed Opportunity

The concept of outcome-based budgeting has been touted as a means to ensure efficient allocation of resources and achieve developmental goals. This system involves detailed policy design, implementation, and performance assessment. However, only 11 states and Union Territories have adopted this system, with significant variations in implementation quality. States like Assam and Gujarat report high compliance, while others like Arunachal Pradesh and Jharkhand lag far behind.

Odisha has taken commendable steps with its Budget Execution Technique Automation, ensuring standardization and better performance. However, the gradual reduction in social sector allocations hampers the broader adoption of outcome-based budgeting. Increased budgetary allocations for the social sector are necessary to implement and benefit from this system, ensuring better performance and utilization of funds.

Skill Development

Tokenism Empowerment

The finance minister's focus on skill development in the Union Budget 2024-25 introduces several new initiatives, including a scheme to equip 20 lakh young individuals with essential skills over the next five years and revisions to the model skilling loan scheme. However, these initiatives face significant challenges due to a persistent mismatch between the skills taught and the job market's actual demands. The rising capital expenditure, coupled with insufficient social investment, continues to impede efforts to effectively address critical skill gaps.

Addressing Structural Gaps

While the government's emphasis on skill development is a positive rhetorical shift, its actual effectiveness may remain weak without addressing underlying issues like high unemployment. A more cohesive approach is needed to bridge the skill gap, align training programs with job market needs, ensure sustainable funding, and integrate robust mechanisms for tracking progress and impact. Greater private sector partnerships in job/labour-intensive sectors will be crucial for turning ambitious plans into tangible outcomes and fostering a workforce capable of meeting the demands of a modern economy.

The government's emphasis on skill development, while promising, requires a more integrated approach to ensure effectiveness. Addressing structural gaps, aligning training with market needs, and fostering private-sector partnerships are essential for achieving the envisioned economic growth and social upliftment. Without these measures, the dream of a 'Viksit Bharat' remains an illusion, leaving the most vulnerable sections of society to bear the brunt of policy shortcomings.

Diverting Dalit / Adivasi Funds to Corporate - New Way of Sidelining Social Justice in India

Union budget 2024-2025 at a Glance

Total Budget	Budget Allocated for SCs	Budget Allocated for STs	Due as per SCSP for SCs	Due as per TSP for STs	Total Due	Denied
4820512.00	165493.00	132214.00	795384.00	395281.00	1190665.00	297707.00

The Union Budget for 2024-25, totalling Rs. 48,20,512 crore, allocates only Rs. 1,65,493 crore (3.43%) for Scheduled Castes (SCs) and Rs. 1,32,214 crore (2.74%) for Scheduled Tribes (STs). This allocation is significantly below the Rs. 7,95,384 crore for SCs and Rs. 3,95,281 crore for STs that should have been allotted under the Scheduled Castes Sub Plan (SCSP) and Tribal Sub Plan (TSP) established in 1975 and 1979. Such a stark under-allocation reveals a disregard for the genuine empowerment of SCs and STs.

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Moreover, funds designated for direct benefit schemes targeting SCs and STs are being diverted to unrelated sectors, such as telecommunications, semiconductors, and large-scale electronics manufacturing, in clear violation of SCSP and TSP mandates. For example, Rs. 1,543 crore from the SC fund and Rs. 597 crore from the ST fund have been allocated to telecom infrastructure, while Rs. 573 crore from the SC fund and Rs. 462 crore from the ST fund have been redirected to the semiconductor sector. These diversions undermine the constitutional mandate to uplift SCs and STs.

The budgetary neglect extends to vital welfare programs. The Self Employment Scheme for the Rehabilitation of Manual Scavengers (SRMS) has received no funding for the past two fiscal years, and a mere Rs. 1 lakh has been allocated to the National Safai Karamcharis Finance and Development Corporation (NSKFDC) for 2024-25. In contrast, Rs. 236.99 crores have been allocated to schemes like NAMASTE, which seem to favour corporations rather than addressing the pressing needs of manual scavengers.

The redirection of SC/ST welfare funds to corporate sectors has severe consequences for the intended beneficiaries, particularly Dalits and Adivasis. Government-promoted schemes like VISVAS, NAMASTE, SEEDS, PM DAKSH Yojana, SHREYAS, and SMILE lack the necessary budgetary support for effective implementation. Additionally, the current budget completely overlooks the introduction of new initiatives aimed at protecting and improving the livelihoods of Dalit and Adivasi women.

Budget Perspective: Growth vs. Redistribution

India positions itself as one of the fastest-growing economies, with rapid infrastructural development and a booming capital market reinforcing this narrative. However, the country also grapples with severe poverty, malnutrition, and stark inequality. The high rates of educated unemployment and farmer suicides challenge India’s growth aspiration.

Economic Rationale of the Budget

India’s strengths include a youthful demographic, underutilized natural resources, and a vast consumer market. However, the country faces constraints such as unskilled labour and lack of adequate business environment, plagued by corruption. Overcoming these barriers could unlock significant growth potential. Failing to do so may lead to increased migration of the youth to developed countries. The budget reflects an understanding of these dynamics.

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Agriculture and Industry

Interdependence

Leveraging the interdependence of agriculture and industry is crucial for development. India's agriculture still relies heavily on manual labour and monsoons, necessitating technological advancements to boost productivity. The budget includes proposals to introduce 109 high-yielding, climate-resilient seed varieties, train one crore farmers in natural farming, and expand shrimp farming with NABARD's support. Despite these initiatives, the agricultural sector's budget allocation has declined to Rs.1.52 lakh crores, or 3.15% of the total budget, down from 4.19% in 2019-20.

Redistribution: Will Trickle-Down Work?

India's growth narrative has not fulfilled the expectation that economic gains would trickle down to alleviate poverty and malnutrition. In developed nations, comprehensive social security systems help mitigate inequality. India, however, lacks such a system. The 2022-23 Household Consumer Expenditure Survey highlights various dimensions of inequality, but the budget lacks specific measures to address poverty and inequality. The Mahatma Gandhi Rural Employment Guarantee Scheme's funding remains stagnant, and disparities in old-age pensions persist. The budget does not address these issues.

Resource Mobilization Challenges

In developed countries, the tax-to-GDP ratio is around 35-40%, supporting more equitable societies. India's tax-to-GDP ratio remains below 20%. To improve this, the government must reduce its reliance on indirect taxes and increase direct tax rates. The budget mainly focuses on concessions for middle-class tax-payers, showing an overreliance on the trickle-down theory.

Federalism Concerns

The current NDA government, dependent on Andhra Pradesh and Bihar for political stability, has allocated disproportionately high resources to these states, attracting criticism from others. Resource transfers in a federal system should be criteria-based to ensure equity. The Finance Commission's provisions aim to uphold horizontal and vertical equity, but the current approach threatens to undermine federal principles.

Kerala, facing a fiscal crisis, had high expectations for the budget but saw none of its proposals accepted. However, Kerala should focus on effectively utilizing the announced schemes, particularly those for the MSME sector, and consider forming a high-level committee to oversee implementation.

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