



## Budget 2024: Fiscal Prudence and Strategic Investments

This editorial is based on "[Of prudence and plumbing: The Budget is fiscally and financially prudent and correctly focuses on fixing the economy's plumbing](#)" which was published in The Financial Express on 24/07/2024. The article talks about the current budget's fiscal and financial strategies, praising its prudence amid challenging global economic conditions.

**For Prelims:** [Union Budget](#), [fiscal consolidation](#), [Pradhan Mantri Gram Sadak Yojana \(PMGSY\)](#), [PM GatiShakti](#), [public debt/ Gross Domestic Product\(GDP\)](#), [customs duties](#) [Mudra loan](#), [PM-KISAN](#), [agri-tech innovations](#).

**For Mains: Significance of Fiscal Prudence and Government Policies & Interventions for Indian Economy.**

In times of **global economic turbulence** and **domestic fiscal challenges**, the [budget 2024](#) stands as a beacon of fiscal prudence and strategic foresight, aiming to mend the economic foundations of India.

The budget's strategy is **multifaceted aiming for [fiscal consolidation](#)** with a **deficit pegged at 4.9% of GDP**, lower than previous expectations, while maintaining conservative revenue assumptions amidst **economic buoyancy**.

Despite robust domestic growth, India's rising [public debt/Gross Domestic Product\(GDP\)](#) ratio underscores the imperative for cautious fiscal management, limiting the room for expansive policies.

With **public sector investments** reaching their limits due to **fiscal and debt constraints**, the [private sector](#) is poised to take up the mantle of driving economic expansion, buoyed by healthy corporate balance sheets but requiring enhanced demand visibility.

Thus, **swift implementation is crucial for India's economy** to effectively navigate global challenges and capitalize on emerging opportunities.

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# UNION BUDGET

A statement of the estimated receipts and expenditure of the Govt in an FY

## ARTICLE 112 (PART V)

- President of India to present the Annual Financial Statement for each FY before both Houses of Parliament

The term 'Budget' is not mentioned anywhere in the Constitution of India

## NODAL BODY FOR PREPARING BUDGET

- Budget Division (Dept of Economic Affairs, Ministry of Finance) in consultation with NITI Aayog and concerned Ministries

The first Budget of Independent India was presented in 1947

## MAJOR COMPONENTS OF BUDGET

- Estimates of revenue and capital receipts
- Ways and means to raise the revenue
- Estimates of expenditure
- Actual receipts/expenditures of closing FY (+ deficit/surplus)
- Economic/financial policy of upcoming FY

Till 2017, the Govt of India had 2 budgets - Railway Budget and General Budget

## STAGES OF BUDGET ENACTMENT

- Presentation
- General discussion
- Scrutiny by Dept Committees
- Voting on Demands for Grants
- Passing an Appropriation Bill
- Passing of Finance Bill

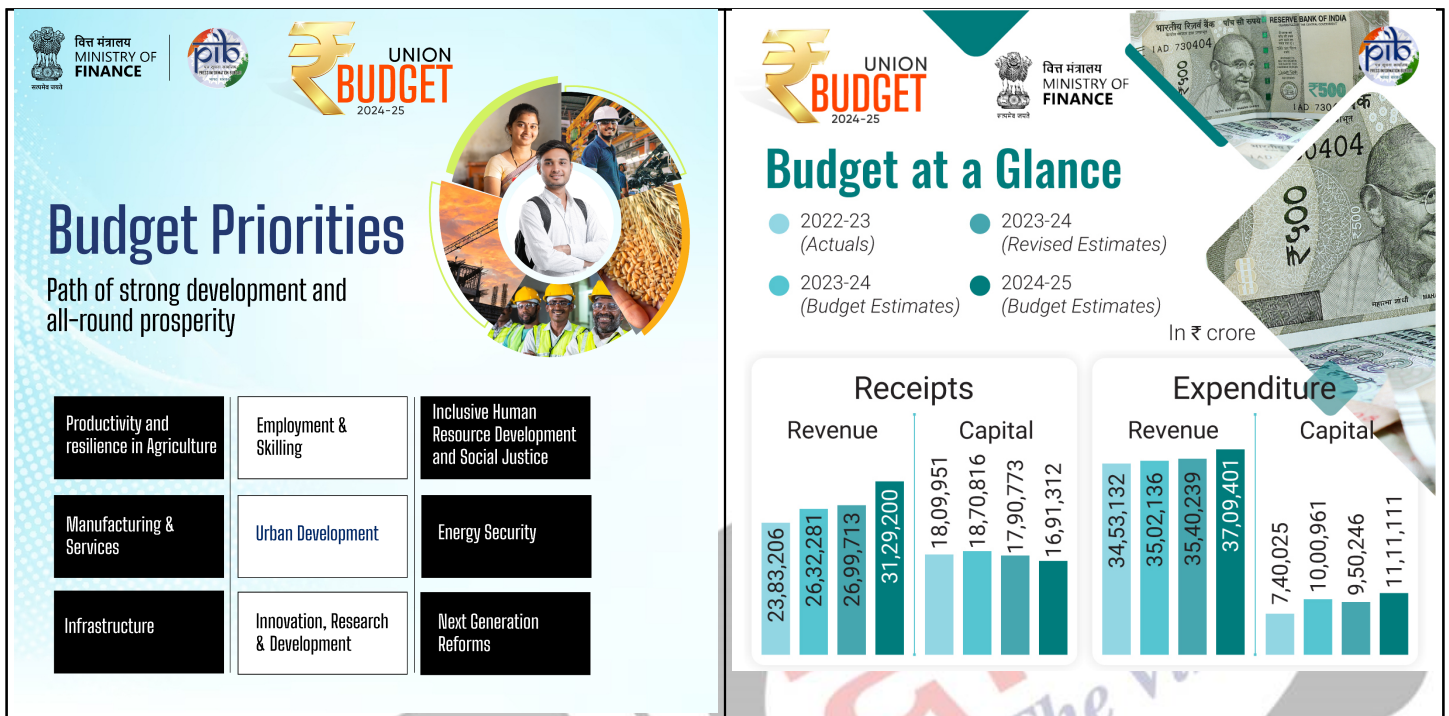
What else does the Constitution of India provide for the Budget?

- Without the recommendation of the President:
  - No demand for a grant can be made
  - No money bill imposing tax can be introduced
- No money can be withdrawn from the Consolidated Fund of India except under appropriation made by law
- Role of Parliament:
  - Money/Finance Bill (involving taxation) - introduced only in LS
  - Vote on the demand for grants - RS has no such power
  - Money/Finance Bill - to be returned to LS by RS in 14 days
  - LS may/may not accept the recommendations made by RS

## What are the Key Highlights of the Budget 2024 For the Indian Economy?

- Inflation Management:** India's inflation remains low, and stable, and is moving towards the 4% target, indicating macroeconomic stability.
- Export Competitiveness:** Reduction in [customs duties](#) across sectors aims to enhance export competitiveness. The budget aligns with trade theory, emphasizing that lowering import tariffs can effectively serve as an export promotion strategy.
- Agriculture and Rural Development:** Introduction of **109 high-yielding and [climate-resilient](#)** varieties of crops, and ₹1.52 lakh crore provision for [agriculture and allied sectors](#) this year.
- Employment and Skilling:** PM's package of **5 schemes with ₹2 lakh crore** outlay to facilitate [employment, skilling, and opportunities for 4.1 crore youth over 5 years](#).
- Human Resource Development:** Investment in education, skill development, and [healthcare](#) to empower the workforce.

- **Urban Development Initiatives:** Launch of **PM Awas Yojana Urban 2.0** with **₹10 lakh crore investment** to address housing needs of urban poor and middle-class families.
- **Ensuring Energy Security:** Policies focused on [energy conservation, renewable sources, and sustainable energy](#) practices.
- **Women Empowerment:** Allocation of more than **₹3 lakh crore for schemes** benefiting women and girls.



## What is Fiscal Prudence?

- Fiscal prudence refers to the **careful management of government finances aimed at maintaining fiscal discipline, sustainability, and stability.**
  - It involves making responsible decisions regarding **public spending, revenue generation, borrowing, and debt management** to achieve macroeconomic stability and long-term economic health.

## What is the Significance of Fiscal Prudence in the Context of Budget 2024?

- **Macro-level Impact:**
  - **Debt Sustainability:** India's fiscal deficit for **FY 2023-24** is targeted at **4.9% of GDP**, lower than previous estimates, indicating a commitment to reducing the deficit. This reduction is crucial for maintaining fiscal health and debt sustainability.
    - Measures may include refinancing debt, **extending debt maturities, and minimizing reliance on costly forms of financing.**
  - **Investor Confidence:** Prudent fiscal management enhances investor confidence by signaling the government's commitment to financial stability and sustainable growth.
  - **Credit Rating:** A lower fiscal deficit and disciplined fiscal policies can potentially lead to improved credit ratings, reducing borrowing costs for the government and private sector alike.
- **Economic Stability:**
  - **Inflation Control:** By managing deficits, the government can mitigate inflationary pressures that arise from excessive public spending.



- **Stimulus Effectiveness:** Prudent fiscal policies ensure that any fiscal stimulus provided during economic downturns is effective and does not lead to long-term fiscal imbalances.
- **Balanced Budgets:** It Strives to achieve a balance between **government revenues and expenditures over the economic cycle.**
  - This may involve running a budget deficit during economic downturns to stimulate growth and employment, balanced by surpluses during periods of economic expansion to reduce debt.
- **Transparency and Accountability:** Fiscal prudence maintains transparency in fiscal policies and practices to build trust among citizens and investors.
  - Accountability mechanisms, such as **regular audits and reporting of government finances**, are essential to ensure that public funds are used efficiently and effectively.

## What are the Government Strategies for Fiscal Prudence and Economic Growth in Budget 2024?

- **Revenue Assumptions and Expenditure Management:**
  - **Revenue Projections:** The government projected a tax revenue growth rate of **10.8%** against a nominal GDP growth rate of **10.5%** for FY 2023-24.
    - This cautious estimation aims to ensure realistic revenue targets amid economic uncertainties.
  - **Quality of Spending:** There is a focus on increasing capital expenditure relative to revenue expenditure. This shift aims to enhance productivity, create long-term assets, and stimulate growth in key infrastructure sectors.
- **Structural Reforms and Sectoral Focus:**
  - **Sectoral Investments:** Budget 2024 emphasizes strategic investments in sectors such as **infrastructure, healthcare, education, and technology.**
    - These investments are crucial for enhancing productivity, competitiveness, and overall economic growth.
  - **Export Promotion:** Reduction in customs duties across various sectors aims to boost export competitiveness and integrate Indian products more effectively into global markets.
- **Financial Prudence and Market Stability:**
  - **Financial Sector Reforms:** The budget outlines reforms in the financial sector to strengthen regulatory frameworks, enhance transparency, and mitigate risks associated with financial markets.
  - **Market-oriented Policies:** Policies aimed at rationalizing tariffs and enhancing ease of doing business contribute to a conducive environment for private sector investments and economic growth.
- **Long-term Economic Strategy:**
  - **Competitiveness and Equity:** The budget underscores the importance of enhancing India's global competitiveness through structural reforms in **factor markets (land, labour, and capital)**. This strategy aims to foster equitable growth and reduce regional disparities.
  - Land reforms such as land Acquisition Laws, land Titling and Registration and Leasing Laws, labour reforms include **codification of labour laws, and Social Security Nets** and capital reforms such as **Financial Sector Reforms, tax reforms, and easing the Investment Climate.**

## What Are the Current Economic Challenges In the Indian Economy?

- **Global Economic Uncertainty:**
  - **Trade Impact:** Global trade tensions, geopolitical uncertainties, and shifts in the economic policies of major economies affect India's export performance. For instance, trade tensions between major economies like the **US and China, and the Russia-Ukraine war**, disrupt global supply chains, affecting India's export-driven sectors.
  - **Investment Flows:** **Foreign direct investment (FDI)** inflows into India are influenced by global economic conditions. Uncertainties in global markets can lead to volatility in FDI inflows, impacting sectors dependent on foreign investments.
  - **Commodity Prices:** Fluctuations in global commodity prices, especially **crude oil and metals, impact India's import bills and inflation rates.** This affects domestic

consumption patterns and overall economic stability.

▪ **Domestic Growth Slowdown:**

- **Structural Bottlenecks: Infrastructure constraints, bureaucratic inefficiencies, and regulatory complexities** hinder economic growth. Delays in project implementation and inadequate logistics infrastructure affect manufacturing and export competitiveness.
- Despite reforms, agriculture remains vulnerable to weather fluctuations, inadequate infrastructure, and market access issues.

▪ **Unemployment and Employment Quality:**

- **Youth Unemployment:** As per the ILO report, the proportion of educated youth, who are unemployed, has nearly doubled to **65.7 percent in 2022 from 35.2 percent in 2000**.
  - This unemployment rate among India's youth population remains high, exacerbated by skill mismatches and inadequate job creation in formal sectors.
- **Informal Sector Dominance: Almost 90 % of India's workforce operates in the unorganised sector**, lacking job security, social security benefits, and access to skill development opportunities.

▪ **Fiscal Constraints:**

- **Fiscal Deficit:** The fiscal deficit target for **FY 2023-24 is projected at 6.8% of GDP**, reflecting the government's efforts to manage expenditures amidst revenue constraints.
- **Public Debt Levels:** India's **public debt-to-GDP ratio** has increased (**81% in 2022**), limiting fiscal space for public investments and social spending. High debt levels pose risks to macroeconomic stability and debt sustainability.
- **Revenue Mobilization:** Efforts to **enhance tax collections and broaden the tax base** are critical for reducing fiscal deficits and financing development priorities without compromising fiscal discipline.

## What Are the Various Reforms Needed to Revamp the Indian Economy?

▪ **Diversification of Trade Partnerships and Hedging Strategies:** Expand export horizons to diverse markets like **Africa, and Southeast Asia**, to reduce reliance on any single region. Strengthen ties with **Brazil and Vietnam** for new export opportunities.

- Continue efforts to attract long-term FDI in sectors such as **renewable energy and digital infrastructure** by ensuring a stable business environment and predictable policies.
- Implement tools like strategic reserves and forward contracts to stabilize commodity prices and secure energy needs against global market fluctuations.

▪ **Fiscal Reforms and Fiscal Discipline:**

- Maintain fiscal discipline to ensure sustainable public finances. Budget 2024 targets a **fiscal deficit of 4.9% of GDP**, showcasing efforts towards fiscal consolidation.
- **Enhance tax compliance and broaden the tax base** to boost revenue. Initiatives such as digital taxation and GST reforms aim to streamline tax administration and increase collections.

▪ **Infrastructure Development**

- Increase public and private investment in **transport, energy, and digital infrastructure**. Budget 2024 allocates significant funds for infrastructure projects under initiatives like [PM GatiShakti](#).
- Focus on smart cities, urban mobility, and affordable housing to support rapid urbanization and enhance living standards.

▪ **Manufacturing and Industrial Growth:**

- Strengthen manufacturing through **production-linked incentives (PLI) and make-in-India initiatives** across sectors like electronics, pharmaceuticals, and textiles.
- **Ease of Doing Business:** Simplify regulatory frameworks, reduce compliance burden, and promote MSMEs to foster entrepreneurship and job creation.

▪ **Agricultural Reforms and Rural Development:**

- Implement market reforms through e-Nam, improve agricultural infrastructure, and expand irrigation facilities. Budget 2024 focuses on enhancing farmer incomes through initiatives like [PM-KISAN and promoting agri-tech innovations](#) and the **Agriculture Infrastructure Fund (AIF)**
  - AIF shall provide a medium - long-term debt financing facility for investment in viable projects for post-harvest management Infrastructure and community

- Develop rural roads, electrification, and connectivity under schemes like **PM Gram Sadak Yojana (PMGSY)** to uplift rural economies and reduce regional disparities.
- **Employment-linked incentives:** All these schemes announced in **Budget 2024** need to be implemented earnestly to enhance employment generation. The Budget 2024 announced three employment-linked incentive schemes **and** will allocate **Rs 2 lakh crore for job creation over the next five years.**
  - **Scheme A** includes a **Direct Benefit Transfer of 1-month salary in 3 installments** up to Rs 15,000 to first-time employees registered in EPFO.
  - **Scheme B** revolves around **job creation in manufacturing incentives** that will be provided directly to both employees and employers as per their EPFO.
  - **Scheme C includes Support to Employers:** Reimbursement to employers up to 3,000 per month for 2 years towards their EPFO contribution for each additional employee.

### **Drishti Mains Questions:**

Q. Discuss the strategic reforms and economic goals essential for revitalizing the Indian economy. How do these reforms aim to address current economic challenges and foster sustainable growth?

## **UPSC Civil Services, Previous Year Questions (PYQ)**

### **Prelims**

**Q1. In the context of governance, consider the following: (2010)**

1. Encouraging Foreign Direct Investment inflows
2. Privatization of higher educational Institutions
3. Down-sizing of bureaucracy
4. Selling/offloading the shares of Public Sector Undertakings

**Which of the above can be used as measures to control the fiscal deficit in India?**

- (a) 1, 2 and 3  
 (b) 2, 3 and 4  
 (c) 1, 2 and 4  
 (d) 3 and 4 only

**Ans: D**

### **Mains**

**Q. Distinguish between Capital Budget and Revenue Budget. Explain the components of both these Budgets. (2021)**

**Q. Do you agree with the view that steady GDP growth and low inflation have left the Indian economy in good shape? Give reasons in support of your arguments. (2019)**