Union Budget 2024-25: An Assessment

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The Union Budget 2024-25 aims at providing a boost to growth and job creation while pursuing fiscal consolidation. The Budget has proposed simplification of direct and indirect tax regimes and continues its thrust towards increasing capital expenditure and strengthening the quality of government spending. The Budget chalks out an agenda for next-generation economic reforms intended to improve overall factor productivity and efficiency in the factor markets, which augur well for medium-term growth prospects.

Introduction

Amidst the global economy grappling with multiple uncertainties, India's economic growth remains resilient. The Union Budget 2024-25 has laid down a medium-term roadmap for achieving '*Viksit Bharat*' through nine priorities, *viz.*, productivity and resilience in agriculture, employment and skilling, inclusive human resource development and social justice, manufacturing and services, urban development, energy security, infrastructure, innovation, research and development, and next generation reforms.

The Budget has also proposed the formulation of an 'Economic Policy Framework' towards implementing next-generation reforms with a focus on improving overall productivity and facilitating sector and market efficiency. Emphasising the principles of competitive and cooperative federalism, the Budget proposes to incentivise States for faster implementation of reforms by earmarking a significant portion of the 50-year interest-free loan.[1]

The Budget has proposed to simplify both direct and indirect tax regimes. A comprehensive review of the customs duty rate structure is proposed to be undertaken over the next six months for facilitating ease of trade, addressing duty inversion and reducing disputes. It has also announced a comprehensive review of the Income-Tax Act, 1961, with an aim to reduce disputes and litigation, thereby providing certainty to taxpayers. On the personal income tax front, the rate structure for the new tax regime has been revised, along with increased standard deduction for salaried employees, to provide relief to taxpayers.[2]

On the expenditure front, acknowledging the strong multiplier effects of infrastructure development, the Budget 2024-25 has provisioned ₹11.1 lakh crore (3.4 per cent of GDP) for capital expenditure, higher than the 3.2 per cent of GDP allocated in 2023-24 (Provisional Accounts, PA). On the other hand, revenue expenditure is estimated to decline from 11.8 per cent of GDP in 2023-24 (PA) to 11. 4 per cent in 2024-25 (BE).

The Union Budget 2024-25 reiterated the government's commitment towards fiscal prudence by budgeting a reduction in the gross fiscal deficit (GFD) to 4.9 per cent of GDP in 2024-25, in line with the medium-term target of GFD below 4.5 per cent of GDP by 2025-26. From 2026-27 onwards, the Budget has announced the government's intention to maintain the GFD at a level that ensures that the Union government debt as per cent of GDP will be on a declining path.

^ This article is prepared under the overall guidance of Smt. Rekha Misra. The authors are thankful to Dr. Nadhanael for his valuable comments and suggestions. The authors are from the Department of Economic and Policy Research. The views expressed in this article are those of the authors and do not necessarily represent the views of the Reserve Bank of India.

[1] The 50-year interest free loan refers to the long-term interest-free capex loan provided by Centre to States under the 'Scheme for Special Assistance to States for Capital Investment'. In each financial year, a portion of the capex assistance to States under this scheme is earmarked for providing incentives to States for carrying out citizen centric reforms. For instance, in 2023-24, a part of the capex loan under this scheme was provided to States as an incentive amount for reform centric and sector specific areas, *viz.*, scrapping old vehicles, urban planning reforms, financing reforms in urban local bodies to make them creditworthy for municipal bonds, housing for police personnel above or as part of police stations, unity malls, 'children and adolescent' library and digital infrastructure.

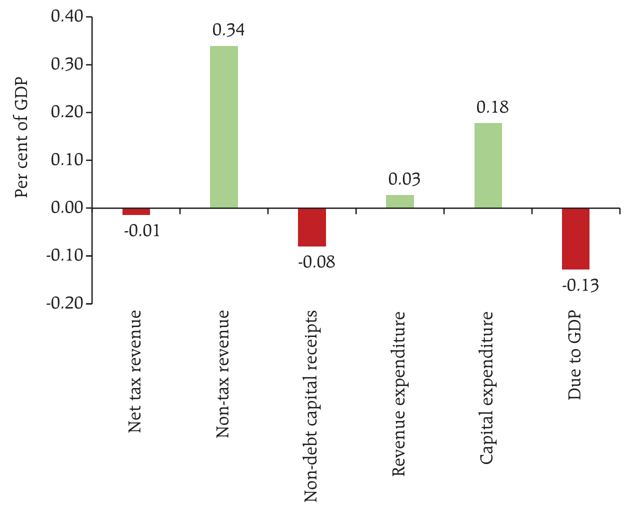
[2] For detailed Budget proposals please refer to Annex III.

Against this backdrop, the rest of the article is divided into seven sections. Section II presents the underlying dynamics of the fiscal deficit. Sections III and IV assess the trends in receipts and expenditure, respectively, of the Union government. Section V covers the outstanding debt position of the Union government. Section VI examines the major sources of financing of the fiscal deficit whereas Section VII dwells upon the transfer of resources to States. Section VIII puts forth the concluding observations.

II. Fiscal Deficit – The Underlying Dynamics

During 2023-24, the government continued the focus on prudent fiscal management. The GFD of the Union government stood at 5.9 per cent of the GDP in 2023-24 (RE) in line with BE. As per 2023-24 (PA), the GFD stood lower at 5.6 per cent of GDP, on account of higher non-tax receipts along with lower revenue and capital expenditure resulting in consolidation of 32 basis points over 2023-24 (BE) [Chart 1]. The primary deficit stood at 2.0 per cent of GDP in 2023-24 (PA) as against the 2.3 per of GDP in the BE (Table 1).

Chart 1: Contribution to GFD Consolidation in 2023-24 (PA) *vis-a-vis* BE



Sources: Union budget documents; and RBI staff estimates.

Table 1: Key Indicators[3]

(Per cent of GDP)

	2022-23	2023-24			2024-25	
	Actuals	BE	RE	PA	BE (Interim)	BE (Final)
1	2	3	4	5	6	7
1. Fiscal Deficit	6.4	5.9	5.9	5.6	5.1	4.9
2. Primary Deficit	3.0	2.3	2.3	2.0	1.5	1.4
3. Revenue Deficit	4.0	2.9	2.8	2.6	2.0	1.8
4. Effective Revenue Deficit	2.8	1.7	1.8	1.6	0.8	0.6
5. Gross Tax Revenue	11.3	11.1	11.6	11.7	11.7	11.8
6. Non-Tax Revenue	1.1	1.0	1.3	1.4	1.2	1.7
7. Revenue Expenditure	12.8	11.6	12.0	11.8	11.2	11.4
8. Capital Expenditure *of which:*	2.7	3.3	3.2	3.2	3.4	3.4
Capital Outlay	*2.3*	*2.8*	*2.7*	*2.7*	*2.9*	*2.8*
9. Effective Capital Expenditure	3.9	4.5	4.3	4.2	4.6	4.6

Notes: 1. Effective revenue deficit is the difference between revenue deficit and grants-in-aid for creation of capital assets.
2. Capital outlay is capital expenditure *less* loans and advances.
3. Effective capital expenditure is capital expenditure *plus* grants-in-aid for creation of capital assets.
4. The figures for 2023-24 (RE) might be at variance with those presented in the Union Budget, as they were computed using the latest available provisional estimates of GDP for 2023-24 released on May 31, 2024 (₹2,95,35,667 crore), rather than the first advance estimates available during the presentation of the Interim Budget on February 01, 2024.
5. BE refers to budget estimates, RE refers to revised estimates, and PA refers to provisional accounts.

Sources: Union budget documents; and RBI staff estimates.

[3] For details, please refer to Annex I.

For 2024-25, the GFD is budgeted at 4.9 per cent of GDP, lower than 5.1 per cent of GDP in the Interim Budget 2024-25[4]. The fiscal consolidation in 2024-25 (BE) over 2023-24 (PA) is sought to be achieved through containment in revenue expenditure to 11.4 per cent of GDP and robust growth in revenue receipts. The revenue deficit is budgeted to decline from 2.6 per cent of GDP in 2023-24 (PA) to 1.8 per cent in 2024-25 (BE), freeing up fiscal space to boost capital expenditure [Table 1].

Decomposition of GFD

The proportion of GFD pre-empted by revenue deficit (RD) has come down from an average of 73.7 per cent of GFD during 2018-19 to 2020-21 to 46.3 per cent in 2023-24 (PA) and further to 36.0 per cent in 2024-25 (BE). Concomitantly, the share of growth-inducing capital outlay in GFD has risen to 47.6 per cent in 2023-24 (PA) and is expected to increase further to 56.9 per cent in 2024-25 (BE) from an average of 31.3 per cent of GFD during 2018-19 to 2020-21 (Chart 2).

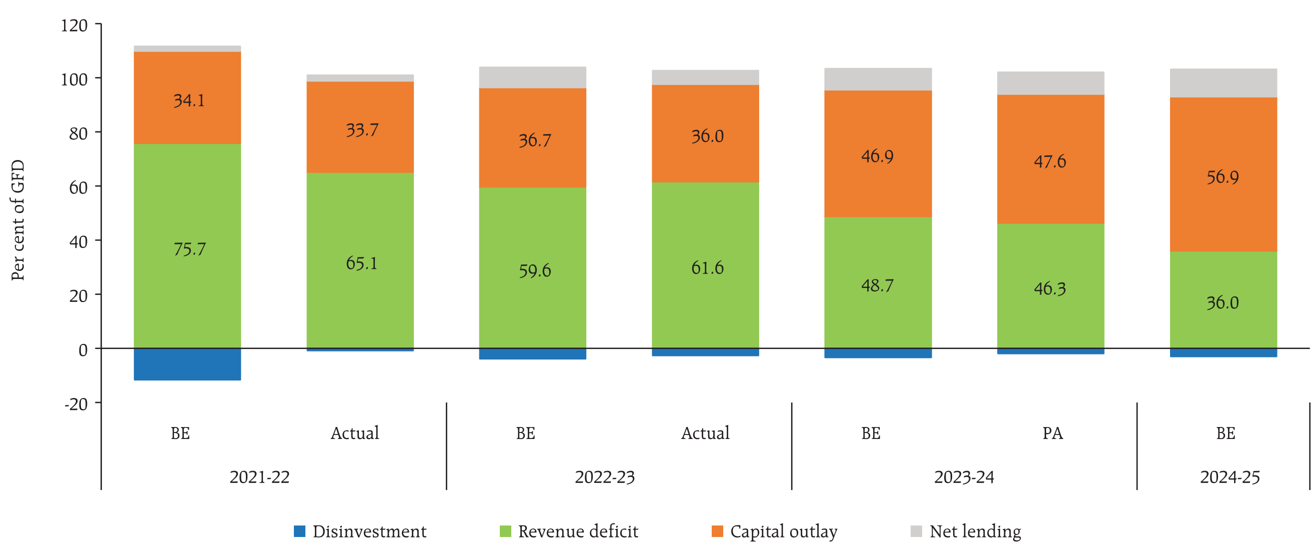
III. Receipts

In 2023-24 (PA), the total non-debt receipts (comprising of net tax revenues, non-tax revenues and non-debt capital receipts) grew by 13.6 per cent over 2022-23, primarily on account of robust growth in tax revenues supported by buoyant income tax collections and increase in non-tax revenues on account of higher-than-budgeted surplus/dividend from the Reserve Bank/nationalised banks/financial institutions. The total non-debt receipts are expected to sustain their momentum in 2024-25 (BE) with a growth of 15.0 per cent and are budgeted to rise to 9.8 per cent of GDP from 9.4 per cent in 2023-24 (PA).

Tax Revenues

Gross tax revenues in 2023-24 (PA) exceeded the budget estimates by ₹1.04 lakh crore. Net tax revenues[5] in 2023-24 (PA) were, however, marginally below the budgeted amount attributable to higher tax devolution to the States. For 2024-25, the gross tax revenues are budgeted to grow by 10.8 per cent over 2023-24 (PA). The tax-GDP ratio will increase to 11.8 per cent of GDP, the highest since 2007-08 (Chart 3).

Chart 2: Decomposition of Gross Fiscal Deficit

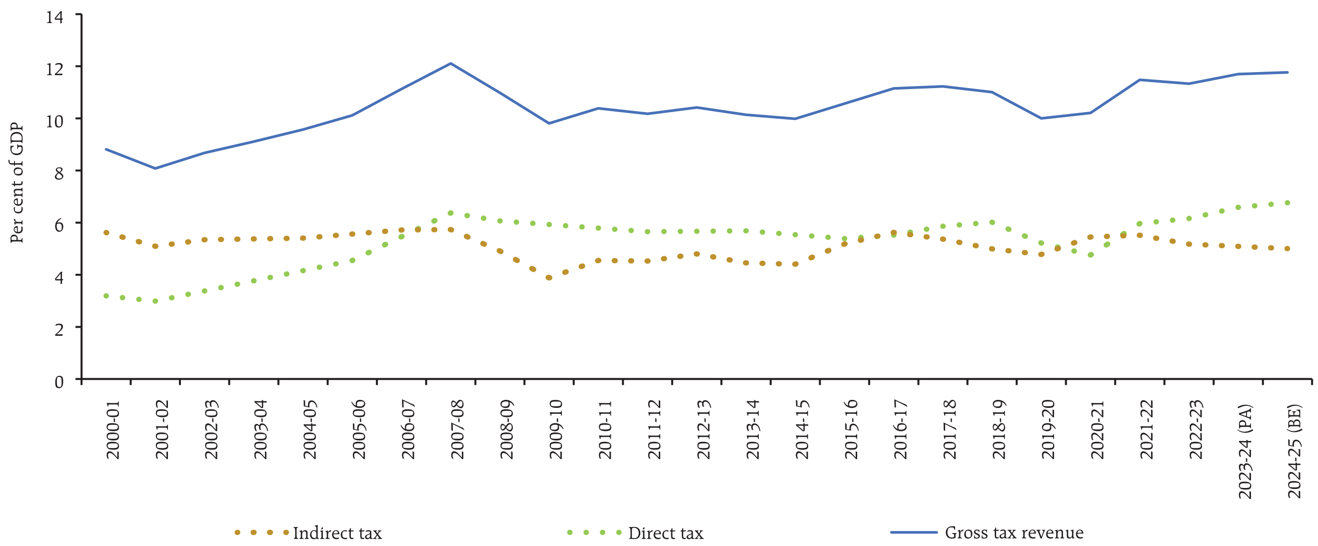


Source: Union budget documents.

4 Nominal GDP for final 2024-25 (BE) announced on July 23, 2024 been projected at ₹3,26,36,912 crore assuming 10.5 per cent growth over the Provisional Estimates (PE) of GDP of 2023-24 at ₹2,95,35,667 crore released by MoSPI on May 31, 2024.

5 Gross tax revenues *less* tax devolution to the States and transfer to NCCD (National Calamity Contingent Duty) funds.

Chart 3: Tax-GDP Ratio



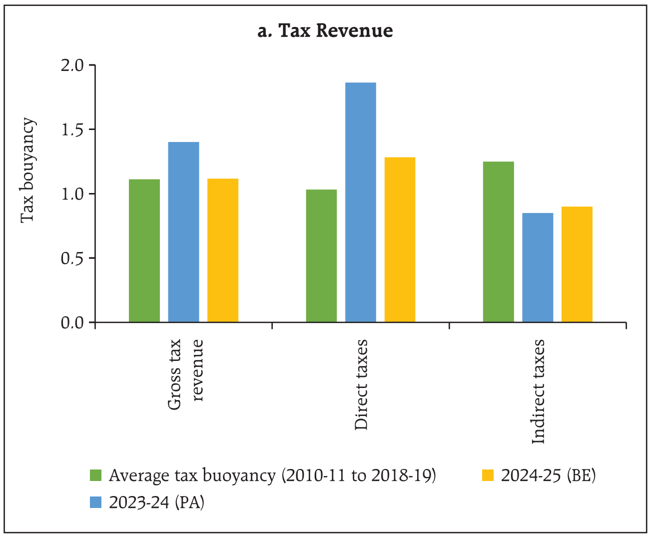
Sources: Union budget documents; and RBI staff estimates.

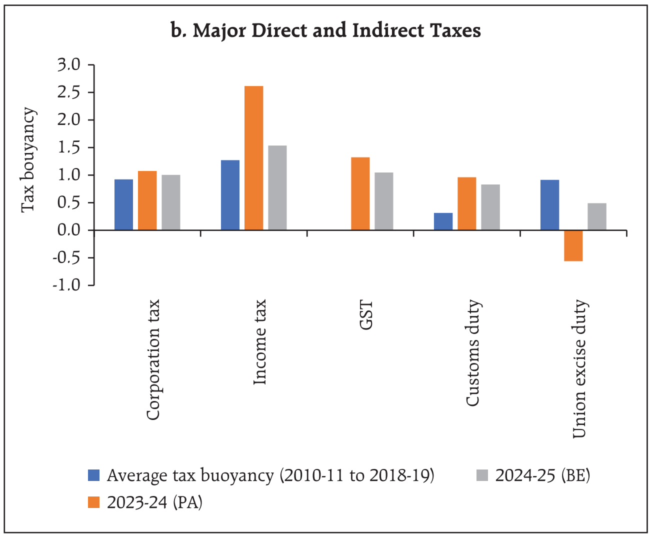
For 2024-25 (BE), the buoyancy of the gross tax revenue at 1.1 will be in line with its average during 2010-11 to 2018-19. The buoyancy of direct taxes in 2024-25 (BE) is lower compared to 2023-24 (PA), but higher than the average trend. On the other hand, the buoyancy of indirect taxes in 2024-25 (BE) will be higher compared to 2023-24 (PA), although it remains lower than the average trend (Chart 4a and b).

Direct Taxes

Direct taxes recorded a robust growth in 2023-24 (PA) and exceeded their budget estimates by ₹1.3 lakh crore, boosted by a growth of 25.0 per cent in income tax collections. In 2024-25, direct taxes are budgeted to grow by 12.8 per cent, with income tax and corporation tax expected to grow by 13.8 per cent and 12.0 per cent, respectively (Chart 5).

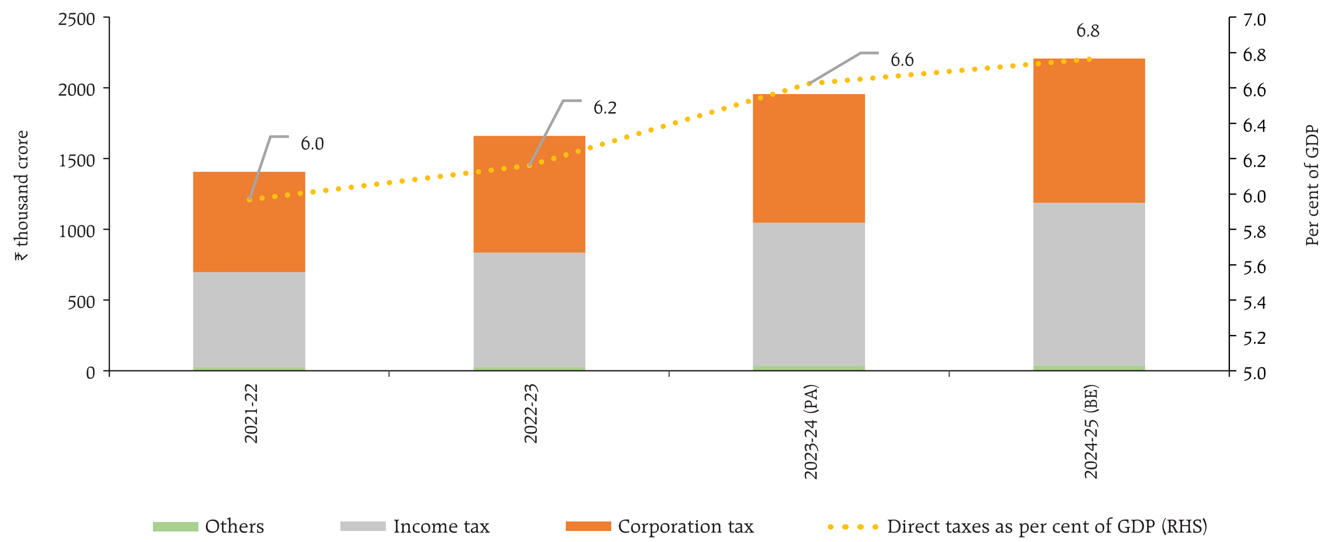
Chart 4: Trends in Tax Buoyancy





Sources: Union budget documents; and RBI staff estimates.

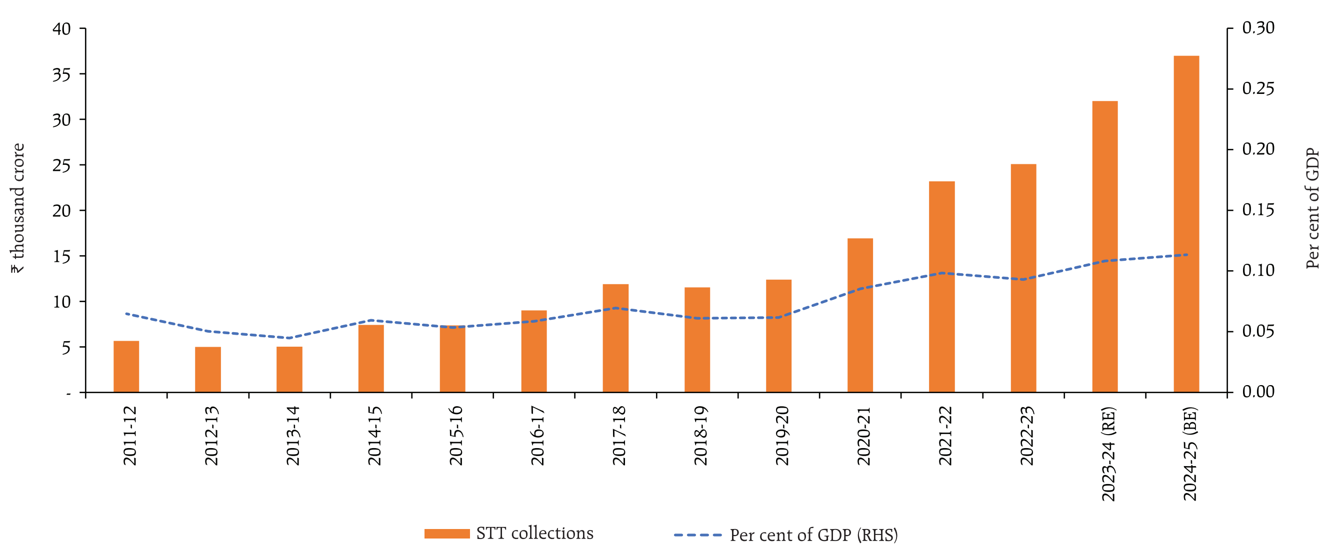
Chart 5: Direct Taxes



Sources: Union budget documents; and RBI staff estimates.

The Budget has proposed a comprehensive review of the Income-Tax Act, 1961 to improve tax certainty and reduce tax litigations along with taking steps for simplification of tax regime for charities, structure of tax deducted at source (TDS), capital gains taxation and deepening of income tax base. The corporate tax rate on foreign companies is proposed to be reduced from 40 per cent to 35 per cent. On the personal income tax front, the standard deductions for salaried employees and family pensions for pensioners under the new tax regime have been enhanced to ₹75,000 and ₹25,000, respectively, along with revisions in the tax structure under the new tax regime; these changes are estimated to result in income tax savings up to ₹17,500 for the salaried employees. Further, the government has increased the securities transaction tax (STT) on futures and options to check the heightened activity in the market segment (Chart 6).

Chart 6: Securities Transaction Tax (STT)



Sources: Union budget documents; and RBI staff estimates.

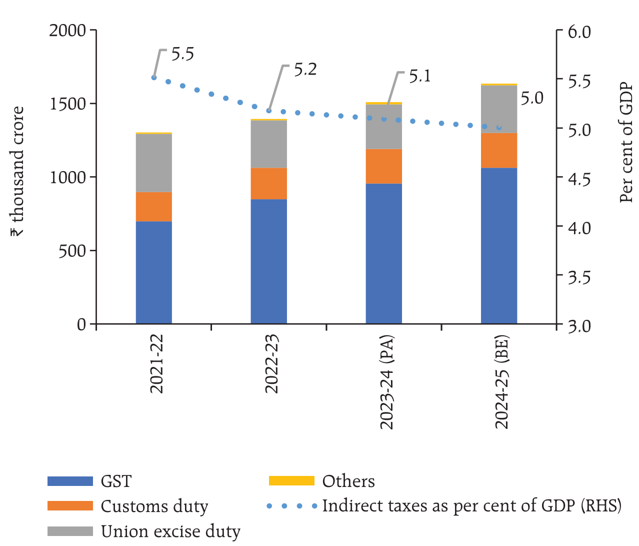
Indirect Taxes

Indirect tax revenues posted a growth of 8.2 per cent in 2023-24 (PA) and fell below the budgeted amount, primarily on account of shortfall of ₹33,670 crore in Union government's excise duty collections. In 2024-25 (BE), the growth in indirect taxes is budgeted at 8.3 per cent, led by GST collections (11.0 per cent), customs duties (2.0 per cent), and excise duty (6.1 per cent) [Chart 7]. To boost domestic production, deepen local value additions, and foster export competitiveness, the Budget proposed a reduction in customs duties on certain medical equipment, mobile phones, critical minerals, marine products, certain electronics, precious metals, certain inputs for leather and textile industry and expanded the list of the exempted capital goods for manufacturing of solar cells and panels. A comprehensive review of the customs rate structure is also proposed to be undertaken in the coming months to promote ease of trade, remove duty inversion, and reduce the incidence of disputes.

Non-Tax Revenues

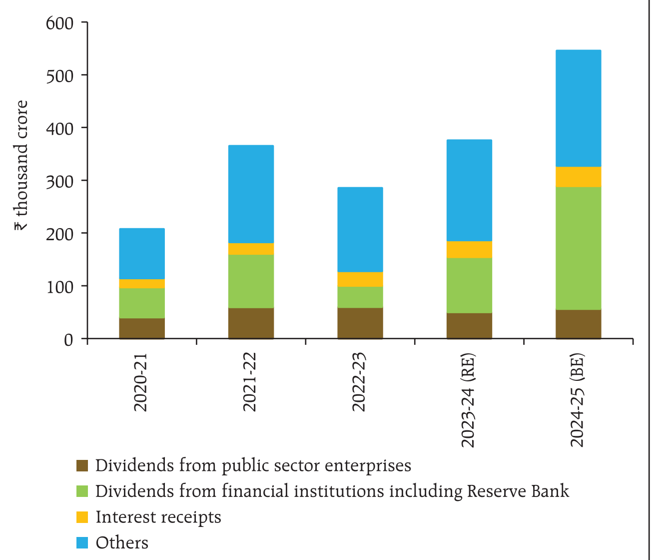
Non-tax receipts posted a growth rate of 40.8 per cent in 2023-24 (PA), exceeding their BE by ₹1.0 lakh crore, primarily due to a higher than budgeted surplus/dividend transfer by the Reserve Bank/nationalised banks/financial institutions. In 2024-25 (BE), non-tax revenues are expected to maintain their momentum and increase by 35.8 per cent, on the back of an increase in dividend and profits led by the surplus transfer by the Reserve Bank (Chart 8).

Chart 7: Indirect Taxes



Sources: Union budget documents; and RBI staff estimates.

Chart 8: Major Components of Non-Tax Revenue



Source: Union budget documents.

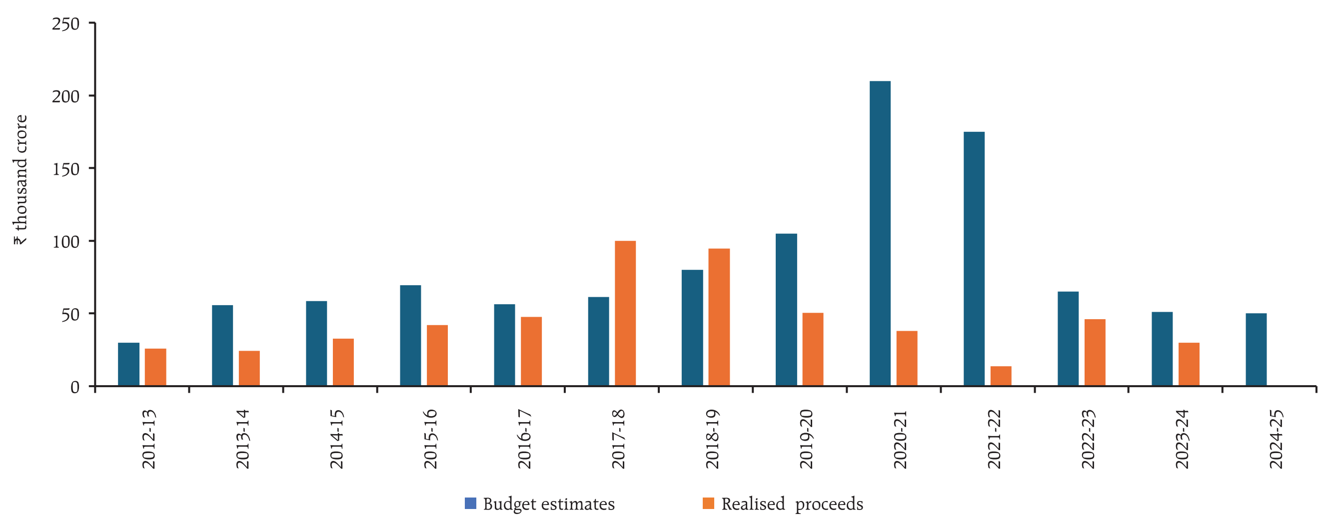
Non-Debt Capital Receipts

In 2023-24 (PA), non-debt capital receipts declined by 16.3 per cent on account of a contraction in proceeds from disinvestment. In 2024-25 (BE), the non-debt capital receipts are pegged to grow at 29.0 per cent, with the disinvestment target at ₹50,000 crore (Chart 9).

IV. Expenditure

Total expenditure is budgeted to grow by 8.5 per cent in 2024-25 (BE) over 2023-24 (PA), as against 5.9 per cent growth in 2023-24 (PA). Capital expenditure is budgeted at a two decade high of 3.4 per cent of GDP, with a provision of ₹11.1 lakh crore in 2024-25

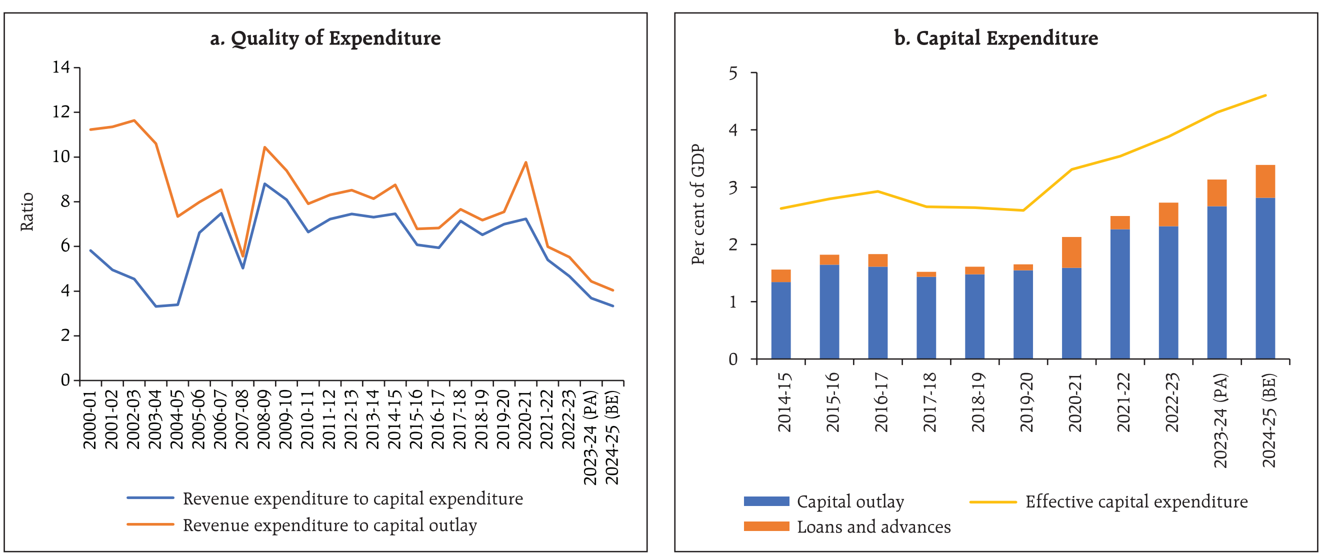
Chart 9: Disinvestment Receipts - Actual *vis-a-vis* Budgeted



Note: Disinvestment receipts for 2023-24 (RE) and 2024-25 (BE) refers to 'receipts' under the head 'miscellaneous capital receipts'.
Source: Union budget documents.

(BE). Revenue expenditure is budgeted to grow by 6.2 per cent whereas capital expenditure growth is pegged at 17.1 per cent (Table 2). The revenue expenditure to capital outlay ratio is at an all-time low of 4.0 as per 2024-25 (BE), indicative of improvement in the quality of expenditure. The outlay for the 'Scheme for Special Assistance to States for Capital Investments' has been enhanced to ₹1.5 lakh crore in 2024-25 (BE) from ₹1.1 lakh crore in 2023-24 (RE) [Chart 10a and b].

Chart 10: Expenditure of the Union Government



Sources: Union budget documents; and RBI staff estimates.

Table 2: Expenditure of Union Government

Item	₹ Thousand crore				Growth rate (per cent)			
	2022-23	2023-24 (RE)	2023-24 (PA)	2024-25 (BE)	2023-24 (RE) over 2022-23	2023-24 (PA) over 2022-23	2024-25 (BE) over 2023-24 (RE)	2024-25 (BE) over 2023-24 (PA)
1	2	3	4	5	6	7	8	9
1. Total Expenditure	4,193	4,490	4,443	4,821	7.1	5.9	7.3	8.5
2. Revenue Expenditure *(of which)*	3,453	3,540	3,494	3,709	2.5	1.2	4.8	6.2
(i) Interest Payments	929	1,055	1,064	1,163	13.7	14.6	10.2	9.3
(ii) Total Subsidies	578	441	NA	428	-23.8	NA	-2.7	NA
Food	273	212	212	205	-22.2	-22.4	-3.3	-3.1
Fertiliser	251	189	189	164	-24.8	-24.6	-13.2	-13.5
Petroleum	7	12	12	12	79.5	79.5	-2.6	-2.6
(iii) MGNREGS	91	86	NA	86	-5.3	NA	0.0	NA
(iv) PM-*KISAN*	58	60	NA	60	3.0	NA	0.0	NA
(v) PM- *Awas* (Rural)	45	32	NA	55	-28.8	NA	70.3	NA
(vi) PM-*Awas* (Urban)	29	22	NA	30	-22.9	NA	36.5	NA
(vii) *Samagra Shiksha*	33	33	NA	38	1.5	NA	13.6	NA
(viii) Defence (Revenue)	256	299	NA	283	16.6	NA	-5.3	NA
3. Capital Expenditure	740	950	949	1,111	28.4	28.2	16.9	17.1
4. Effective Capital Expenditure	1,046	1,271	1,252	1,502	21.5	19.7	18.1	19.9

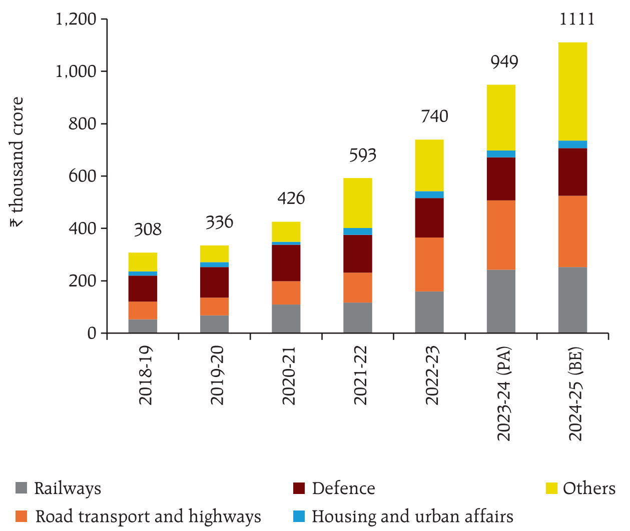
NA: Not Available.
Source: Union budget documents.

Among the major schemes, PM *Awas Yojana* (Rural), PM *Awas Yojana* (Urban), National Health Mission[6], road works and *Samagra Shiksha* have witnessed increased allocation in 2024-25 (BE) over 2023-24 (RE) [Table 2].

The combined capex of the Union government and the central public sector enterprises (CPSEs) has witnessed an increase from 2021-22 onwards, though there has been a reversal in the financing pattern of CPSEs, with the share of the budgetary support to finance capex of CPSEs rising and that of the internal resources and extra budgetary resources moderating (Box A).

The Ministry of Railways and Road Transport and Highways account for almost half of the budgeted capital expenditure for 2024-25 (Chart 11). The total allocation towards new and renewable energy is budgeted to increase from 0.03 per cent of GDP in 2023-24 (PA) to 0.06 per cent in 2024-25 (BE), driven by solar power projects (grid) and PM

Chart 11: Ministry-wise Capital Expenditure



Sources: Union budget documents; and Controller General of Accounts (CGA).

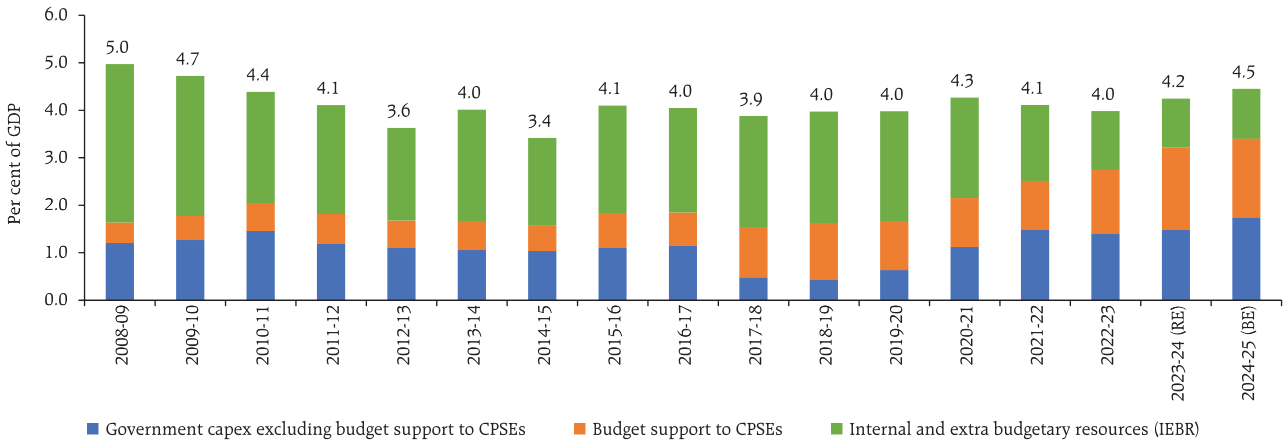
6 National Health Mission includes allocation for the Flexible Pool for Reproductive and Child Health (RCH) and Health System Strengthening, National Health Programme and National Urban Health Mission.

Box A: Capital Expenditure - The Role of CPSEs

Central Public Sector Enterprises (CPSEs)[7] have played a crucial role in India's industrial development by advancing critical sectors such as heavy industry, transport, energy, telecommunications, and defence.[8] CPSEs have aided in strengthening domestic physical infrastructure (Roy and Das, 2023). CPSEs finance their capex from (i) Internal and Extra Budgetary Resources (IEBR)[9] and (ii) the budget support received from the Union government. Financing capex through IEBR facilitates the deployment of government's scarce resources for other competing productive purposes, although the financing of CPSEs capex by the government through budgetary support helps in reducing the overall cost of borrowing as the government can borrow at a lower cost than CPSEs.

There has been a significant increase in the capex of the Union government from an average of 1.7 per cent of GDP during 2008-20 to 3.0 per cent of GDP during 2021-25 with the twin objective of strengthening the domestic infrastructure and crowding in private investment (GoI, 2023). Key infrastructure sectors such as roads and railways, with large multiplier effects on the economy, have been prioritised. The increase in expenditure is reflected both in the Union government's capex as well as the budget support provided to CPSEs. However, the IEBR of CPSEs has declined from an average of 2.3 per cent of GDP during 2016-20 in the pre-COVID period to 1.2 per cent in the post-COVID period (2021-25).[10] With the increase in the budget support provided to CPSEs and a reduction in their IEBR, the share of IEBR in the total capex of CPSEs has declined from an average of 69.9 per cent in the pre-COVID period to 46.0 per cent in the post-COVID period. Overall, the total capex of the Union government and CPSEs increased from an average of 4.0 per cent of GDP in the pre-COVID period to 4.2 per cent of GDP in the post-COVID period (Chart A.1).

Chart A.1: Capital Expenditure by Union Government and CPSEs



Source: Union budget documents.

References:

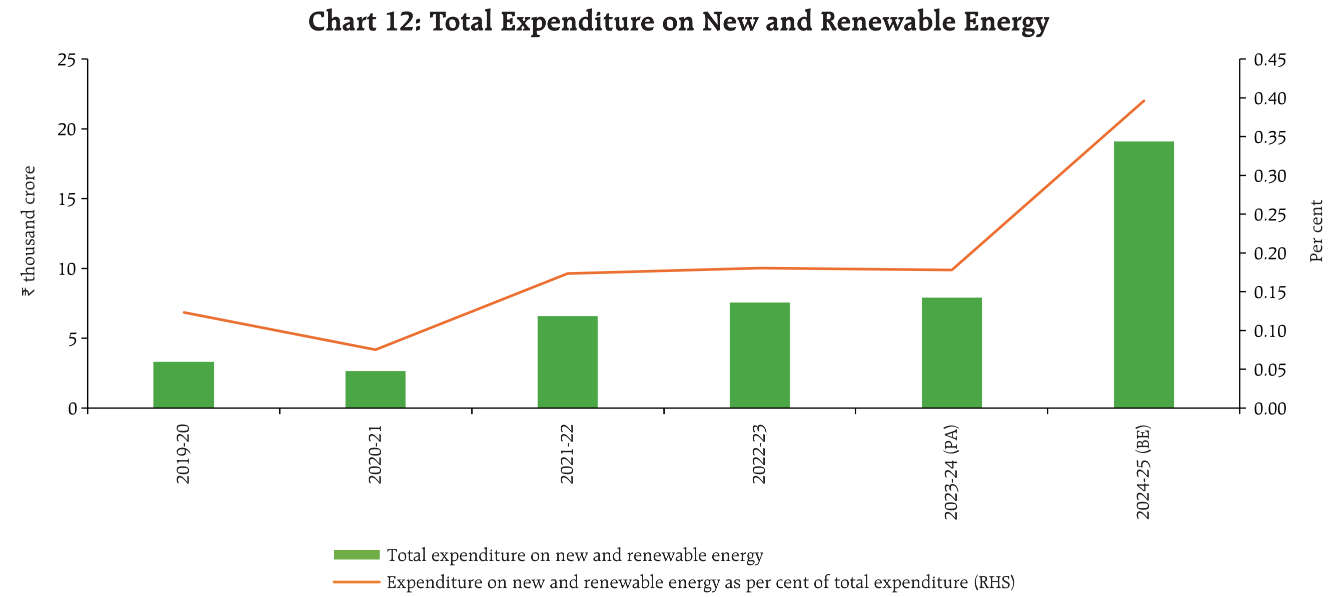
1. Government of India (2022). Central Public Sector Enterprises (Protection of Interests of States) Bill, 2022. Rajya Sabha.
2. Roy, S. and Das, S.K. (2023). Public Sector Performance in India and the Ongoing Contestation Between Efficiency and Equity. Institute for Studies in Industrial Development Working Paper 264.
3. Government of India (2023). Monthly Economic Review. Ministry of Finance, June.

[7] CPSEs are companies incorporated under the Companies Act, 2013 or under any previous company law, or institutions formed in pursuance of an Act of Parliament, in which not less than fifty-one per cent of the share capital is held by the Union government or by any other CPSEs, or partly by the Union government and partly by one or more CPSEs (GoI, 2022).

[8] As per the latest Public Enterprises Survey of 2022-23, there are 402 CPSEs out of which 254 are operating.

[9] IEBR comprises of Internal Resources (comprising of retained profits-net of dividend to Government, depreciation provision and carry forward of reserves and surpluses) and Extra Budgetary Resources (consisting of receipts from issue of bonds, debentures, external commercial borrowing, suppliers' credit, deposit receipts and term loans from financial institutions). Budgetary support and IEBR together finance the capital expenditure of CPSEs.

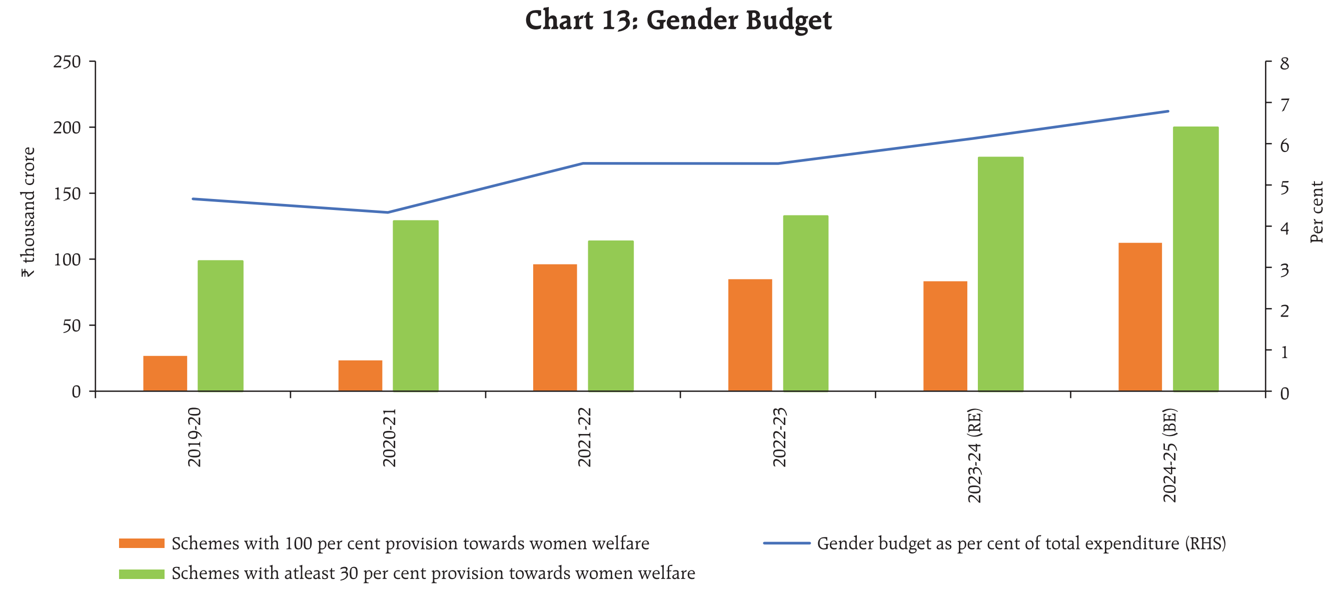
[10] The Food Corporation of India is excluded from this analysis as majority of the expenditure incurred is for purchasing of food grains for the Public Distribution System.



Sources: Union budget documents; and CGA.

Surya Ghar Muft Bijli Yojana[11] (Chart 12). The Budget has emphasised on enhancing the role of women in the economy as one of the four pillars of inclusive growth, reflected in a growth of 18.9 per cent in the gender budget allocations for 2024-25 (BE). More than half of the total increment has been allocated towards schemes having 100 per cent allocation towards the welfare of the women (Chart 13).

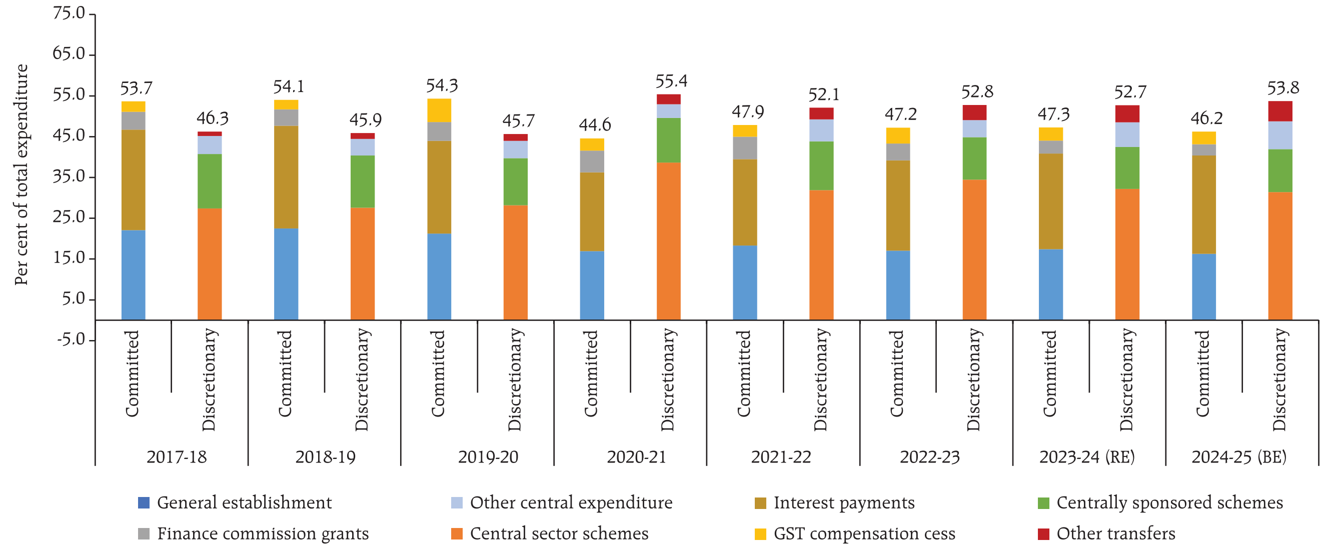
Next, we decompose the total expenditure of the Union government into committed expenditure (which includes establishment expenditure[12], interest payments, grants recommended by the Finance



Source: Union budget documents.

[11] PM *Surya Ghar Muft Bijli Yojana* is a central scheme that aims to provide free electricity to one crore households in India, who opt to install roof top solar electricity unit. The households will be able to get 300 units of electricity free every month.

[12] Establishment expenditure includes expenditure on salaries, wages, pensions and office expenses.



Source: Union budget documents.

Commission and GST compensation to States) and discretionary expenditure [which includes central sector schemes, centrally sponsored schemes and transfers to States (excluding Finance Commission grants and GST compensation)]. Prior to the pandemic, the share of committed expenditure was higher than discretionary expenditure. However, with the introduction of interest free loans to States for capital expenditure and reduction in the share of expenditure on general establishment, the share of committed expenditure stands reduced at 46.2 per cent of total expenditure in 2024-25 (BE) [Chart 14].

The Budget proposes to develop a taxonomy for climate financing to augment the capital available for projects pertaining to climate adaptation and mitigation. This will also serve to support India's climate and green commitments. Recently, some countries have adopted the practice of climate budget tagging (CBT) to meet their climate commitments (Box B).

Box B: Climate Budget Tagging - Select Country Experiences

Climate change is a cross-cutting issue with ministries/ departments related with energy, forest, water, agriculture, public works and others sharing the responsibilities of undertaking expenditure aimed at climate change mitigation and adaptation. Traditional budgeting methods are not sufficiently equipped to track and monitor cross-sectoral expenditures, and climate budget tagging (CBT) has emerged as a solution to this issue. In recent years, countries have started to show interest in tagging the climate change relevant expenditure to make informed policy decisions and resource allocations (OECD, 2021). CBT is a tool for identifying, classifying, weighing, and marking climate-relevant expenditure in a government's budget system to enable estimation, tracking and monitoring of such expenditure (UNDP, 2019). The development and implementation process of CBT is briefly outlined in Chart B.1.

Till 2022, 26 countries have introduced or piloted CBT at the central government level. Diverse approaches to CBT have been implemented by different countries depending on their local contexts, political structure, as well as institutional and administrative arrangements. Countries such as Indonesia, Kenya, France, Ireland, and Ethiopia have adopted objective-based approach for defining climate relevant expenditure wherein climate-relevant activities are distinguished based on their intended impact. The coverage of the CBT is limited to select

(Contd.)

Chart B.1: Process of Development and Implementation of Climate Budget Tagging

Phase I. Identifying the Purpose of CBT

- Define key objectives of CBT and identify the key stakeholders involved in the process.
- Define breadth of CBT coverage (whether all government activities or few priority sectors are to be covered) and depth of coverage (the level of analysis ranging from rapid assessments of the project reports to in-depth analysis of the mitigation and/or adaptation benefits accrued).
- Identify the benefits that will accrue from CBT to establish how its achievement links with the objectives enlisted in the national policy pertaining to climate change (CC).
- Identify the parameters set by the existing public financial management (PFM) to ensure that the development and technical design of CBT is in alignment with it.

Phase II: Determination of the Technical Design

- Define and classify the climate relevant expenditure based on the nature of intervention such as adaptation/mitigation/ capacity building to enable analysis of the composition of CC expenditure.
- Assess the relevant expenditures and attach appropriate weights to reflect the degree of relevance of a particular line of spending. Weights may be defined on the basis of the objectives of the expenditure or their benefits and cost.
- Giving weight to an activity involves categorising its relevance, and then determining the per cent weight to be applied to its budget and expenditure given in that category.
- Determine the process involved in the identification and tagging of the CC expenditure within the public financial management (PFM). Decision regarding whether the budget or expenditure, or both will be tagged is also a crucial one.
- This step involves identifying whether the climate tag will be a multicharacter or a simpler part of chart of accounts (COA) and the level of classification of CC expenditure that can be supported in the existing system. The entry point for tagging also needs to be decided.

Phase III: Determination of the Implementation Design

- Outline the salient features of the CBT architecture as following:
- if tagging should be centralised and done by Ministry of Finance/Climate Change Policy body; or should it be decentralised and be done by the line ministries.
- the level of automation and integration of tagging within the financial management information system (FMIS).
- Define the procedure for assigning climate tags that is in line with the existing budget process and institutional mandates. This involves deciding about:
- who assigns the climate tag,
- at what stage of the budget process are climate tags identified, and
- how and by whom are the tags validated.
- Identify the reporting format for CC expenditures that reflects the objectives of introducing CBT. It can be a part of mainstream financial reporting or dedicated single report or separate reports by ministries can be made.
- Assign clear roles and responsibilities amongst the key stakeholders for CBT development and implementation processes.

Source: United Nations Development Programme (UNDP).

sectors in Indonesia, Bangladesh, and Ethiopia, while it is extended to all sectors in Mexico, France, Ireland, Kenya, Nepal and Philippines (World Bank, 2021).

By mainstreaming climate action, CBT enhances the awareness of climate issues in the central finance and line agencies.[13] The primary challenge in CBT pertains to defining and delineating the functional areas of the climate relevant expenditure. There is also no standard method of assigning the weight to the climate relevant expenditure which makes the cross-country analysis difficult. Another challenge in the CBT process is balancing the desire for granular tagging which provides greater accuracy with the capacity and resources of the government. Budget tagging processes can be subjective, suffer from inclusion and exclusion errors and allow for 'greenwashing[14]' of projects. Clear guidance on the tagging process along with internal *ex-post* checks of the process, and performance audits of the tagged programmes can help to overcome these challenges (OECD, 2021). CBT provides information only on the quantum of expenditure incurred, not its effectiveness or the outcomes achieved (World Bank, 2021).

References:

1. OECD. (2021). Green Budget Tagging: Introductory Guidance & Principles.
2. UNDP. (2019). Knowing What You Spend: A Guidance Note for Governments to Track Climate Finance in their Budgets.
3. World Bank. (2021). Climate Change Budget Tagging: A Review of International Experience.

[13] For example, in Philippines, the implementation of CBT and related reforms have helped to mainstream climate change in the budget process and as a result the allocation of the national budget towards the climate change has increased at compound annual growth rate of 10.9 per cent during 2018 to 2024.

[14] The act of misrepresentation of the environmental performance of an activity/programme to mislead the public/consumers regarding its environmental benefits to paint a more positive picture.

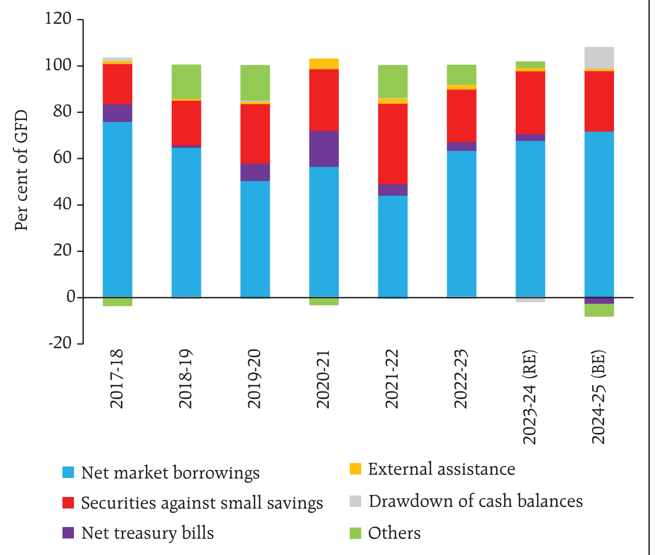
V. Outstanding Debt

After peaking at 62.7 per cent of GDP in 2020-21 due to the impact of the COVID-19 pandemic, the total outstanding debt of the Union government is estimated to fall to 56.8 per cent of GDP in 2024-25 (BE). The interest payment - revenue receipts ratio is estimated to decline from 39.1 per cent in 2023-24 (RE) to 37.2 per cent in 2024-25 (BE). The interest rate growth differential (IRGD), an indicator of debt sustainability, remains favourable. Reiterating its commitment towards debt consolidation, from 2026-27, the government aims to keep the fiscal deficit each year such that the Union government debt as a per cent of GDP will be on a declining path (Chart 15a and b).

VI. Gross Fiscal Deficit Financing

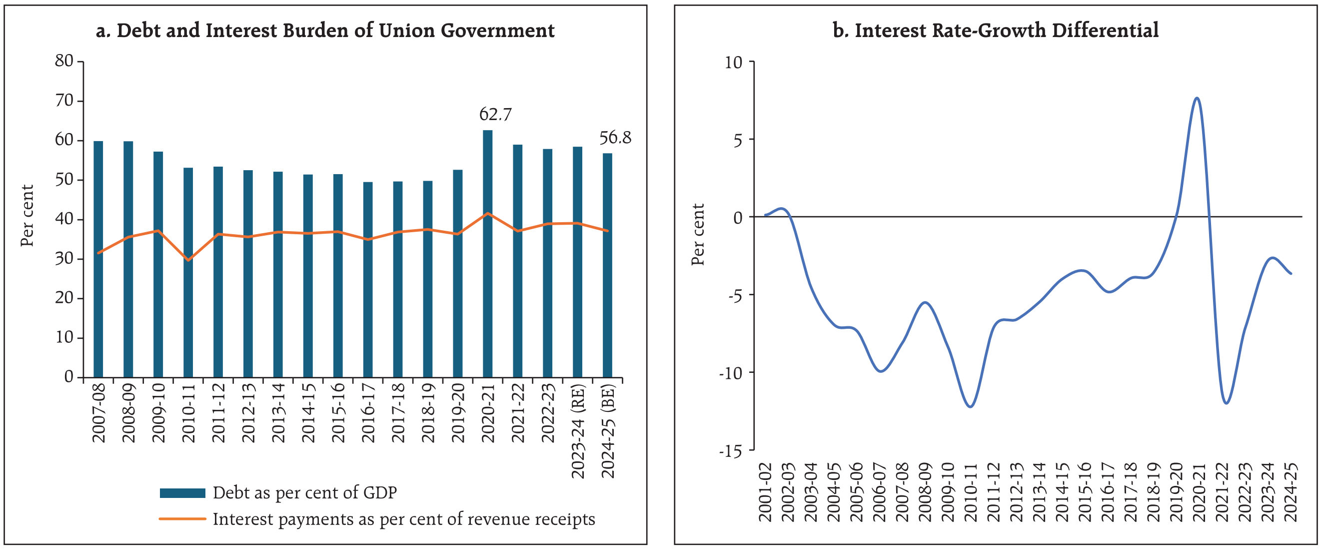
In 2024-25 (BE), GFD is budgeted at 4.9 per cent of GDP, lower than 5.6 per cent of GDP in 2023-24 (PA). Tracking the fiscal deficit dynamics, net as well as gross market borrowings of the Union government in 2024-25 (BE) have been placed lower than 2023-24 (RE) as well as the amount announced in the Interim Union Budget 2024-25. Market borrowings are the main source of financing GFD for the Union government, followed by securities issued against small savings. Net market borrowings through dated securities (excluding T-Bills) are expected to finance 72.1 per cent of GFD in 2024-25 (BE) as against 68.0 per cent in 2023-24 (RE) while small savings (NSSF) (₹4.20 lakh crore) would finance 26.0 per cent of GFD in 2024-25 (BE) (₹4.71 lakh crore in 2023-24) [Chart 16].

Chart 16: Sources of Financing Gross Fiscal Deficit



Source: Union budget documents.

Chart 15: Outstanding Liabilities and Interest Rate Growth Differential



Sources: Union budget documents; and RBI staff estimates.

Table 3: Market Borrowings of Union Government

(₹ crore)

Financial Year	Gross Market Borrowings	Net Market Borrowings
2018-19	5,71,000 (3.0)	4,22,735 (2.2)
2019-20	7,10,000 (3.5)	4,73,968 (2.4)
2020-21	12,60,116 (6.3)	10,32,907 (5.2)
2021-22	9,68,382 (4.1)	7,04,097 (3.0)
2022-23	14,21,000 (5.3)	11,08,259 (4.1)
2023-24 (RE)	15,43,000 (5.2)	11,80,456 (4.0)
2024-25 (BE)	14,01,000 (4.3)	11,63,181 (3.6)

Note: Figures in parentheses are as per cent of GDP.
Source: Union budget documents.

The gradual downscaling in the market borrowing requirements (as per cent of GDP) of the Union government towards the pre-pandemic level will facilitate greater availability of resources for the private sector (Table 3).

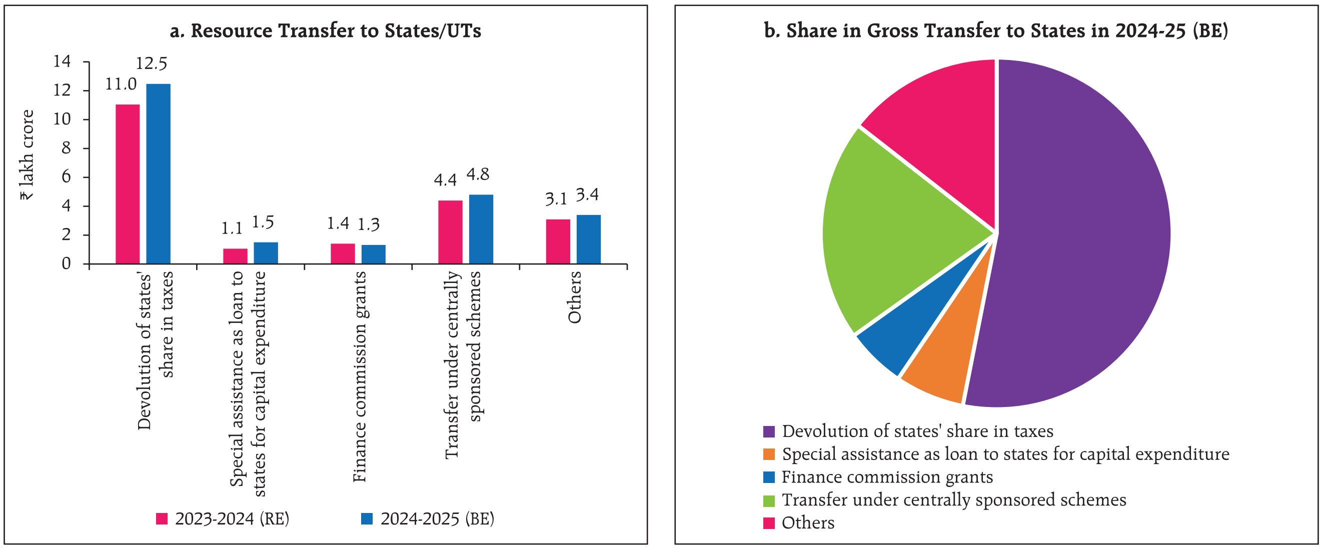
VII. Resource Transfer from Centre to States

For the fiscal year 2024-25, gross transfers to States/UTs are budgeted to increase by 11.9 per cent as compared with 12.6 per cent growth in 2023-24 (RE), led by higher tax devolution, special assistance for capital expenditure, and transfers under centrally sponsored schemes (Chart 17a and b). Accordingly, the gross transfers to GDP ratio is expected to increase to 7.2 per cent in 2024-25 from 7.1 per cent in 2023-24.[15]

Finance Commission Grants are budgeted to decline by 5.7 per cent in 2024-25 (BE), mainly due to a reduction in post devolution revenue deficit grants[16] (Table 4).

In the Union Budget for 2024-25, the Union government has proposed to introduce the *Purvodaya* plan aimed at the all-round development of the eastern States - Bihar, Jharkhand, West Bengal, Odisha, and Andhra Pradesh. This initiative will focus on human resource development, infrastructure enhancement,

Chart 17: Gross Resource Transfer to States and UTs



Source: Union budget documents.

15 For details, please refer to Annex II.

16 The post devolution revenue deficit grants are provided to the States under Article 275 of the Constitution. The grants are released to the States as per the recommendations of the successive Finance Commissions to meet the gap in Revenue Accounts of the States post devolution.

Table 4: Finance Commission (FC) Grants to States and UTs

	₹ Lakh Crore		Share in Total FC Grants (per cent)		Growth (per cent)	
	2023-24 (RE)	2024-25 (BE)	2023-24 (RE)	2024-25 (BE)	2023-24 (RE)	2024-25 (BE)
Finance Commission (FC) Grants	1.40	1.32	100.0	100.0	-18.7	-5.7
1. Grant for Local Bodies - Urban Bodies	0.19	0.26	13.7	19.4	8.1	33.5
2. Grant for Local Bodies - Rural Bodies	0.41	0.50	29.0	37.6	-10.5	22.1
3. Grants for Health Sector	0.04	0.06	2.8	4.5	20.9	50.1
4. Post Devolution Revenue Deficit Grants	0.52	0.24	36.8	18.5	-40.1	-52.6
5. Others	0.25	0.26	17.6	20.0	24.4	6.8

Note: Others includes Grants for incubation of new cities, Grants for shared Municipal Services, Grants-in-Aid for SDRF and Grants-in-Aid for State Disaster Mitigation Fund.
Source: Union budget documents.

and economic opportunity creation, with the goal of transforming the region into a significant driver of *Viksit Bharat*. For 2024-25, ₹1.5 lakh crore has been allocated for long-term, interest-free loans to support States[17], an increase from ₹1.1 lakh crore in the previous year.

The Centre will work with States and the private sector to develop 'plug and play' industrial parks equipped with complete infrastructure in or near 100 cities, using town planning schemes. Both the Centre and States will collaborate on developing 'cities as growth hubs' through economic and transit planning, ensuring orderly development of peri-urban areas utilising town planning scheme.

Additionally, the Centre, in collaboration with States, will implement a digital public infrastructure initiative in agriculture, aiming to register details of 6 crore farmers and their lands within three years. States with high stamp duties will be encouraged to reduce rates, particularly for properties purchased by women, since this reform would be a critical element for urban development schemes. States will be incentivised for advancing business reforms action plans and digitalisation efforts. A new centrally sponsored scheme for skilling, developed in partnership with State governments and industry, will be announced.

VIII. Conclusion

The Union Budget 2024-25 aims at further strengthening the macroeconomic stability as well as harnessing the potential in different sectors of the economy. Special emphasis has been placed on skill development, aimed at improving employability and employment opportunities for the youth. The Budget continues its thrust towards capital expenditure with increased allocations and sustained support towards States' capital expenditure. The Centre has reiterated its commitment towards its medium-term target of GFD below 4.5 per cent of the GDP by 2025-26. From 2026-27 onwards, the Budget has announced its intention to maintain the gross fiscal deficit at a level that ensures that the Union government debt will be on a declining path as per cent of GDP. Overall, the Union Budget 2024-25 strikes the right balance between fiscal prudence and macroeconomic stability which should strengthen the medium-term growth outlook.

[17] A significant part of the 50-year interest-free loan will be earmarked to facilitate faster implementation of reforms related to land, labour, capital, entrepreneurship and technology.

Annex I - Union Budget 2024-25: Key Fiscal Indicators

	₹ Thousand Crore				Per cent of GDP		Growth Rate	
	2022-23	2023-24 (RE)	2023-24 (PA)	2024-25 (BE)	2023-24 (PA)	2024-25 (BE)	2023-24 (PA) over 2022-23	2024-25 (BE) over 2023-24 (PA)
1	2	3	4	5	6	7	8	9
1. Direct Tax	1,660	1,945	1,957	2,207	6.6	6.8	17.9	12.8
(i) Corporation	826	923	911	1,020	3.1	3.1	10.3	12.0
(ii) Income	809	990	1,011	1,150	3.4	3.5	25.0	13.8
2. Indirect Tax	1,394	1,492	1,508	1,633	5.1	5.0	8.2	8.3
(i) GST	849	957	957	1,062	3.2	3.3	12.7	11.0
(ii) Customs	213	219	233	238	0.8	0.7	9.2	2.0
(iii) Excise	323	308	305	324	1.0	1.0	-5.4	6.1
3. Gross Tax Revenue (1+2)	3,054	3,437	3,465	3,840	11.7	11.8	13.4	10.8
4. Assignment to States	948	1,104	1,129	1,247	3.8	3.8	19.1	10.4
5. NCCD Transfers	8	9	9	9	0.0	0.0	9.7	7.8
6. Net Tax Revenue (3-4-5)	2,098	2,324	2,327	2,583	7.9	7.9	10.9	11.0
7. Non-Tax Revenue	285	376	402	546	1.4	1.7	40.8	35.8
(i) Dividends and Profits	100	154	170	289	0.6	0.9	70.6	69.6
(ii) Interest Receipts	28	32	38	38	0.1	0.1	37.5	-0.2
8. Revenue Receipts (6+7)	2,383	2,700	2,728	3,129	9.2	9.6	14.5	14.7
9. Non-Debt Capital Receipts	72	56	60	78	0.2	0.2	-16.3	29.0
(i) Miscellaneous Capital Receipts	46	30	33	50	0.1	0.2	-28.1	51.0
(ii) Recovery of Loans	26	26	27	28	0.1	0.1	4.5	2.4
10. Total Receipts (ex. borrowings) (8+9)	2,455	2,756	2,789	3,207	9.4	9.8	13.6	15.0
11. Revenue Expenditure	3,453	3,540	3,494	3,709	11.8	11.4	1.2	6.2
(i) Interest Payments	929	1,055	1,064	1,163	3.6	3.6	14.6	9.3
(ii) Total Subsidies	578	441	NA	428	NA	1.3	NA	NA
Food	273	212	212	205	0.7	0.6	-22.4	-3.1
Fertiliser	251	189	189	164	0.6	0.5	-24.6	-13.5
Petroleum	7	12	12	12	0.0	0.0	79.5	-2.6
12. Capital Expenditure (i + ii)	740	950	949	1,111	3.2	3.4	28.2	17.1
(i) Capital Outlay	625	807	787	919	2.7	2.8	26.0	16.7
(ii) Loans and Advances	115	143	161	192	0.5	0.6	39.8	19.4
13. Total Expenditure (11+12)	4,193	4,490	4,443	4,821	15.0	14.8	5.9	8.5
14. Gross Fiscal Deficit (13-10)	1,738	1,735	1,654	1,613	5.6	4.9	-4.8	-2.4

NA: Not Available.
Source: Union budget documents.

Annex II: Resource Transfers from Centre to States and UTs with Legislature

	₹ Thousand Crore			Per cent of Gross Transfers			Growth Rate		
	2022-23	2023-24 (RE)	2024-25 (BE)	2022-23	2023-24 (RE)	2024-25 (BE)	2022-23 over 2021-22	2023-24 (RE) over 2022-23	2024-25 (BE) over 2023-24 (RE)
1	2	3	4	5	6	7	8	9	10
I Devolution of States' Share in Taxes	948.4	1,104.5	1,247.2	50.9	52.6	53.1	5.6	16.5	12.9
II Finance Commission Grants	172.8	140.4	132.4	9.3	6.7	5.6	-16.7	-18.7	-5.7
of which:									
1. Grants for Local Bodies - Urban Bodies	17.8	19.2	25.7	1.0	0.9	1.1	10.1	8.1	33.5
2. Grants for Local Bodies - Rural Bodies	45.6	40.8	49.8	2.4	1.9	2.1	13.1	-10.5	22.1
3. Grants for Health Sector	3.3	4.0	6.0	0.2	0.2	0.3	-73.0	20.9	50.1
4. Grants-in-Aid for SDRF	16.4	19.6	20.6	0.9	0.9	0.9	-7.6	19.4	5.0
5. Grants-in-Aid for State Disaster Mitigation Fund	3.5	4.9	5.1	0.2	0.2	0.2	38.6	39.8	5.0
6. Post Devolution Revenue Deficit Grants	86.2	51.7	24.5	4.6	2.5	1.0	-27.2	-40.1	-52.6
III Some Important Items of Transfer	120.4	161.0	224.6	6.5	7.7	9.6	-40.7	33.7	39.5
of which:									
1. Externally Aided Projects-Loan	28.2	29.5	33.9	1.5	1.4	1.4	22.1	4.7	14.9
2. Special Assistance as Loan to States for Capital Expenditure	81.2	105.6	150.0	4.4	5.0	6.4	472.4	30.0	42.1
3. Special Assistance under the Demand - Transfers to States	2.3	13.0	20.0	0.1	0.6	0.9	-39.7	472.4	53.8
IV Total Transfers to States [other than I+II+III]	566.9	636.3	686.9	30.4	30.3	29.2	63.9	12.2	8.0
1. Centrally Sponsored Schemes (Revenue)	405.9	439.3	479.6	21.8	20.9	20.4	21.3	8.2	9.2
2. Central Sector Schemes (Revenue)	12.9	64.2	63.4	0.7	3.1	2.7	28.7	398.7	-1.3
3. Other Categories of Expenditure (Revenue)	148.1	132.7	143.9	7.9	6.3	6.1	..	-10.4	8.4
4. Capital Transfers	0.0	0.1	0.1	0.0	0.0	0.0	0.0	..	2.0
V Transfer to Delhi, Puducherry and Jammu and Kashmir	56.2	56.8	57.8	3.0	2.7	2.5	9.9	1.0	1.8
VI Gross Transfers to States/UTs (I+II+III+IV+V)	1,864.6	2,099.0	2,349.0	100.0	100.0	100.0	9.3	12.6	11.9
VII Less Recovery of Loans and Advances	10.1	25.3	50.3	0.5	1.2	2.1	-42.4	149.7	99.0
VIII Net Transfers (VI-VII)	1,854.5	2,073.7	2,298.7	99.5	98.8	97.9	9.9	11.8	10.9
IX Gross Transfers / GDP (per cent)	6.9	7.1	7.2	NA	NA	NA	NA	NA	NA
X Net Transfers / GDP (per cent)	6.9	7.0	7.0	NA	NA	NA	NA	NA	NA

NA: Not Applicable. '..': Abnormal growth due to low base.
Source: Union budget documents.

Annex III: Highlights of Union Budget 2024-25

The Budget lays down the roadmap for the pursuit of the goal of '*Viksit Bharat*' by focusing on nine priorities. Few key proposals for these nine priorities as well as highlights of tax proposals announced in the Budget are enumerated below:

Priority 1: Productivity and Resilience in Agriculture

- A comprehensive review of the agricultural research set-up will be undertaken towards enhancing agricultural productivity and developing climate resilient varieties of crops.
- Digital public infrastructure would be implemented in partnership with States for registering farmers and their lands. This year, a digital crop survey for *Kharif* will be undertaken in 400 districts.
- Towards fast-tracking rural growth and generating large-scale employment, a comprehensive 'National Cooperation Policy' would be released. This would also ensure orderly and holistic development of the cooperative sector.

Priority 2: Employment and Skilling

- Under 'Employment Linked Incentives', the government would launch 3 schemes, *viz.*, providing financial support for the first-time employees in all formal sectors; financial incentive to both employer and employee in the manufacturing sector for their EPFO contribution of their first-time employees; and reimbursement of the employers' EPFO contribution for additional employees hired in all the sectors.
- To promote women participation in the labour force, reforms pertaining to women-specific skilling, improved market access for women led self-help groups (SHGs), setting up of working women hostels in collaboration with industry, and establishment of creches would be undertaken.
- The government has been placing a strong thrust on skilling of youth while meeting the demands of the industry. To this end, it would implement measures such as establishment of 1000 training centres, upward revision of the amount of loans under the model skill loan scheme, and provision of financial support up to ₹10 lakh for pursuit of higher education in domestic institutes for youth not covered under any other scheme.

Priority 3: Inclusive Human Resource Development and Social Justice

- The government will step-up the schemes - PM *Vishwakarma*, PM *SVANidhi*, National Livelihood Mission, and Stand-up India.
- *Pradhan Mantri Janjatiya Unnat Gram Abhiyan* will be launched with a saturation approach to improve the socio-economic condition of the tribal families in the tribal majority villages and aspirational districts.

Priority 4: Manufacturing and Services

- A credit guarantee scheme for the MSMEs will be launched to provide a guarantee cover upto ₹100 crore to MSMEs in manufacturing sector thereby facilitating their purchase of machinery and equipment without collateral or third-party guarantee. Furthermore, the limit of *Mudra* loans will be enhanced to ₹20 lakh for those entrepreneurs who have successfully repaid their previous loans under the *Tarun* category.
- To facilitate internship opportunities in top 500 companies to the youth, an internship allowance of ₹5,000 per month along with a one-time assistance of ₹6,000 will be provided. The companies will be allowed to use their corporate social responsibility (CSR) funds for partially meeting the internship costs.

Priority 5: Urban Development

- The government with partnership from States and Multilateral Development Banks will promote projects addressing water supply, sewage treatment, and solid waste management services in 100 large cities.
- The States which charge high stamp duties would be encouraged to lower them and bring them further down for the properties purchased by the women.

Priority 6: Energy Security

- To improve the share of nuclear energy in the overall energy mix for *Viksit Bharat*, the government will partner with the private sector to pursue (a) setting up of *Bharat* Small Reactors, (b) research and development of *Bharat* Small Modular Reactor, and (c) development of new technology in the domain of nuclear energy.
- An investment-grade energy audit of traditional micro and small industries will be undertaken in 60 clusters and financial support will be provided for their transition to cleaner forms of energy.

Priority 7: Infrastructure

- The government is envisaging a market-based financing framework to provide impetus to private investment *via* viability gap funding and enabling policy and regulatory environment.
- Phase IV of *Pradhan Mantri Gram Sadak Yojana* will be launched to provide all-weather connectivity to 25,000 rural habitations.

Priority 8: Innovation, Research and Development

- The government will operationalise the *Anusandhan* National Research Fund for basic research and prototype development. Additionally, a financing pool of ₹1 lakh crore will be brought in place to spur innovation and research at a commercial scale in the private sector.
- Venture capital fund of ₹1,000 crore will be set-up to augment the space economy.

Priority 9: Next Generation Reforms

- The government will formulate an overarching Economic Policy Framework to set the scope of next generation reforms for increasing employment opportunities and sustaining higher economic growth. Reforms would be initiated to augment productivity of all factors of production and development of efficient markets and sectors. Towards this, a significant portion of the 50-year interest free loans to the States will be earmarked so as to incentivise the States for faster implementation of reforms and promote competitive federalism.

Tax Proposals

Direct Tax Proposals

- A comprehensive review of the Income Tax Act, 1961, aims to make it more concise and understandable, reducing disputes and litigation. Efforts to reduce the backlog of appeals will include deploying more officers and proposing the *Vivad Se Vishwas* Scheme, 2024, for resolving income tax disputes.
- The Budget has proposed a slew of measures aimed at rationalisation and simplification of capital gains taxation.
- Monetary limits for filing appeals in tax tribunals and courts will be increased to reduce litigation. Safe harbour rules will be expanded to provide certainty in international taxation, and the transfer pricing assessment procedure will be streamlined.
- The Budget has proposed for simplification of the tax regime for charities and structure of tax deduction at source (TDS). Additionally, the delay in payment of TDS will be decriminalised.
- The proposals to promote investment and employment include abolishing the angel tax for all classes of investors, simplifying the tax regime for foreign shipping companies operating

domestic cruises and providing safe harbour rates for foreign mining companies selling raw diamonds in India.

- The corporate tax rate on foreign companies will be reduced from 40 per cent to 35 per cent..
- Measures to deepen the tax base include increasing the security transactions tax (STT) on futures and options and taxing income from share buybacks.
- Social security benefits will be improved by increasing the deduction of employer expenditure towards new pension scheme (NPS).
- Changes have been proposed in the personal income tax rates for the taxpayers opting for the new tax regime as follows:

Proposed		Existing	
Income	Tax Rate	Income	Tax Rate
₹ 0-3 lakh	Nil	₹ 0-3 lakh	Nil
₹ 3-7 lakh	5 per cent	₹ 3-6 lakh	5 per cent
₹ 7-10 lakh	10 per cent	₹ 6-9 lakh	10 per cent
₹ 10-12 lakh	15 per cent	₹ 9-12 lakh	15 per cent
₹12-15 lakh	20 per cent	₹ 12-15 lakh	20 per cent
Above ₹ 15 lakh	30 per cent	Above ₹ 15 lakh	30 per cent

- The standard deduction for salaried employees is proposed to be increased from ₹50,000 to ₹75,000 while that on family pension for pensioners is proposed to be enhanced from ₹15,000 to ₹ 25,000 under the new tax regime.

Indirect Tax Proposals

- Major sector-specific customs duty adjustments include full exemptions on certain cancer medications and critical minerals, reduction of duties on mobile phones and related parts, and exemptions for additional capital goods used in solar cells and panels manufacturing. Proposals also include lowering duties on inputs for seafood, leather and textile exports. Measures to reduce production costs for steel and copper, support the electronics industry, and adjust tariffs on chemicals and plastics were also announced.
- To enhance domestic value addition in gold and precious metal jewellery in the country, it is proposed to reduce customs duties on gold and silver to 6 per cent and that on platinum to 6.4 per cent.