Economic Budget 2024 – How we see it

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Dear Investors,

The first budget of Modi 3.0 has been as bold as if the ruling party had won 400 seats. The clear message is that, irrespective of the opposition's populist agendas, rapid economic growth remains the top priority.

The Economic Budget 2024 is holistic in nature. While it allocates necessary resources to many areas aiming for rapid economic growth, it adheres to the path of fiscal prudence.

Six Reasons Why Equity Markets Cheered it

1. Fiscal Prudence:

Foremost, the budget maintains a disciplined fiscal approach, targeting a reduction in the fiscal deficit to 4.9% of GDP in FY25 and aiming for 4.5% by FY26. This signals a commitment to fiscal sustainability, which is crucial for long-term economic stability.

2. Sectoral Impact:

The budget provides sector-specific incentives, such as reduced customs duties on essential raw materials and capital goods, which will enhance the competitiveness of key industries like manufacturing, technology, and agriculture.

3. Jobs & Employment:

The focus on education, skilling, and employment is set to benefit over 4.1 crore youth in the next five years. A total outlay of ₹2 trillion has been provided to educate, employ, and skill the youth entering the workforce. This aims at improving the quality of the workforce and driving job creation in the formal economy.

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1. **4. Focus on Infrastructure:**

2. With an 11% increase in capital expenditure, the budget allocates ₹11.1 lakh crore (3.4% of GDP) towards infrastructure. Investments in transport, housing, power, and agriculture sectors will drive economic growth and create job opportunities, further boosting consumption and demand.

3. **5. Focus on Rural Economy:**

4. The government has made a concerted effort to address rural distress by allocating ₹1.52 trillion for agriculture and allied services, aimed at creating more rural jobs and reviving the rural economy. Additionally, the allocation for rural affordable housing has been increased, with plans announced to build 3 crore more houses.

5. **6. Tax Relief for Middle Class:**

6. The standard deduction for individual taxpayers increased from ₹50,000 to ₹75,000 and deduction on family pension for pensioners increased from INR 15,000 to INR 25,000. Additionally, the income tax rates for various income slabs have been adjusted. Notably, individuals earning up to ₹10 lakhs a year will only face a 10% tax rate. This tax cut is expected to benefit over 4 crore salaried employees, each saving around ₹17,500.

Income Range	Tax Rate
0 - 3L	0%
3 – 7L	5%
7 – 10L	10%
10 – 12L	15%
12 – 15L	20%
>15L	30%

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Short Term disappointment, yet thoughtful in the Long Term

Effective from July 23, 2024, the STCG on financial assets increased from 15% to 20%. And, LTCG aligned for all assets, financial and non-financial, at 12.5%. The exemption limit for capital gains on financial assets is proposed to increase to Rs 1.25 lakh per year. Also, angel tax for all classes of investors abolished.

For equity markets, the overall narrative remains strong. If one adheres to the principle that stock price equals EPS multiplied by PE (where PE depends on growth, ROE, and cost of equity), then a slight increase in tax on capital gains will not significantly impact the equation.

Additionally, this step towards tax parity across asset classes is positive – LTCG @ 12.5%. Encouraging investments in unlisted assets is arguably more beneficial for the overall economy.

Even for the point on buybacks, we feel that the tax convergence between buybacks and dividends is beneficial. This change will compel corporations to allocate surplus capital towards investments rather than boosting their stock prices through buybacks.

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The budget supports equities by demonstrating fiscal prudence and promoting economic growth. This indicates that regardless of political pressures, the government's focus on economic reforms and growth persists. If the next 5 to 10 years are brighter for equities than the previous decade, the slight tax increases on LTCG and STCG are minor concerns.

Despite the government initially being expected to present a socialist budget, the actual proposal, which reflects a strong mandate as if they had won 400+ seats☺, has been positively received by the markets.

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