

ASG ANALYSIS:

India's New Budget Aims to Boost Growth, With An Eye Toward Modi's Re-Election

Key takeaways

- Finance Minister Nirmala Sitharaman presented the \$550 billion 2023-24 Union Budget on February 1. This is the last full budget before Prime Minister Narendra Modi and his Bharatiya Janata Party (BJP) face general elections in April/May 2024.
- Modi's new budget is consistent with past ones and continues a pattern of investment that the government believes will position India to become a high-income country by 2047, 100 years after independence. The government's strategy is to promote job creation, crowd-in private investments and manufacturing, and cushion the economy from global economic headwinds.
- The budget has significant implications for Indian taxpayers. It raises the minimum income requirement to be eligible to pay income tax to \$8,545 (Rs 700,000), lowers the maximum tax rate from 41% to 38%, extends a program to offer tax exemptions to start-ups, extends capital gains tax exemptions for investments into India by offshore entities, and promises accelerated processing of tax returns.
- Technology remains a focal point for government spending and support, with significant investments in critical and emerging technologies like artificial intelligence, upskilling the workforce, and continuing to roll out extensive digital public infrastructure programs.
- Climate and health care spending also receive a heavy focus, with an emphasis on promoting homegrown innovation in both sectors. Digital public health programs that the government believes will help extend health care coverage to poor and underserved communities received significant new investment. In the climate space, Modi's government announced a further \$4.3 billion in capital investment toward the energy transition as well as substantial funding for green hydrogen development, both areas that India believes are critical to achieving net-zero carbon emissions by 2070.

Pro-growth, pre-campaign budget

As India has emerged from the pandemic, Prime Minister Modi's government has maintained a focus on stimulating domestic growth by crowding-in investment, heavily spending on infrastructure development, and rationalizing the tax system to make it more predictable and fair. The FY23-24 budget reveals a Modi government confident in maintaining the direction of its economic policies with national elections approaching in April/May 2024.

While the government is signaling continuity and stability in this budget, we anticipate adjustments over the course of the fiscal year. New Delhi's political objectives may evolve as it navigates upcoming elections in nine states this year and prepares for general elections in 2024. We also expect adjustments may be required to account for shifts in trade, energy and food supplies, and inward investment flows caused by turmoil in the global economy and geopolitical tensions.

Infrastructure, infrastructure, infrastructure

For the fourth consecutive budget, the Modi government is proposing a year-on-year increase on capital expenditure, with a particular focus on infrastructure investment. This year's budget, which includes \$122 billion in capital expenditures, represents a 33 percent increase over last year. The Indian government continues to promote growth by attracting private investment through government incentives and financing. The budget includes a \$29 billion allocation for railway development, \$10 billion for affordable housing construction, a pledge to construct as many as 50 new airports and heliports, and substantial investments in road and highway construction.

The budget also calls on the states to participate in increasing capital expenditure by offering to make up to \$15.8 billion in 50-year, interest-free loans available to finance infrastructure spending. While this program is an extension of a program initiated last year, Finance Minister Sitharaman also announced a new [Infrastructure Finance Secretariat](#) under the Ministry the Finance to coordinate government investments in public-private partnerships.

The government's expectation is that in the short run, the capital expenditure increase will stimulate demand for heavy construction equipment, cement, steel, and other commodities, while also creating jobs. Finance Minister Sitharaman declared in her budget speech that the government would prioritize 100 infrastructure projects aimed at addressing first- and last-mile delivery bottlenecks. Sitharaman also announced that the government intended to stand up a new Urban Infrastructure Development Facility to focus \$1.2 billion on developing more livable and resilient second- and third-tier cities.

Middle-class tax relief, but cuts in support for poor communities

As expected, Modi's government has pledged to continue a multi-year effort dating back to 2020 to simplify the income tax system. The government's goal this year is to offer tax relief to the middle class (annual income below \$8,545) and reduce the maximum income tax rate from 41% to 39%, benefitting wealthy taxpayers. At the same time, the new budget amends tax administration by promising to accelerate processing of tax returns.

While the tax reforms represent a continuation of the trajectory set during Modi's second term, the FY23-24 budget does change course by reducing the subsidies and relief aimed at poor

communities. For example, spending on a national-level, rural jobs initiative has been cut by 30% from the previous year, and the allocation for a free food program created during the pandemic to both backstop demand for agricultural products and offer support for the urban poor was also reduced by 30%.

Technology remains a priority

The budget has several proposals aimed at harnessing emerging technology, presenting some risks to businesses, but also several opportunities to demonstrate alignment with India's goals. Some of these proposals are highlighted below.

Artificial intelligence (AI): Three centers of excellence for AI will be set up in top educational institutions. The government has asked leading industry players to collaborate in researching and developing cutting-edge AI applications and solutions in the areas of Indian agriculture, health, and sustainable cities. Businesses should note that the highest levels of the Indian government consider AI a key national priority, and relatedly, the budget's AI push comes against the backdrop of two significant international developments. First, India currently chairs the [Global Partnership on Artificial Intelligence](#) (GPAI), a 29-country, multi-stakeholder initiative aimed at bridging the gap between AI theory and practice. Second, the U.S. and India recently announced, as part of their partnership on Critical and Emerging Technology (iCET), the signing of a new Implementation Agreement for a Research Agency Partnership between the National Science Foundation in the U.S. and Indian science agencies to expand international collaboration in various areas, including AI and quantum technologies, "to build a robust innovation ecosystem" between the two countries.

National Data Governance Policy: A National Data Governance Policy will be formulated to enable access to anonymized data from government and private entities. The government believes such access will help start-ups and, more broadly, boost innovation. The budget's call for this policy is just the latest step in the government's efforts to harness anonymized data, following last year's draft policy on the same issue. Businesses should note the close link between these efforts and the government's AI ambitions, which will be fuelled by the large datasets underlying a national data governance regime. Further, such a regime could pose several risks to businesses – including, for example, faulty anonymization, triggering privacy concerns.

Skills enhancement: The government has called for a major push to skill young Indians in emerging technologies including AI, robotics, the Internet of Things (IoT), 3D printing, drones. The government is looking for industry partnerships to help facilitate skilling.

Digital Public Infrastructure: As part of India's ongoing push for digital public goods, the government has made two announcements. First, a digital public infrastructure for agriculture will be built as an open-source, open-standard, and interoperable public good. This will enable inclusive, farmer-centric solutions through information regarding crop planning and health, improved access to farm inputs, credit, insurance, help for crop estimation, market intelligence, and support for growth of agri-tech industry and start-ups. Second, the government looks to grow DigiLocker. Launched several years ago, DigiLocker promotes paperless governance, and is essentially a secure, cloud-based platform for storing, sharing, and verifying documents such as a driving license. The government would like to expand the range of documents available in DigiLocker, and to set up an "Entity DigiLocker" for use by businesses, including small

businesses. These announcements come against the backdrop of seven countries late last month saying they will sign up to use India Stack's digital public goods, including DigiLocker.

Other initiatives: The budget calls for various other tech-related initiatives. For example, it envisions a National Digital Library to facilitate access among children and adolescents to high-quality books across device types, geographies, languages, genres, and education levels. Separately, the government looks to set up data embassies in GIFT IFSC (Gujarat International Finance Tec-City), India's first International Financial Services Centre (IFSC). These will help countries looking for digital continuity solutions – i.e., ensuring that critical data sets are resilient to cyber and physical threats.

Digital public health and innovation

The budget increases spending on health care by about 12.6% over last year, continuing a pre-pandemic, investment trend that started before the pandemic. This year's budget promotes innovation, expands investments in digital public health, and boosts spending on medical education. To facilitate research and development in the sector, the government announced that facilities in select, state-owned, Indian Council of Medical Research labs would be made available to private sector teams. The government also announced a new effort to stand up a center of excellence focused on the pharmaceuticals sector, as well as a national mission to eliminate sickle cell anemia by 2047, which affects about 1-in-86 children in India's tribal communities.

Continuing its emphasis on digital public health, the government increased by 70% funding to the Ayushman Bharat National Digital Health Mission, which aims to create a system for seamless access to digital medical records across India's healthcare system. The roll-out of the Ayushman Bharat system is a priority ahead of the 2024 campaign; the government intends to highlight the initiative during its G-20 presidency. Skill development also received significant attention in the context of the Modi government's drive toward achieving universal health care. The budget boosted funding to existing health colleges and promised to stand up 157 new nursing colleges within existing medical colleges in the country.

Energy transition and climate adaptation

The Modi government used the new budget to invest an additional \$4.3 billion in energy transition and climate adaptation and resilience, with an eye toward maintaining the government's commitment to net zero emissions by 2070.

The National Green Hydrogen Mission, which the Modi government has sometimes described as an opportunity for India to achieve a competitive edge in the global economy through innovation, received an additional \$2.4 billion. The government's stated goal is to develop green hydrogen capacity of at least 5 million metric tons each year.

Finance Minister Sitharaman also spotlighted a new mandate for all oil and gas companies to blend at least 5% compressed biogas. The compressed biogas industry received additional government investment, including an investment in 200 new compressed biogas plants, and a general exemption from the central excise duty, which applies to natural gas on top of goods and services tax requirements. The budget is not clear on how this new compressed biogas mandate relates to existing ethanol blending mandates.

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