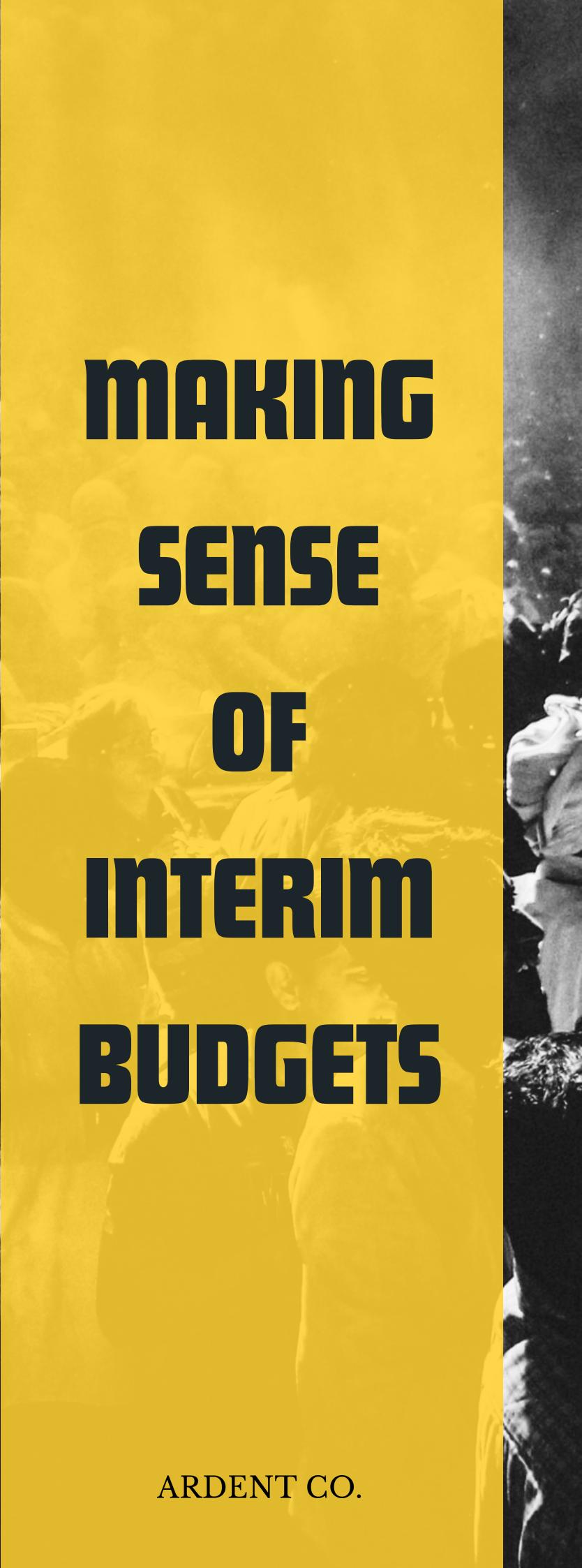




**MAKING
SENSE
OF
INTERIM
BUDGETS**



ARDENT CO.

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"This budget is not merely an interim budget, but an inclusive and innovative budget." "This Viksit Bharat Budget guarantees to strengthen the foundation of a developed India" said Prime Minister Narendra Modi, as the Interim Budget 2024-25 was tabled in the Parliament on February 1, 2024.



For a country as large and diverse as India, the prudent allocation of resources by the government remains imperative. As per Article 112 of the Indian Constitution, a statement of the estimated receipts and expenditure of the Government of India for a specific financial year – referred to as ‘annual financial statement’ – is laid before both Houses of Parliament. The Centre seeks the approval of both houses to withdraw the necessary funds from the Consolidated Fund of India; this statement has to be passed by both Houses. In general parlance, the Annual Financial Statement is known as the Union Budget.

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UNDERSTANDING BUDGETS IN AN ELECTION YEAR

In an election year, the outgoing government, as per convention, does not present a full-fledged budget. It may choose to present either an 'Interim Budget' or a 'Vote on Account'. Often used interchangeably, Interim Budget and Vote on Account are two different and separate instruments to lay down short-term budgets.

According to Article 266 of the Constitution, drawing money from the Consolidated Fund of India requires Parliamentary permission. Furthermore, Article 114 (3) of the Constitution states that no money can be taken from the Consolidated Fund until a law is passed (i.e. Appropriation bill).

However, in an election year, the outgoing government does not present a full budget as there may be a change in the executive after the polls. In this regard, Article 116 of the Constitution allows the Lok Sabha to make any grant in advance for expected spending for a portion of the fiscal year, awaiting the conclusion of the vote on grant demands and the adoption of the appropriation bill. This is known as the 'Vote on Account' clause.

A simple Vote on Account includes presenting the Centre's fund requirements for salaries, ongoing projects and other expenditures for the transitional period and is then passed via the Lok Sabha sans debate. It cannot make any changes to tax rates or announce policy changes. It is also valid only for two months and can be extended up to four months. Until 2016, when the Budget was delivered on the last working day of February, the Vote on Account was commonly employed.

HOW IS AN INTERIM BUDGET DIFFERENT?

An Interim Budget is a comprehensive set of accounts, covering both expenditure and receipts, as opposed to a 'Vote on Account,' which solely deals with the expenditure side of the government's budget. The Interim Budget encompasses all aspects of fiscal planning, including revenue projections, expenditure allocations, policy announcements, and sectoral priorities. The Interim Budget undergoes parliamentary scrutiny and approval, like a regular budget. However, its provisions are often not as wide-encompassing as a regular budget and receive expedited approval to ensure continuity in government operations.

However, until now, there has been a conventional understanding that the interim budgets, by virtue of their temporary nature, generally lack any major policy and/or revenue announcements.

With this in mind, at Ardent Co., we undertook an analysis of the past four Interim Budgets – from 2009 to 2024. This analysis was aimed at understanding whether Interim Budgets actually contain fewer policy and revenue announcements, what type of policy and expenditure shifts are commonly observed within Interim Budgets, how revenue patterns typically unfold, and how all these aspects can be tied back to the larger political and electoral context.

OUR ANALYSIS OF THE PAST FOUR INTERIM BUDGETS HIGHLIGHTS THAT CONTRARY TO POPULAR BELIEF, GOVERNMENTS, THROUGH THESE BUDGETS, HAVE ANNOUNCED A PLETHORA OF WELFARE, DEVELOPMENTAL, AND FINANCIAL ANNOUNCEMENTS, INCLUDING REVISIONS TO TAX RATES, ADJUSTMENTS IN REVENUE ALLOCATIONS, AND THE INTRODUCTION OF NEW SCHEMES/POLICIES.

At this point, it is also important to recognise that the expectations of policy and revenue-related announcements in an election-year-budget are enabled by the Union Government's decision to present an 'Interim Budget' rather than a 'Vote on Account' – as constitutional provisions for Vote on Account stipulate the limitations for the Government to only seek approvals for necessary operational expenditures (Articles 113-116 read along with Article 266).

HOW HAVE INTERIM BUDGETS SHAPED UP SO FAR?

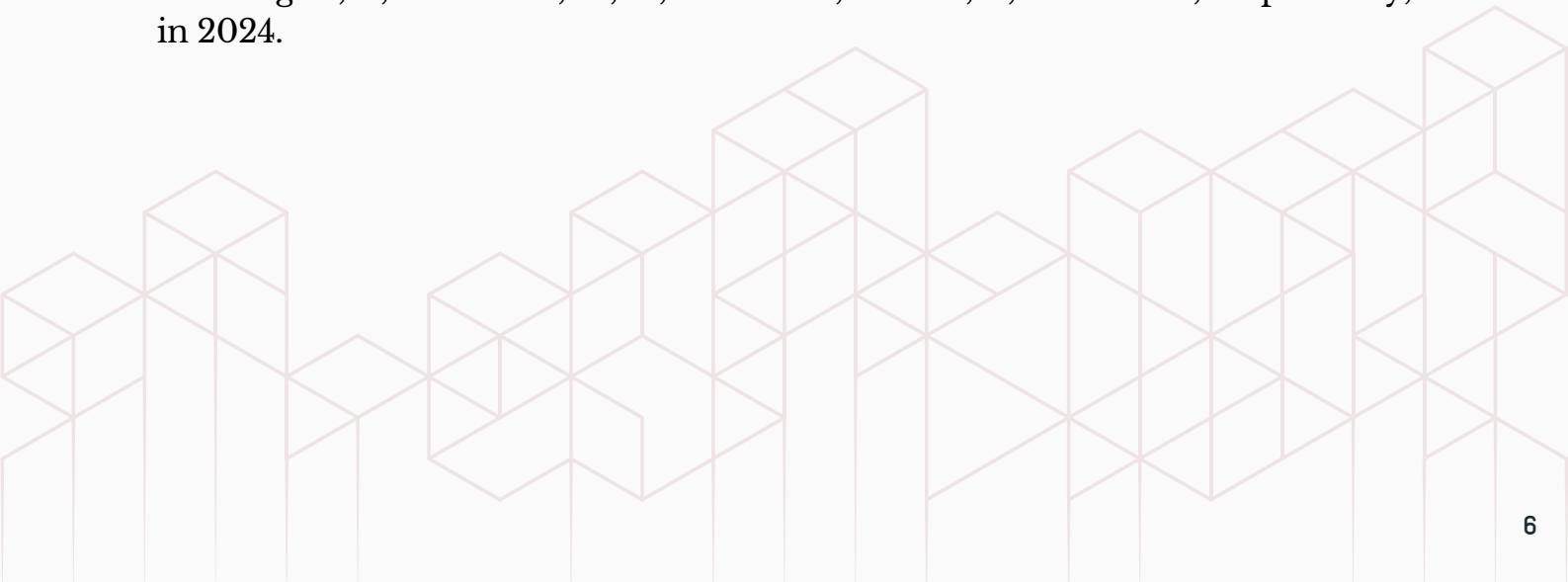
A Closer Look at the Policy Side

Our analysis revealed that the Interim Budgets of 2009, 2014, 2019, and 2024 have all featured the overarching theme of social welfare – with a slew of policy announcements aimed at uplifting marginalized groups such as women, farmers, and the poor.

Proportionally, Interim Budgets have maintained a larger focus towards social welfare policy levers, in comparison to those impacting trade, commerce and the economy. In fact, these Interim Budgets have been instrumental in introducing landmark policy decisions that have left a lasting impact on the socio-economic fabric of the country over the past decade. For instance, landmark schemes, such as the Indira Gandhi National Widow Pension Scheme (2009), Indira Gandhi National Disability Pension Scheme (2009), Pradhan Mantri Kisan Samman Nidhi (PM-KISAN) (2019), Housing Scheme for the Middle Class (2024) – have all been announced as part of Interim Budgets, even as the popular notion may dictate that interim budgets do not feature large schemes.

This view is also reinforced in a more in-depth analysis of the expenditure profiles within these Interim Budgets. For instance, across all four Interim Budgets, there has been a persistent focus on social welfare, which is reflected in the fact that the Ministry of Consumer Affairs, Food and Public Distribution has typically witnessed an upward trend in its allocations, going from ₹43,729 crores in 2009 to ₹2,13,323 crores in 2024.

Further, this analysis also led us to realise over the past decade, the four Interim Budgets have consistently directed significant allocations towards agricultural, rural, and transportation development, with the Ministry of Agriculture, Ministry of Rural Development, and Ministry of Road Transport and Highways consistently receiving higher budgetary allocations – with the allocations reaching ₹1,27,469 crores, ₹1,80,233 crores, and ₹2,78,000 crores, respectively, in 2024.



LANDMARK SCHEMES



- Pradhan Mantri Kisan Samman Nidhi (PM-KISAN)

2019



2024

- Housing Scheme for the Middle Class

2009

- Indira Gandhi National Widow Pension Scheme
- Indira Gandhi National Disability Pension Scheme

A Closer Look at the Revenue Side

Our analysis of the revenue announcements in the Interim Budgets presented over the last decade reveals a consistent pattern.

In all years, except 2014, there have been changes in direct taxes to provide relief to taxpayers. These changes have typically involved increasing the threshold limit, adjusting tax slabs, and providing full tax rebates for certain income levels.

Additionally, the Interim Budgets of 2009 and 2014 also seem to have witnessed a consistent trend of reducing excise duties and customs duty rates in order to promote competition and efficiency in the manufacturing sector, especially for exports.

Placing Interim Budgets in the Electoral Spectrum

Our analysis also reflects a correlation between the potential volume of policy announcements in an Interim Budget and the outcomes of four key state assembly elections (Madhya Pradesh, Chhattisgarh, Rajasthan, Karnataka) held in the two years preceding a Union Government election year budget.

Among the four Interim Budgets that we studied, those corresponding to years where the Union Government had an unimpressive performance in the preceding state assembly elections saw a notably higher volume of policy announcements (such as in 2014 and 2019).



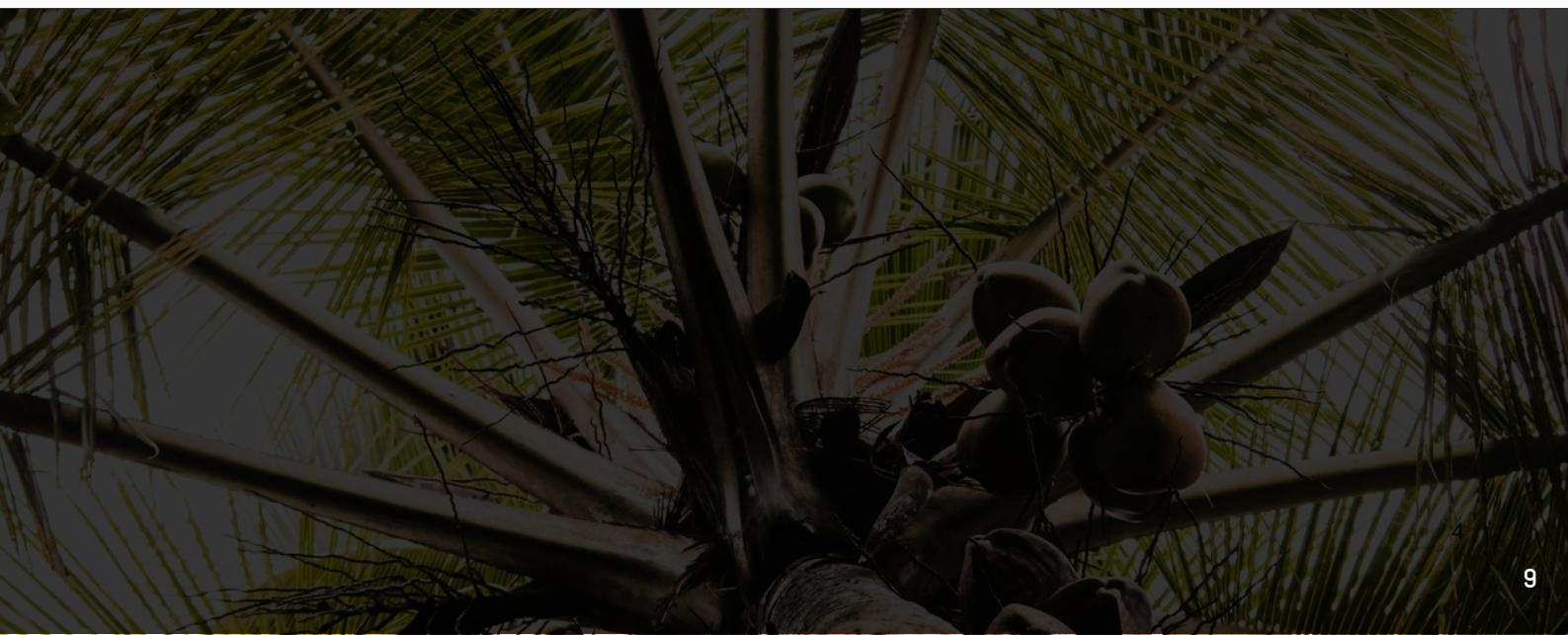
HOW DO THE INTERIM BUDGETS CAPTURE THE EVOLUTION IN THE POLICYMAKING PRIORITIES OF THE GOVERNMENT?

INTERIM BUDGETS OVER THE YEARS, HAVE SEEMED TO SERVE AS BAROMETERS OF NATIONAL PRIORITIES – WHICH ALSO REFLECTS AN EVOLUTION IN THE NATIONAL/POLICYMAKING PRIORITIES OF THE GOVERNMENT.

Our analysis, in this regard, goes on to show how Interim Budgets over the past decade have witnessed a shift in priorities – from a strong focus on social welfare, particularly concerning women and the poor in 2009 and 2014 to a multi-dimensional approach with emphasis on the growth and development of crucial sectors such as agriculture, rural development, and infrastructure development to fostering research and innovation, and an increased focus on environmental sustainability in 2019 and 2024.

The trajectory of schemes/policy announcements set forth by these Interim Budgets indicates a dynamic process of adaptation and responsiveness to the changing needs of the country, taking into account domestic priorities and global trends.

We also see that there has been a discernible transition from merely dispersing financial welfare measures to implementing initiatives geared towards infrastructure development and capacity building, thereby empowering the constituents to enhance their prospects and capabilities.



A MORE IN-DEPTH ANALYSIS OF THE MINISTRY-WISE ALLOCATIONS AS PART OF THE INTERIM BUDGETS ALSO REFLECTS THE CHANGING PRIORITIES OF THE GOVERNMENTS OVER THE PAST DECADE.



1,210%
INCREASE

There has been a staggering increase in the allocation for the Ministry of Agriculture witnessing a 1,210% increase from ₹10,508.64 crores in 2014 to ₹1,37,663.97 in 2019 – indicating the government's focus on the advancement of the agricultural sector and welfare of the farmers.



190%
INCREASE

Similarly, the Ministry of Road, Transport and Highways witnessed a significant 190% increase in its allocation from ₹28,614.2 crores in 2014 to ₹83,015.97 crores in 2019, followed by a remarkable 234% increase in the period from ₹83,015.97 crores in 2019 to ₹2,78,000 crores in 2024, highlighting the government's 'push' on infrastructure development in the past few years.



109%
INCREASE

Furthermore, there has also been a clear emphasis on fostering entrepreneurial capabilities, as is evident in a whopping 560% increase in allocations to the Ministry of MSME over the past decade, from ₹8,352 crores in 2014 to ₹7,011 crores in 2019 (109%) and ₹22,137 crores in 2024.

OUR ANALYSIS OF THE REVENUE-FOCUSED MEASURES SUGGESTS THAT THERE HAS BEEN A SHIFT IN FOCUS FROM SOLELY RELYING ON EXCISE DUTY AND CUSTOMS TO FOSTER COMPETITION, TO UTILIZING GOVERNMENT POLICIES TO STIMULATE INNOVATION AND ECONOMIC GROWTH.

For instance, the tax benefits and exemptions offered to start-ups and investments by Sovereign Wealth Funds (SWFs) or Pension Funds (PFs) in 2024 underscore the government's commitment to promoting entrepreneurship and attracting investments. This approach is further exemplified by the 2019 announcement – which grants a 2% interest rebate on incremental loans of up to Rs. 1 crore for GST-registered SME units.



A COMPARATIVE VIEW: POLICIES FEATURED IN INTERIM BUDGETS

AN AERIAL VIEW OF THE PAST FOUR INTERIM BUDGETS BRINGS US TO THE REALISATION THAT THROUGHOUT THE INTERIM BUDGETS SPANNING FROM 2009 TO 2024, THE FOUNDATIONAL PRINCIPLE OF SOCIAL WELFARE HAS REMAINED A CONSTANT, ALBEIT EVOLVING, THREAD. HOWEVER, AT THE SAME TIME, WE FIND THAT THE INTERIM BUDGETS PRESENTED IN 2019 AND 2024 HAVE EXPANDED THEIR SCOPE TO INCLUDE A FOCUS ON INFRASTRUCTURE DEVELOPMENT AND CAPACITY ENHANCEMENT.

The 2009 budget especially retained a specific focus on the welfare of the marginalised sections of the population, with the introduction of schemes such as the Indira Gandhi National Widow Pension Scheme and the Indira Gandhi National Disability Pension Scheme aimed at providing a crucial safety net for society's most vulnerable, including women, the disabled, and the poor.

In this context, our analysis of the ministry-wise expenditure allocation led us to realise that over the past decade, key welfare ministries such as the Ministry of Consumer Affairs, Food and Public Distribution and the Ministry of Health and Family Welfare have experienced a consistent increase in the allocations, with a staggering 387% and 382% increase, respectively (2009 and 2024).



387%
INCREASE

THE MINISTRY OF CONSUMER AFFAIRS, FOOD
AND PUBLIC DISTRIBUTION



382%
INCREASE

THE MINISTRY OF HEALTH AND FAMILY
WELFARE

Contrastingly, the Interim Budget 2014-15 does point us in the direction that this was a phase of political transition, which was also characterized by a dearth of substantial policy announcements within the budget. In this context, we understand that this budget is supposed to have served more as a caretaker measure – maintaining continuity in existing policies rather than introducing new initiatives.

Our analysis of the Expenditure Profile of FY2014-15 also reinforces this observation, with key welfare and economic ministries having experienced a significant downward trend in total expenditure allocation.

For instance, the **Ministry of Rural Development** witnessed an 87% decrease in its allocation in 2014, going from ₹62,615.43 crores in 2009 to ₹7,673.36 crores in 2014. Similarly, infrastructure development-focused measures under the **Ministry of Housing and Urban Affairs** seem to have taken a hit, with a nearly 81% decline in allocation in the same year, going from ₹5,543.75 crores in 2009 to ₹1,033.62 crores in 2014.



81%
DECREASE



87 %
DECREASE

THE MINISTRY OF HOUSING AND URBAN AFFAIRS

THE MINISTRY OF RURAL DEVELOPMENT

As we move ahead to the years succeeding this ‘political transition’, we realise that with the introduction of the Interim Budget of 2019, there seems to have been a paradigm shift, marking a pivotal juncture in policy priorities – with the budget shifting its core focus from just social welfare – particularly the welfare of women and the poor to agriculture and farmer welfare, a push on infrastructure, and a renewed focus on research and development, all of which have also found room in the Interim Budget of 2024.

The 2019 Interim Budget, we believe, in a sense defied the common perception that Interim Budgets do not call for large-scale announcements, for the 2019 budget witnessed a landmark policy announcement with the introduction of the Pradhan Mantri Kisan Samman Nidhi (PM-KISAN) scheme, providing direct income support to farmers – aimed to revitalise the rural economy/enhancement of the welfare of the farmers. This Interim Budget also saw the introduction of a number of schemes promoting R&D across various sectors – for instance, the introduction of a National Artificial Intelligence portal to support the National Program on Artificial Intelligence – signalling a push towards innovation and technological advancement.

Fast forward to the 2024 Interim Budget, in what has been called the Hon'ble Finance Minister's shortest budget speech yet, lasting 56 minutes, we observe a further broadening of policy horizons, moving beyond just welfare and income support measures.

Here, we realise two salient departures that distinguish the Interim Budget 2024-25 from the Interim Budgets presented over the past decade. Firstly, the inclusion of climate-focused initiatives like the Rooftop Solarization Scheme, the Scheme for Bio-manufacture and Bio-foundry, and Restoration and Adaptation (Blue Economy 2.0), marks a new era of climate-conscious policymaking. Secondly, the increased focus on the development and skilling of the youth through various measures, including a corpus of 1 lakh crore loan to encourage research and innovation in sunrise domains – particularly driven by the youth – suggests a shift towards investing in the future workforce and fostering innovation. This also contrasts with the trend of primarily focusing on financial disbursement measures, as evident in the Interim Budgets of 2009 and 2014.

The shift in these priorities is also evident in expenditure patterns that we have witnessed, keeping in mind the ministry-wise allocations laid out in the Interim Budgets. For instance, in order to bolster the 'Make in India' initiative, the Ministry of Micro, Small & Medium Enterprises witnessed substantial financial support – reflected in its over 1,000% increase in the budget since FY2009-10, from ₹2,008 crores to ₹22,137 crores in FY2024-25.

Furthermore, with the growing emphasis on artificial intelligence (AI) and information technology (IT), there has been a substantial increase in the budget estimates for Ministry of Communication and Information Technology (except FY2009-10) – ranging from over ₹12,800 crores in FY2009-10 to over ₹21,000 in FY2024-25 – marking nearly a 50% increase over the course of a decade – reflecting the government's recognition of the importance of advancing technological innovation and digital infrastructure to drive economic growth and competitiveness.

A COMPARATIVE VIEW: REVENUE MEASURES FEATURED IN INTERIM BUDGETS

OUR ANALYSIS OF THE INTERIM BUDGETS PRESENTED OVER THE PAST DECADE HIGHLIGHTS THAT CONTRARY TO POPULAR BELIEF, INTERIM BUDGETS HAVE EXTENSIVELY DELIVERED ON REVENUE-SIDE CHANGES AND SIMPLIFICATIONS.

This includes a consistent trend of reducing excise duties and customs duty rates to promote competition and efficiency in the manufacturing sector, especially for exports in 2009 and 2014. Similarly, concessions in GST were also reflected in 2019. Therefore, in all years (with the exemption of 2024), we see that there were reductions in indirect taxes and the inclusion of rebates.

The rationalization of personal income tax rates in 2009 and the subsequent increase in the threshold limit and adjustment of tax slabs in 2019 reflect a concerted effort to alleviate the tax burden on individual taxpayers. This approach reflects the government's commitment to enhancing the disposable income of citizens.

The tax benefits and exemptions provided to start-ups and SMEs in 2019 and 2024, such as the 2% interest rebate for GST-registered SME units and the extension of tax benefits for start-ups, indicate a commitment to fostering entrepreneurship and innovation. This aligns with the broader goal of promoting economic growth and job creation through the development of a vibrant start-up ecosystem.

The introduction of the quarterly GST return filing for businesses with over 90% GST payers in 2019 and the proposal to withdraw outstanding direct tax demands in 2024 also demonstrate an effort to streamline tax compliance and reduce administrative burdens for taxpayers. This suggests a government focus on improving the ease of doing business and enhancing tax administration efficiency.

A closer look at our key findings

Our analysis of the **Interim Budgets of 2009, 2014, 2019 and 2024** sheds light on the nuanced dynamics of fiscal and revenue planning, and policymaking in India, particularly during General Election years.

- Contrary to prevailing perceptions, Interim Budgets serve as crucial instruments for the Government to not only ensure continuity in governance but also to make substantial policy and revenue-related announcements.
- There is a consistent pattern of Interim Budgets incorporating an array of welfare, developmental (infrastructure and capacity), and financial initiatives, including revisions to tax rates, adjustments in revenue allocations, and the introduction of new schemes and policies aimed at addressing the diverse needs of our society.
- There has been a notable shift in policy priorities of the Interim Budgets over the years, with recent Interim Budgets, such as those of 2019 and 2024, having seen a shift from primarily focusing on social welfare measures to placing a broader emphasis on sectors including agriculture, infrastructure, research and innovation, and environmental sustainability.

- From a policy point of view, there has been a discernible transition from merely dispersing financial welfare measures to implementing initiatives geared towards infrastructure development and capacity enhancement.
- Interim Budgets play a crucial role in shaping electoral outcomes and agendas, which is reflected in a correlation between the potential volume of policy announcements in an Interim Budget and the outcomes of four key state assembly elections (Madhya Pradesh, Chhattisgarh, Rajasthan, Karnataka) held in the two years preceding a Union Government election year budget.

To sum up, our analysis aims to highlight the importance of understanding Interim Budgets as dynamic tools of governance capable of driving meaningful socio-economic change, rather than viewing them as mere documents devoid of impactful announcements, particularly from policy and revenue perspectives.



About Ardent Co.

Ardent Co. is a multi-disciplinary advisory firm specializing in media communications, research, and public policy advisory services. Our mission is to execute purpose-driven engagements for our diverse clientele, spanning various sectors and domains, including prominent enterprises from both the private and non-profit sectors.

Additionally, as part of our commitment to non-commercial initiatives, we actively participate in research engagements aimed at serving the needs of policymakers and stakeholders within our ecosystem.

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