

FY2022-23 Union Budget : Impact Analysis

February 01, 2022

The Union Budget for FY2023 tabled in the Parliament today continued a series of themes from previous budgets, including elevated capital expenditure and gradual fiscal consolidation path. It re-iterated Government's pro-growth stance through significant enhancements in capex (35.4% increase) focused primarily on infrastructure development, digital and emerging technologies. Overall we view the budget for FY23 as progressive as it accelerates the Government's efforts towards inclusive and sustainable development with an intention to propel equitable growth.

Key highlights:

1. Government Finances:

- Fiscal deficit target for FY22 revised at 6.9% of GDP from the earlier estimate of 6.8%
- FY23 fiscal deficit target set at 6.4% of GDP, maintains glide path to 4.5% for FY26
- FY23 Gross Market Borrowing pegged at INR 14.95tn against INR 10.47tn in FY22
- Sovereign Green Bonds will be issued for mobilizing resources for green infrastructure

2. Divestment Target:

- Divestment target for FY23 lowered to INR 650bn (~USD 9bn) versus INR 1.75tn set for FY21 and INR 780bn set for FY22

3. Capital Expenditure:

- Increased significantly by 35.4% - from INR 5.54tn in FY22 to INR 7.50tn in FY23
- 'Effective Capital Expenditure' of the Government is estimated at INR 10.68tn in FY23 (4.1% of GDP), factoring in Grants-in-Aid to States for creating capital assets

4. Infrastructure:

- National Highway network to be expanded by 25,000 kms in FY23, INR 200bn to be mobilized
- 100 Cargo Terminals for multimodal logistics to be developed over next three years
- 400 new-generation 'Vande Bharat' trains with better energy efficiency and passenger riding experience to be developed and manufactured over next three years
- 'Parvat Mala' program announced with 8 ropeway projects in FY23 to ease transport linked congestion in hilly areas and enhance tourism
- Announcement of 'Ken Betwa' river linking project worth INR 446.05bn to provide irrigation benefits to 908k hectare of irrigation lands

5. Inclusive Development:

- About INR 2.37tn will be directly paid to farmers for the Minimum Support Prices of their produce to their bank accounts
- Chemical-free Natural Farming will be promoted throughout the country, with a focus on farmers' lands in 5-km wide corridors along river Ganga in the first stage
- Use of drones will be promoted for crop assessment, digitization of land records, spraying of insecticides, and nutrients
- A fund with blended capital, raised under the co-investment model, will be facilitated through NABARD. This is to finance startups for agriculture & rural enterprise, relevant for farm produce value chain
- INR 600bn allocated for providing access to tap water to 38mn households
- 'One Class-One TV channel' programme of under eVIDYA will be expanded from 12 to 200 TV channels to impart supplementary teaching
- 750 virtual labs in science and mathematics, and 75 skilling e-labs for simulated learning environment, will be set-up in FY23
- A Digital University will be established to provide access to students across the country for world-class quality universal education with personalised learning experience

6. Reducing Digital Divide:

- To give a push to digital banking it has been proposed to bring 150k post offices in India under core banking system
- 75 Digital Banking Units (DBUs) to be set up in 75 districts of the country by Scheduled Commercial Banks
- E-passports with embedded chips to be rolled out in FY23
- Adoption or linkage with National Generic Document Registration System (NGDRS) with the 'One-Nation One-Registration Software' will be promoted as an option for uniform process for registration of land deeds & documents
- Digital Rupee using blockchain and other technology to be launched by RBI

7. Healthcare:

- 'Emergency Credit Line Guarantee Scheme' (ECLGS) scheme extended till March'23 for small and medium sized businesses
- An open platform, for the National Digital Health Ecosystem will be rolled out. It will consist of digital registries of health providers and health facilities, unique health identity, consent framework, and universal access to health facilities
- 'National Tele Mental Health Programme' will be launched, which will include a network of 23 tele-mental health centres of excellence
- 200k 'Anganwadis', rural child care centres, will be upgraded under the better infrastructure and audio-visual aids, powered by clean energy and providing improved environment for early child development

8. Housing for All:

- INR 480bn allocated to complete 8mn homes in FY23 under the National 'Housing for All' Mission

9. Automobiles:

- To promote the penetration of electric vehicles, a battery swapping policy will be brought out and inter-operability standards will be formulated

10. Telecom:

- 5G spectrum auctions to be conducted in 2022
- Scheme for design-led manufacturing for 5G will be part of production-linked scheme
- Contracts for laying optical fibre in all villages, including remote areas, will be awarded under the Bharatnet project through 'Public Private Partnership' (PPP) mode in FY23

11. Taxation:

- Long Term Capital Gain surcharge for all assets at 15%
- Income from transfer of Virtual digital assets (including gifting of virtual digital assets) to be taxed at 30%
- Lower tax rate of 15% for new manufacturing facilities extended by one year to March 31, 2024
- Proposal for exemption from tax for income of a non-resident from offshore derivative instruments, or OTC derivatives issued by an offshore banking unit, income from royalty and interest on account of lease of ship and income received from portfolio management services in the GIFTcity –IFSC
- Reduction of surcharge on unlisted shares from 28.5% to 23%

12. Other key announcements:

- Strategic transfer of ownership of Air India has been completed while public issue of Life Insurance Corporation of India (LIC) is expected shortly
- Insolvency and Bankruptcy Code (IBC) Resolution process to be amended
- International Arbitration centre to be set up in GIFT City for timely settlement as per international jurisprudence
- Import duty on certain chemicals are being reduced
- Special Economic Zones Act to be replaced with new legislation to give a fillip to manufacturing exports
- Additional INR 195mn to be allocated for production linked incentives towards solar equipment manufacturing

Our Comment:

While previous budgets have also had a strong focus on capex, we note the 35.4% increase in allocation to central government capex is the highest in recent history and augurs well for infrastructure-focused companies. Despite being ahead of state elections, the budget did not announce big populist measures and re-iterated Government's focus on structural reforms. The budget was seen positively by equity markets which rallied ~1.4% today.

The budget resonates with our view mentioned in Outlook 2022, where we highlighted that domestic economy is expected to do well due to Government efforts to boost growth & strong fundamentals. We continue to remain positive on sectors which are closely linked to economy like Banks, Capital Goods, Infrastructure, etc.

On the other hand, bond markets reacted negatively to the high borrowing levels earmarked for FY23 and no announcement regarding final necessary changes in tax laws that may allow India to become part of global bond indices. Bond yields moved upwards across the curve. The 10Y benchmark yield spiked by ~18-20bps; rising to 6.89% intraday and ended the day at ~6.83% levels. We expect FY23 gross borrowing to be lower at INR 12 – INR 13tn versus 14.95tn estimated by the Government due to conservative revenue estimates, higher small savings inflow and lower than expected fiscal deficit in FY22. We expect bond market is expected to remain volatile due to higher borrowing in the first half of FY23. We continue to expect 'normalization' of monetary stimulus and rise in interest rates and hence would recommend an active duration management strategy through exposure towards floating rate instruments and spread assets with an aim to benefit from higher carry.

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