Our Views

A Booster for the Economy

Second year in a row, the market has given a thumbs up to the union budget. Post the budget, both Nifty and Sensex were up 1.5% from the previous close. Of course, the market was volatile during the day – it might be based on a fear that the government's focus is more on growth and not enough on inflation. The initial reaction of the bond market has been muted with 10-yr G-Sec bond yield increasing from previous close of 6.68% to 6.85%.

There are multiple reasons for this positivity. One common thread is a consultative, digital-focused, forward looking and growth-oriented approach of the finance minister. Apart from this being evident in the various policy announcements by her during the year, the current budget too stands tall on all these counts. Several announcements in the budget have undergone deliberations over a period which would enable easy implementation. A digitally advanced India continued to dominate the budget. A heavy boost to capital investments is envisaged to create a new India. Further, facilitating growth of most sectors including startups is a focus area.

Digitisation – a big theme

If I were to put one big theme for the current budget which cuts across most of the initiatives, I would say it is digitization. There are multiple bold steps taken on this front including Central Bank Digital Currency (CBDC), Digital Banking Units (DBU), indirect recognition of Crypto, digital health records, digital land records, agri-tech fund, focus on startups, a big boost to drone technology, launch of 5G technology, digital education and focus on R&D.

The proposed introduction of Central Bank Digital Currency (CBDC) is a major step towards creation of a complete digital financial infrastructure. The Digital Rupee will be issued by the Reserve Bank of India starting 2022-23 using blockchain and other technologies. As the concept evolves, some of its obvious benefits would include financial digitization and inclusion; reduced cash in circulation and its related issuance costs; tracking of currency movement and control on shadow banking; a completely contactless economy; and a more efficient and resilient payments system. It would also help realize a closer integration of monetary and fiscal policy, to achieve a more efficient macro-policy regulatory system and in the long term may enrich and improve monetary policy.

The proposed set up of 75 Digital Banking Units (DBUs) in 75 districts of the country would serve as a pilot blueprint for setting up Digital Banks in the country. The indirect recognition of cryptocurrency by taxing any transfer/ sale of virtual digital assets, could be one step closer to regulating and recognizing the crypto world.

Boost to Infrastructure and Investments

The government acknowledged that capital investment holds the key to economic revival and that at the current stage private investment needs support in the form of public investment. Considering this, the outlay for capital expenditure has been stepped up by 35.4% (from Rs.5.5 lakh crore in FY22 to Rs.7.5 lakh crore in FY23). I believe, the increased capital spending by the government will boost private investments and consumption by creating employment and support both large industries and MSMEs.

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To boost investments by Private Equity and Venture Funds, it is proposed to set up an expert committee to look at the regulatory and other issues related to PEs and VFs more holistically. This is in line with an earlier meeting of the Hon. Prime Minister with representatives of various Private Equities and Venture Funds.

IFSC – Gift City

The setting up of an International Arbitration Centre at the Gift City will help in dispute resolution. Also, a long pending ask to exempt income of a non-resident from offshore derivative instruments or OTC derivatives issued by an offshore banking unit, etc. has been accepted. These measures are aimed at promoting the IFSC as an offshore investment destination.

Taxation – shortest para in the recent history of budgets

In my opinion, the Part B of the Budget which covers taxation would be the shortest possible paragraph in the recent budgets. But then, only few changes were expected, and these were in line with the various representations made to the Government.

Fiscal Deficit – on path to reach the target for 2025-26

The previous budget had pegged the fiscal deficit for 2021-22 at 6.8% of GDP, which has now been revised to 6.9%. The current budget estimates fiscal deficit at 6.4% of GDP for 2022-23 which is slightly above the market expectation of 6.0%-6.3%. However, this fiscal deficit of 6.4% is consistent with the broad path of fiscal consolidation announced last year to reach a fiscal deficit level of <4.5% by 2025-26.

Other matters

The current budget allows issuance of surety bonds by insurance companies. Globally, such surety bonds are commonly used as a guarantee.

I would have liked to see a somewhat higher allocation for the healthcare to create better health facilities in the country. The pandemic has indeed exposed the shortage of quality medical infrastructure in a country of our size and population.

Overall, I would endorse the budget and its direction. The proposed changes will surely serve as a booster dose for a better, safer, progressive, forward-looking, and modern India.

https://economictimes.indiatimes.com/markets/stocks/news/budget-focuses-on-digital-and-capital-investment-to-make-a-better-india/articleshow/89289939.cms

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