TSB'S TAKE

BUDGET 2022

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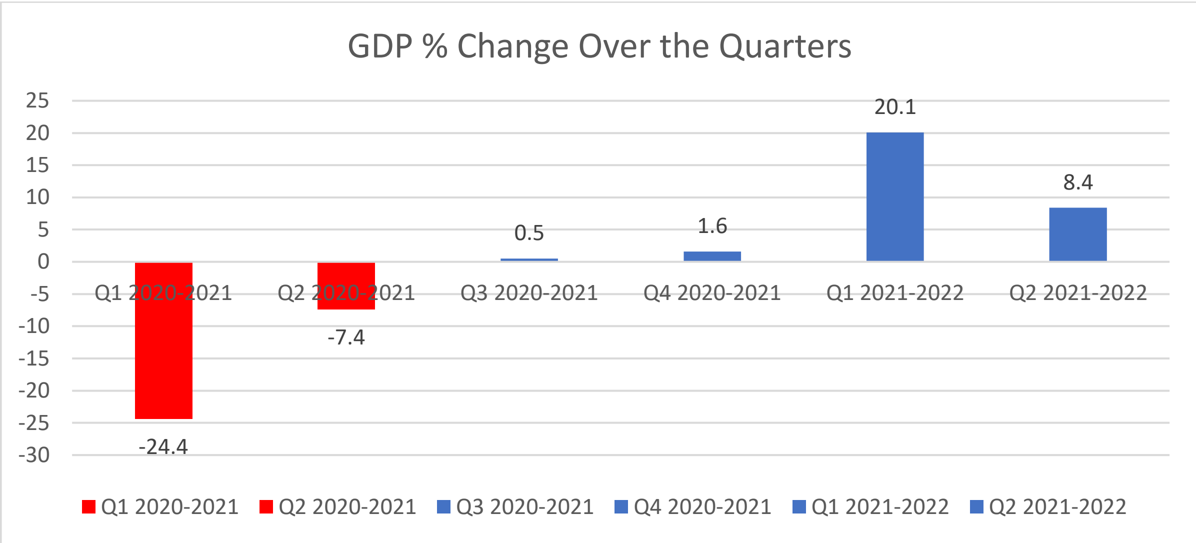
TSB'S Take on the Budget 2022

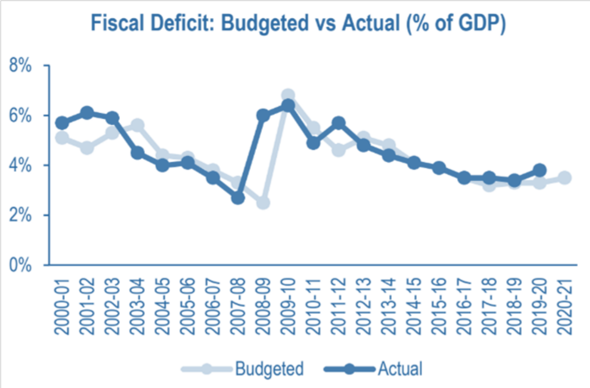
The Indian Economy has indeed gone through a roller coaster ride in the past few years: from touching greater heights in the pre-covid period to undergoing depression as covid set out to negatively impact the economy and people of the nation. There have been periods of downward trajectory in growth. However lately, we have observed that there seems to be an up-ticking growth. The fiscal year 2020-21 witnessed the worst performance ever of the Indian economy, the GDP shrank by an overwhelming rate of 7.3%. The last time Indian Economy contracted was in 1979-80 by 5.2% when global oil prices went sky high. As the reality of disappointments set in with the performance in 2020-21, the resurrection of the economy was postponed to 2022-23. With heightened anticipation surrounding this New Year, the Union Budget for the financial year 2022-23 is one for which everyone has an eye. Let's take a look at a few statistics and what we can expect from the government.

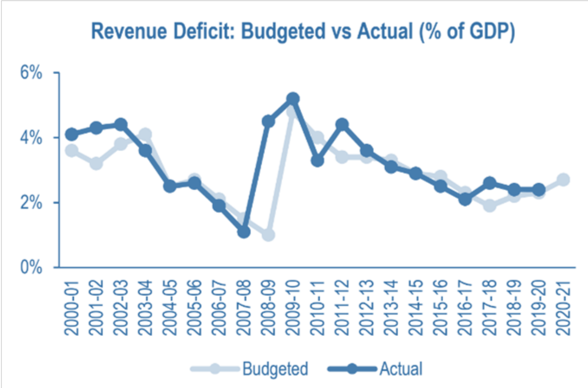


GDP growth has bounced back from a degrowth of 7.4% in Q2FY21 to a growth of 8.4% in Q2FY22. Additionally, the financial market has given decent returns. However, there are a few causes for concern like the rising inflation and supply chain disruptions across the world. Here are a few expectations from the budget-

	Budgeted (2020-21)	Revised (2020-21)	Budgeted (2021-22)
Total Expenditure	30,42,230	34,50,305	34,83,236
Total Receipts	22,45,893	16,01,650	19,76,424
Revenue Deficit	6,09,219 (2.7%)	14,55,989 (7.5%)	11,40,576 (5.1%)
Fiscal Deficit	7,96,337 (3.5%)	18,48,655 (9.5%)	15,06,812 (6.8%)

Figures are represented in INR Cr
% Figures in brackets represent % of GDP





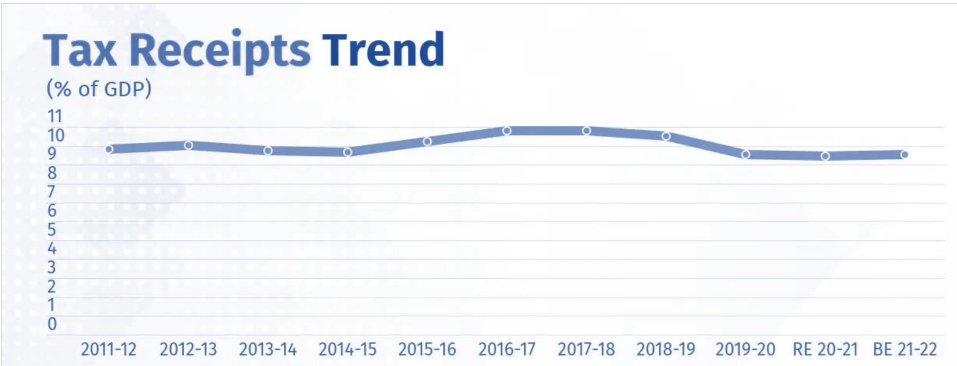
The 15th Finance Commission for 2021-26 suggested a path for fiscal consolidation for the centre by reducing fiscal deficit to 4% of GDP and outstanding liabilities to 56.6% by 2025-26.

crore—65% higher than last fiscal and 73.4% of it Rs 15.4 lakh crore budget estimate, according to the government's monthly accounts.

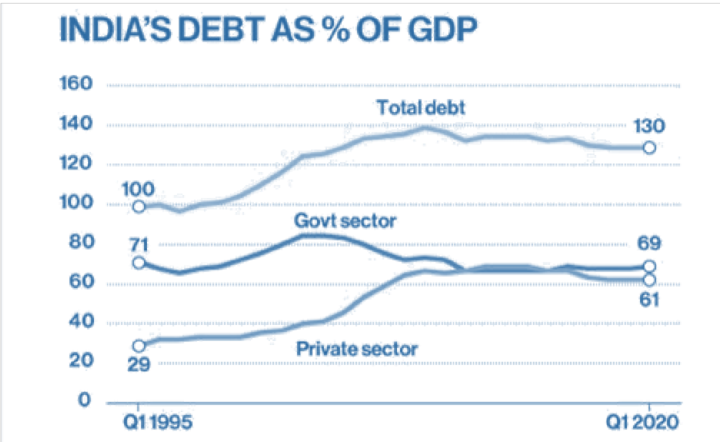
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Fiscal Deficit	7.4%	6.0%	5.5%	5.0%	4.5%	4.0%
Revenue Deficit	5.9%	4.9%	4.5%	3.9%	3.3%	2.8%
Outstanding Liabilities	62.9%	61.0%	61.0%	60.1%	58.6%	56.6%

Conservative tax revenue targets and better-than-expected nominal GDP growth will help India in surpassing its budgeted estimates for the first time since 2018. In the first eight months of 2021-22, India had earned net tax revenue of Rs 11.3 lakh

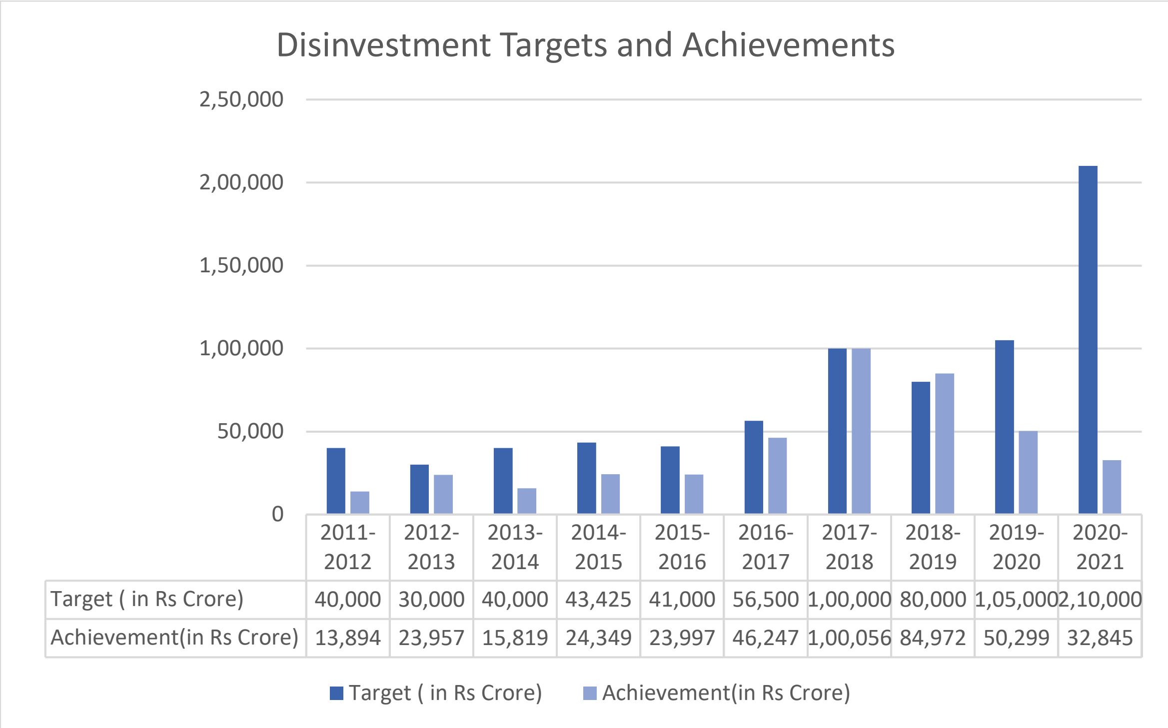
The gross tax revenue collections during the same period stood at Rs 15.4 lakh crore—69.4% of the Rs 22.1 lakh crore target. More realistic targets mean better credibility. And some want the trend to continue in the upcoming budget.

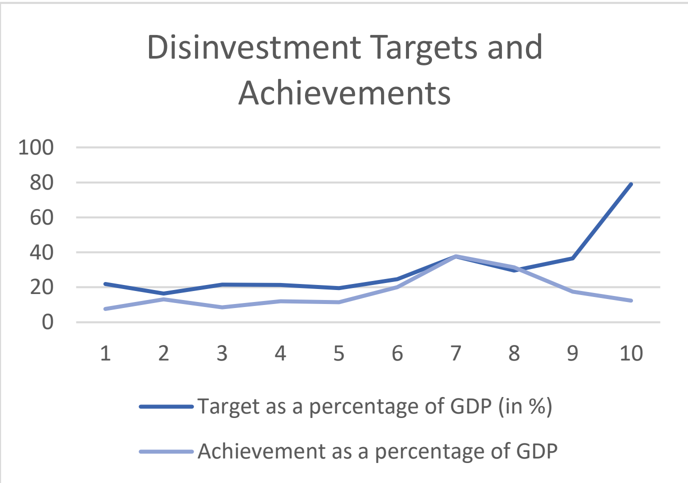


The government has for the first time revealed that it expects India's debt-to-GDP ratio to go up in FY22 to a 16-year-high of 61.7% from 60.5% a year ago. the Centre's debt was only higher than FY22 projection in FY06 at 63.9% of gross domestic product. Government debt includes the stock of total liabilities due to internal debt raised through treasury bills, bonds and securities; external debt mainly raised from multilateral institutions; and public account liabilities such as provident fund commitments and National Small Savings Fund.



1. Disinvestment



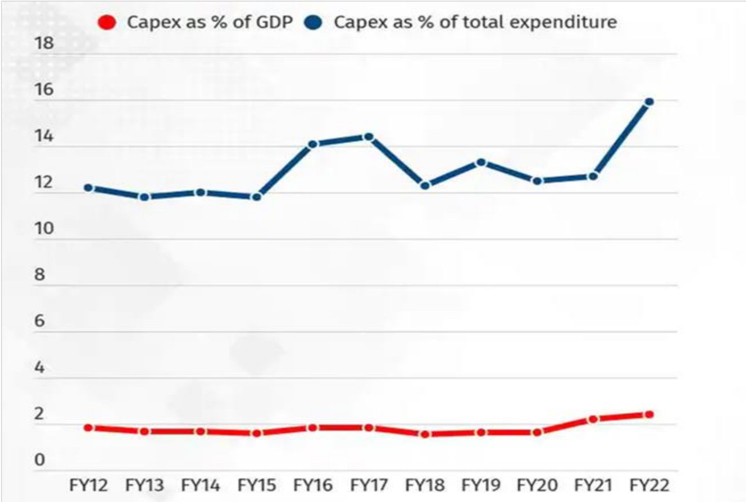


The government set a disinvestment target of Rs 2.1 lakh crore in FY21, but failed miserably to accomplish it, falling short by Rs 1,78,000 crore. In FY20, Finance Minister Nirmala Sitharaman set a disinvestment target of Rs 1.05 lakh crore, the highest in India's history. The Union government is on track to miss its divestment objective for the fiscal year 2022, the third year in a row that it has fallen far short of the budgeted figures.

Historically, the government has failed its disinvestment target with each passing year, but it remains to be seen what disinvestment aim the administration would settle for in the forthcoming Budget. To decrease the budgetary burden and raise funds to meet public needs, the government opts for a disinvestment approach. They could also be used to privatise assets. Disinvestment can help the country achieve long-term growth. According to market analysts, disinvestment and privatisation will undoubtedly gain steam in the forthcoming Union Budget. According to market experts, asset monetisation and greater disinvestments would continue to provide financing support in FY23.

2. Capital Expenditure

Capital expenditures, which result in the formation of assets, allow the economy to generate revenue for many years by expanding or enhancing manufacturing facilities and increasing operational efficiency. It also boosts labour engagement, assesses the economy, and strengthens the economy's capacity to generate more in the future.



Aiding infrastructure building should be a significant focal area for the government as it focuses on steps to improve economic growth. The finance minister will have to strike a balance between fiscal austerity and providing incentives to the manufacturing sector in order to create jobs. In order to encourage manufacturing in India, the government created production linked incentive (PLI) initiatives last year. Other sectors, such as railways, airports, and manufacturers, would benefit from the introduction of PLI incentives.

As a result, the PLI scheme has been a game changer in attracting industries from certain geographical areas to countries like India, where they may participate in both the domestic and export markets. Companies will receive higher incentives if they manufacture more goods in India. Subsidies, monetary advantages, and other sorts of incentives are available. PLIs are available from the government to both foreign and indigenous manufacturers. While international manufacturers are encouraged to set up shop in India, homegrown businesses are urged to expand and export. The central government has currently launched PLI plans for 13 sectors, with incentives totalling Rs 1.97 lakh crore.

The government is likely to raise infrastructure capital investment in this budget. India has a large fiscal deficit, and while the government will focus on steps to reduce the deficit, it should not be afraid to spend money on infrastructure. The estimated infrastructure spending of INR 102 lakh crore has not materialised. Instead of direct lending, the government might adopt the approach of providing guarantees to financial institutions for the private sector to grow the sector. The finance minister should also concentrate on policy measures that encourage private investment in infrastructure. Higher budgetary allocation for highway and road infrastructure development across the country is expected.

While there are numerous fiscal and regulatory instruments in place to limit carbon emissions, they have mainly been ineffective in achieving scale mitigation. As a result, the budget provides an ideal opportunity for the government to lay the groundwork for a national carbon tax that is precisely proportional to the intensity of carbon emissions from fossil fuels. This will provide the appropriate pricing signals to producers, investors, and consumers, encouraging them to switch to greener energy sources.

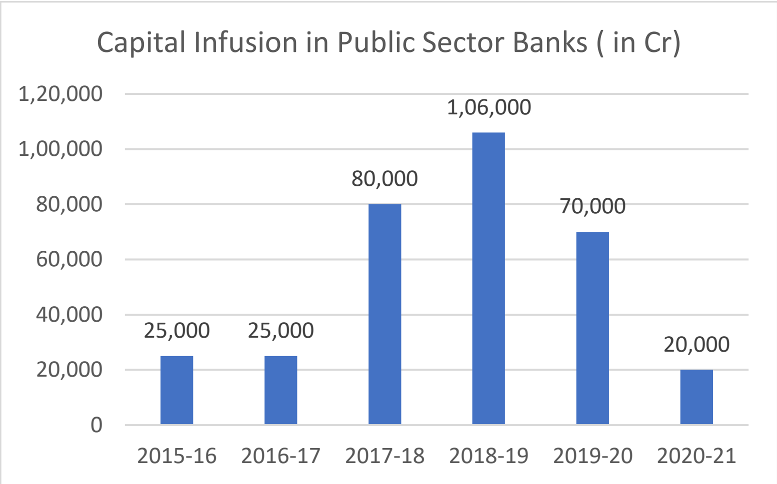
A brief review of the budgetary allocation to the Ministry of Environment, Forests, and Climate Change in preceding years reveals a decrease from Rs 31 billion in 2021-21 to Rs 28.7 billion in 2021-22. Similarly, the budget for maintaining clean air in cities was cut in half, to Rs 22.2 billion. This contradicts annual air quality figures, which continue to show significant year-over-year decline. These should undoubtedly be improved.

In continuation of a few additional measures such as special assistance to states which offer interest-free loans for capital expenditure and permitting states to undertake additional borrowing on meeting the capex target would make the high double-digit capital expenditure growth target achievable.

Most economists suggested higher public capital expenditure by the Centre as they expect private investment to be stagnant barring a few sectors and states could remain cautious due to fiscal constraints.

3. Banking Sector

The government's various measures, including as recognition, resolution, and recapitalization, resulted in a gradual drop in non-performing assets (NPAs) and a subsequent increase in profit. Banks have made provisions of up to 100% in some non-performing assets, according to sources, with the recovery from those accounts immediately becoming part of the bottom line. Because of these reasons, the government is unlikely to announce capital infusions for Public Sector Banks as their financial health has improved. Bank credits climbed from 6% in 2020-21 to 7.3 percent in 2021-22, despite a decrease in bank deposits from 11.3 percent in 2020-21 to 9.6 percent in 2021-22.



In the post-COVID-19 phase, the focus of the banking industry is on innovation, in rendering banking services with the help of technology and digital transformation. Thus, the Budget could introduce policy initiatives to give impetus to innovations in the banking sector, by offering incentives such as reimbursement of certain costs or tax subsidy in the form weighted deductions/100 percent depreciation, etc.

Cryptocurrencies are gaining traction in most financial services companies' boardrooms at breakneck speed. Despite the lack of certainty on its legality and/or acceptability, cryptocurrency investments surged from around US$ 923 million in April 2020 to a stunning US$ 6.6 billion in May 2021. Cryptocurrencies and central bank digital assets will be subject to a unique regulatory and taxation structure. Certainties on tax (income tax and indirect tax) and regulations on cryptocurrencies may be spelt out. The impact and operation of a Central Bank Digital Currency on the economy is unclear for individuals and corporates, and budgetary allocation for more literacy programmes to build awareness on its benefits can be considered.

The government may explore establishing a specific fund to develop co-operative banks' digital infrastructure, which would provide a significant boost to a more equitable financial system. Budgetary concessions, such as a GST exemption for digital transactions, as well as incentivization, will help to boost cashless payments, particularly in semi-urban and rural India.

We expect the Budget to keep some of the liquidity and guarantee schemes in place to ensure near-term funding availability for NBFCs (non-infrastructure) and to provide guidance on the sector's medium-term support framework, which could boost investor confidence and be critical for a long-term revival.

Public banks have dramatically cleaned up their balance sheets thanks to a capital infusion of Rs 3.36 trillion from the government of India over the last six years, with net non-performing advances (NNPAs) falling to 2.8 percent as of September 30 from an all-time high of 8% on March 31, 2018. With significant provisions on historical stressed assets, the earnings forecast for public banks appears to be positive, as we expect most public banks to be profitable over time and produce growth capital internally.

Banks can now tap cash from market sources, as they have done in recent years, because their balance sheets are cleaner and their earnings forecast is better.

4. MSME (Micro, Small and Medium Enterprises)

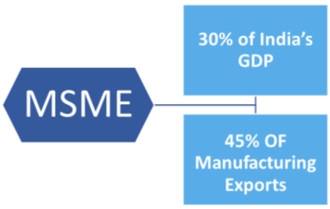
Composite Criteria: Investment in Plant & Machinery/equipment and Annual Turnover			
Classification	Micro	Small	Medium
Manufacturing and Services	Investment< Rs 1Cr Turnover< Rs 5Cr	Investment< Rs 10Cr Turnover< Rs 50Cr	Investment< Rs 20Cr Turnover< Rs 100Cr

Revised Classification as of June 2020

MSMEs are an important sector for the Indian economy and have contributed immensely to the country's socio-economic development. It not only generates employment opportunities but also works hand-in-hand towards the development of the nation's backward and rural areas. MSME sector provides jobs to over 12 crore Indian citizens. It also contributes nearly 30 percent of the GDP and accounts for 49 percent of the exports.

The Union Budget 2022 is expected to simplify taxation, encourage investment, and provide further benefits to Indian entrepreneurs and MSMEs. The MSME sector is looking forward to seeing if the finance minister will increase the budget outlay for the various schemes that have been announced over the years. Last year, 15,700 crores were provided for the MSME sectors which is double of what had been provided the previous year. With the drastic decline in the share of PSBs in the overall lending to the MSME sector, small businesses often fail to get loans on time, mainly due to the lack of digital footprint and sufficient documentation, a low number of years of operation, low turnover, etc.

MSMEs are looking for measures to improve the credit lending and accessibility of funds that can mobilise growth. Cash crunch and loan/credit availability are two main challenges that small businesses confront nowadays. Because non-banking financial institutions (NBFCs) serving this industry have a high cost of capital, MSME borrowers pay a higher interest rate. Most new-age fintech NBFCs continue to borrow at rates greater than 14-15 percent, making it difficult for them to participate in government programmes that have already been announced, as well as resulting in exorbitant costs—over 20% for MSMEs. This high lending rate limits the expansion of these enterprises, which are the backbone of the Indian economy.

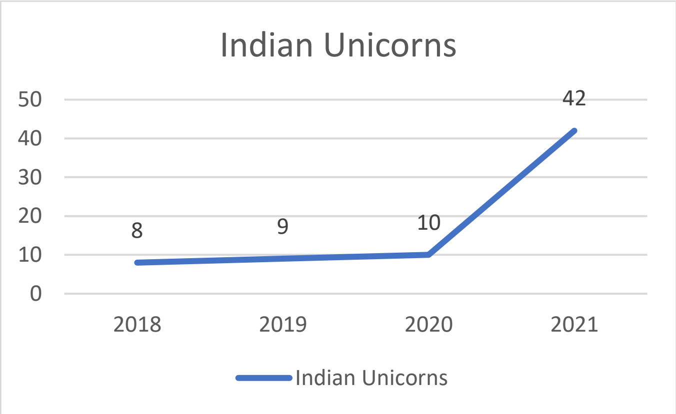


Several liquidity initiatives to boost the economy have been implemented in response to the economic difficulties caused by Covid-19. While the headline plans appeared to be rather appealing, the fine print made it extremely difficult for new-age fintech NBFCs to benefit from them. For instance, the ECLGS caps the interest rate at 9.25% for banks and 14% for NBFCs. When the cost of financing for fintech/small NBFCs exceeds 14%, it is evident that the benefits of such a strategy will not be passed on to the bottom of the MSME pyramid.

Therefore, the upcoming Union Budget must lay down the path to pursue better implementation and transmission of the schemes already put in place. It is expected that the Union Budget for FY23 would include schemes similar as SLS II-NBFC 2021 in order to revitalise the economy quickly by assisting MSME and the developing fintech ecosystem.

5. Startups

A high number of start-ups work in the retail and e-commerce industries. The government has launched a flagship effort called 'Startup India' to encourage and develop this community. This initiative empowers start-up enterprises to boost entrepreneurship, economic growth, and employment across India.



To further bolster the cause, the government should consider extending the benefit of deferment of withholding tax in ESOPs from exercise to sale or specified events to all DPIIT registered start-ups. Furthermore, Budget 2022 is likely to resolve the long-term capital gains tax rate gap between non-resident and resident owners of start-ups. A tax and regulatory framework for the international listing of shares is also likely to be announced.

If the central government intends to offer 100 days of work per household for the same number of beneficiaries who opted for the scheme during the current financial year, it may have to set aside 2.64 lakh crore in the upcoming Union Budget for the Mahatma Gandhi National Rural Employment Guarantee (MNREGA) scheme. This is more than double the amount set aside this year for MNREGA payments. In addition to the initial allocation of 73,000 crore, the government put aside another 25,000 crores in December 2021 to clear MNREGA liabilities in the years 2021-22.

To encourage investment and growth, the government may take steps such as allowing the benefit of carrying forward and set off of "accumulated loss and unabsorbed depreciation" to "service sector" businesses such as retail/trading, and considering lowering the tax rate on dividends for residents to bring them in line with non-residents.

The aim is to propose a budget that supports the economy, but doesn't cause inflation. Capital expenditure us expected to remain strong which should create a multiplier impact. Budget should focus on accelerated growth and equitable distribution. The key focus of the 2022-23 budget should be to support growth by reviving both consumption and investment demand, making it reach pre-covid levels, while containing inflation.

Sources- Money Control, The Indian Express, Economics Times, RBI, PRS Legislative Research, Business Today

The Strategy Boutique
2nd Floor - First India Place, Sushant Lok-I, Phase 1, Block-B, MG Road, Gurgaon – 122002, India
(+91) 98 1000 8760
www.thestrategyboutique.com

Emerald Group
08-129 We Work, 8th floor, The Offices 4, One Central Dubai World Trade Center, Dubai, UAE
(+971) 58 628 9889
www.emerald-mg.com