● THROUGH THE LOOKING GLASS

BUDGET FY23 DEMONSTRATES THE COMMITMENT OF THE GOVERNMENT TO CHANNELISE ITS POLICIES AND FUNDS TO AREAS OF HIGH GROWTH

An impetus to **investments and capex**

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Views are personal

THE UNION GOVERNMENT has presented an investment-oriented budget with a focus on getting future ready. Increasing public investments and capex is expected to take the combined public capex (the Centre plus states) more than 4% of GDP in FY23 from ~3% over the last few years. The advance FY22 growth estimate of 9.2% makes India the fastest-growing large economy. The increased capex could help keep growth's pace at 8% (pencilled in by the government for FY230. Here are some key takeaways for long-term India investors.

Large infra capex outlay

Gati Shakti, a master plan that builds upon the National Infrastructure Pipeline (NIP), was a key focus of the budget. The increased allocation for capex positions India's infrastructure investment programme as one of the largest in the world. For comparison, the US's Infrastructure Investment and Jobs Act envisages investments of $1.2 trillion in infrastructure, including $550 billion of new investments over the next five years; India's NIP is a $1.5 trillion (₹111 trillion) investment pipeline for six years ending FY25. This is exemplified in the 25,000-km expansion planned for national highways this year and 100 new cargo terminals with multimodal logistics to be built over next three years.

Fiscal dynamics suggest conservative forecasts

Fiscal deficit is budgeted to be 6.4% of GDP in FY23, following the 6.9% in FY22; India is committed to bringing this down to 4.5% by FY26. The large deficits over the last two years—in part because of no new or higher taxes, continued higher expenditure, and the cleaning up of the books—are financed by market borrowings. The large borrowing programmes have led to yield on the 10-year paper rising to 6.85%, a hike of 95 bps over the last 12 months. The government, however, is in a comfortable position as it has a significant fiscal buffer given buoyant direct and indirect tax collections. The estimate of nominal GDP growth at 11% and tax buoyancy of around 1 appears to offer a scope for outperforming on the revenue collections front, which could reduce the eventual borrowing requirement of the government.

External front appears comfortable

On the external front, India's merchandise trade activity has been robust this year and well on its path to reach $1 trillion in FY22. The $400-billion-plus goods exports has been a significant shift from the previous years when such exports were in the $300-330 billion range. As the government targets $500-billion exports in the next financial year, it has rationalised custom duties on import of raw materials for top-traded products such as electronics, and capital goods. A new legislation is also proposed to replace the existing Special Economic Zones (SEZ) Act that will likely support trade activity. High foreign exchange (at $635 billion) offer cushion on external liabilities.

Harnessing new technologies for 'India at 100'

India celebrates 75 years of Independence in August this year. Over the next 25 years—to "India at 100"—the government demonstrated its willingness and intent to harness new technologies in the sunrise sectors. Drones, agri-tech, battery swapping, electric vehicles, 5G, central bank digital currency, digital education, National Digital Health Ecosystem, all saw mention in the Budget. 5G manufacturing has been brought under the government's Production Linked Incentive (PLI), along with solar manufacturing, showcasing the government's *atmanirbhar* plank of development.

Data centres and energy storage systems have been added in the definition of 'infrastructure' in the harmonised list—this will make it easier for these sectors to get access to financing. The previous budget had created tax benefits for sovereign wealth funds and pension funds investing in infrastructure.

A suitable central mechanism, to facilitate state-level urban infra projects and clearer devolution of funds to the urban local bodies, could help make for a stronger public-private partnership

Cities as engines of growth

Cities have been recognised as engines of growth. Preparing for continued urbanisation over the next few decades, a high-level committee with key stakeholders will help the government rethink this space. A suitable central government mechanism, to play a stronger facilitatory role for the state-level urban infra projects and a clearer and committed devolution of funds to the urban local bodies could help strengthen the project pipeline and make for a stronger public-private partnership.

Green India

Building on prime minister Narendra Modi's commitment of a Net Zero economy by 2070 at the COP26 last year, the government announced the issuance of Sovereign Green Bonds (SGBs) this year. These bonds are expected to mobilise resources for green infrastructure in public sector projects. Issuance of SGBs can help develop the green financing ecosystem by helping formalise a green taxonomy, development of assurance professionals, creation of a green benchmark yield, among others.

Blended finance

Institutions like the NIIF allow the government to leverage its initial equity commitment multi-fold by crowding-in significant private capital. Innovative financing mechanisms for blended capital and impact investments were announced in the Budget. A new fund with blended capital for investments in agricultural and rural enterprise will be facilitated through the National Bank for Agriculture and Rural Development (NABARD). Thematic funds with blended finance, 20% capital commitments by the government and managed by private fund managers, are proposed to be set up. These will focus on investments in deep tech, digital economy, pharmaceutical, agri-tech and climate economy. Government's willingness to provide first-loss capital and to act as an impact investor signals its intent on supporting the growth ecosystem.

Budget FY23 demonstrates the commitment of the government to channelise its policies and funds to areas of high growth. In a world beset with uncertainties on geopolitics, inflation, supply chain issues, a continuing pandemic, and reversals of loose monetary policies, India offers a stable macroeconomic environment coupled with high growth and a forward-looking intent.

With research inputs from ***Akshata Kalloor*** *and* ***Kartikey Vaid***