Overview

The Indian Budget FY23 aims to strike a balance between fiscal responsibility and reviving animal spirits to spur economic activity. Consequently, the budget math projects a decline in central fiscal deficit (FD) from 6.9% of GDP in FY22 to 6.4% in FY23 coupled with a feeble nominal GDP growth of 11.1%.

The reduction in FD is expected to be driven by a decrease in overall expenses, with total expenditure falling from 16.2% of GDP in FY22 to 15.3% in FY23. However, to maintain robust multiplier effects (of public spending), the budget has prudently rebalanced the allocation within revenue expenditure (includes subsidies) and capital expenditure (capex). While revenue expenditure will bear the brunt of the decline (revenue expenditure will decline from 13.6% of GDP in FY22 to 12.4% in Fy23), government capex has been increased from 2.6% of GDP in FY22 to 2.9% in FY23, at Rs 7 lakh crores. Some of the sectors receiving high outlays from the increased capex plan include:

	Share of Capex(%)
Roads and Highways	25%
Defense	20%
Rail	18%
State Transfers	15%
Telecom	7%
Urban Affairs	4%

On the flip side, in its pursuit to maintain fiscal responsibility, the reduction in revenue expenditure entails a cut in subsidy spending. Overall subsidy bill in FY23 is expected to be 1.4% of GDP compared to 2.1% in FY22. The steepest cut was observed in case of food subsidy, from 1.2% of GDP in FY22 to 0.8% in FY23. This reflects the plan to roll back free food and food grain programmes introduced in the aftermath of the 1st lockdown in FY21.

Risks to interest costs

Despite an ardent effort to contain expenditures and trim deficit, the total fiscal deficit amount is still expected to remain high at Rs 16.6 Lakh crores. This necessitates a massive gross borrowing plan of Rs 14.95 lakh crores in FY23 (and net borrowing of Rs 11 Lakh crore which excludes repayments). The gross borrowings in FY23 is equivalent to ~34% of total outstanding bilateral exposures among financial market entities like Banks, NBFCs, Insurance, Mutual Funds etc. (Bilateral exposures are outstanding position as on September 30, 2021 and are broadly divided into fund based and non-fund-based exposure. Fund based exposure includes money market instruments, deposits, loans and advances, long term debt instruments and equity investments. Non-fund-based exposure includes letter of credit, bank guarantee and derivate instruments). At 34% of all financial market transactions in the country, government borrowing will certainly crowd out private borrowers in the domestic credit market. This will manifest into lack of capital for smaller entities rated below A (primarily MSMEs). Also, for others, this will imply significantly higher interest costs, which will be accentuated by global factors like rollback of accommodative policies, high inflation and volatile crude prices.

While higher borrowing was to a certain extent priced in by market participants, what may have come as a surprise was no mention of any reforms for foreign investments in government papers. This was highly anticipated since Indian government papers are expected to be included in global bond indexes in FY23. Emerging Markets focused Indexes suitable for Indian government securites inclusion are:

- JP Morgan GBI EM Global Diversified Index with an estimated AUM of Rs 20 Lakh Crores.
- Bloomberg Global Aggregate Index with an estimated AUM of Rs 200 Lakh Crores.

Assuming a 10% exposure (like China's) in JPM GBI EM and 0.1% in Bloomberg GAI, can bring in Rs 2.5 Lakh Crores or 17% of the amount of net government borrowings in FY23. The freed up domestic liquidity can be utilized to fund private companies for long term capex. While new policies and relaxations have been introduced, there are a lot of additional interventions required (like moderation in LTCG for foreign buyers, easing the margin requirements) to enable Indian Government papers to be traded on global platforms like Euroclear. Hopefully, these adjustments would be announced later in the year by regulators like SEBI and RBI.

Key announcements aiding economic growth:

1. Infrastructure:
    a. 25,000 kms of national highways at a cost of Rs 20,000 crores.
    b. Sovereign green bonds (part of overall borrowing programme) to fund green infrastructure projects.
    c. 100 railway cargo terminals and 400 new coaches in next 3 years.
2. Manufacturing:
    a. Rs 19,500 crores of PLI in manufacturing high efficiency solar modules.
    b. New battery swapping infrastructure in urban centres.
    c. 68% of defense outlay used for local procurement
    d. Private sector allowed to conduct defense related R&D.
3. Agriculture:
    a. Rs 2.4 lakh crores of payment to farmers for procurement through MSP
4. Housing:
    a. PM Housing scheme allocated Rs 48,000 crores to build 80 lakh affordable homes.
    b. Rs 60,000 crores outlay for providing tap water to 3.8 crore homes.
    c. Urban committee to give recommendations for urban capacity building.
    d. 50% population to be urbanized in 25 years (from ~30% currently).
5. Money:
    a. ECLGS scheme for MSMEs extended till Mar'23. Total corpus of Rs 5 lakh crores. Rs 50 crores solely for tourism sector. Rs 3.1 lakh crores have been sanctioned so far.
    b. RBI will introduce digital currency in FY23.
6. Taxation:
    a. Alternate Minimum Tax for co-operative societies reduced to 15% (from 18.5%).
    b. 30% tax on transfer of digital assets. 1% TDS on payments to purchase digital assets.

TruQuest

TruQuest is a knowledge series launched by TruBoard Partners providing succinct updates and views on:

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- India's macro-economic view
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Website:

www.truboardpartners.com

Email Id:

research@truboardpartners.com

Author:

Debopam Chaudhuri, Head of Research and Ratings

+91-9819239926, dc@truboardpartners.com