Analysis of Union Budget 2022-23

1 Feb 2022

From the desk of MD & CEO

The Union Budget is the first policy document that is brought out before the start of the new financial year and is hence the founding block of all others to follow. So, how can we look at the Budget? The government has been steadfast in moving along the path of prudence which was followed even during the pandemic. Therefore, expecting the budget to suddenly swing towards higher deficits was never on the cards. It was a case of doing the most with the funds available.

In a way the Budget is more of expenditure allocation than revenue generation. The doors of garnering revenue through higher taxation are passé' with GST being outside the purview of the Budget. It has been observed that we need inherent buoyancy in the economy for revenue to increase. Yes, there are big tickets like disinvestment which can turn the scales, but the uncertainty in outcome lingers as any such exercise is inherently complex. The Budget has not brought in any new taxes which should be seen as maintaining continuity in the tax structure. There is some determination shown in keeping the fiscal deficit under control. The rather good revenue flows in FY22 despite the second lockdown does reflect in a way the ability of the economy to grow even in difficult times. The Budget does bank on the same for FY23 going by the numbers which is a reasonable assumption to make.

In terms of priorities the government has focused on capex, defence, technology, telecom, hospitality, housing etc. This is where support is required either for growth or sustenance and will be useful from a banking perspective as private sector investment also increases and manifests in higher credit offtake.

As a bank we are cognizant on the implications of the deficit in terms of the borrowing programme as this affects our investment portfolio directly besides having a bearing on RBI policy. Yes, we do see interesting times with high government borrowings which will probably be accompanied by similar amounts by states and revival of private sector demand for credit. We will need to be, to use the cliché, on our toes for the entire year.
This analysis has been put forth by the Economics team and I would like to share our view on the Budget with you. I do hope you find it useful and would be thankful for any feedback on the same.

Sanjiv Chadha

Budget at a glance

- Budget for FY23 is an investment oriented budget, with major thrust given to government capex.
- Capex target is set at Rs 7.5tn in FY23(BE), up from Rs 6tn in FY22(RE). As % of GDP, the ratio will jump to 2.9% in FY23, highest since FY05.
- In order to meet the spending targets, government has projected sharp rise in gross borrowings to Rs 14.95tn in FY23(BE) from Rs 10.47tn in FY22(RE).
- Fiscal deficit (as % of GDP) is also projected at 6.4%, compared with 6.9% in FY22(RE).
- Revenue growth is expected to normalize with net revenues projected to increase by 6%, following 27.2% in FY22(RE). Within this, tax revenues are estimated to rise by 9.6% (23.8% in FY22RE).

Rs bn	FY20	FY21	FY22RE	FY23BE	FY22 (% chg)	FY23 (% chg)
Total tax revenue	20,101	20,271	25,161	27,578	24.1	9.6
Total non-tax revenue	3,272	2,076	3,138	2,697	51.1	(14.1)
Centre's revenue (net)	16,841	16,339	20,789	22,044	27.2	6.0
Total capital receipts	10,023	18,831	15,169	17,397	(19.4)	14.7
Total receipts	26,863	35,170	35,958	39,442	2.2	9.7
Total expenditure	26,863	35,098	37,700	39,449	7.4	4.6
Revenue expenditure	23,506	30,835	31,673	31,947	2.7	0.9
Capital expenditure	3,357	4,263	6,027	7,502	41.4	24.5
Revenue deficit (% of GDP)	3.3%	7.3%	4.7%	3.8%	-	-
Fiscal deficit (% of GDP)	4.6%	9.2%	6.9%	6.4%	-	-

Source: Union Budget documents, Bank of Baroda Research

Revenue collections

- Tax revenues will be supported by 13.6% (32.3% in FY22) increase in direct tax collections and 5.6% rise in indirect tax collections (16.9% in FY22).
- Within direct taxes, corporate tax collections are projected to be up by 13.4% (38.7% in FY22) and income tax collections are estimated at Rs 7tn (+13.8%).
- In case of indirect taxes, custom duty (12.7% versus 40.3% in FY22) and GST collections (15.6% versus 23%) are expected to do well, while revenue from excise duty is expected to decline.
- Non tax revenues are projected to decline in FY23 by 14.1% (51.1% increase in FY22) on the back of unfavorable base and dip in dividends. Government expects 27% decline in dividend at Rs 740bn from RBI and banks (Rs 1,014bn in FY22).

Rs bn	FY20	FY21	FY22 RE	FY23 BE	FY22 (% chg)	FY23 (% chg)
Total direct tax	10,495	9,449	12,500	14,200	32.3	13.6
Corporate tax	5,569	4,577	6,350	7,200	38.7	13.4
Income tax	4,927	4,871	6,150	7,000	26.2	13.8

Rs bn	FY20	FY21	FY22 RE	FY23 BE	FY22 (% chg)	FY23 (% chg)
Total indirect tax	9,547	10,769	12,590	13,300	16.9	5.6
Customs	1,093	1,348	1,890	2,130	40.3	12.7
Union excise duties	2,406	3,917	3,940	3,350	0.6	(15.0)
Service tax	60	16	10	20	(38.1)	100
GST	5,987	5,488	6,750	7,800	23.0	15.6

Source: Union Budget documents, Bank of Baroda Research

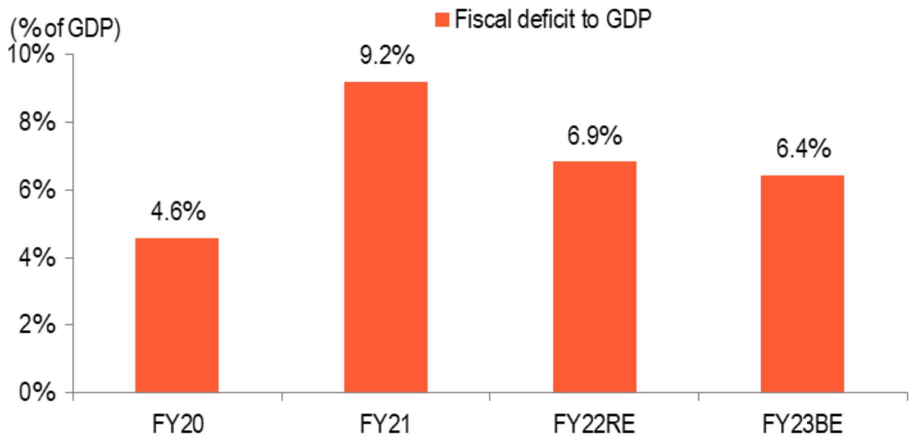
Fiscalnomics

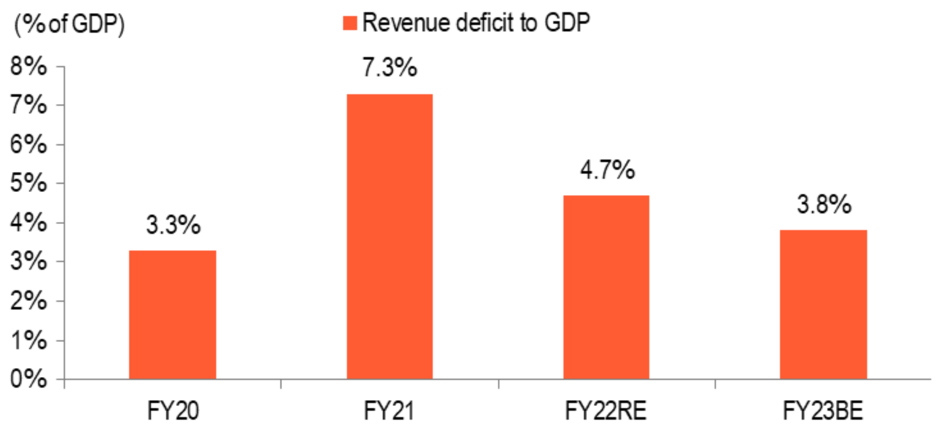
- Government is back on the path of fiscal consolidation with fiscal deficit (as % of GDP) being reduced from 9.2% in FY21 to 6.9% in FY22 (RE) and 6.4% in FY23 (BE).

- While fiscal deficit target for FY23 is higher than our estimate of 6-6.25%, we still believe centre will be able to reduce the deficit to less than 4.5% by FY26.

- Revenue deficit target is also seeing improvement as it is expected to come off from the high of 7.3% in FY21 to 4.7% in FY22 (RE) and 3.8% in FY23 (BE). This is largely on the back of buoyant revenues, as economy recovers from the pandemic shock.

All deficit ratios indicate a move towards the FRBM path





Source: Union Budget documents, Bank of Baroda Research

Individual Taxation

- A new provision has been made to allow taxpayers to file an ‘updated return’ on payment of additional tax. This updated return can be filed within two years from the end of the relevant assessment year.

- Employers’ contribution limit to NPS has been raised from 10% to 14% even for state government organizations, the bring them on the same level as central government organizations.

- In view of increased transactions in virtual digital assets, government will now tax any income from transfer of any virtual digital asset at the rate of 30%. Such an action we believe is timely.
  - No deduction in respect of any expenditure or allowance shall be allowed while computing such income except cost of acquisition. Also, loss from transfer of virtual digital asset cannot be set off against any other income.

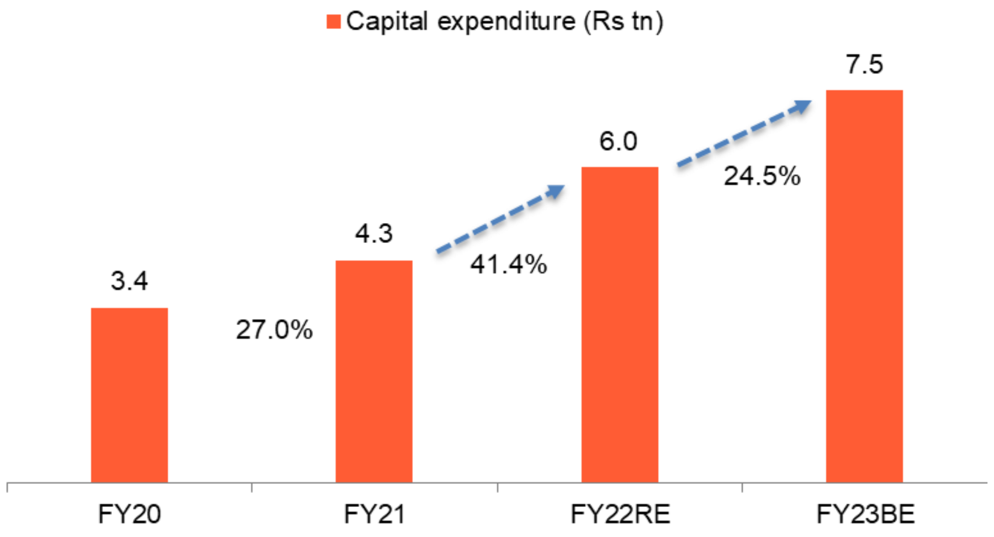
- To promote IFSC, income of a non-resident from offshore derivative instruments, or OTC derivatives issued by an offshore banking unit, income from royalty and interest on account of lease of ship and income received from portfolio management services in IFSC shall be exempt from tax.

These measures are unlikely to have any major impact on consumption demand in FY23 but can be viewed as enhancing convenience to an extent. Any concession would have helped in inflationary times. Relief may be expected in the coming years.

Investment

- Centre's capex spending will increase by 41.4% in FY22RE to Rs 6.02tn compared with 27% increase in FY21.
- For FY23, capex has seen a sharp jump of 24.5% to Rs 7.5tn.
- The focus is on improving investment demand through enhanced public spending on infra which would crowd in private investment.
- PM GatiShakti for spurring growth. This includes seven engines: Roads, Railways, Airports, Ports, Mass Transport, Waterways, and Logistics Infrastructure.

This will have multiplier effects on growth depending on how private sector investment behaves. Besides increasing demand for related industries, the job creation potential exists.



Source: Union Budget documents, Bank of Baroda Research | BE: Budget Estimates, RE: Revised Estimates

Investment.. contd

- Projects pertaining to the seven engines under the NIP to be aligned with the GatiShakti framework under the PM GatiShakti National Master Plan.

- National Highways network to be expanded by 25,000 km in FY23. Rs 200bn to be mobilized through innovative ways to complement public spending.

- The outlay on ‘Scheme for Financial Assistance to States for Capital Investment’ has been increased to Rs 150bn in FY22RE versus Rs 100bn in FY22BE. For FY23, this has been scaled up sharply to Rs 1tn.

- For enhancing the solar capacity, additional allocation of Rs 195bn for PLI scheme for manufacturing of high efficiency modules has been made.

- PLI Scheme is also proposed to be introduced for design led manufacturing to build a strong ecosystem for 5G.

PLI has proved to be an effective way to bring in fresh investment and hence create output and employment. We believe this will be the main driver of future investment where reward is performance based

Centre's boost towards infrastructure spending

Ministry (Rs bn)	FY20	FY21	FY22BE	FY22RE	FY23BE
Telecommunications	49	44	259	55	542
Defence	1,160	1,399	1,402	1,458	1,604
Housing and Urban Affairs	193	103	258	260	273
Railways	678	1,093	1,071	1,171	1,371
Road Transport and Highways	684	892	1,082	1,213	1,877
Total GBS	**3,357**	**4,263**	**5,542**	**6,027**	**7,502**
Total IEBR excl. FCI	**4,637**	**4,936**	**4,801**	**4,133**	**3,817**

Note: Ministry-wise data shows allocation for capital expenditure under gross budgetary spending. Total GBS is not adding up because of the 'others' component.
IEBR-Internal and extra budgetary resources

Defence, railways and roads account for 65% of total capex and have been prime drivers in last few years

Source: Union Budget, Bank of Baroda Research

Banking

- Scheduled Commercial Banks to set up 75 Digital Banking Units in 75 districts. This will further the digitization of banking services across far reaching locations.

- The sunset date of ECLGS has been extended to Mar'23. The guarantee cover has been enhanced by Rs 500bn to Rs 5tn. The scope of ECLGS scheme has been widened to hospitality and related enterprises. This along with enhanced cover will support these enterprises to remain functional.

- For MSMEs, Raising and Accelerating MSME Performance (RAMP) programme will be rolled out. Also, interlinking of Udyam, e-Shram, NSC and ASEEM portal will enhance ease of operations for them.

- Revamping CGTMSE will benefit the micro and small enterprises where in a majority of them are still operating below pre pandemic levels.

Setting up digital banking units is a progressive measure and gels well with the central bank digital currency going to be introduced. ECLGS for hospitality if fully used will be equivalent to the outstanding credit to this sector. Hence this can potentially turnaround this sector.

Banking.. contd

- Green Bonds to mobilise resources to finance infrastructure. This will boost the flow of funds for infrastructure. *The clarity on concerns of standardization, valuation and benchmarking would support their issuances. Since 2016-17, there have been 19 issuances of green bonds in India which together mobilized Rs 5,819 crore.*

- Amendments to Insolvency and Bankruptcy code to enhance efficacy and facilitate cross border insolvency resolution, this will lead to seamless cross border resolution process that in turn will strengthen the recovery process. *This is good news for banks.*

- Infrastructure status to Data Centers and Energy storage systems will facilitate easy financing to the sector.

- Introduction of Central Bank Digital Currency (CBDC) will lead to greater digitization and efficient currency management system.

Financial sector

- Rs 1tn financial support to states will be provided in FY23 to catalyse investments. This would help the state to boost investment in the area of preference of respective states.

- Proposed to introduce Digital Rupee by RBI using blockchain technology, starting FY23. This would ensure India's presence in Digital currency space and will get acceptance.
  - *However, detailed modalities need to be worked out to assess its implementation.*

- PE/VC invested Rs 5.5tn in startup, expert committee will be set up to suggest measures to help attract investment. Good initiative to support investments through PE/VC setup.

- Private investment in infra will be guided by Gati Shakti. This will help to bring quality investments and generate multiple employment opportunities and lower logistics cost, improve supply chains and make local goods competitive.

Insurance & Capital markets

Insurance

- Surety bonds would be made acceptable in government procurements. This will reduce indirect cost for suppliers and work-contractors. This will support the Insurance sector growth.

Capital markets

- The LTCG has been capped at 15% for gains arising for all type of assets. This will be help the investors across asset types and in particular the start up companies.

While this is good for the market, the stock markets have not exhibited too much enthusiasm as there were expectations more on STT/CTT

Agriculture and Rural Development

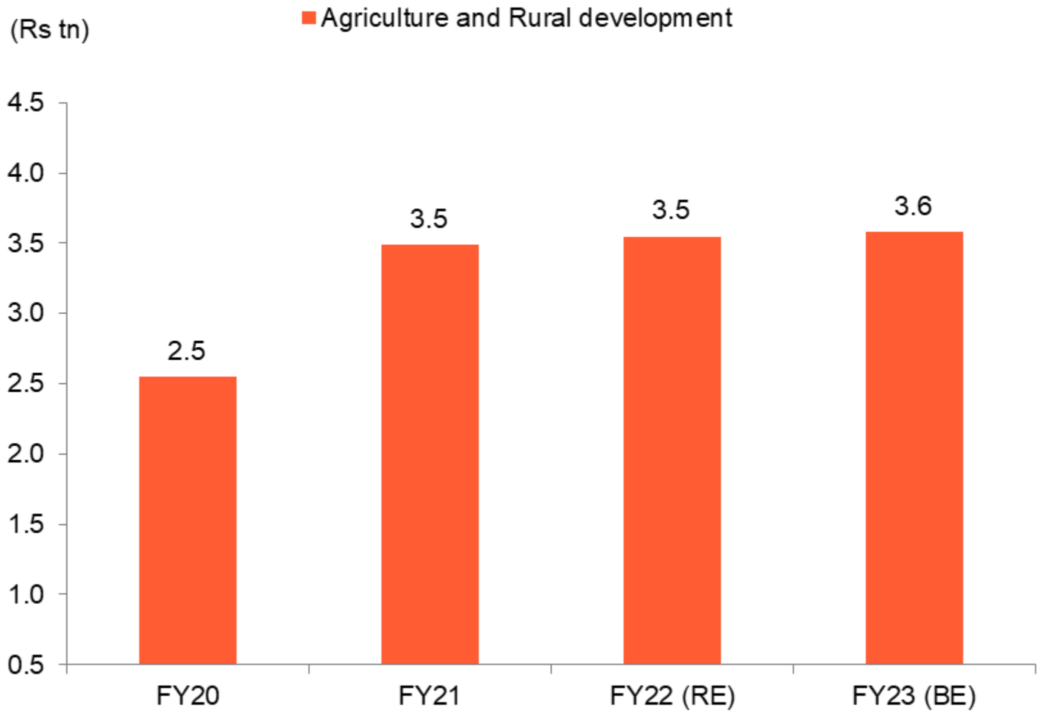
- Overall allocation for agriculture, allied sectors and rural development has been pegged at Rs 3.6tn in FY22 vs Rs 3.5tn in FY22 and Rs 2.5tn in FY20.

- In order to promote crop assessment, digitizing land records, spraying of insecticides and nutrients usage of 'Kisan Drones' has been announced.

- Ken Betwa Link Project to be implemented at a cost of Rs 446bn. The project provides benefits such as irrigation, drinking water supply along with Hydro and Solar power.

- Government is likely to pay Rs 2.37tn as a direct payment of MSP values towards procurement of wheat and paddy.

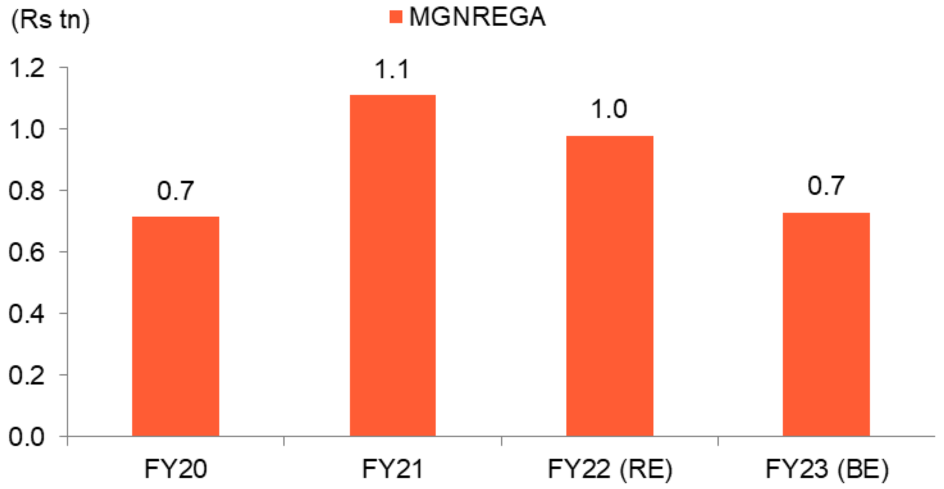
All these measures will help the logistics side of farming.

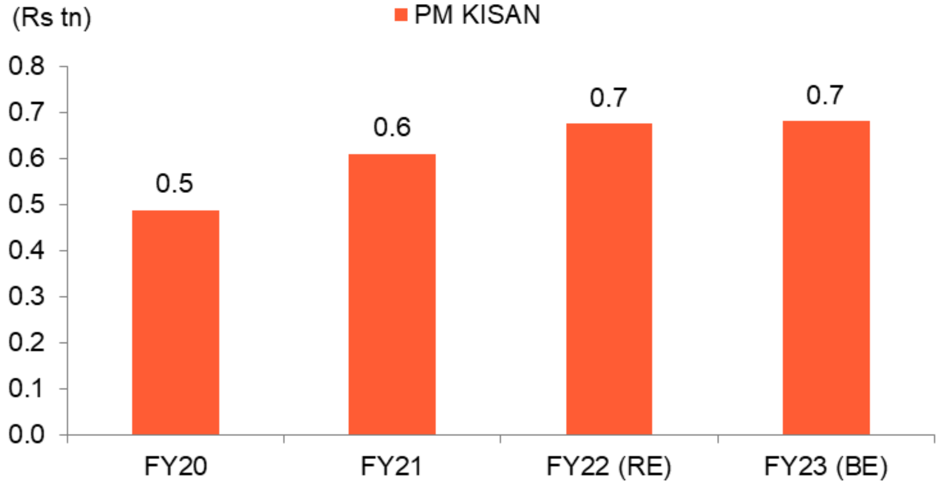


Source: Union budget documents, Bank of Baroda Research

Agriculture and Rural Development (contd..)

- Through the co-investment model which will be facilitated through NABARAD, startups will be given incentives and capital to work in the field of agriculture and rural sector.
- New Scheme to be introduced to lower the dependence on oil imports, with the objective to encourage domestic production of oil seeds.
- MGNREGA allocation has been lowered marginally. While, allocation for PM-KISAN remained stable.





Overall the budget has largely been positive for the agriculture and rural sector as the focus is on self dependency and use of digital channels to support agri value chains. The NREGA amount should be interpreted with caution as it was raised last year due to lockdown. It can be taken to be a reversion to normal.

Source: Union budget documents, Bank of Baroda Research

Corporate Taxation

- Alternate minimum tax rate for co-operative societies has been reduced to 15%, in line with what it is for companies at present. Surcharge has also been reduced to 7% from 12% earlier, for those societies having total income more than Rs 10mn and upto Rs 100mn.

- Start-ups are allowed to avail tax benefit for 3 consecutive years out of 10 years from incorporation. To avail this, start-up eligible were those incorporated upto Mar’22. This date has been extended by a year.

- A concessional tax regime of 15% tax, for newly incorporated domestic manufacturing companies was introduced earlier. To avail this benefit, last date for commencement of manufacturing or production has been extended from 31.03.2023 to 31.03.2024.

- To help members of a consortium (which are generally companies), incomes of AOPs will attract a surcharge of 15%, down from 37% earlier.

- Also, surcharge on long term capital gains arising on transfer of any type of assets will be capped at 15% versus 37% earlier.

- Businesses providing benefits to agents exceeding Rs 20,000/per year. Will be allowed to claim tax deduction for the increased amount.

These measures are likely to boost corporate savings and boost investment.

Health and Women

- National Digital Health Ecosystem an open platform will be rolled out capturing digital registries of health providers, health facilities, unique health identity along with universal access to health facilities.

- National Tele Mental Health Programme to be launched, providing a network of 23 tele-mental health centres.

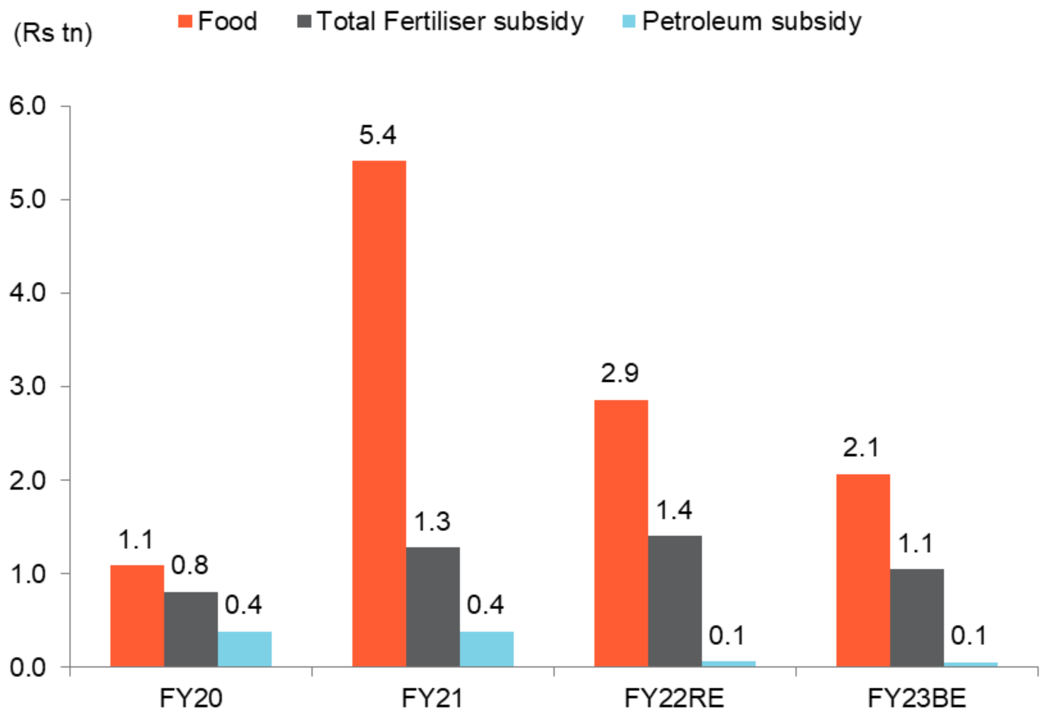
- In order to provide more benefits to women and children, 3 schemes (Mission Shakti, Mission Vatsalaya, Saksham Anganwadi and poshan2.0) have been integrated together. Two lakh Anganwadi will be upgraded through the scheme.

- Allocation of Rs 600bn to cover over 38mn households for tap water connection in FY23.

Overall it is positive, given the country has witnessed the pandemic in the last 2-years, allocation towards health expenditure is up from Rs 859bn in FY22RE to Rs 866bn in FY23BE.Thereby, signalling renewed importance towards healthcare and providing universal access for the same.

Subsidies

- Total subsidies including food, fertilizer and petroleum subsidy is likely to decline by 39% in FY22.
- However, in the next fiscal with the total subsidy bill pegged at Rs 3.2tn it will be lower by 27% in FY23.
- Allocation towards subsidies were relatively higher in FY21, as the economy was hit by pandemic. At this time, enhanced subsidies along with government schemes such as PM-GKAY, under Atmanirbhar Bharat provided requisite cushioning to support the economy.

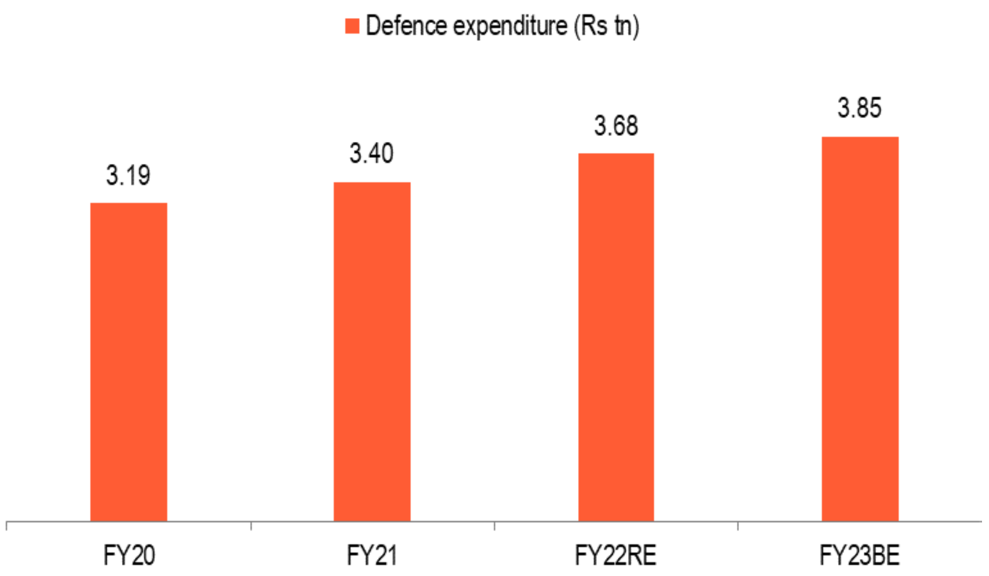


Source: Union budget documents, Bank of Baroda Research

Important message is that the free food programme now stands withdrawn. With the economy expected to return to its pre-pandemic growth, gradual moderation in subsidies was expected going forward. Need to see if fertilizers prices go up on this score.

Defence

- Defence sector has received higher allocation of Rs 3.68tn in FY22RE versus Rs 3.47tn in FY22BE.
- This has been further scaled up to Rs 3.85tn in FY23BE.
- Further, to reduce dependence on defence imports, 68% will be allocated for domestic production in FY23 up from 58% in FY22.
- 25% of the Defence R&D budget to be allocated for industry, start-ups and academia.



Source: Union Budget documents, Bank of Baroda Research | BE: Budget Estimates, RE: Revised Estimates

Higher allocation for domestic production of defence equipment is positive for manufacturing sector growth. As this happens the benefits go to domestic producers rather than foreign partners. Opening of R&D in defence to private players will encourage competition and encourage innovation and diversification.

Custom and excise duties

- Government plans to phase out the concessional rates in capital goods and project imports gradually, to a moderate tariff of 7.5%. However, exemptions for advanced machineries which are not domestically manufactured will remain. Certain exemptions on inputs, like specialised castings, ball screw and linear motion guide used for production of capital goods are being given.

- For electronic, a graded rate structure for wearable devices, hearable devices and electronic smart meters is being introduced. Concessions are also being proposed for parts of transformer of mobile phone chargers and camera lens of mobile camera module and certain other items.

- Customs duty on cut and polished diamonds and gemstones is being reduced to 5%. Simply sawn diamond would attract 0% customs duty. Customs duty on imitation jewellery is being prescribed in a manner that a duty of at least Rs 400/kg is paid on its import.

- To facilitate export of jewellery through e-commerce, a simplified regulatory framework shall be implemented by Jun’22.

Custom and excise duties.. contd

- Customs duty on certain critical chemicals namely methanol, acetic acid and heavy feed stocks for petroleum refining are being reduced. Increase in duty on sodium cyanide.

- Duty on umbrellas is being raised to 20%. Further, duty exemption to parts of umbrellas is being withdrawn.

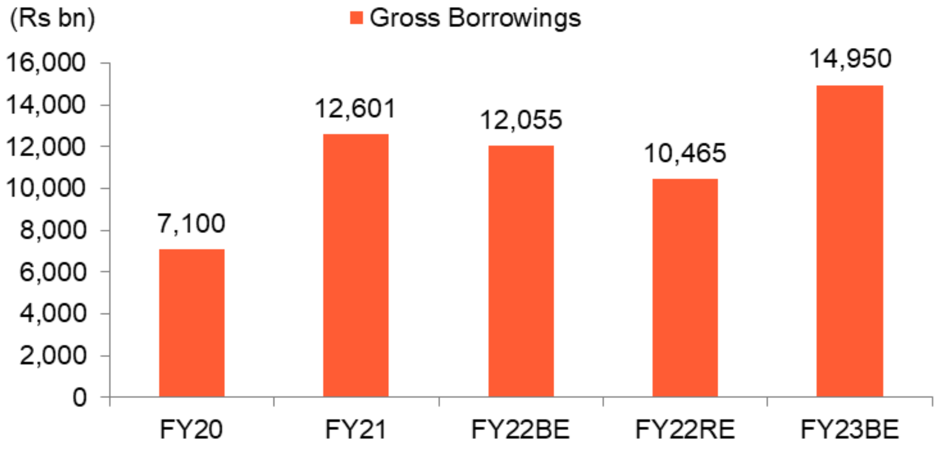
- For the steel sector and MSME, customs duty exemption on steel scrap is extended for another year. Further, anti- dumping and CVD on stainless steel and coated steel flat products, bars of alloy steel and high-speed steel are being removed.

- Duty exemptions has been given to items such as embellishment, trimming, fasteners, buttons, zipper, lining material, specified leather, furniture fittings and packaging boxes for exporters of handicrafts, textiles and leather garments, leather footwear and other goods.

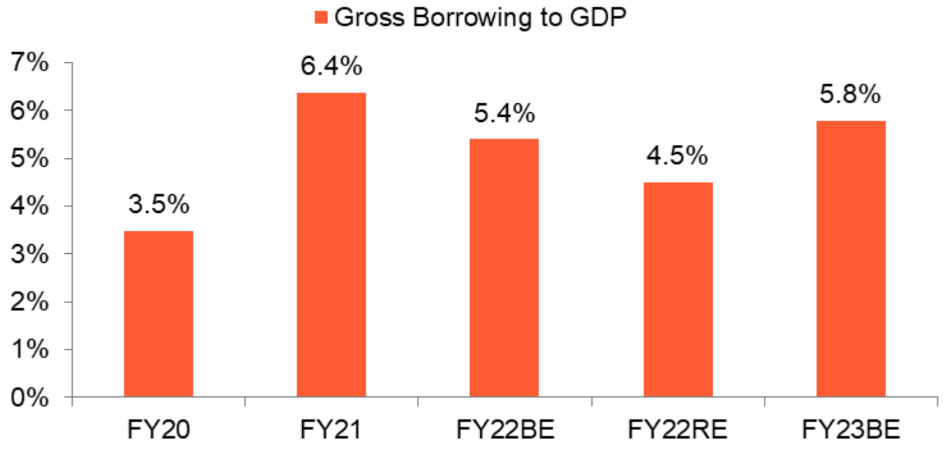
Government's focus is on reducing import dependence and promote domestic manufacturing. Capital goods production is likely to get a boost from these measures. Further, duty exemptions on certain chemicals and precious stones which serve as inputs, is also positive for domestic manufacturing.

Borrowing profile of the government

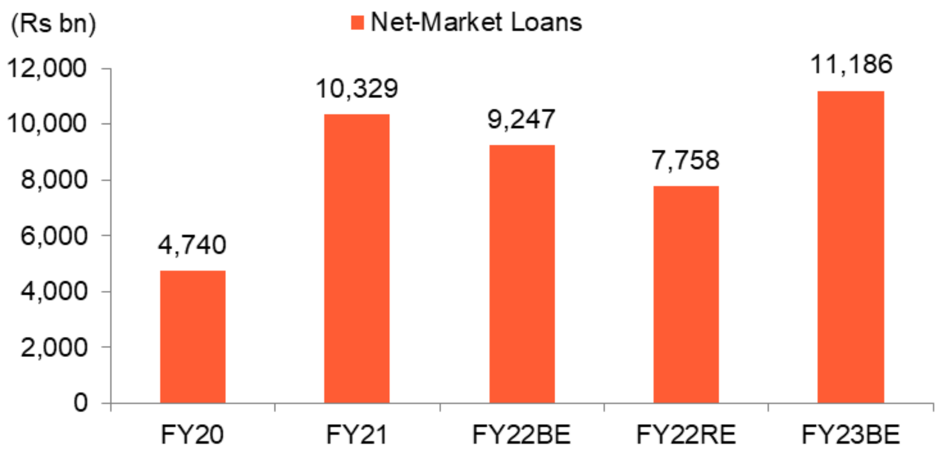
Gross borrowing is expected to rise to a whooping of Rs 14.95tn in FY23



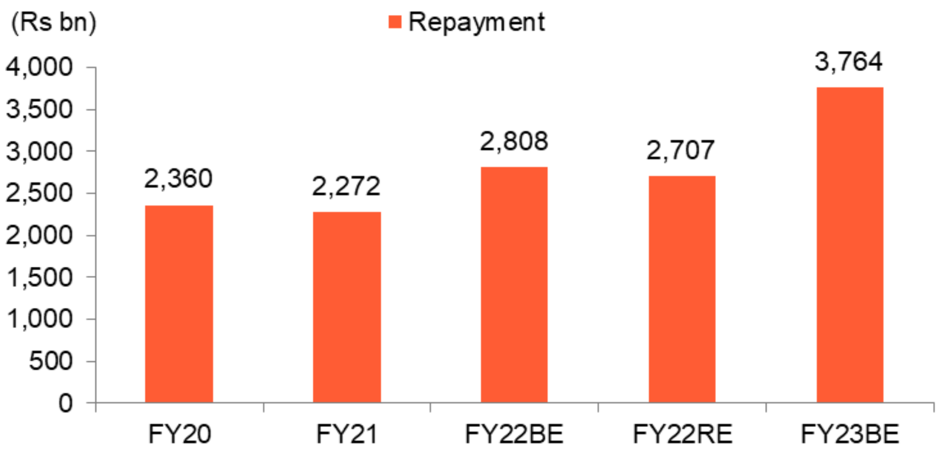
Gross Borrowing to GDP increased by 5.8% despite assuming 11% nominal GDP growth



Net borrowing is also far higher at Rs 11.18tn



This is despite higher repayment of Rs 3.76tn



Source: Union Budget, Bank of Baroda Research

Centre's Debt Profile

(Rs bn)	FY20	FY21	FY22BE	FY22RE	FY23BE
Gross Borrowings	**7,100**	**12,601**	**12,055**	**10,465**	**14,950**
Repayments	-2,360	-2,272	-2,808	-2,707	-3,764
Net-Market Loans	**4,740**	**10,329**	**9,247**	**7,758**	**11,186**
Net-Short Term Borrowings	1,501	2,032	500	1,000	500
Net-Securities against Small Savings (NSSF)	2,400	4,837	3,919	5,915	4,254
Fiscal Deficit (FD)	**9,337**	**18,183**	**15,068**	**15,911**	**16,612**
Gross Borrowings/FD	76.0%	69.3%	80.0%	65.8%	90.0%
Net Borrowing/FD	50.8%	56.8%	61.4%	48.8%	67.3%
Net-Short Term Borrowings/FD	16.1%	11.2%	3.3%	6.3%	3.0%
NSSF/FD	25.7%	26.6%	26.0%	37.2%	25.6%

Source: Union Budget, Bank of Baroda Research

Liabilities and rates

- In FY23BE, gross borrowing is estimated at Rs 14.95tn against Rs 10.47tn in FY22RE. Even repayments are likely to be higher at Rs 3.76tn compared to Rs 2.7tn in FY22RE.

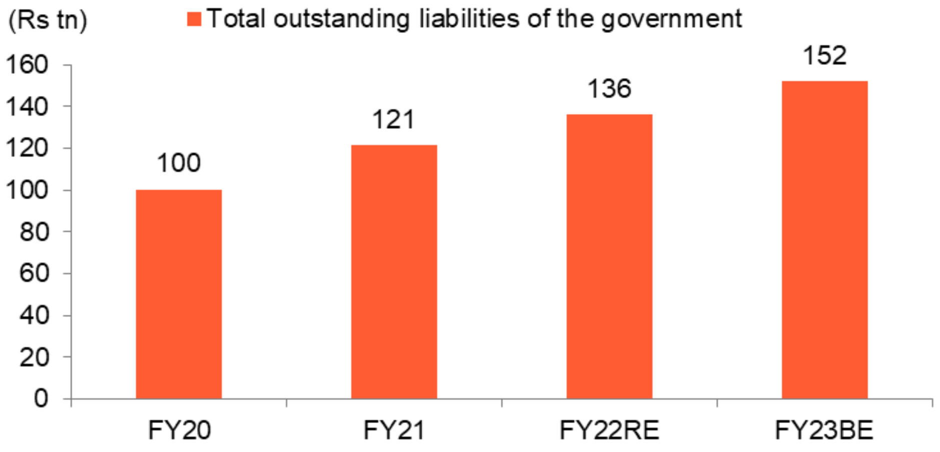
- Total liabilities of the central government is likely to go up sharply to Rs 152tn in FY23 from Rs 136tn in FY22.

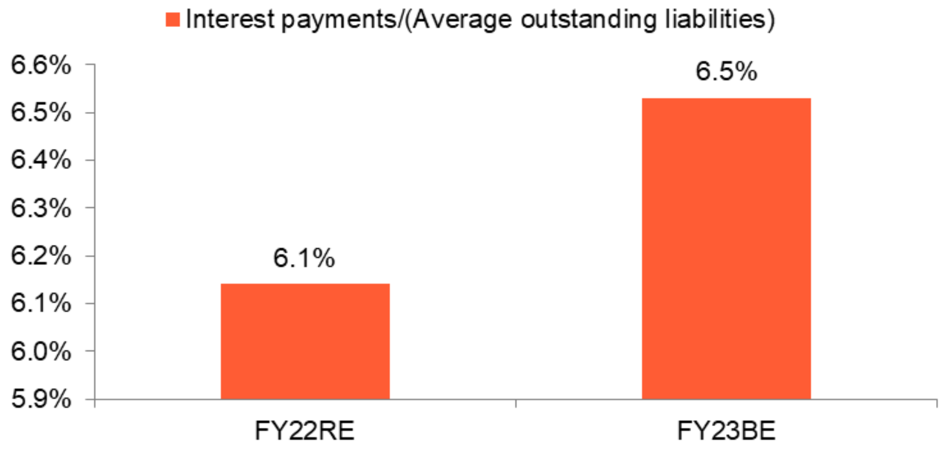
- Interest cost is also likely to be elevated at Rs 9.4tn in FY23BE against Rs 8.14tn in FY22RE.

- This is likely to put pressure on yield.

- Interest payment/Average outstanding liabilities also indicate similar assessment.

- We expect 10Y Gsec to touch the 7% mark in FY23.





Source: Union budget documents, Bank of Baroda Research

Budget Snapshot

Macro Impact		
Growth	↑	
Investment	↑	
Consumption		—
Savings		—
Inflation	↑	
Interest Rates	↑	
Debt to GDP Ratio	↑	
Digitisation	↑	
Electronic Vehicles, Defence, Solar Power	↑	
Roads, Railways and Housing	↑	
Trade, hotels and MSME	↑	

Note: Upside risks persist on inflation, debt-GDP and interest rates; impact on consumption and savings remain neutral

Thank You

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