Budget 2022: Growth-oriented Budget focuses on green energy, fiscal deficit, PSU divestment, green bonds

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Union Finance Minister Nirmala Sitharaman presented a growth-oriented budget in the Parliament today. Analysts say that this year's budget showed a modest fiscal consolidation. The government also emphasised on infrastructure building through the PM Gati Shakti scheme, increase in outlay on capital expenditure by around 36% to Rs 7.50 lakh crore, thrust on the digital ecosystem, support for start-up ecosystem, renewable energy, electric vehicles, etc. FM Sitharaman said that as a part of the government's overall market borrowings in 2022-23, sovereign Green Bonds will be issued for mobilizing resources for green Infrastructure. On the LIC IPO, FM said that in all probability, LIC IPO will be happening this year. FM also proposed to introduce Digital Rupee, using blockchain and other technologies, which will be issued by the Reserve Bank of India starting 2022-23.

Prioritising the growth revival, FM Sitharaman today presented a budget that showed modest fiscal consolidation. Revenue targets look credible, and given the strong growth recovery, we see limited risks of a slippage next fiscal year. Setting realistic revenue targets and prioritising the growth revival, Finance Minister Nirmala Sitharaman presented the budget for FY22-23 proposing only a modest fiscal consolidation. The FY 21-22 fiscal deficit target was broadly retained at 6.9% of GDP, with the FY22-23 fiscal deficit pegged at 6.4% of GDP, a modest consolidation. The government maintained its intention to meet the medium-term fiscal deficit consolidation glide path – expressing confidence of over reducing the fiscal deficit to 4.5% of GDP by end of FY25-26. Tax revenues are expected to grow by 9.6% y/y. Total expenditure was projected to increase by 4.6% y/y, with capital expenditure being the key priority, growing by 35.4% over prior budget estimates of FY2021-22. Overall, we believe the government has maintained a conservative approach, opting not to undertake any outright growth-supportive policies while constraining any optimism on revenue projections. Given the likely strong growth recovery currently underway, we see minimal risks of fiscal slippage for next year.

Rajee R, Chief Ratings Officer, Brickwork Ratings

The growth-oriented Union Budget 2022-23 has buoyed overall sentiments and provided an ambitious blueprint for the next 25 years. Emphasis on infrastructure building through the PM Gati Shakti scheme, increase in outlay on capital expenditure by around 36% to Rs 7.50 lakh crore, infra spends in PPP mode, steps for urban capacity building, thrust on the digital ecosystem, support for start-up ecosystem, renewable energy, electric vehicles, chemical-free farming etc. are positive steps in steering the nation to India@100. There is a good balancing act between fiscal consolidation and growth prioritisation. Extension of Emergency Credit Line Guarantee Scheme (ECLGS) scheme by a year to March 2023 and increase in outlay by Rs 50,000 crore are welcome announcements, expected to significantly help the MSME sectors and the hospitality sector specifically, by aiding the sector's financing needs. BWR expects that the various announcements will have a positive impact on the country's growth agenda.

Arindam Guha, Partner & Leader, Government & Public Services Deloitte India:

The Gati Shakti initiative features at the center stage of Budget 2022-23, highlighting the importance of quality multi-modal transport in achieving overall cost competitiveness. With global studies pegging India's average logistics costs at around 14% of GDP as against 8-9% for advanced economies, this is clearly a factor which needs to be addressed for attracting quality anchor investors across sectors. In addition to significantly increasing the outlay for multi-modal infrastructure development, the Budget has also called out technology as a key enabler not only for timely completion of projects but also streamlining logistics related regulatory processes. Infrastructure financing has also been mainstreamed in the current budget, with particular focus on environment and sustainability, as evident from the announcement around green bonds, focus of NIIF and NSIC Fund of funds on the renewables sector etc. For the rural economy and social sector in particular, the Budget also refers to blended finance as an option. This would again be linked to the Social Stock Exchange – an initiative which had been announced earlier by the Government. It remains to be seen how some of these measures are implemented.

Suman Chowdhury, Chief Analytical Officer, Acuité Ratings & Research

On Fiscal Deficit: In line with our expectations, the revised fiscal deficit for FY22 has been assessed at 6.9%, slightly higher than the budgeted print. In our opinion, this reflects the uncertainty on the LIC IPO and also the back loaded revenue and capital expenditure in FY22. With the significant jump in outlay for capex in FY23, the reduction in the fiscal deficit is budgeted to be only moderate at 6.4% next year. This will imply a significant quantum of gross govt borrowings as in the current year and will maintain the firmness in bond yields which have already seen a spike.

On Green Bonds: One of the interesting initiatives in the Union Budget 2022 is the plan to issue Sovereign Green Bonds to fund clean energy and green infrastructure projects undertaken by the public sector. The green bond market is globally expanding at a fast pace and this will help India access long term funds at a competitive rate. This will also improve the ESG climate in the country.

On PSU disinvestment: Union Budget 2020 has moderated the expectations regarding the PSU disinvestment and the asset monetization programme. While the initial budgeted revenue target was Rs 1,75,000 Cr for FY22, it has been substantially scaled down to Rs. 78,000 Cr and highlights the uncertainty regarding the LIC IPO. Going forward, a moderate amount of Rs. 65,000 Cr has been earmarked for FY23 which is more realistic given the time frame taken for such transactions. It is evident that the government is unlikely to pursue PSU disinvestment in an aggressive manner over the next 1-2 years.