FM likely to focus on growth, may announce steps for sovereign bond inclusion in global indices

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Synopsis
The markets are keenly watching for fiscal balance that the government is able to achieve between the need to spend more and to reduce deficit

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He has over 20 years of experience in the investment management industry. Prior to Bajaj Allianz, he was fund manager at Principal Mutual Fund. He has also worked as equity research analyst with HSBC Securities and ABN Amro Asia Equities during his long innings in the industry.

Finance Minister Nirmala Sitharaman will present the highly-awaited Union Budget for FY2023 next week. The industry and market are eager to see how the government charts its course to come out of the Covid scenario and return the country to the desired growth rate on a sustained basis. One of the positive aspects of Budget 2021 was the clean-up of off-balance sheet finances and the government is expected to continue the same path while showing fiscal consolidation given elevated debt levels.

Previous two years' stringent lockdowns had forced the government to alter its spending pattern somewhat and increase the focus on the social sector to alleviate the impact of the disruptions. During FY2022 and FY2023, the government spent substantial sums on subsidies and sops to support the economy. While the nationwide lockdown is behind us and the economy is on a growth path, the government is expected to turn its attention back to its key areas of infrastructure development and promoting the manufacturing sector for job creation.

The PLI Scheme, having an outlay of Rs 2.5 trillion across various sectors and spread over a tenor of 3-6 years has seen initial success. The government is likely to increase the allocation for the scheme and might add a few sectors to this list in order to further boost the domestic manufacturing sector.

Developing a strong renewable energy and EV (including charging infrastructure) sector has become important for India to meet its carbon emission targets and hence could be a special focus area. The earlier initiatives on digital and startup economy driven by the Prime Minister have also seen good success with the creation of several unicorns in India, and the impetus on the same is likely to continue in this budget as well. As a result of these initiatives India has been successful in attracting sizable FDI from global investors in the digital economy every year.

The markets are also keenly watching for fiscal balance that the government is able to achieve between the need to spend more and to reduce deficit. Tax collections, both direct and indirect, have been strong this year on the back of healthy corporate taxes and GST collections, and are further expected to increase at about the nominal GDP growth of 12-14 per cent for FY2023.

Even though the government has missed the divestment targets, the overall deficit is expected to be within the budgeted target due to strong tax revenues. On the expenditure side capex was a focus area in the previous budgets given the higher multiplier effect on the economy, and we expect the similar trend to continue in this budget as well with higher growth in capex spending as compared to revenue expenditure.

From a fiscal deficit of 4.6 per cent in the pre-pandemic year of FY2020, the deficit increased to 9.2 per cent and 6.8 per cent in FY2021 and FY2022, respectively. The government is likely to gradually consolidate its fiscal position and reduce the deficit to 6 per cent in FY2023 and provide a further path for faster consolidation in coming years.

The gross central government borrowings would cross Rs 12 trillion for the third year in a row due to the large deficits. The market appetite for such large borrowings is limited and the government may explore alternative sources of finances such as borrowings from overseas investors.

The Finance Minister is expected to announce steps that would enable the inclusion of Indian sovereign bonds in global bond indices which would help in attracting a good amount of foreign capital.

The government is taking various reform measures outside of the budget to take India to a USD 5 trillion economy and this budget is expected to lay down the path to accelerate the pace of economic growth.

(The author is Chief Investment Officer at Bajaj Allianz Life Insurance. The views expressed in this article/note are not to be construed as investment advice and readers are suggested to seek independent financial advice before making any investment decisions)