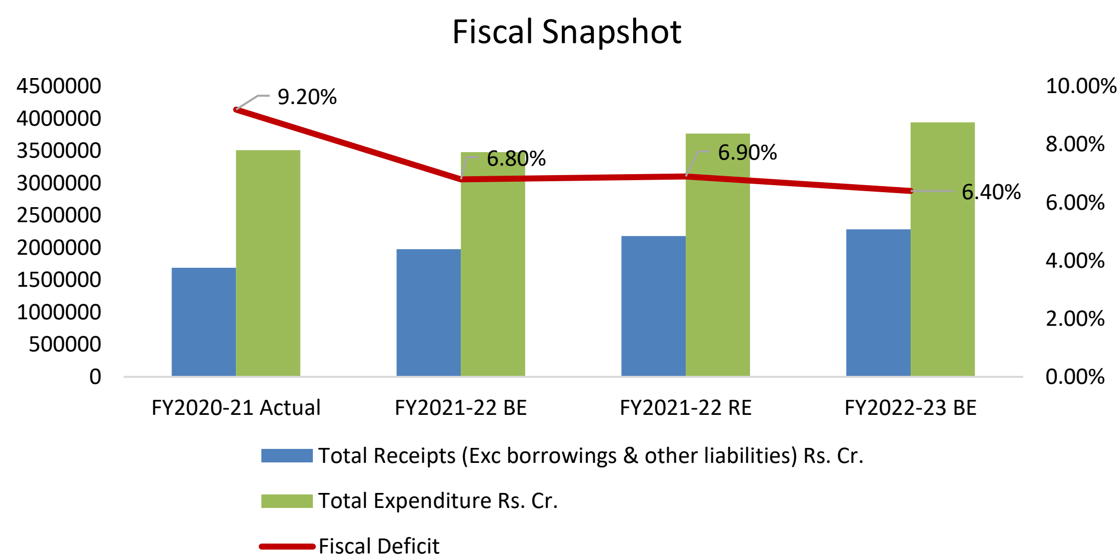
STCI
Primary Dealer Ltd

Union Budget 2022-23: A Review

The Union Budget was presented in the Parliament by the Finance Minister on February 1, 2022. The Budget brought in a heavy shock for the bond market as the market borrowing announced for FY2022-23, was significantly higher than the market expectations. Also, absence of cues with respect to inclusion of IGBs in global bond indices significantly dampened market sentiments. With respect to the allocation of budget resources, the Government has emphasized on a heavy capital spending push similar to current financial year, by assigning almost 20% of total expenditure to the capital expenditure, higher than the average of previous three years at 14%. The optimistic capital expenditure aim set by the Government at Rs. 7.50 Lakh Crore, if achieved would garner exponential growth benefits to the economy in the medium and long term by way of enhanced multiplier effects.

The Government has pegged total expenditure at Rs. 39.4 Lakh Crore (Rs. 37.7 Lakh Crore FY2021-22 BE), total receipts excluding borrowing and other liabilities at Rs. 22.8 Lakh Crore (Rs. 21.8 Lakh Crore FY2021-22 BE). For FY2022-23, the Government has assumed nominal GDP growth at 11.1%, however, lower than the broader market expectations of ~13%. The fiscal deficit for FY2021-22 was revised marginally upwards to 6.9% and the fiscal deficit for FY2022-23 was pegged at 6.4%.



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I. Revenue Side

The growth in total receipts for FY2022-23 is estimated at 4.6% compared to the revised estimate of 7.4% for FY2021-22. Revenue from tax collections (net) comprise close to 90% of the total revenue receipts of the Government. For FY2022-23BE, the overall growth in net tax revenue is pegged at a modest 9.6%, compared to a growth of 14.9%

assumed in FY2021-22BE. The revised estimates for FY2021-22, however, indicate a robust growth of 23.8% in net tax revenues, thereby surpassing the budget estimates by almost Rs. 2.20 Lakh Crore. For FY2022-23, the growth estimates seem to be conservative and the possibility of the actual numbers surpassing the budget estimates like in the current financial year, cannot be ruled out. The lower estimated growth for taxes is also attributable to contraction of 15% in Union Excise Duty for FY2022-23 which is reasonable as the Central Government reduced the Union Excise Duty on both petrol and diesel in the first week on November 2021.

Overall, the direct taxes are expected to grow at 13.6% in FY2022-23 (32.5% in FY2021-22 RE), with corporation tax growth at 13.4% (38.7% FY2021-22 RE) and income tax at 13.8% (26.2% in FY2021-22 RE). The GST collections are expected to grow at 15.6% in FY2022-23, as compared to the revised growth of 23.0% in FY2021-22.

Table 1: Government Receipts (in Rs Cr)

	Actual	BE	RE	BE
	FY2020-21	**FY2021-22**	**FY2021-22**	**FY2022-23**
Revenue Receipts	**16,33,920**	**17,88,424**	**20,78,936**	**22,04,422**
Tax Revenue (Net)	14,26,287	15,45,396	17,65,145	19,34,771
Non-Tax Revenue	2,07,633	2,43,028	3,13,791	2,69,651
Capital Receipts	**18,75,916**	**16,94,812**	**16,91,064**	**17,40,487**
Recovery of loans	19,729	13,000	21,975	14,291
Other Receipts	37,897	1,75,000	78,000	65,000
Borrowings and Other Liabilities	18,18,291	15,06,812	15,91,089	16,61,196
Total Receipts	**35,09,836**	**34,83,236**	**37,70,000**	**39,44,909**

Source: Union Budget Documents, STCI PD Research

Non-tax revenue of the Centre includes interest receipts, dividends & profits and other receipts like proceeds from railways, communications etc. The Government estimates a contraction of 14.1% in FY2022-23 as compared to revised growth of 51.1% in FY2021-22. The fall in non-tax revenue projected for the next financial year is largely attributable to lower estimation of interest receipts, dividends and profits at Rs. 1.32 Lakh Crore as compared to the revised estimate of Rs. 1.68 Lakh Crore.

Non-Debt Capital receipts include recoveries of loans and advances and miscellaneous capital receipts which include proceeds from divestment of government's equity stake. The government has been largely unsuccessful in achieving the divestment target for FY2021-22. The target for divestment in FY2021-22 was revised significantly downwards from the budget estimates, from Rs. 1.75 Lakh Crore to Rs. 0.78 lakh Crore. The budget estimate for FY2022-23 is reckoned at Rs. 0.65 Lakh Crore. The disinvestment proceeds indicated by FY2021-22 RE and FY2022-23 BE again seem conservative given that the mammoth LIC IPO which is expected to a have a value close to Rs. 1 Lakh Crore, does not justify the numbers given for both the years. It remains to be seen how the LIC IPO pans out either in this year or the next year, which could give some comfort to the fiscal position.

Table 2: Tax Break - Up (In Rs Cr)

	Actual	BE	RE	BE
	FY2020-21	**FY2021-22**	**FY2021-22**	**FY2022-23**
Gross Tax Revenue	**20,27,104**	**22,17,059**	**25,16,059**	**27,57,820**
Corporation Tax	4,57,719	5,47,000	6,35,000	7,20,000
Taxes on Income	4,87,144	5,61,000	6,15,000	7,00,000
Wealth Tax	12	-	-	-
Customs	1,34,750	1,36,000	1,89,000	2,13,000
Union Excise Duties	3,91,749	3,35,000	3,94,000	3,35,000
Service Tax	1,615	1,000	1,000	2,000
Goods and Services Tax	5,48,778	6,30,000	6,75,000	7,80,000
Taxes on Union Territories	5,336	7,059	7,059	7,820
Less - Transfers to Funds	5,820	6,100	6,130	6,400
Less - State's share	5,94,997	6,65,563	7,44,785	8,16,649
Less state's share adjustment	-	-	-	-
Centre's Net Tax Revenue	**14,26,287**	**15,45,396**	**17,65,144**	**19,34,771**
Source: Union Budget Documents				

II. Expenditure Side

The Union Budget FY2022-23 was centered around the idea of crowding-in private investment through a significant push to public investment. This seems to be the key mantra of the Finance Minister for next year's planning. While total expenditure at Rs. 39.44 Lakh Crore has grown by ~4.6% over the current year's revised estimates. The increase can be laregly attributed to a significant jump of 24.5% in captial expenditure over FY2021-22 RE. A significant push to medium term growth by way of increasing capital expenditure has been enivasged in the budget. This is clearly in the context laid down by the Finance Minster of achiveing goals for India from @75 to @100, a period of 25 years, rather a long term scenario than a medium term. Much of the increased spending on the capital side is to be in the areas of defence, telecommunications, railways and road transport and highways which accounts for almost 71% of the total capital expenditure. While other important sectors where investment is crucial has been lacklustre like heatlh, and energy. Also, in terms of revenue expenditure interest payments constiute a large part, worth Rs 9.41 Lakh Crore as compared to a FY2021-22 RE of Rs. 8.14 Lakh Crore.

Table 3: Expenditure Break Up in Rs. Crore				
	Actuals	BE	RE	BE
	FY2020-21	FY2021-22	FY2021-22	FY2022-23
Revenue Expenditure	30,83,519	29,29,000	31,67,289	31,94,663
Capital Expenditure	4,26,317	5,54,236	6,02,711	7,50,246
Total Expenditure	**35,09,836**	**34,83,236**	**37,70,000**	**39,44,909**
Key Expenditure				
Interest payments	6,79,869	8,09,701	8,13,791	9,40,651
Defence	3,40,094	3,47,088	3,68,418	3,85,370
Pension	2,08,473	1,89,328	1,98,962	2,07,132
Food Subsidy	5,41,330	2,42,836	2,86,469	2,06,831
Education	84,219	93,224	88,002	1,04,278
Transport	2,16,795	2,33,083	3,25,443	3,51,851
Source: Union Budget Documents				

The government has increased its capital spending by ~Rs. 1.50 Lakh Crore in this budget i.e from Rs. 6.03 Lakh crore in FY2021-22 to Rs. 7.50 Lakh Crore in FY2022-23, with a view to crowd in private investment, although expenditure on crucial itmes like health, rural development, urban development, food subsidy, agriculture are not significant in the light of the overall budget tone. A notable increase of Rs. 0.51 Lakh Crore has been annoucned for IT & Telecom for FY2022-23 from FY2021-22 RE. In addtion to this, increases in spending for transport and education have been significant at Rs. 0.26 Lakh Crore and Rs. 0.16 Lakh Crore respectively.

Table 4: Expenditure on Major Schemes (in Rs. Cr.)				
	Actual FY2020-21	BE FY2021-22	RE FY2021-22	BE FY2022-23
Core of the Core Schemes				
Mahatma Gandhi National Rural Employment Guarantee Program	1,11,170	73,000	98,000	73,000
National Social Assistance Program	42,443	9,200	8,730	9,652
Core Schemes				
Green Revolution	9,748	13,408	8,889	-
Jal Jeevan Mission	10,998	50,001	45,011	60,000
Pradhan Mantri Awas Yojna	40,260	27,500	47,390	48,000
Pradhan Mantri Gram Sadak Yojana	13,688	15,000	14,000	19,000

Pradhan Mantri Krishi Sinchai Yojana	7,877	11,588	12,706	12,954
Pradhan Mantri Jan Aarogya Yojna(RSBY)	2,681	6,401	7,500	7,857
Swatch Bharat Mission (Gramin)	4,945	9,994	6,000	7,192
National Health Mission	37,478	37,130	34,947	37,800
National Education Mission	28,088	34,300	30,796	39,553
Major Central Sector Schemes				
Crop Insurance Scheme	14,161	16,000	15,989	15,500
Pradhan Mantri Kisan Samman Nidhi	60,990	65,000	67,500	68,000
Urea Subsidy	90,549	58,768	75,930	63,222
Nutrient Based Subsidy	37,372	20,762	64,192	42,000
Food Subsidy to Food Corporation of India under National Food Security Act	4,62,789	2,02,616	2,10,929	1,45,920
Procurement of Food grains under NFSA	78,338	40,000	75,290	60,561
Source: Union Budget Documents				

Subsidies: Overall subsidy expenditure has been moderated as compared to the previous year which augurs well for public finances though it shall put pressure on the farmers and the poor to whom the subsidy would have provided relief in these trying times of the pandemic. On an aggregate basis, the government has moderated the overall subsidy payout from Rs. 4.33 Lakh Crore in FY2021-22 to Rs. 3.17 Lakh Crore in FY2022-23, implying a total reduction in the subsidy bill of Rs. 1.15 Lakh Crore. This should augur well for government finances and can be construed as the resources diverted more towards capital spending rather spending on subsidy payouts. This would indicate that if the government follows the spending pattern as laid out in the present budget the quality of expenditure would be beneficial to the economy in the medium term as it would lead to an enhanced multiplier effect.

III. Sources of Financing Fiscal Deficit

Fiscal deficit for FY23 is estimated at Rs. 16.61 Lakh Crore (6.4% of GDP) compared to revised estimate of Rs. 15.91 Lakh Crore for FY22 (6.9% of GDP). There has been a revision of the fiscal deficit for the current financial year from a budget estimate of Rs. 15.06 Lakh Crore to Rs. 15.91 Lakh crore in the revised estimates for FY2021-22. This revision is due to an increase in overall expenditure by Rs. 2.87 Lakh Crore against lower receipts (excluding borrowing and other liabilities) by Rs. 2.02 Lakh Crore, largely due to a sharp downward revision of disinvestment proceeds.

Net market borrowing (G-Sec +T Bills), the prominent source of financing, accounted for 55% of the fiscal deficit as per the revised estimates for FY2021-22. The ratio of net borrowing/fiscal deficit has been significantly revised downwards for FY2021-22 when compared to the previous three year's average of ~65%, as the Government carved out the additional borrowing of Rs. 1.59 Lakh Crore which was given as back-to-back loans to States and UTs for GST compensation cess shortfall from the overall borrowing instead of issuing additional securities. Within market borrowings, Rs 7.76 Lakh Crore is estimated to be raised via dated securities and Rs. 1.00 Lakh Crore via T-bills.
For FY2022-23, the Government expects to finance 70% of the fiscal deficit through net market borrowings. The increase in average auction size for dated securities could result in sharp hardening of yields.

Table 5: Sources of Financing the Fiscal Deficit

		FY2020-21 (Actual)	FY2021-22 (BE)	FY2021-22 (RE)	FY2022-23 (BE)
	Debt Receipts				
1	Market Borrowings (net)	12,39,737	9,67,708	8,75,771	11,58,719
	Dated (net)	10,32,907	9,24,708	7,75,771	11,18,612
	T-Bills (net)	2,83,205	50,000	1,00,000	50,000
	CMBs (net)	-80,000	0	0	0
	Buy-Back (Less)	0	0	0	0
	Net-Post Office Life Insurance	0	-7,000	0	-9,894
2	Securities Against Small Savings	4,83,733	3,91,927	5,91,524	4,25,449
3	State Provident Funds	18,514	20,000	20,000	20,000
4	Other receipts	13,315	54,280	-90,140	37,025
5	External Debt	70,180	1,514	19,746	19,251
6	Draw down of cash balance	-7,188	71,383	1,74,187	752
7	Fiscal Deficit (Sum of 1 to 6)	**18,18,291**	**15,06,812**	**15,91,089**	**16,61,196**

Source: Union Budget Documents

In other major sources, for FY2021-22 the Government expects to finance 37% of the fiscal deficit by issuing securities against small savings account and about 11% through drawing down cash balance to the tune of Rs. 1.74 Lakh Crore. For FY2022-23, the securities against small savings is given about 26% of weightage for financing the fiscal deficit, which is almost 10% lower than the current year. Also, the Government estimates draw down of cash of Rs. 752 Crore for FY2022-23.

IV. Market Borrowings

The borrowing programme for FY2021-22 was left unchanged at Rs. 12.06 Lakh Crore. The gross borrowing was however, divided into two parts, the market borrowing which stood at Rs. 10.47 Lakh Crore and back-to-back loans to the tune of Rs. 1.59 Lakh Crore passed unto the States and UTs for GST compensation cess shortfall. So effectively, the Government did not issue additional bonds for Rs. 1.59 Lakh Crore, as it adjusted the amount from the total gross borrowing budgeted at the beginning of the year. For FY2022-23, the Government pegged gross market borrowing at Rs. 14.95 lakh Crore, thereby surpassing the market expectations by a huge margin. Similar to current financial year, the Government has not budgeted any buybacks for the next year. The Budget has estimated conversion of securities of Rs. 1.00 Lakh Crore for FY2022-23. For FY2021-22, the revised estimate for conversions stand at Rs. 1.20 Lakh Crore, lower than the actual conversion done till date of Rs. 1.97 Lakh Crore. It appears so, that the budget document has not accounted for the switch done by the Government with the RBI on January 28, 2022. Similarly, for the redemptions accounted for FY2022-23, seems to be overstated by Rs. 0.64 Lakh Crore, which is attributable to the switches done in the securities maturing in FY23. If we account for the above-mentioned amount, the gross borrowing should then be Rs. 14.31 Lakh Crore.

Table 6: Market Borrowings (in Rs Cr)				
	Actual	**BE**	**RE**	**BE**
	FY2020-21	**FY2021-22**	**FY2021-22**	**FY2022-23**
Gross Market Borrowings (1+2)	12,60,116	12,05,500	10,46,500	14,95,000
1. Net Market Borrowings	10,32,908	9,24,708	7,75,771	11,18,612
2. Redemption	-2,27,208	-2,80,792	-2,70,729	-3,76,388
Borrowing for providing back to back loan to States and UTs for GST compensation cess shortfall	1,10,208	-	1,59,000	-
Source: Union Budget Documents				

The net T-bills issuance is pegged at Rs. 1.00 Lakh Crore in FY2021-22RE and Rs. 0.50 crore FY2021-22BE.

Table 7: T-Bills Issuances and Redemptions (in Rs. Cr.)				
	Actual	**BE**	**RE**	**BE**
	FY2020-21	**FY2021-22**	**FY2021-22**	**FY2022-23**
14 Day				
Gross	37,45,790	36,04,160	38,75,631	40,69,412

Redemptions	-36,95,125	-36,04,160	-38,75,631	-40,69,412
Net	50,665	0	0	0
91 Day				
Gross	7,43,488	6,83,812	9,09,768	8,21,251
Redemptions	-7,32,775	-6,56,246	-8,02,465	-8,43,271
Net	10,713	27,566	1,07,303	-22,019
182 Day				
Gross	4,88,607	4,50,843	4,45,465	5,04,945
Redemptions	-5,07,350	-3,66,158	-3,94,426	-4,68,945
Net	-18,743	84,685	51,038	36,000
364 Day				
Gross	4,58,240	3,93,543	3,99,899	4,35,918
Redemptions	-2,17,670	-4,55,794	-4,58,240	-3,99,899
Net	2,40,570	-62,251	-58,341	36,019
Total T-Bills Net	2,83,205	50,000	1,00,000	50,000
Source: Union Budget Documents				

The Government has removed both Cash Management Bills and Ways and Means Advances from FY2021-22RE. The Government has however, budgeted CMB issuances to the tune of Rs. 1.0 Lakh Crore and WMA at Rs. 5.0 Lakh crore for FY2022-23.

The significantly higher than expected borrowing number dampened the market sentiments as yields sharply hardened by ~12-18 bps. If the Government plans to front load the borrowing by roughly allocating 60% in H1 FY2022-23, the average auction size for dated securities would be ~Rs. 33,000-35,000 Crore.

V. Conclusion

The budget has revised the FY2021-22 fiscal deficit to 6.9% of GDP from the earlier 6.8%, while next financial year will see a fiscal deficit of 6.4% of GDP. The nominal GDP growth estimate at 11.1% for FY2022-23 appears to be conservative if not too conservative. The prominent theme of the budget for FY2022-23 appears to make conservative estimates on revenue and in addition to indicate that the quality of expenditure has been significantly improved by way of enhancing capital expenditure as compared to revenue expenditure. The nature of the increase in capital expenditure at least for this year would lead to some doubt, as much of the increase of Rs. 0.48 Lakh Crore is largely attributed to the paying off of the outstanding liabilities of Air India. For FY2022-23 the significant increase in capital expenditure to the tune of Rs. 1.50 Lakh crore estimated to be spent largely on telecommunications, defence, railways, road transport and highways is expected to manifest in greater multiplier effects for the economy and should benefit in generating much needed employment post pandemic. Although, these changes would take 2-3 years to emerge and that too in the scenario that the government sticks to the spending pattern as laid out in the budget since capital spending is largely discretionary on the governments' part, past budgets have often not been actualized to the extent that is on paper.

Fixed income market has little to cheer as the major positives of global bond index inclusion were sidelined, also the gross borrowing for FY2022-23 was significantly higher than the market expectations. Our expectations of Rs. 13-13.5 Lakh crore of gross borrowings was to some extent downsized post the switch of Rs. 1.19 crore that the government conducted with the RBI and it would have led us to believe in a more tempered estimate for the next year, close to around Rs. 12-12.5 Lakh crore. The gross borrowing number stood at Rs. 14.95 lakh crore, which has hit the bond market hard. In addition to this, the Finance Minister also added the caveat of the "Green Bonds" which led to the usual confusion in the markets regarding whether these bonds would be issued onshore or offshore. The RBI MPC meeting next week will likely consider the fiscal stance by way of positive commentary on the quality of expenditure. In light of the budget monetary policy might be inclined to take a more austere view going ahead looking at the inflation, growth and fiscal equations. The new 10-year bond paper is expected to trade within a range of 6.75-7.00% in the near term, with significant upside risks, contingent on the RBI Monetary policy decision next week.

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