Image: Narendra Bisht

MACRO

# Why FM will score

The success of Nirmala Sitharaman's supply-side measures, robust tax numbers and an upbeat industry mean the finance minister has a lot going for her as she readies Union Budget 2022.

By **JOE MATHEW** AND **ASHUTOSH KUMAR**, Jan 9, 2022
14 min read

Union Minister for finance and corporate affairs Nirmala Sitharaman chaired the last of eight virtual pre-Budget consultations on December 22. Over 120 invitees representing various stakeholder groups from industry, services, infrastructure, agriculture, financial services, capital markets, trade and social sector participated. The prevailing mood was of optimism.

Just two days earlier, Prime Minister Narendra Modi hosted a pre-Budget interaction with chief executives of India's leading companies at his residence on Delhi's Lok

For the past few years, such direct feedback has been a welcome change for businesses, who rarely get such sessions. As they met, one item was missing from the laundry list: the lengthy wish-list for the coming Budget. Instead, the industry noted the growth initiatives following Budget 2021 as Covid raged, expressing hope that the coming Budget will also be growth friendly.

While Tata Steel's Narendran noted the timely response to Covid-19 outbreak, leading India to V-shaped recovery, Kotak appreciated the 'path-breaking changes like Swachh Bharat and Start-up India'. Ayukawa stressed Maruti Suzuki's commitment to realise the PM's vision of making India a manufacturing giant. The meeting with VC and PE representatives was no different. Noting the initiatives taken to boost the start-up ecosystem, venture capitalist Siddarth Pai termed Modi a 'Start-up Prime Minister'. The PM said, "just like a country aspires for a podium finish at the Olympics, India wants to see its industries among the top five of the world in every sector." He assured his government was "firmly committed to initiatives to boost economic progress of the country".

Ahead of Budget 2022, India Inc. and the union government seem confident of better days ahead, amidst renewed concerns of a newer, highly transmissible variant of Covid-19 virus—Omicron.

Going by the latest macros, the confidence is not off the mark. As finance ministry gets busy with preparations for Union Budget FY2023, chances of a sharp economic recovery are getting brighter (see Robust GDP Growth Projections for FY22). Revenues from taxes on petroleum products are at a record, there has been a steady rise in Goods and Services Tax (GST) collections, good growth in advance tax revenues (up 53.5% y-o-y till December 16) and steady foreign direct investment (FDI) inflows. And India is now the third-largest start-up ecosystem in the world after the U.S. and China, says Hurun Research Institute, after adding 33 unicorns in 2021. The economic recovery, after the FY2021 Covid-19 scare, is real (see GDP Growth Over The Years).

**Hope to achieve consolidation by first increasing buoyancy of tax revenue through compliance, and secondly, by increased receipts from monetisation of assets."**

**Nirmala Sitharaman,** Finance Minister

Most importantly, unlike Western economies which spent their stimulus dollars on reviving demand (that is now triggering mega inflation and derailing economies), India took a completely contrarian bet with supply-side stimulus. As a result, it stands out as a country that revived its economy without busting the government's balance sheet. The government, in fact, may surpass its revenue targets for FY2022 and almost achieve its fiscal deficit target (see Buoyant Rise in Revenue Receipts). With that, the Indian model could be a benchmark for dealing with future economic crises.

Industry has sensed this change. So, while the confidence of government and industry indicates the scorecard of this year's performance, it also hints at growth orientation that Union Budget for FY2023 is likely to have. Is the optimism of government and industry justified?

### A Contrarian Stimulus

$20 trillion! That's what global economies and central banks jointly deployed to support businesses and financial markets as the spread of Covid–19 triggered lockdowns from March 2020. But India, unlike others, steered clear of direct consumption-led revival. Its relief measures revolved around supply-side initiatives. Eighteen months later, India is ahead of most countries in economic recovery. The contrarian bet is paying off.

The events started rolling off in the last week of March 2020 when RBI and central government acted in tandem to announce an initial stimulus to cushion the impact of Covid-19. RBI reduced repo rate by 75 basis points to 4.4% on March 27. It also infused liquidity to the tune of 3.2% of GDP. This coincided with the ₹1.92-lakh-crore PM Gareeb Kalyan Anna Yojana (PMGKAY) for food grain to the poor, announced by

But the big bang came 48 days later (May 12), when the prime minister announced the ₹20.97 lakh crore economic stimulus (10% of India's GDP), called the Atmanirbhar Bharat package. Three more phases of the package were rolled out in October 2020 (₹73,000 crore), November 2020 (₹2.65 lakh crore) and June 2021 (₹6.28 lakh crore), taking the total to ₹30.64 lakh crore. The 2₹0.97 lakh crore stimulus rolled out in May last year included liquidity enhancement worth ₹8 lakh crore announced along with monetary policy measures in March and April last year.

The package aimed at productivity-led growth with loans and advances to vulnerable businesses for working capital, credit facility, interest subvention, partial credit guarantee schemes and fund of funds for SMEs. This was in sharp contrast to the demand-led fiscal stimulus given by U.S. ($2.3 trillion in three phases), European Union ($826 billion) and Australia ($257 billion, enhanced in Budget proposals for FY2021).

**Swachh Bharat and Start-up India**

Uday Kotak, MD, Kotak Mahindra Bank

**Vision of making India a manufacturing giant**

Kenichi Ayukawa, MD & CEO, Maruti Suzuki

**Timely response to Covid-19 outbreak, leading India to V-shaped economic recovery**

T.V. Narendran, MD Tata Steel

**Start-up Initiatives**

Siddarth Pai, Founding Partner
@3one4Capital

months," says Sanjay Kumar, partner, Deloitte India.

**Impact of Key Schemes**

A total of 24 schemes were announced in the May 12 Atmanirbhar Bharat package and three the day after the national lockdown, The keenly observed ones have been the Emergency Credit Line Guarantee Scheme (ECLGS) offering collateral-free advances to MSMEs and Production-linked Incentive (PLI) scheme.

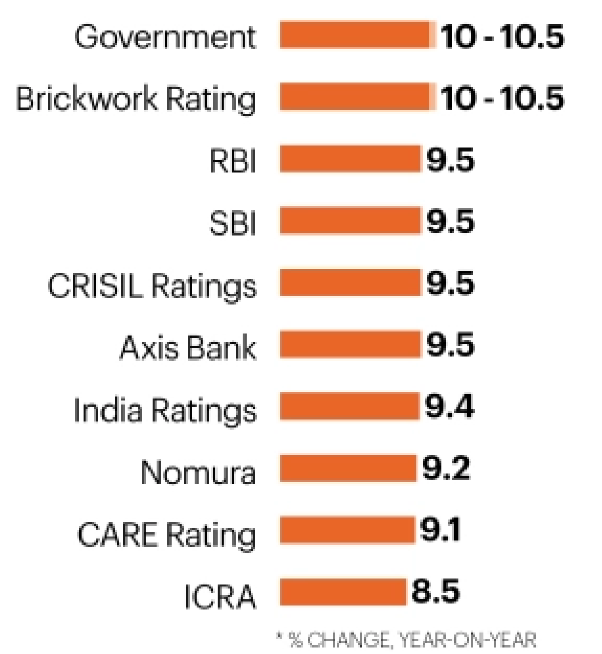
ECLGS has helped over 1.15 crore businesses meet operational costs till September 2021, says finance ministry. Loans under the scheme crossed ₹2.86 lakh crore on September 24, 2021. Ministry sources say the total may have touched ₹4 lakh crore by now. In June 2021, the scheme was extended till March 31, 2022, or till issue of guarantees worth ₹4.5 lakh crore, whichever is earlier. It was originally scheduled to end on October 31, 2020, and is perceived as one of the contributors to the high credit off-take in FY2022. "Economic expansion, government-guaranteed emergency credit assistance, low interest rates, festive season and low-base effect are supporting uptick in loan growth," says CARE Ratings, which expects 7.5-8% credit growth in FY22.

But ECLGS has its critics as well. "ECLGS did not disburse to the extent of ₹3 lakh crore, which otherwise would have been a normal loan. So, credit growth hovers around 6-7%, which means low impact of liquidity measures," says former finance secretary Subhash Chandra Garg. CRISIL's Deshpande, however, believes PLI or ECLGS are not supposed to yield growth immediately. "PLI and other such reforms are work-in-progress with medium-term focus; the benefits will be reaped over time."

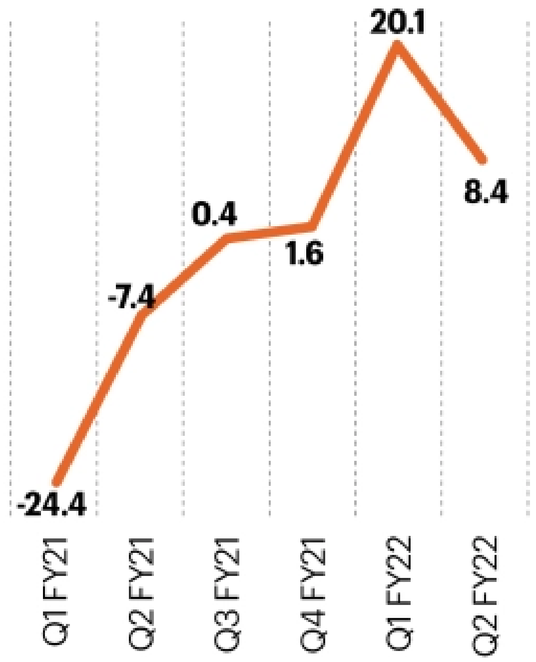
With PLI, the government projects production worth $500 billion in five years. The first three PLI schemes were rolled out in March last year while 10 more were announced in November along with the third leg of the Atmanirbhar Bharat package. The first three—mobile manufacturing and specified electronic components, drug intermediaries and key starting materials and medical devices—have received over 90 applications and investment commitment of over ₹50,000 crore.

The PMGKAY, providing free grain to 80 crore poor people amid the lockdown, too, has worked well. It provides additional five kg food grain per person per month under the National Food Security Act. This is over and above the usual entitlement. The

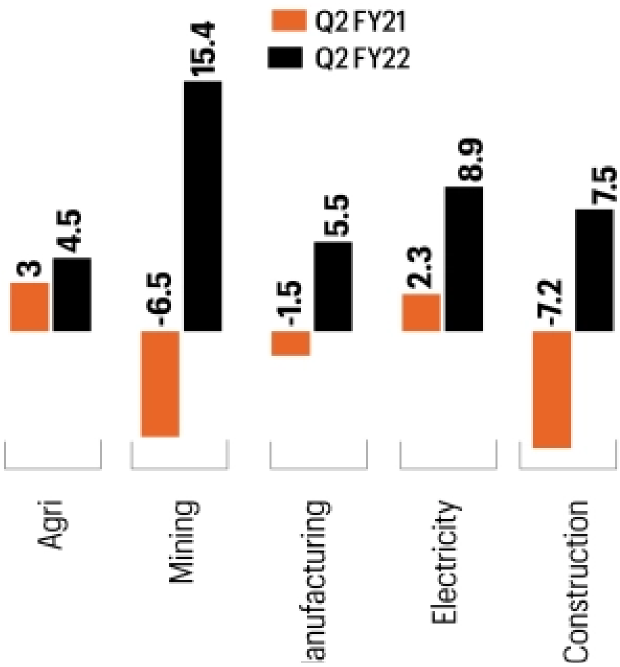
## Robust GDP Growth Projections for FY22



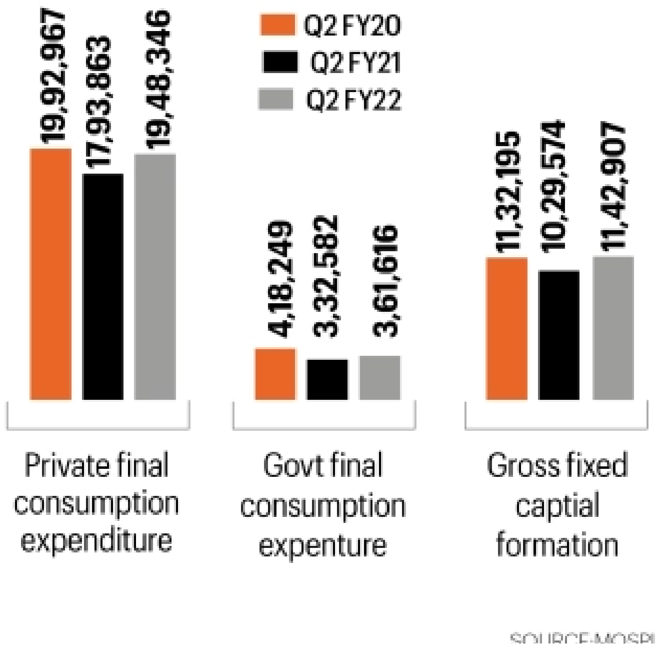

## GDP Over The Quarters ( %)




## Sectoral Growth (%)




## Key Indicators (₹cr)



measures to stimulate the economy will prevent runaway inflation witnessed in the wake of the 2008 stimulus. The 4.92% consumer price inflation in November was within RBI's monetary framework target. Core inflation was 6.1% as against 5.8% in previous month while food inflation rose from 0.87% to 1.87%. The US Federal Reserve, in contrast, has had to double the quantum of tapering to $30 billion a month as the country reels under its worst inflation in 40 years. It has also guided for three interest rate hikes in 2022. This will, expectedly, slow down the US economy.

India's macros are a study in contrast. The Controller General of Accounts (CGA) says that in first seven months of the financial year (by end-October 2021), the central government had collected ₹12.79 lakh crore (64.7% of number budgeted for FY2022). Last year, it had collected 31.5% of its budgeted revenue by October 2020.

On the expenditure side, government had spent ₹18.26 lakh crore, or 52.4% of annual budgetary allocation for FY2022, till October. Last year, it had spent 54.6% by October-end. "The economic recovery is faster than what everybody had thought last year and even this year. As a result, the tax buoyancy (record GST collection, higher-than-expected corporate taxes, etc) has been very good. The increase in tax collection has not reflected on government expenditure till now. So, government expenditure is growing at a slower pace compared to rise in revenue. There is a very high probability that government will undershoot its fiscal deficit this year," says Devendra Kumar Pant, chief economist, India Ratings and Research (Ind-Ra).

ICRA chief economist Aditi Nayar is gives specific numbers. She forecasts that direct tax collections will exceed the FY2022 BE (Budget Estimate) by ₹85,000 crore. She adds that excise and customs collections will exceed the FY2022 BE by ₹33,000 crore and ₹13,000 crore, respectively, despite the cut in taxes on fuel. ICRA expects central GST collections of ₹5.8 lakh crore, ₹50,000 crore more than the Budget estimate. "Despite the likely revenue foregone from excise and customs duty relief, gross tax revenues of government of India are likely to exceed the FY2022 BE by a significant ₹1.8 lakh crore, of which around ₹60,000 crore would be shared with states. Adding the higher than-budgeted surplus transfer by RBI to the extra net tax revenues, we expect net revenue receipts to exceed the FY2022 BE by ₹1.7 lakh crore," says Nayar.

**Total quantum:**
**₹30.64 lakh crore**

**Phases of Announcement: 4**

May 2020: Phase One

**Total amount:**
**₹20.97 lakh crore**

Part 1: ₹5,94,550 cr (schemes for businesses/ ECLGS for MSMEs)

Part II: ₹3,10,000 cr (measures for poor, farmers, food grains to migrants, credit facility for street vendors)

Part III: ₹1,50,000 cr (working capital for farmers, ₹2 lakh cr additional limit in Kisan Credit Card scheme, MSP support)

Part IV/V: ₹48,100 cr (policy reforms/VGF in social infra)

**RBI policy measure:**
₹8,01,603 cr

**Earlier measure** (PM Gareeb kalyan package): ₹1,92,800 cr)

October 2020: Phase Two

**Total Amount:**
**₹73,000 crore**
(interest-free loan to states for capex, additional budget for Central capex)

November 2020: Phase Three

**Total Amount:**
**₹2.65 lakh crore**
(employment scheme, ECLGS 2.0, production-linked incentive scheme)

June 2021: Relief package

**Total amount:**
**₹6.28 lakh crore**
(ECLGS extension, credit guarantee to individuals)

**1. ECLGS**
₹2.90 lakh cr sanctioned
Scheme extended till March 2022

**2. Food grain**
Benefiting 80 cr people every month

600 LMT food grain distributed

Utilisation rate of 82.76%
Scheme extended till March 2022

**3. Atmanirbhar Rozgaar Yojana**
Total beneficiaries: 3.97 million

Total benefits: ₹2,612 cr

**4. Nabard funding for farmers**
₹25,000 cr disbursed

**5. PLI**
₹1,97 lakh cr outlay announced in budget

One reason for higher revenues is elasticity of petrol and diesel prices. Despite retail prices of petrol and diesel moving up from ₹82.34 and ₹72.42 (per litre in Delhi), respectively, on December 1, 2020, to ₹103.97 and ₹86.67 on December 1, 2021, there has not been any reduction in sale of fuel across the country. The government had collected ₹4,55,069 crore tax and non-tax revenue from the oil sector in FY2021. In first three months of FY2022, this number was ₹90,750 crore.

GST revenue, the barometer of consumption, has also beaten the pandemic blues. Gross GST revenue in first half of FY2022 was ₹6,82,365 crore, up 12.5% from ₹6,06,294 crore in the pre-pandemic period of H1 FY20. On the direct tax front, till December 16, advance tax collections were up 53.5% y-o-y to ₹4,59,917.1 crore. From FY2020 levels, they were up 44.21%.

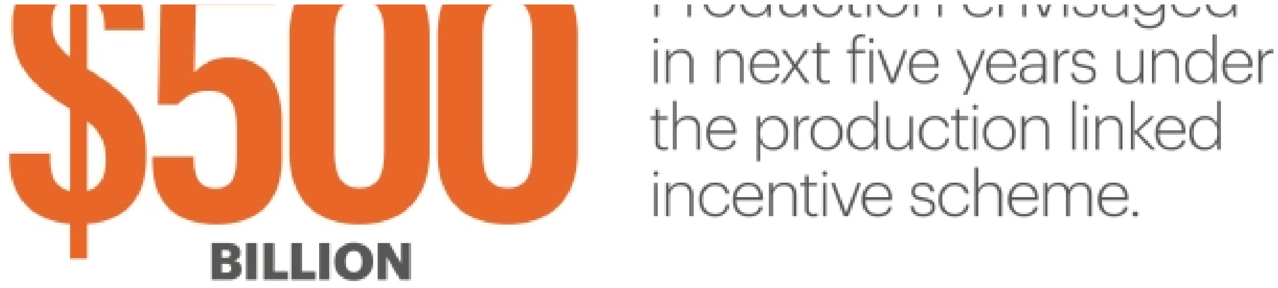
in India is growing at an exponential pace. Over the last year, India has added three unicorns every month," says Anas Rahman Junaid, MD and Chief Researcher, Hurun India. Foreign Direct Investment (FDI) flows are another clear indicator of India's growth potential. India attracted $27.37 billion FDI in first four months of FY2022, 62% higher compared with the corresponding period of FY2021 ($16.92 billion). FY2021 had seen a record FDI of $81.72 billion.

**What's Yet to Work**

A strong rumour in early December suggested the Centre's plans to raise funds from listing Life Insurance Corporation of India (LIC) may have to be pushed to the next financial year. Selling LIC stake is crucial to fiscal plans. The finance ministry put the speculation to rest the same day through a clarification that the Initial Public Offer (IPO) will happen in last (January-March) quarter of FY2022.

Disinvestment has always been the trickiest part of Budget announcements. Apart from one year, central government has never been able to achieve disinvestment targets. According to the CGA database, only 12% of the disinvestment target for PSUs (₹9,333 crore out of estimated ₹75,000 crore for the year) had been achieved until October-end. Of the ₹1,00,000 crore that was expected to accrue from disinvestment of stake in public sector banks and financial institutions, not a single rupee had been realised until then.

But Air India disinvestment, considered the trickiest, has changed perceptions and ignited hope in the disinvestment programme. A tweet on December 23 by Secretary, Department of Investment and Public Asset Management, explains the spirit: "Financial bids received for strategic disinvestment of Neelachal Ispat Nigam Limited. Process now moves to concluding stage". A few days before this, Pawan Hans Ltd. disinvestment had moved to the concluding stage.




ICRA's Nayar says if proceeds of BPCL sale and LIC's IPO are not realised in FY2022, "the fiscal deficit may print at ₹15.8-16 lakh crore (6.9- 7.0% of GDP), exceeding the BE of ₹15.1 lakh crore". She expects total expenditure, despite the slow uptake, to overshoot the FY2022 BE by ₹1.3-1.5 lakh crore, based on the net outgo related to First Supplementary Demand for Grants, recent increase in food subsidy outgo towards PMGKAY, increase in fertiliser subsidy for the rabi season and likely enhancement in allocation for MGNREGA and the new export benefit scheme.

**What Needs To be Done**

Economists say the Budget needs to take the growth agenda forward and push the envelope on building infrastructure. "Infrastructure building needs to move to a higher pace. We need to catch-up for improving the supply side. Infrastructure development has to encompass not only physical but also digital connectivity. The idea, for example, is to link foot workers like Asha's with district hospitals and district hospitals with tertiary care centres like nearby medical colleges," says Deloitte India's Kumar. EY's Srivastava believes 7% economic growth is possible in the medium term if India sustains infrastructure growth.

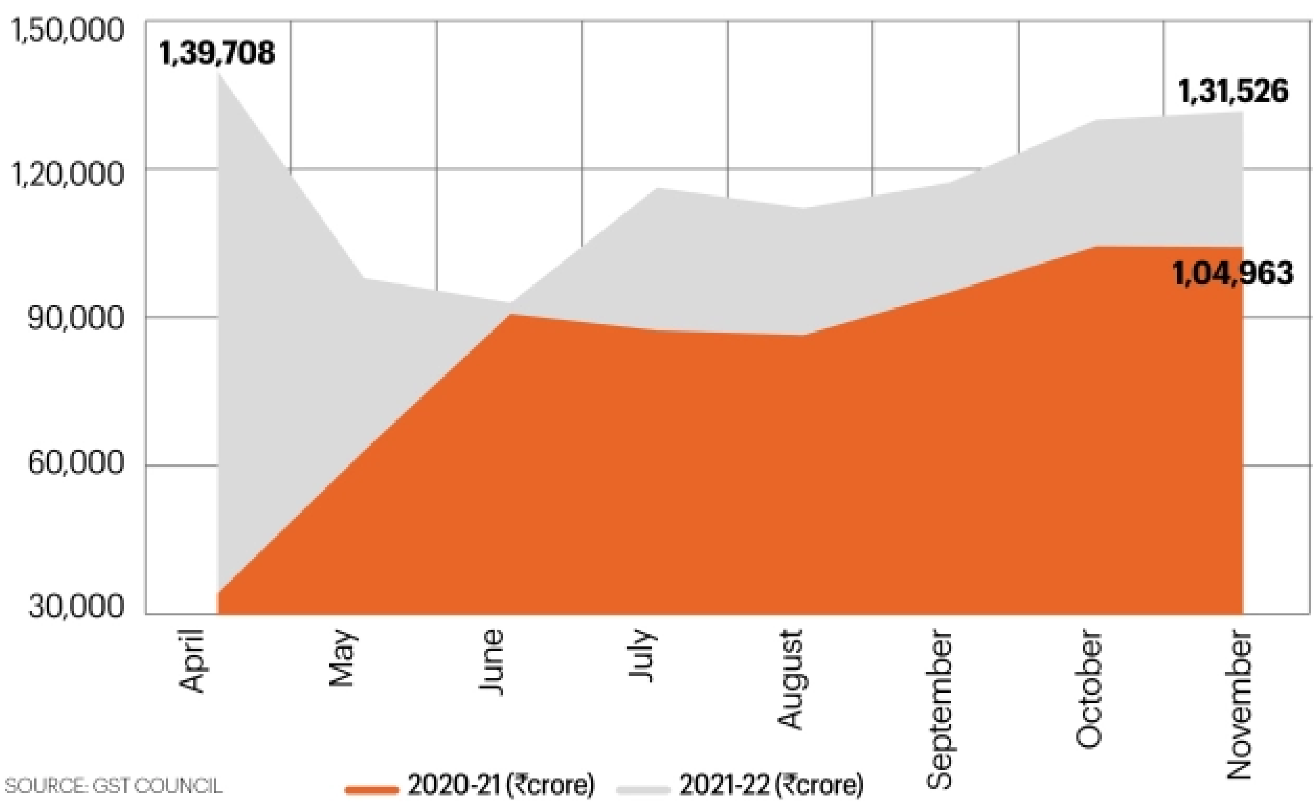
Crisil's Deshpande is confident that capex support is likely to stay in the Budget. "Gradual and calibrated exit from monetary policy will begin by February-March 2022 and continue in FY2023. Budget proposals need to be calibrated accordingly," she says. By steering clear of demand-led stimulus, government has insulated the economy from inflationary pressures, which would have forced RBI to chalk out a hurried liquidity withdrawal on the lines of the Fed.

That said, it is expected that real growth of 9.5% in FY2022 will take GDP only marginally higher than in FY20. That's a loss of two years of economic growth due to Covid. The onus of heavy lifting will continue to lie on central government for some

| | BUDGET ESTIMATES FY2022 (₹ CR) | TO OCTOBER 2021 (₹ CR) | % OF ACTUALS TO BUDGET ESTIMATES CURRENT YR | YR-AGO PERIOD |
|---|---|---|---|---|
| Revenue Receipts | 17,88,424 | 12,59,977 | 70.50% | 34.20% |
| Non-Debt Capital Receipts | 1,88,000 | 19,722 | 10.50% | 7.30% |
| Total Receipts | 19,76,424 | 12,79,699 | 64.70% | 31.50% |
| Revenue Expenditure | 29,29,128 | 15,73,455 | 53.70% | 55.70% |
| Capital Expenditure | 5,54,108 | 2,53,270 | 45.70% | 47.90% |
| Total Expenditure | 34,83,236 | 18,26,725 | 52.40% | 54.60% |
| Fiscal Deficit | 15,06,812 | 5,47,026 | 36.30% | 119.70% |

SOURCE: CONTROLLER GENERAL OF ACCOUNTS

## Sustained Rise In GST Collections




SOURCE: GST COUNCIL

Omicron can push back the economy as some sectors such as tourism and travel are yet to resume normal operations even now. “We may have to target a lower GDP growth number as base effect will mean lower real GDP growth of 7-7.5% which, when adjusted for inflation, can mean nominal growth of 12-12.5%. The government will probably move on the path of consolidation and focus on the targeted fiscal deficit number rather than tax breaks or expenditure push. We are looking at 4.5% by FY2026 and, hence, government may target a number in the range of 5.5-6% (fiscal deficit),” says Sabnavis.

“The government could have gone for a stimulus last year, but chose to focus on growth-enabling reforms which work over a period of time. This will not change considering that the economy is back on track (assuming no Omicron effects) and, hence, there is no reason for a fiscal push,” he says, adding that the government will increase capital expenditure based on the size of Budget and revenue expenditure while keeping an eye on fiscal deficit. “There could be some tax enhancements outside the Budget through increase in GST rates as revenue appears to be buoyant now,” says Sabnavis.

**83%** Allocation lifted till September 15, 2021, under the PM Gareeb Kalyan Anna Yojana, according to government data.

FY2021 had seen the peak of Covid-19 disruption, a reason why the FM announced that Budget for FY2022 was meant to facilitate and support the ‘reset’ of the economy. Going ahead, Sitharaman wants to continue with fiscal consolidation by aiming for a deficit below 4.5% of GDP by FY2026. “We hope to achieve consolidation by first increasing buoyancy of tax revenue through improved compliance, and secondly, by increased receipts from monetisation of assets, including public sector enterprises and land,” she said. On expenditure, the FM highlights two focus areas: development of out. I would like to sustain that. Sustained building of health-related infrastructure will also continue".

Industry is drawing significant comfort from such assurances. If India's fiscal health in 2022 appears vastly different from the scare it went through in 2021, the nation could safely attribute that to the multitude of monetary and fiscal moves right through 2021.

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