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India Budget – January 2022

Yesterday's budget indicates that India will continue on its rapid trajectory in becoming the world's leading economy, with the key takeaway being the government's emphasis on increased growth by focusing on investment in infrastructure and job creation. A 24% increase in allocation to government capital expenditure including 50-year interest-free loans to the States for infrastructure spending have been designed to "crowd in" the private sector.

This will be at the heart of India's expansion, with the capitalised and cleaner private banking system that exists today in a strong position to support growth. Early signs of a pickup in credit growth from the corporate sector is encouraging

This combines with Modi's ongoing commitment to reducing fiscal deficits, which is projected to fall to 6.4% initially with a "glide path" to 4.5% by FY26. What is surprising however is that increases in welfare budget have been overlooked in favour of capital expenditure; a bold decision given important state elections being contested throughout the year. Nominal GDP growth expectations are modest at 11.4%, however, this takes into account the possibility of an uncertain global environment and leaves room for upside surprises.

Overall, the budget mostly took on a conservative approach avoiding any political point-scoring ahead of the state elections. However, regarding the future of India's economy, this was anything but passive, with emphasis on sectors such as domestic manufacturing, solar energy, the adoption of a digital currency, greater usage of AI, and research into genomics all signs of a progressive government that is committed to revitalising the economy.

The sectors that are likely to benefit the most are:

- **Capital goods**
- **Cement**
- **Banks**

And those that are likely to lose:

- **Rural consumption**
- **Housing**
- **SME**

Digital Currency:

Yesterday's announcement regarding the digital currency is an indication that India is following global practice in actively researching and piloting a Central Bank Digital Currency

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(CBDC). CBDC's are considered a viable response by regulators to the rapid growth of crypto, with benefits including:

- Removing the need for "private" currencies, and therefore tightening regulation.
- The introduction of a more acceptable form of currency than traditional paper/polymer.
- A CBDC could potentially remove the delays and costs of transferring through the interbank market – both globally and domestically.

However it should be noted that India's Central Bank is only at initial stages of this process and detail remains vague

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