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Budget has set the tone for higher growth

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THE UNION BUDGET presented by the Finance Minister emphasised on creating linkages that will incentivise private players to step up investments and create employment opportunities. The Budget is in line with the recent view of the Government that increased private participation will be a key factor in driving the economy. Capital expenditure has been used as a tool to encourage various players to take part in nation building. It has provided an impetus for state governments to undertake infrastructure development through higher allocation towards states. The ambitious river linkages project would result in increased water availability for agriculture, creation of infrastructure and employment. This, I believe, is a good move.

High focus on manufacturing sectors like solar panel, electronics and waste management systems should lead to the development of new business models and make India self-reliant and self-sustainable. Another step towards ESG is creating biomass out of agriculture residue and using it to generate thermal power. This also creates new business opportunities and increases the income of the rural agricultural economy.

Setting up the Digital University is a move towards creating a culture of digital economy. The decision to bring in 100% of post offices under the core banking system should benefit farmers and senior citizens in rural areas and further the goal of financial inclusion. The recognition of Venture Capital and AIF assets as a key player of growth and the need to regulate for smooth facilitation is a timely move in the right direction.

Introduction of Funds under NIIF and SIDBI to meet requirements in areas such as climate action, agriculture, thematic funds with the government contributing 20% and the remaining 80% being crowdsourced is a great move that will encourage investment in the green economy. Also, the introduction of green bond under the Sovereign category would make money readily available to environment-related sectors.

From an equity market point of view, the budget has set the tone for higher growth through higher spending. Many mid-sized companies would get benefited from the urban and digital focus. No change in taxation related to the capital market is a good move to build a strong capital market to fund the future need of the country. However, the market in the near term will start looking at unwinding given the high liquidity, expected interest rate rise and forthcoming outcome of five state elections.

While the overall tax buoyancy is good, the huge capex spending undertaken has resulted in a marginally higher fiscal deficit. Nothing was mentioned regarding the tax on Indian bonds that could be part of the bond index globally. This in some sense will push up the bond yields. As the credit growth start picking up this year, it could potentially increase the cost of borrowing for corporates as well. Given the high liquidity, one can expect the impact of the bond yields to go up nominally at this point in time.

Overall, from a mutual fund investor's point of view, optimism is going to continue with growth returning in the economy. Therefore, investing for the long term through equity will remain one area of focus. With bond yields going up on expectation of higher government borrowing and potential rate hikes, mutual fund asset allocation funds that take into consideration different asset classes like equity, debt or commodity could be one of the options that investors can consider.