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Future-focused Budget, near-term fiscal management crucial

The Budget has clearly laid a lot of emphasis on the need for investment led growth, by increasing capital expenditure quite substantially. Encouraging State governments to undertake more investment in development of State infrastructure by way of higher allocations towards

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State budgets is also a very good move. The focus is clearly to build out the supply side of the economy in a sustainable manner and to stimulate local demand.

This budget is not one of those one-year plans, but attempts to lay the foundation for next 25 years. There is focus on

infrastructure, logistics, MSMEs, ease of doing business, simplification of processes, ESG, rural economy, and agri development. The continuity of reforms and stable policy, investment led growth orientation and focus on future economy augur well for equity markets in the long run. No change in taxation related to the capital markets is a good move in order to build strong market that funds the future needs of the country. Robust capital expenditure allocation of ₹7.5-lakh crore, stepped up significantly by 35.4 per cent year-on-year will boost the infrastructure and manufacturing sectors as well as the commercial vehicle segment.

While the budget's growth orientation is positive in the long run, the stock market in the near term will start looking at the unwinding of high liquidity, the interest rate rise and forthcoming election outcomes in five States for direction. Any adverse outcome can result in volatility. Factors such as the real interest rate, earnings yields versus bond yields and premium valuation to emerging markets will come into play.

Virtual asset

Taxing virtual asset transactions at 30 per cent while introducing digital currency under the purview of RBI is the right move. The thrust on financial inclusion initiatives such as linking post offices to core banking, starting 75 digital banking systems will increase accessibility for farmers and senior citizens. The move to introduce a digital currency in the new fiscal can also lead to a more efficient and cheaper currency management system. The higher allocation to capex and demand stimulus, no doubt is need of the hour. But this is also likely to be inflationary in the short term and may impact the current account deficit print in an environment where oil prices are rising and the global ecosystem inching towards rates. It will be interesting to see how RBI manoeuvres this.

While the target borrowing figures have concerned bond markets, some of the planned expenditure will be offset by the tax buoyancy reflected through the GST collections and participation of private sector through PPP model. On fiscal math, higher than estimated PSU divestment and higher tax collections on virtual digital assets can help. There is also a ₹65,000 crore divestment target, the LIC IPO and issuance of green bonds that lend comfort. The budget also did not talk about tax breaks to pave the way for bond index inclusion globally. For now, the higher borrowing in some sense will push up bond yields. As the credit growth start picking up this year, it can potentially increase the cost of borrowing for corporates. Given high liquidity, one can expect the impact of bond yields going up to be minimal at this point of time. This may be a case of short term pain for long term gain. Overall, for mutual fund investors point of view, the optimism is going to continue with growth returning in the economy. Therefore, investments for long term through equity will remain one of the big areas of focus.