Analysis Of Budget 2022-23

Index

Abstract

The wrath of the coronavirus pandemic has had a delirious Impact on Indian society. While the recovery was in process, the union government introduced the 2022 budget to push India's economy. The budget reflects an evident aim of recovering from the shocks incurred during the pandemic. Therefore, before the honourable Finance Minister, Nirmala Sitharaman introduces the 2023 budget, which would be the last budget before the Nation goes to general elections in 2024, it becomes important to shed light on how far the budget of 2022-23 was able to meet its visionary targets. This paper restricts itself to an analysis of the structural changes proposed by the budget. Structural Changes are defined to have the potential to alter the framework of the economy. It attempts to analyse these structural changes - developmental goals of the National Monetization Pipeline, the changes in the Banking Sector, budgetary allocation on subsidies and the relevant debate, privatisation goals, Agneepath scheme and consequent changes in the defence sector and the efforts to bring down the fiscal deficit. This paper seeks to understand the financial impact of these changes as well as provide an analysis of the impact on the affected sectors. It also provides recommendations for the drafting of the budget for the coming financial year. The study has collected its findings from academic analysis of secondary sources available in the online and offline mode. The conclusion so derived presents a contrast of its successes and failures in the aforementioned sectors and provides a roadmap for drafting the Annual Financial Budget of 2023.

An Assessment of the National Monetization Pipeline Goals 2023

Launched in August 2021, the National Monetization Pipeline is a government scheme aimed at realizing its underlying economic potential through asset monetization in the backdrop of the monetary and fiscal shocks induced by the Covid outbreak. The policy envisions Public-Private Partnerships for the operation and maintenance of this project through a contractual arrangement. The agreement will involve the government leasing or disinvesting its rights over existing core assets onto private players for improved revenue generation. The investments are to be returned to the government after the completion of the projects. This agreement enables the government to redirect funds for re-investment in newer infrastructure projects due to decreased budgetary or operational burden on the government. The established revenue generation system effectively tapered the extent of financial risk, making it an approachable opportunity for the private player.

The ultimate aim of the policy is to put to use the existing but underutilised infrastructure for achieving economic growth by triggering investment and employment opportunities in the economy. It is expected to generate a revenue of 6 Lakh Crores in four years FY 22-25. The target for the previous financial year FY 2022-2023 was ₹88,000 Crores, while the achieved goal surpassed this figure by ₹8,000 Crores. For this financial year 2022 - 2023, the target is ₹1.6 Lakh Crores, out of which only ₹33,100 Crores has been achieved, although proposals worth ₹1.3 Lakh Crores are underway. The finance ministry is likely not to reach a target this year; therefore, it is contemplating linking budgetary support to infrastructure ministries based on their performance in terms of asset monetization from the next financial year.

This policy is influencing multiple sectors all over India, including - Roads, Railways, Power Transmission, Power Generation, Telecom, Warehousing, Mining, Natural Gas Pipeline, Product Pipeline/ others, Aviation, Urban Real Estate, Ports, and Stadiums. Table 1.1, mentioned below, details the sectoral share of each domain.

Table 1.1: Sectoral Division of Monetisation Pipeline over FY 2022-25

S.No.	Sector Name	Share (in ₹ Crores)	Share in %
1.	Roads	1,60,200	26.7
2.	Railways	1,52,496	25.4
3.	Power Transmission	45,200	7.53
4.	Power Generation	39,832	6.63
5.	Telecom	35,100	5.85
6.	Warehousing	28,900	4.81
7.	Mining	28,747	4.79
8.	Natural Gas Pipeline	24,462	4.07
9.	Product Pipeline/ others	22,504	3.75
10.	Aviation	20,782	3.46
11.	Urban Real Estates	15,000	2.50
12.	Ports	12,828	2.13
13.	Stadiums	11,450	1.90

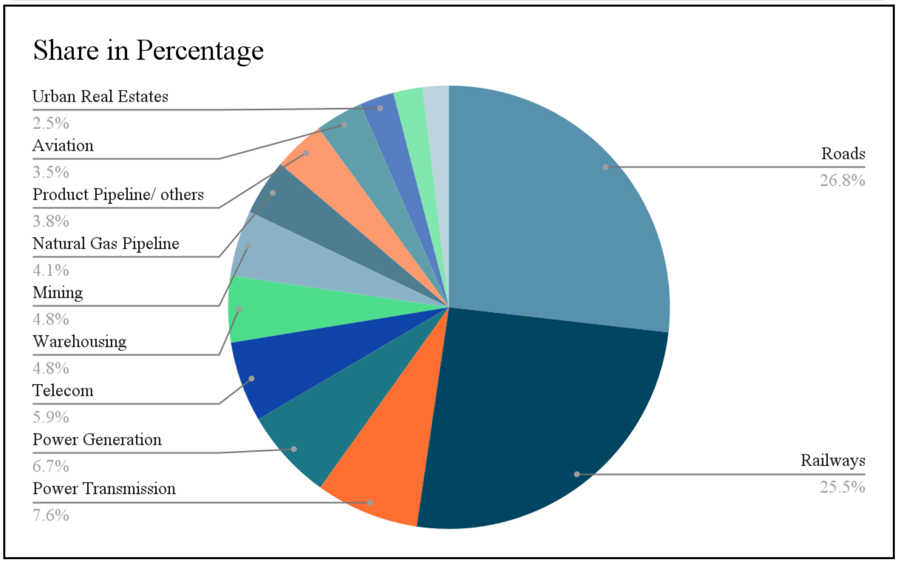


Image 1.1Pie-Chart depicting Sectoral Share of NMP

Challenges

What equals the success of after effective drafting is implementation, which essentially defines it. Since the NMP is still underway, it needs to take into consideration the possible challenges that could postpone its triumph. Some of those have been listed below:

Questions on the Model

A probable challenge for the government is to invite a credible revenue stream, specifically in the railway sector, which constitutes over 25% of the overall NMP scheme. The recent figures in the railway PPP could have been more encouraging, primarily because the railways make little financial surplus and primarily rely on budgetary bail-outs and external borrowings. The railways didn't receive enough investors because of a lack of proper structuring. Therefore, it has had to alternate its course of action from the PPP model to the EPC one. The EPC model puts the liability on the contractor and therefore mitigates risks associated with the project. The reason for the decreasing confidence of the private players is the impossibility of competing with government railways with their minimal fares and the increasingly long concession period. Another exacerbating factor is that the railways have consistently failed to increase their non-fare revenue. Only recently, the non-fare revenue has gone up to ₹2267.60 Crores, constituting only 2.37% of its overall revenue. (Indian Railways' Overall Revenue Grew by 38% Till August 2022 Over the Corresponding Period of Last Year, 2022) Additionally, the NMP target of the railways for FY23 is likely to be missed by 85% since the Railways have only completed 6% of its ₹30,000 crore monetization target. (Railway Ministry Might Miss FY23 Asset Monetisation Target by 85%s, 2022) Another concern raised by the opposition of the railways being a national utility and therefore not ethical to invite private participation in the same.

Only four laned-Roadways?

The most significant limitation of monetizing the roadways is that it is only applicable on national highways, which are four lanes and above, which is only 22% of the total NH network, as per the report of the NITI Aayog released in 2021. Another critical issue with NHAI is its excessive debt burden, which was at ₹3.49 lakh crores as of March 2022. (NHAI Debt Stands at Rs 3.49 Trillion: Nitin Gadkari Informs Parliaments, 2022) The big question is whether the government will use the generated revenue to pay off its debts or invest in new projects.

Banking Sector Reforms

The Banking sector in India consists of 12 public sector banks, 22 private sector banks, 46 foreign banks, 56 regional rural banks, 1485 urban cooperative banks and 96,000 rural cooperative banks, and cooperative credit institutions. (India Brand Equity Foundation, n.d.). M. Vasudev, the Former Finance Secretary for the Government of India. Dr Charan Singh, the Former Chairman of Punjab & Sind Bank, and Bikash Narayan Mishra, the Senior Advisor of the Indian Banks' Association, came together in early January of 2021 to put forward some proposals for possible reforms in the Banking Sector. (Perspective: Budget 2022-23: Pace of Banking Reforms | 27 January 2022, 2022) Focussing on privatisation, the panel deliberated the advantages and disadvantages of the same. It concluded that banking is a sector where the private sector can deliver better than the public sector. The past is also a testimony since previous mergers had been successful. Another proposal was to amend the Banks Nationalisation Act to incorporate more banks. The possibility of enhancing access to Mobile and Internet Banking by PSBs was also put forward. The discussion ended with the question of effectively regulating cooperative banks because of their inefficient intermediaries and the increasing number of fraud cases.

Reduction in Non-Performing Assets (NPAs)

The gross non-performing asset (GNPA) ratio of scheduled commercial banks (SCBs) has fallen to a seven-year low of 5.0 per cent and net non-performing assets (NNPA) have fallen to ten-year low of 1.3% in September 2022. (Reserve Bank of India, 2022) Gross non performing asset refers to the overall non-performing assets present and net non-performing assets refers to the aggregate non- performing asset which haven't been recovered through other profits of the organisation. Net non-performing assets is therefore a better indicator of the NPAs. The primary reason for this is the massive asset quality review by Raghuram Ranjan in 2015 which forced the banks to stop hiding their bad loans. As the figures became clear and NPAs came forward, efforts were made to reduce the same, starting with the implementation of the Bankruptcy and Insolvency Code. Credit can also be given to the Government's strategy of recognition, resolution, recapitalisation and reforms which helped bring down NPAs.

Although, the future of the NPAs belonging to MSMEs isn't so encouraging. In FY22, as per the report of TransUnion CIBIL and SIDB, the MSME NPA in the fourth quarter was at 12.8% and a survey conducted by FICCI and Indian Banks' Association reported that 65% of the respondent are expecting NPAs in the MSME to rise in the second half of the year. (SIDBI & TransUnion CIBIL, 2022)

More Credit Lines for MSMEs

There are over 6.34 Crore MSMEs in India employing 25% of the Indian population in FY22 as per the Blink Invest report. The same report also highlights that the total credit demand by the MSME sector is ₹ 69.3 Lakh Crores. ₹3.26 Lakh Crores has been disbursed as of 30th November 2022 under Credit

Guarantee Fund Trust for Micro and Small Enterprises, Khadi and Village Industries Commission (KVIC) under PMEGP and Emergency Credit Line Guarantee Scheme (ECLGP). (*GOVERNMENT OF INDIA MINISTRY OF MICRO, SMALL AND MEDIUM ENTERPRISES LOK SABHA STARRED QUESTION NO. *233 TO BE ANSWERED ON: 22.12*, 2022)

The government in their annual budget for 2022 included three major schemes for improving MSME credit facility. They are as follows -

1. **Emergency Credit Line Guarantee Scheme** - This scheme which provided credit to MSMEs has been expanded by ₹50,000 crores to total cover of ₹5 lakh crore in view of the pandemic, with the additional amount exclusively for hospitality and related enterprises.
2. **Credit Guarantee Fund Trust for Micro and Small Enterprises** - This will facilitate additional credit of ₹2 lakh crore for Micro and Small Enterprises and expand employment opportunities.
3. **Raising and Accelerating MSME Performance (RAMP) programme** with an outlay of ₹6,000 crores over 5 years will be rolled out. This will help the MSME sector become more resilient, competitive and efficient.

Despite these schemes, the Blink Invest MSME reports that only 15% of MSMEs seek loans from the formal sector. (SIDBI & TransUnion CIBIL, 2022). The problem might not be that the government doesn't launch enough schemes, but rather businesses aren't applying for or receiving business loans from the formal or government sector. The TransUnion cibil report reveals that in Financial Year 2022, the loan approval rate for medium risk tier approval was 38.4% for private banks, 27.6% for Public Sector Undertakings and 37% for NBFCs (Non-Banking Financial Company). The approval rates of PSUs have decreased by 2.4% and gone up by only .7% for Private Banks. Table 2.1 details the loan approval rate by all three sectors. (SIDBI & TransUnion CIBIL, 2022)

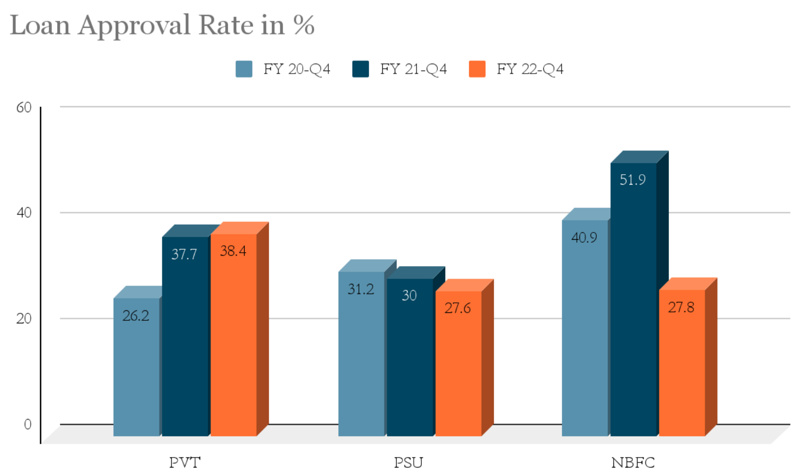


Figure 2.1 - Loan Approval Rates in India

Central Bank Digital Currency & Digital Banking Push

The Reserve Bank of India launched its first digital currency - the digital rupee - e₹ as a legal tender in early December 2022. The pilot project is operational in four cities - Bengaluru, New Delhi, Bhubaneswar and Mumbai. Two digital currencies have been launched in India - retail or general purpose (CBDC-R) and wholesale (CBDC-W). The retail or general-purpose currency is available to everyone; meanwhile, CBDC-W will be used to settle interbank transactions. The CBDC transactions remove the middlemen, i.e. the commercial or public banks, from the payment process. Therefore, people with no bank accounts can easily access and use digital payment. The CBDC will run on a conventional central controlled database instead of a DLT (distributed ledger technology) used by most cryptocurrencies or private digital currencies. This is because the technical framework of DLTs restricts the number of transactions that can take place simultaneously. This marks a crucial distinction between private cryptocurrencies and central bank digital currency. Additionally, CBDCs cannot be mined like private cryptocurrencies and have a stable value compared to the latter.

The primary motivation behind introducing the e₹ is to increase the feasibility and efficiency of digital payments. The ultimate goal is to establish a cashless economy since the RBI spends as much as ₹4900 crores on printing currency (Reports, 2022). Intending to divert the public from unsafe private cryptocurrencies, the CBDCs are free from credit and liquidity risks, making them an attractive option for new start-ups. Digital payments in India have been making strides and have the least settlement risk rate since this system eliminates banks from the transaction process. These transactions will also be possible offline to make them more inclusive. Finally, this will address the problems of time and cost-inefficient cross-border payments by offering a reliable alternative.

The biggest concern regarding the usage of CBDC is privacy and anonymity. The government has reasonably justified that complete transparency is out of the question since it could become an instant and secure source of income for all illicit activities. Therefore, the government has proposed that the principle of Managed Anonymity may be followed, i.e., "anonymity for small value and traceable for high value," akin to anonymity associated with physical cash. The government has assured that transactions lower than ₹50,000 will remain anonymous, and transactions beyond this limit will require a PAN card identification. The technical dynamics of the payment and whether smaller amounts could still be tracked in cases that concern national security or public order remains to be seen and will become a significant question in the future.

Another possible recommendation is to create an optional frame of pseudo-anonymity that private cryptocurrencies enjoy, which makes it a reliable option for charity and donations. Crypto users cannot find out who their payees are, but they can track where their payment goes further through a unique link.

Amendments to Strengthen the Bankruptcy Law

The Insolvency and Bankruptcy code was created in 2016 to simplify companies' exit process by creating a uniform law and constituting the National Company Law Tribunal (NCLT) to finalise the process. The biggest challenge remains the pendency of cases. As of 31st January 2022, 21,089 points are pending with the NCLT, according to a written answer to an unstarred question in the Lok Sabha. (GOVERNMENT OF INDIA MINISTRY OF CORPORATE AFFAIRS LOK SABHA UNSTARRED QUESTION NO. 2835 ANSWERED ON MONDAY, THE 21ST OF MARCH, 2022 2022) As per the same report, the number of solved cases annually has been increasing but so has the average number of days taken to resolve them. As of September 2022, an average of 679 days were taken to complete a case. (GOVERNMENT OF INDIA MINISTRY OF CORPORATE AFFAIRS LOK SABHA UNSTARRED QUESTION NO. 2835 ANSWERED ON MONDAY, THE 21ST OF MARCH, 2022 2022)

The amendment of 2022 introduces specific clauses to shorten the number of days by proposing various limits on the many procedures of liquidation, including the time needed from the sale of assets, the deadline for submitting the final report and the timeline for submitting claims if received by creditors. Presently there are only 28 members as opposed to the sanctioned strength of 63, which translates to an average of 753 cases per judge. The government has put measures in place to increase the workforce. Upon filing a claim, shareholders fear losing their management control which is why they fight back and further extend these cases. A possible solution would be for stakeholders to clarify and submit a written request of their demands for a percentage of management control they wish to retain.

Further counselling can be arranged to discuss a strategic plan for the same. Frequently, stakeholders for better profits for themselves intentionally delay the process. This can be solved by a clear and written understanding of what each stakeholder wishes to do before filing such a case.

Subsidies or Freebies? The Difference

The Modi government spent ₹5.3 Lakh Crores on subsidy in FY23, the second highest that has ever been spent on subsidy. On the 9th of December, the Modi government sought the support of the parliament for withdrawing an additional ₹2.1 Lakh Crores against the already sanctioned ₹3.1 Lakh Crores. The total subsidy bill now amounted to Rs 532,446.79 crore: Food (₹ 287,179.34 crores), fertiliser (₹ 214,511.27 crores) and petroleum (₹ 30,756.18 crores). (Damodaran, 2022) The highest budget expenditure ever spent on subsidies was also under the Modi government in FY21, amounting to almost ₹7 Lakh crores of allowance. Although justifiably so done during the pandemic period. The Modi government withdrew the subsidy on food grains worth ₹1.6 Lakh Crores under the Pradhan Mantri Garib Kalyan Yojna and amalgamated the scheme under the National Food Security Act of 2013. This will help the centre save almost ₹1.5 Lakh Crores (Raghavan, 2022). Nevertheless, the data begs the question: Is it economically ethical to provide such large amounts of subsidy, constituting almost 7.3% of the entire budget expenditure?

Another case to be taken into consideration is the Delhi Model of subsidy. The Aam Aadmi Party has come under criticism from economists for their subsidy policy. The statistics tell us that in FY23, Delhi's total budget expenditure was at ₹75,800 Crores, out of which net receipts were ₹61,819 crores causing a fiscal deficit of approximately ₹9,194 crores which amounts to almost 1.2% of the GSDP. (Delhi Budget Analysis 2022-23, 2022) The data again begs the question, what is the economic value of spending almost 6.09% of the budget on subsidies alone?

Economic Front

"Although welfare-enhancing, the impact of revenue spending on economic activity lasts for just about a year. In contrast, the impact of capital outlay is stronger and lasts longer, with the peak effect materialising after two-three years. In the medium to long term, states with high revenue spending and low capital investment may experience slower revenue growth and higher interest outgo." (Reserve Bank of India, 2022)

The Reserve Bank of India report titled 'State Finances: A Risk Analysis' constructs an economic background to the subsidies debate and distinguishes between merit and non-merit-based subsidies. The study established a correlation between welfare-enhancing schemes and their burden on the state's fiscal resources. It justified that recurring revenue expenditures are necessary but cut into the pockets of the state. On the other hand, capital expenditures reap the rewards in the long term for the state itself by adding to its revenue receipts. Subsidies and freebies qualify the revenue expenditure category along with employees' salaries, pensions, and interest payments on debts. Capital expenditures are spending that essentially creates an asset for the government or reduces a liability. Therefore, states need to be careful of the direction of their expenses. The report highlighted that welfare-improving schemes are essential but don't last long.

On the other hand, the capital outlay is more substantial and lasts longer, with the possibility of more significant revenue growth and lower investment outgo. This diversion is beneficial for the beneficiary in the short term and instantly for the political party, thereby making it a tempting offer for governments. Nevertheless, these schemes are known to leave limited fiscal space for developmental expenditure, which is capital expenditure. The report also highlighted the inverse relationship between the budgetary performance of states and their SDL (State Development Loan) yields. The greater the GSDP of the state, the lower the interest it has to pay on loans.

Welfare schemes have been further bifurcated into those which yield public merit, and 'freebies' undermine credit culture, artificially deflate market prices and discourage work at the prevailing wage rate. Value-oriented schemes include the Public Distribution Scheme, Employment Guarantee Schemes, and states support for education and health. In contrast, freebies include free public transportation, waiver of pending utility bills & farm loans. The RBI recommends a sunset clause for subsidy schemes, targeted beneficiaries and a sort of enablement mechanism which empowers them and not simply offer a piggyback ride for a short term.

Old Pension vs New Pension Scheme

The primary difference between the old pension scheme and the new pension scheme is the returns the citizen receives on it and the extent to which pensions burn holes in the pockets of the government budget. States like Rajasthan, Chhattisgarh and Jharkhand have already implemented the Old Pension Scheme, while the plans are underway in Punjab and Himachal Pradesh. Pensions are a revenue expenditure, i.e. a recurring payment which doesn't add to the expenditure of the centre with no returns. It is necessary and ethical but, at the same time, increases the liability of the government. The Old Pension Scheme gives 50% of the employee's last withdrawn salary for the rest of their lives. The New Pension Scheme, on the other hand, makes the employee save 10% every month along with 14% more by their employer, which is added to their savings. 60% of this is available for withdrawal post-retirement, while the remaining 40% is an annuity.

Politically, the revival of the Old Pension Scheme is very successful and will reap the rewards for whichever party does. Still, economically it will unnecessarily exhaust the budgetary resources and leave a smaller amount for investment and long-term capital projects.

Court Case

The matter has reached the Supreme Court and is left to be heard before a three-bench judge. A reference may be taken to the 2013 S. Subramaniam Balaji v. State of Tamil Nadu, wherein the Court ruled that such promises are not considered corrupt practises as defined by Section 123 of the Representation of the People Act, 1951. It gave the Election Commission of India instructions on draught specific regulations without any relevant legislation.

The issue in front of the Supreme Court, as filed by advocate Ashwini Upadhyay is that the promise of freebies by political parties is irrational since it successfully lures voters through this bribery and violates the norms of free and fair elections. After all, the middle class and the lower income category people will happily vote for the government that gives them subsidies and freebies instead of the government that provides them with employment opportunities or infrastructural back-up. In this context, there is a need for the Supreme Court to review the 2013 Subramaniam judgement.

The Political Underpinnings of Privatisation

Expectations vs Reality

In the budget of 2022-23, the government had chalked down from its previous ambitious targets and set the disinvestment target to be ₹65000 crores, out of which the government has managed to raise ₹31,106 crores, failing to meet even half of the anticipated criteria. This might not seem absurdly shocking as in the previous fiscal year, the government sold shares in state-owned businesses to raise just over ₹13,500 crores, falling short of its aim of ₹1.75 Lakh Crores and failing to meet its divestment goal for a third consecutive year.

This year, the humble disinvestment target, which includes the completion of extensive ticket privatisation, including Bharat Petroleum Corporation and Shipping Corporation of India, reflects the government's uncertainty in the domain and therefore creates a need to shed light on the issues concerning disinvestment in India.

Sources of Disinvestment in this fiscal year

During this financial year, the government has indulged in the minor disinvestment of Pradeep Phosphates Manufactures Limited (PPL) and raised 471.5 crores. This has been a welcome step as evidence reflects that without the privatisation, the shareholder-taxpayer would have lost at least another Rs 1,000 crore and the company, despite all corrective measures, would have already closed, losing all the valuable assets put up with taxpayer money. Government was also able to disinvest 3.5% of LIC shares and 1.5% of ONGC (oil and natural gas corporation) to raise 31,106.4 crores. (Look at the chart below)

CPSEs Disinvestment

Financial Year 2022-2023 Recent

S. No	Name of CPSEs	% of GoI's Shares Disinvested	Method of Disinvestment	Receipts (in Rs. Crore)	GoI's Shareholding Post Disinvestment
1	ONGC	1.5	OFS	3026.23	58.91
2	ONGC	0.0	Employee OFS	32.55	0.0
3	LIC	3.5	IPO	20516.12	96.5
4	PPL	19.55	OFS	471.5	0.0
5	GAIL	0.0	BB	497.27	0.0
6	NINL	0.0	SD	0.0	0.0
7	Others (Sale of Axis Bank Shares held by SUUTI)	0.0	OTHERS	3839.0	0.0
8	IRCTC	0.0	OFS	2723.73	0.0
Total Sum				**31,106.40**	

Figure 3.1 - Disinvestment Figures for FY23

By [DIPAM: Disinvested funds]

Foreign Models of Disinvestment:

In this context, it makes sense to look into some of the foreign models of disinvestment.

1) United Kingdom: Thatcherism

Because they believed that the government had no business being in business, the Margaret Thatcher government in the UK engaged in an intensive disinvestment campaign that lasted 11 years. It released the majority of its investment all at once. The government withdrew from all areas, including Telecom, Airways, Power, Petroleum, Gas, Rail, and Regional Water Boards. The UK saw over 670 PSUs worth US$ 5.3 billion being privatised during its first wave of extensive deregulation.

What may be inferred from the exercise conducted in the UK? In addition to some mismanagement, the cost of services decreased as a result of the privatisation of the telephone, power, and gas industries. In other instances, privatisation did not result in more competition. For example, some state monopolies became private monopolies and have only profited from their status. To avoid resource duplication, it is now asserted that some of the natural monopolies that had been auctioned off should have stayed under government control.

2) Germany

Germany has more than 60 years of experience privatising state-owned businesses. Giant firms like Volkswagen and the mining and electrical utility VEBA were primarily owned by private stockholders as early as the 1960s.

According to political scientist Detlef Sack, the government at the time needed to prioritise improving the efficiency of ineffective state businesses. This wave of privatisation was mainly motivated by the notion that all pieces by state-owned companies should be sold to the broader public.

The goal was to increase stock market participation among Germans. The new shareholders were expected to represent all socioeconomic groups and be more engaged in the social market economy.

Clear winners in the process include the Taxpayers, and losers were the employees of previously state-controlled enterprises, disinvested companies which experienced sudden competition shock.

3) Ukraine and Estonia

While most countries used a sizable portion of their privatisation earnings to close their budget deficits, many nations managed to forge a political consensus and win over the populace by allocating disinvestment revenue to "honourable" causes. For example, in Ukraine, profits from privatisation were attributed to the State Privatization Fund (kept separate from the budget), and legislation expressly forbade privatisation revenues to make up budget deficits.

In Estonia, the government only used the proceeds from privatisation for development projects, while the fiscal deficit was kept within a predetermined range (set at 3.9% of GDP in 2001).

The study of selected foreign models reveals that disinvestment can result in positive outcomes only when parameters about the intensity of competition, degree of public participation in the market, resultant usage of disinvested funds etc., are taken utmost care of. Keeping this in mind, the following are some of the challenges that have gained prominence in privatisation. They are followed by recommendations that can help the government meet its targets in the budget of 2023.

Challenges

The first challenge pertains to the need for more investors' interest in the central public sector enterprises. It is evident from this year's unmet disinvestment targets. For instance, in addition to cancelling the strategic sale of Central Electronics Ltd. (CEL), because the winning bidder was disqualified for failing to disclose pending legal proceedings, the government had to call off two transactions involving BPCL and SAIL's Bhadrawati Steel Plant due to a lack of buyer interest.

Loss-making units take more work to get investors to put money into. It depends on how investors view the PSU that is being offered. This perception becomes even more crucial when it comes to strategic sales, where a significant amount of money is invested.

Secondly, the time taken for a merger to be realised could be better for the investors. Compared to the sale of an asset which is swifter, the disinvestment procedure has to be passed through various departments of the concerned ministries, and red-tapism is at its pinnacle.

The strategic disinvestment procedure must be sought to prevent cronyism.

One of the most significant challenges that can also be observed in the model of Germany, Ukraine and Estonia is related to the usage of disinvested funds. In India, all the funds raised from the disinvestment procedure are proceeds from the National Investment Fund.

Experiences have shown that It is unwise and short-sighted to use disinvestment proceeds to close the fiscal gap. Proponents have argued that it is equivalent to selling "family silver" to cover immediate financial needs.

Disinvestment must also lead to an ethical degree of competition. This is one highly contentious aspect. We must work towards generating honest and stable competition to ensure the CPSUs do not suffer from a "cultural shock" when they enter the market. Whereas, It mustn't be the case that disinvestment does not lead to competition at all. Some degree of competition aids the fruitful existence of the organisation.

Disinvestment is also chosen when the government believes that specific organisations cannot fit with their philosophical, social and environmental positions.

Policy Recommendations

Some of the recommendations have been mentioned below:

- To resolve the problems with the lack of Investor or bidder interests, the government should enable the ring-fencing of CPSE's existing liabilities. A ring fence is a hypothetical wall that isolates some of the financial resources or business operations of a subsidiary company from the rest of the corporation. This can be done to set aside money for a particular use, to lower tax obligations for the person or business, or to shield assets from losses brought on by riskier business ventures carried out elsewhere in the corporate structure.
- Efforts must be made to increase the attractiveness of a CPSE. Ring-fencing is one option. Another option might be that the Public Sector can promise to award its most efficient officials (Preferably retired) for working with the Investor companies for the first few years of disinvestment to enhance attractiveness. This can be done by providing strategies for expanding the consumer base, navigating rights delivered by the nodal ministry etc.
- As previously mentioned, the time taken for a merger discourages investment. Efforts must be made to reduce red-tapism and compliance schemes in the disinvestment procedure. A finite set of guidelines must be adopted to govern the whole process, and at the same time, a reasonable period can also be allotted to the transfer.
- Privatisation by itself won't democratise its advantages. We need a healthy dose of competition in our privatisation process and elsewhere to reduce friction in bringing these to the general public. In every situation, it must be ensured that privatisation (strategic disinvestment) increases competition.
- Here, the competition commission of India has a significant role to play. Its proactive engagement with all stakeholders, including consumers, industry, government and international jurisdictions, can effectively promote an ethical degree of competition.
- It should be made sure that the earnings from such strategic sales be wisely reinvested in long-term infrastructure assets rather than being frittered away on interest or salary payments that won't benefit the economy in the long run. For this, the Department of disinvestment must also have third-party interference to ensure utmost transparency. The budget for 2022-23 focuses

extensively on capital expenditure. The disinvested funds can be used in favour of this norm and market subsidies to ensure stable returns.

- The strategic sale procedure must be fair and open with a minimum reserve price commensurate with the valuable assets that will be auctioned off to assuage suspicions of favouritism. Every sale should be subject to a minimum number of bidders and a third-party valuation of the assets of every PSU as necessary preconditions.
- Recommendations of the Rangarajan committee on disinvestment must be revalued. The committee stated that disinvestment could be made up to any level except for defence and atomic energy, where the government should hold the majority equity. It suggested four modes of disinvestment- trade sale, strategic sale, offers of shares, and closure of the sale of assets. Thereby providing impetus for a more significant push towards privatisation.
- Lastly, Increased stock market cognisance by the public bodes well both for the public and the government. France organises public auctions, where the numbers of participants are high. If we want to reach the same level, awareness becomes the key.

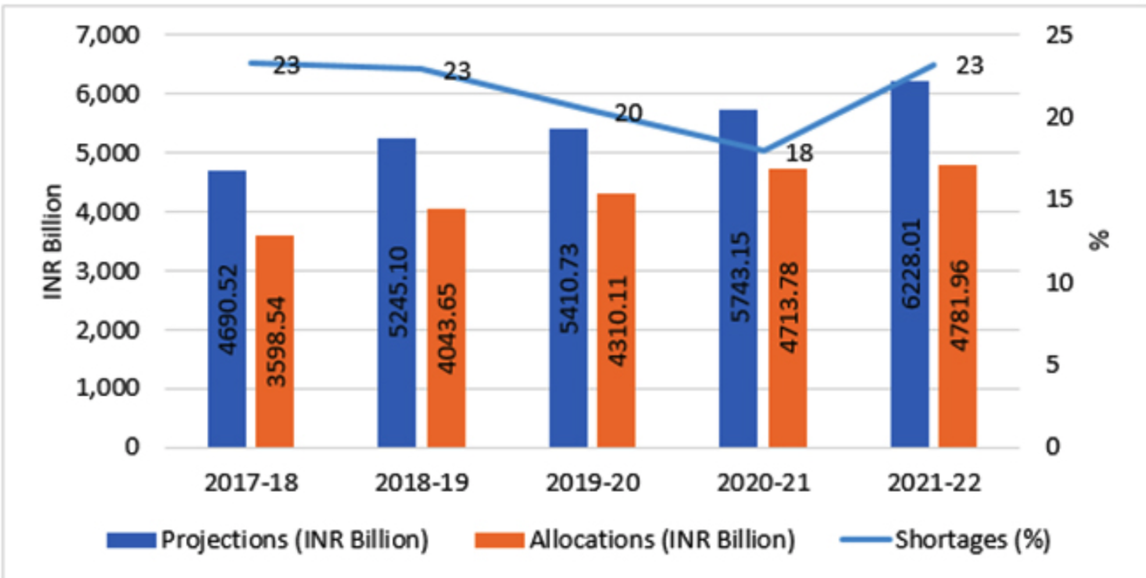
The ‘Atmanirbharata’ in Defence

The highest allocation of the budget is awarded to the Ministry of Defence. This comes in the backdrop of tensions emerging between the two Asian giants, India and China along the border.

The actual budgetary expenditure in the year 2021 was ₹4,85, 681 crores which was revised to ₹5,02,884 crores. In this perspective, the budgeted expenditure for 2022 emerged to be ₹5,25,166 crores.

However, a layman understanding of increasing budgetary allocation would fail to take into account the shortages that continue to persist in terms of capital expenditure. Following Bar Chart seeks to display MOD’s Resource Projections versus Resource Allocation for the past few years:

Figure 1. MoD’s Resource Projections Vs. Allocations



Source: *Author’s own, based on* Standing Committee on Defence, Demands for Grants, 2021-22, 19th Report, p.

Figure 5.1 - Resource Projections Vs. Allocations
By [ORF: Defence expenditure]

It can be understood that consistent shortages have marked the budget analysis of the Ministry of Defence. In 2022, even the budget estimate is just 5% of the revised estimate of the financial year 2021.

However, it must be noted that larger budget allocation is not leading to technological advancement or modernisation of the army. This is because the MoD's personnel costs have climbed over time from less than 50% to over 60%, depleting funds needed for equipment upkeep and modernization. (ORF, 2022)

In order to highlight this anomaly, PM Narendra Modi has reiterated that our focus must shift from "constantly expanding the size of our forces" to a technologically-driven modern defence system.

The Agneepath scheme seeks to correct this anomaly by increasing the share of capital expenditure in the system of Defence. As many experts have noted, one of the scheme's most significant goals was to reduce pension payouts and boost capital spending, which will aid in the modernization of the defence services. The pension payout is anticipated to rise annually, according to calculations. There will be 32 lakh pensioners in 2020, and this number will increase by 50,000 each year. The rising pension payouts each year serve as a reminder of this. Actual pension payout estimates for FY21 were Rs. 1.28 trillion, revised pension payout estimates for FY22 were Rs. 1.16 trillion, and budget estimates for FY23 for pensions are Rs. 1.19 trillion. (Business Today, 2022)

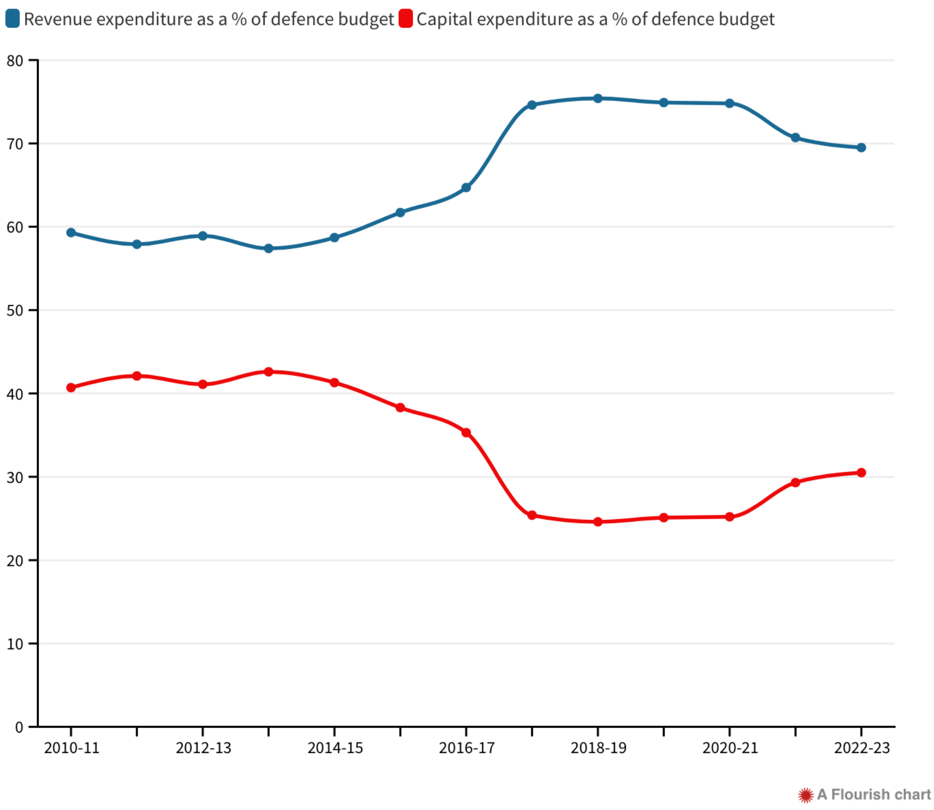


Figure 5.2 - Revenue Expenditure vs Capital Expenditure in % by [ORF: Defence expenditure]

In defence, the revenue expenditure has far exceeded capital expenditure, where Capital expenditure refers to buying equipment, vehicles, aircraft etc. It implies any spending that leads to the generation of capital. On the other hand, revenue expenditure incorporates the pension roll-outs and salaries of defence personnel. The defence pension surpassed the budgeted revenue expenditures of the education and health ministries. (Hindu, 2022)

In terms of maritime security, The Indian Navy's budget has substantially increased from 16% to 19%. This also has political and security derivations. A strong navy shows India as an emerging naval power. In contrast, with the growing importance of the Indo-Pacific region on the world stage, it becomes pertinent for India to invest heavily in the earlier-isolated service. Another aspect of strengthening navy modernity is the China angle. China, a growing external security threat to India, is the world's largest navy.

Hence, the budget for 2022 is in terms of defence expenditure, reflecting a vision of Modern India. Modernity is reflected in increased capital spending to inculcate high-tech facilities and by recognizing new security challenges in its more excellent vision of a free Indo-Pacific.

The ultimate aspect is the inclusion of the Atmanirbhat Bharat Scheme in the defence sector. According to a statement made by Finance Minister Sitharaman, "68% of the capital procurement budget will be dedicated for the domestic industry in 2022-23, up from 58% in 2021-22." The domestic industry's confidence is anticipated to increase due to the increased share of domestic procurement, which will give them a better idea of the market size. In addition, it makes a clear statement about the Modi administration's commitment to indigenizing overseas manufacturers. The signalling will likely compel international businesses to alter their business plans, moving away from directly obtaining defence contracts from the MoD and collaborating industrially with their Indian counterparts.

About the Fiscal Deficit

"The estimated fiscal deficit for 2022–23 is 6.4% of GDP, which is consistent with the broad fiscal consolidation strategy, I announced last year to achieve a fiscal deficit level below 4.5% by 2025–26"

This was stated by honourable Finance Minister, Smt. Nirmala Sitharamanan, who delivered the Union Budget 2022–23.

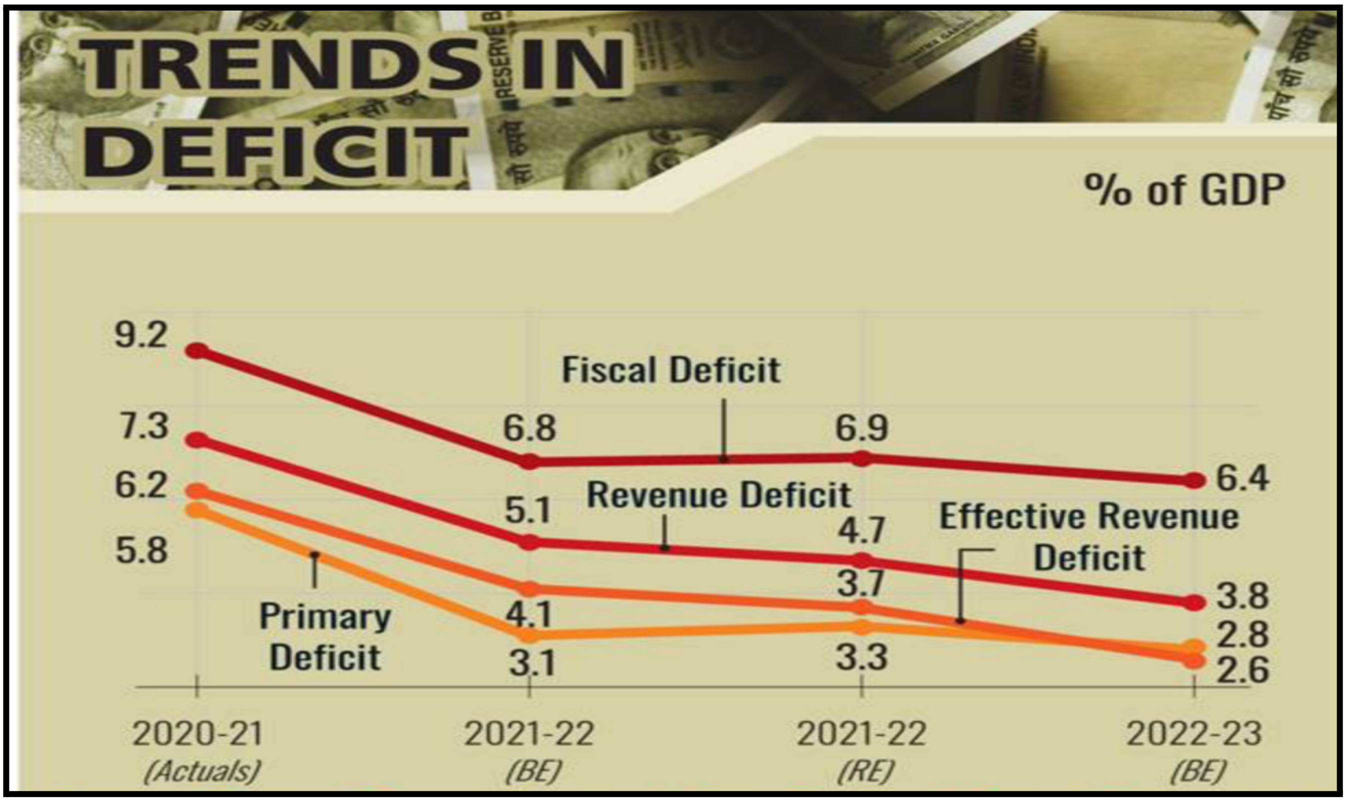


Figure 6.1 - Trends in Deficit from 2020 to 2023

By [PIB: Fiscal deficit]

Compared to the 6.8 percent forecast in the budget estimates, the revised fiscal deficit for the current year is estimated to be 6.9% of GDP. (PIB, 2022)

Hence, the Union government set in an improvement in the fiscal budget for this financial year. However, Facts and figures do not show the same level of optimism as the government.

According to data released by the Controller General of Accounts (CGA). The government's fiscal deficit at the end of November touched 59% of the full year budget estimate. In the corresponding period last year, the deficit was 46.2% of the budget estimates of 2021-22. Thereby signifying a downward spiral.

This is a result of increased expenditure with regard to food, fertiliser and fuel subsidies. According to a government document seen by Reuters, the state-run Food Corporation of India and states have already received foodgrain subsidies from the Department of Expenditure totaling nearly Rs 1.5 lakh crore.

Since the government announced a plan in April 2020 to give free rice or wheat to around 800 million people in an effort to ease household economic pressure from the COVID-19 pandemic, India's foodgrain subsidy bill has increased dramatically.

Even in the appropriation bill tabled in the Rajya Sabha, the opposition has highlighted concerns over increasing expenditure on subsidies due to which budget estimates are falling short. The Appropriation (No. 5) Bill-2022 and the Appropriation (No. 4) Bill-2022, which were submitted for consideration and return on December 19, by Union Finance Minister Nirmala Sitharaman, were intended to authorise the payment and appropriation of an additional Rs 3.25 lakh crore from the Consolidated Fund of India for the current fiscal year (2022-23).

Recommendations

While government spending is the need of the hour in fundamental arenas of fiscal policy, it must be ensured that government spending doesn't over-exceed in subsidies for targeted areas. Undoubtedly, COVID Pandemic has generated the need for the largest democracy to invest in subsidies. Still, reports of RBI must be considered wherein merit subsidies are promoted on the part of the states to ensure an improved budget deficit.

Some scholars have suggested deficit financing, which entails the government borrowing funds from RBI against its securities to meet the fiscal deficit and issuing a new currency. However, this holds the risk of devaluing the Indian currency and hyperinflation, significantly when the rupee is undervalued against the US dollar, and inflation is at an all-time high.

Increased company confidence, employment, and economic growth are boosted by fewer restrictions and lower corporate income taxes, which raise taxable profits and tax revenue. Although it's a work in progress, the first step has already been taken. Disinvestment is being encouraged. While the disinvestment targets have been difficult to meet over the last many years, setting realistic targets is a welcome step to promote privatisation.

Moreover, governments must approach some policies from a new lens. For Instance, the Sick Industrial Companies Act (SICA), which deals with rampant industrial sickness issues in India, must be reformed. Concrete parameters regarding identifying sick companies and transferring invested funds in these industries must be considered. Measures can be adopted to assign additional funds to government privatisation projects by awarding benefits and concessions in proportionality.

Increased emphasis on capital expenditure in the 2022 budget will undoubtedly ensure increased long-term benefits.

Conclusion

This document summarises the fundamental structural changes in the Indian budget for the financial year 2022-23 and their impact. It supplements its findings with recommendations that could further enhance the last budgetary process for the financial year 2023-2024 before the national elections of 2024. This study focused on the results of the National Monetization Pipeline for this financial year, the reforms brought in the banking sector, budgetary spending on subsidies and the debate it concerns, assessing the goals of privatization, the changes in budgetary allocation on defence and finally, the fiscal deficit.

The National Monetization Pipeline, an asset monetization program of the government focused on monetizing vital assets such as Roads, Railways, Power Transmission, Power Generation, Telecom, Warehousing, Mining, Natural Gas Pipeline, Product Pipeline/ others, Aviation, Urban Real Estate, Ports, and Stadiums. The NMP, although pragmatic in its endeavour and thriving in the financial year 2021-2022, is set to fail in its goals of asset monetization for the financial year 2022-2023. Fundamental changes in the banking sector involve extending credit lines for MSMEs for another year, although their approval rates have been staggering. The introduction of the Central Bank Digital Currency is a further step in digitization. However, its effects will only be measured when implemented at a large scale. Amendments were also made to strengthen the Bankruptcy code. The political rift between the Aam Aadmi Party and Bharatiya Janata Party brought centre the debate on subsidies and put the budgetary allocations on national and state-financed schemes under scrutiny. An economic analysis of the issue has led to the conclusion that only merit-based subsidies which create output in terms of returns to the state over a long time are economically profitable to continue. Schemes such as the Old Pension Scheme and complete subsidy on the water are merely political gimmicks that produce a smokescreen of a financially stable state.

The government's targets for the privatization of its public sector failed to be met by even half, which begs the attention of the country's economic experts to evolve an effective solution. Heed may be given to the models of asset monetization or privatization utilized in other prosperous countries. In the defence sector, the Agneepath scheme is a promising tool to reduce government spending on personnel pensions and use it to acquire better technology. This year's fiscal deficit constituted almost 59% of the budget estimate, while it was just 46.2% in the previous budget estimate. In this light, the government needs to cut down on its spending. Therefore, Its decision to roll back the Pradhan Mantri Ann Kalyan Yojna while continuing the National Food Security Act is a welcome move.

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