

INDIA BUDGET 2023

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INDEX

Foreword	2
Budget Highlights	5
Direct Tax Proposals.....	9
Indirect Tax Proposals.....	23
Key Policy Changes in FY 2022-23 And Budget Amendments 2023	28
Capital Market	31
Economic Outlook	33
Sectoral Analysis.....	43

FOREWORD

The Budget of 2023 assumes particular significance as the economy steps into the post COVID era, amidst a global economy encountering significant macro-economic & diplomatic headwinds, even as India continues to hold it own in a rather difficult back-drop.

The previous budget had set the tone for embarking on an ambitious capacity building initiative, by simultaneously ensuring a sure-footed roll-back of the COVID-era fiscal excesses. The FM budgeted for a lower fiscal deficit of 5.9% of GDP for FY 24, from 6.4% budgeted and achieved in FY 23 and from 6.8% in FY 22, with a target to achieving 4.5% by FY 26. Though India's post COVID bounce back had been robust, global economic and political headwinds have sobered-down growth off-late. India is a relative outlier with expected GDP growth of 6.8-7% viewed alongside the relatively controlled inflation range of 5-6%. Heightened commodity prices coupled with severe slowdown in both consumer and industrial demand from the western markets has led to a relatively challenging external situation from current account perspective. Further, consumer demand growth has been sobering with inflation denting income growth, IT & digital sectors in a soft landing mode, and slowdown in global economy. The 2023 budget aims to address these global realities, while further building upon the previous budget theme by adding momentum to the capacity building program aimed at bolstering the economy's global competitiveness.

While the FM would have clearly used the buoyancy in the tax collections for accelerated roll-back to fiscal discipline, a more nuanced view was adopted to balance growth, by budgeting for capital expenditure of ₹ 10 Lakh Crores, a massive 33% jump from an already historic high of ₹ 7.6 Lakh Crores in 2022, making it 22% of the total budget, a historic high. Within which, railway capex budget increases to ₹ 2.4 Lakh Crores from ₹ 1.37 Lakh Crores, signifying strong focus on creating a robust freight and passenger infrastructure, results of which are fairly visible on ground. The government's focus on front-ending capital expenditure stems from the need to structurally create cost and scale competitiveness, simultaneously ensuring demand and employment creation, as it expects private capex to take off only a year later.

The budget continues with the gradual simplification of the tax regime, by simultaneously enhancing the tax brackets, as also, reducing the number & nature of deductions and allowances. The budget also addressed specific course corrections in the tax framework aimed at leaving more disposable surplus in the hands of the consumer, necessitated on account of relatively high inflation, tapering consumer demand from the post COVID high. The budget platform was used to further certain long term priorities like capability building in artificial intelligence, green hydrogen, energy storage capacities amongst others. Taking note of the fact the weaker section of the society is yet to firmly find its feet back from COVID lows, the finance minister also rightly accommodated inclusion initiatives, as the economy in general & the weaker sections in particular bounce back firmly from COVID. Initiatives for the weaker sections include continuing food security for priority households, a COVID time initiative to Dec 2023, and substantially increasing outlay by 66% towards housing for priority sector households under PM Awaas Yojana to ₹ 79,000 Crores.

Focus on defense continued with an outlay of ₹ 6 Lakh Crores, given India's strategic geo-political priorities amidst a fluid global situation. The budget bans imports of certain defense components hitherto imported, where sufficient domestic capabilities have been developed. Considerable emphasis has been given on creating long term alternatives to hydro-carbon imports, to address long term energy needs, simultaneously addressing import-substitution of crude & green energy priorities. Emphasis has been given to Green Hydrogen, Energy Storage and clean energy transmission as key pillars to building a long term alternative to conventional energy sources. Traditional emphasis on the agricultural sector continues both with traditional modes like growth in agricultural credit & DBT to farmers, as also, with a slew of new-generation initiatives like a digital back-bone for e-marketing agro produce. MSMEs and micro-entrepreneurs continue to be focus areas as well.

Tax collections are expected to remain buoyant, projected to grow by 13.5% in FY 24, driven by both, better tax compliance and higher economic traction. Target for disinvestment has been set at an unremarkable, but a realistic ₹ 50,000 Crores, as the government seeks to further strengthen flagship PSUs and wait for better global capital market conditions to embark on disinvestment initiatives. Budget also

addressed significant policy initiatives to keep India at pace with global developments in the digitization and Artificial Intelligence space. 3 specialized AI centers have been conceived for solutions to agriculture, health and urban planning. Ease of doing business continues to be a focus area, with expansion to the scope of 'Vivad se Vishwaas' initiative to address contractual disputes between private parties & government, apart from establishing e-courts.

The budget has been acclaimed, both as a bold and a balanced exercise, balancing the economy's growth priorities in a particularly fluid global economic situation by focusing on physical infrastructure creation and at the same being fiscally prudent. India being an outlier both from growth and inflation-control perspective, is a clear demonstration of strong policy formation and implementation in the recent past. This time too, the FM & her team have walked the thin-rope very commendably, delivering a budget which meets headline goals, addressing a large range of national priorities & continuing the process of liberalization of the tax-regime.

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BUDGET HIGHLIGHTS

Economy

- Fiscal deficit at 6.43% of GDP in RE (Revised Estimate) for the FY 2022-23 and 5.92% BE (Budgeted Estimate) for the FY 2023-24.
- Revenue receipts for the FY 2023-24 are pegged at ₹ 26.32 Lakh Crores while revenue expenditure at ₹ 35.02 Lakh Crores.
- Capital receipt for the FY 2023-24 are pegged at ₹ 18.70 Lakh Crores while the outlay for capital expenditure to be stepped up sharply by 33.42% from ₹ 7.50 Lakh Crores to ₹ 10.00 Lakh Crores in 2023-24. Effective capital expenditure of the government is estimated at ₹ 13.71 Lakh Crores in 2023-24, about 4.54% of GDP.
- The revised estimated expenditure for the FY 2022-23 has been pegged at ₹ 41.87 Lakh Crores and receipt at ₹ 34.03 Lakh Crores.
- Estimated nominal growth of GDP for year 2023-24 at 10.50%.

Budgetary Allocations

- ₹ 45,03,097 Crores allocated for the Total Budgeted Expenditure. Major budget allocations are in the following sectors:
- ₹ 5,93,538 Crores allocated to Defense.
- ₹ 2,70,434 Crores allocated to Road Transport and Highways.
- ₹ 2,41,267 Crores allocated to Railways.
- ₹ 1,59,964 Crores allocated to Rural Development.
- ₹ 1,27,757 Crores allocated to Police Development.
- ₹ 1,25,036 Crores allocated to Agriculture and Farmers' Welfare.
- ₹ 1,23,393 Crores allocated to Communications.
- ₹ 1,12,899 Crores allocated to Education Sector.
- ₹ 1,07,715 Crores allocated to Chemical and Fertilizers.

- ₹ 89,155 Crores allocated to Health and Family welfare.
- ₹ 77,223 Crores allocated to Drinking Water and Sanitation.
- ₹ 76,432 Crores allocated to Housing and Urban Affairs.
- ₹ 41,008 Crores allocated to Petroleum and Natural Gas.
- ₹ 30,893 Crores allocated to Power and Renewable Energy.
- ₹ 25,449 Crores allocated to Women and Child Development.
- ₹ 22,138 Crores allocated to Micro, Small and Medium Enterprises (MSME).
- ₹ 20,055 Crores allocated to Water Resources, River Development and Ganga rejuvenation.
- ₹ 16,893 Crores allocated to Labour and Employment.
- ₹ 13,451 Crores allocated to Commerce and Industry.
- ₹ 12,462 Crores allocated to Tribal Affairs
- ₹ 12,544 Crores allocated to Space Industry
- ₹ 12,847 Crores allocated to Social Justice and Empowerment
- ₹ 3,517 Crores allocated to Skill Development and Entrepreneurship.
- ₹ 2,400 Crores allocated to Tourism Promotion.

Direct Taxes

- No change in basic tax rates / slabs under normal regime.
- Under New Tax Regime for individuals/HUF - number of tax slabs reduced, exemption limit increased from ₹ 2.5 Lakhs to ₹ 3 Lakhs, rebate limit increased to ₹ 7 Lakhs, surcharge on income exceeding ₹ 5 Crores reduced from 37% to 25%, standard deduction provided for salaried individuals
- Threshold limit for Presumptive Tax for business increased to ₹ 3 Crores (earlier ₹ 2 Crores) and for specified professionals ₹ 75 Lakhs (earlier ₹ 50 Lakhs)

- Concessional Tax rate of 15% extended to co-operatives commencing manufacturing before 31-03-2024
- Deduction u/s. 54 & 54F from capital gain in respect of investment in residential house restricted to ₹ 10 Crores
- TCS rate on sale of Overseas Tour Package increased from 5% to 20%
- Winnings from online games taxable @ 30%
- Deduction of expenditure towards MSMEs to be allowed on payment basis
- Facilitation of claiming TDS credit for income already offered in ITR of past year(s)
- Proceeds from High Value Life Insurance policies taxable subject to certain conditions
- Applicability of section 56(2) (viib) now extended to shares issued to Non-residents
- Scope of deeming provisions under section 9(1)(viii) extended to RNORs
- Limit of ₹ 3 Lakhs for tax exemption on leave encashment on retirement of non-government salaried employees increased to ₹ 25 Lakhs
- Conversion of gold into electronic gold receipt and vice versa not to be treated as transfer for capital gains tax
- Time limit to pass assessment order increased from 9 months to 12 months
- Provisions relating to reassessment proceedings rationalised
- Time limit to qualify as eligible start-ups for income tax benefits extended by 1 year
- Benefit of carry forward of losses on change of shareholding of start-ups extended from 7 years of incorporation to 10 years
- New Authority of Joint Commissioners (Appeals) proposed to dispose small appeals
- Exclusion of NBFCs from 'Thin Capitalization' Rules

- Tax provisions for units in IFSC rationalized
- Rationalization of provisions relating to Charitable Trust/ Institutions

Indirect Taxes

- Indirect Tax proposals aim to promote exports, boost domestic manufacturing, enhance domestic value addition, encourage green energy and mobility
- In order to rationalize Customs duty rate structure, basic customs duty rates on various goods, except textiles and agriculture, being reduced
- Out of 196 exemptions, 146 exemptions are extended for one year for the purpose of undertaking review, few exemptions are extended for one, two and five years.
- Benefits of exemption, where no time was specified but restricted to two years, are not applicable in specific cases such as multilateral or bilateral trade agreements; obligations in international agreements, treaties, conventions; UN agencies, diplomats, international organizations; privileges of constitutional authorities; Foreign Trade Policy or other Central Government Schemes.
- Time limit of 9 months specified for disposal of application filed before Settlement Commission.
- Excise duty exempted equal to GST paid on compressed biogas contained in blended compressed natural gas.
- National Calamity Contingent Duty (NCCD) on specified cigarettes revised upwards by about 16 %.
- Amendment in Central Sales Tax, 1956 to declare Customs, Excise and Service Tax Appellate Tribunal constituted under the Customs Act 1962 to be the authority to settle inter-state disputes.
- Time limit of 3 years imposed from due dates for furnishing GST returns
- ITC restricted on goods or services, or both used for Corporate Social Responsibility
- Provisions allowing sharing of information furnished in GST returns or registration or other details on common portal, with such other systems as may be notified.

DIRECT TAX PROPOSALS

(Unless specified, proposals shall take effect from AY 2024-25)

RATES OF TAX / THRESHOLD LIMIT

a. Individual, HUF, AOP or BOI, Artificial Judicial Person

Normal Regime

- No change in tax slabs and basic tax rates.
- Surcharge in case of income earned from Long term capital gains is capped @15%, similar to last year.
- In case of AOPs consisting of only companies as its members, surcharge shall not exceed 15%, similar to last year.
- No change in Health and Education Cess, which is @ 4%.
- No change in Tax rebate for resident individual whose income does not exceeding ₹ 5 Lakhs which is at ₹ 12,500.

New Regime

- It is proposed to give benefit to the taxpayer by way of changes in the slabs and effective tax rates as under:

Taxable Income Slab (₹)	Rate of Tax
Up to 3,00,000	NIL
3,00,001 to 6,00,000	5.20%
6,00,001 to 9,00,000	10.40%
9,00,001 to 12,00,000	15.60%
12,00,001 to 15,00,000	20.80%
15,00,001 to 50,00,000	31.20%
50,00,001 to 1,00,00,000	34.32%
1,00,00,001 to 2,00,00,000	35.88%
Above 2,00,00,000	39.00%

- New Regime proposed to be now applicable by default with an option to tax payer to choose old regime.
- No change in surcharge except for the income exceeding ₹ 5 Crores. It is proposed to reduce the surcharge from 37% to 25% in case of income more than 5 Crores.
- 100 % Tax rebate is proposed to a resident individual on total income not exceeding ₹ 7 Lakhs vis-à-vis ₹ 5 Lakhs for last year
- It is proposed to give benefit of Standard Deduction u/s 16(ia) to salaried employees under New Regime as well.

b. Firm and LLP

- No change in basic tax rate of 30% and surcharge of 12% for income above ₹ 1 Crore.
- No change in Health and Education Cess, which is 4%.
- Effective Tax rates shall be as under (subject to AMT).

Taxable Income	Tax Rates (Including surcharge and cess)
Up to ₹ 1 Crore	31.20%
Above ₹ 1 Crore	34.94%

c. Companies:

Normal Regime

- No change in Tax rate of 25% for domestic companies, having total turnover or gross receipts not exceeding ₹ 400 Crores in FY 2021-22.
- For Domestic companies, surcharge of 7% is applicable where income exceeds ₹ 1 Crore and 12% where income exceeds ₹ 10 Crores.
- For foreign companies, surcharge of 2% is applicable where income exceeds ₹ 1 Crore and 5% where income exceeds ₹ 10 Crores.
- No change in Health and Education Cess, which is 4%.
- Effective tax rates shall be as under (Subject to MAT):

Particulars	Domestic Company	Foreign Company
Turnover/Gross Receipts up to ₹ 400 Crores in FY 2021-22		
Taxable Income upto ₹ 1 Crore	26.00%	41.60%
Taxable Income above ₹ 1 Crore to ₹ 10 Crores	27.82%	42.43%
Taxable Income above ₹ 10 Crores	29.12%	43.68%
Turnover/Gross Receipts above ₹ 400 Crores in FY 2021-22		
Taxable Income upto ₹ 1 Crore	31.20%	41.60%
Taxable Income above ₹ 1 Crore to ₹ 10 Crores	33.38%	42.43%
Taxable Income above ₹ 10 Crores	34.94%	43.68%

Optional Regime

- No change in the rates of Optional Regime. The provisions of MAT shall not be applicable.
- Effective rates for companies under both the sections are as under:

Particulars	As per section 115BAA	As per section 115BAB
Effective Tax Rate (Including surcharge and cess)	25.17%	17.16%

d. Co-operative Society

Normal Regime

- There is no change in the slab rates for tax. The same are as under:

Taxable Income Slab	Tax Rates
Up to ₹ 10,000	10%
₹ 10,001 to ₹ 20,000	20%
Above ₹ 20,000	30%

- Surcharge is reduced to 7% in case of income exceeding ₹ 1 Crore but less than ₹ 10 Crores.
- Surcharge @ 12% shall be levied in case of income exceeding ₹ 10 Crores.

Optional Regime

- No change has been proposed in the tax rate for Optional Regime. The effective tax rate shall be 25.17%.
- It is proposed to insert new section 115BAE to provide option to a new manufacturing co-operative society to avail tax at concessional rate of 15% (effective rate with surcharge and cess is 17.16%) subject to satisfaction of certain conditions.

e. **Minimum Alternative Tax (MAT) & Alternate Minimum Tax (AMT)**

- No change in basic MAT @ 15%, AMT @ 18.5% (except Co-operative Societies). AMT rate continues to be at 15% for Co-operative Societies.
- No change in Surcharge and Cess rates.

TDS / TCS PROVISIONS

a) **Facilitation of TDS credit for income already offered in return of income of past year(s) (w.e.f. 01-Oct-2023)**

- o In certain cases, when income is booked on accrual basis in the return of income and TDS is deducted much later when actual payment is being made, it results in TDS mismatch. In order to remove this difficulty and provide TDS credit to the assessee, it is proposed to allow an assessee to make application in prescribed form to the Assessing Officer within 2 years from the end of the financial year in which such tax was deducted at source.
- o The assessing officer shall thereafter carry out the required rectification under section 154 and the limitation period of 4 years shall be counted from the end of the financial year in which such tax has been deducted.
- o Interest on refund arising out of such rectification shall be for the period from the date of application to the date on which the refund is granted.

b) Amendment in the definition of "Specified Person" in section 206AB and 206CCA for higher rate of TDS/TCS (w.e.f. 01-Apr-2023)

- o The existing provisions of section 206AB and 206CCA provide for higher rate of TDS/TCS in case of payments to certain "Specified Persons". It has been now proposed to change the definition of "Specified Person" to exclude a person who is not required to file return of income and who is notified by the Central Government in the Official Gazette.

c) Withdrawal of exemption from TDS on payment of interest on listed debentures to a resident

- It is proposed to omit clause (ix) of proviso to section 193, by virtue of which, now TDS u/s. 193 will also be applicable on any interest payable on any security issued by a company, where such security is in dematerialized form and is listed on a recognized stock exchange in India.

d) TDS on payment of accumulated PF balance due to an employee

- It is proposed to amend the provisions of section 192A to provide that the TDS on payment of accumulated PF balance which was deducted at Maximum Marginal Rate (MMR) in case the employee who fails to furnish their PAN, will now be deducted @ 20% as per sec. 206AA.

e) TDS on winnings from games, etc.

- It is proposed to provide that the threshold limit of ₹ 10,000/- for TDS on winnings from any lottery, card puzzles, games, etc. u/s. 194B and TDS on winnings from horse race, etc. u/s. 194BB respectively is to be applied for the aggregate amount of such winnings during the financial year and not for each transaction.
- It is proposed to introduce a new section 194BA for TDS @ 30% on winnings from online games [w.e.f. 01-Jul-2023]

f) Increase in threshold limit for cooperatives to withdraw cash without TDS – Section 194N

- The threshold limit for TDS on cash withdrawal by co-operative society is increased to ₹ 3 Crores as against the earlier limit of ₹ 1 Crore.

g) Tax treaty relief at the time of withholding tax under Section 196A

- It is proposed to insert a proviso under sub section (1) to section 196A whereby lower rate as per applicable Tax treaty could be considered for deducting tax on payment of income to non-resident by specified mutual funds or companies, subject to fulfillment of applicable conditions.

h) Increase in TCS rates on certain remittances [w.e.f. 01-Jul-2023]

- It is proposed to increase TCS rates u/s 206C(1G), on foreign remittances through LRS and on sale of overseas tour package as under:

Sr. No.	Type of remittance	Present Rate	Proposed Rate
1	For the purpose of any education, if the amount being remitted out is a loan obtained from any financial institution (as per sec. 80E)	0.5% of the amount or the aggregate of the amounts in excess of ₹ 7 Lakhs.	No change
2	For the purpose of education, other than (1) or for the purpose of medical treatment.	5% of the amount or the aggregate of the amounts in excess of ₹ 7 Lakhs	No change
3	Overseas Tour Package	5% without any threshold limit	20% without any threshold limit
4	Any other case	5% of the amount or the aggregate of the amount in excess of ₹ 7 Lakhs	20% without any threshold limit.

SALARIES

a) Rationalization of provisions related to the valuation of residential accommodation provided to employees

- It is proposed to rationalize and streamline the uniform methodology to compute the value of rent-free accommodation provided to the employee and the value of any accommodation provided to employee by his employer at a concessional rate.

b) Increase in limit of tax exemption on leave encashment on retirement of non-government salaried employees

- Limit of ₹ 3 Lakhs for tax exemption on leave encashment on retirement of non-government salaried employees increased to ₹ 25 Lakhs.

BUSINESS INCOME

a. Deduction of expenditure towards MSMEs to be available only on payment basis

- It is proposed to insert new clause (h) in section 43B to provide that any sum payable to MSME beyond the time limit specified in section 15 of MSME Act shall be allowed only on actual payment basis.

b. Increase in threshold limits for Presumptive Taxation Schemes u/s. 44AD/44ADA

- It is proposed to increase the existing threshold limit for applicability of presumptive schemes:
 - o u/s 44AD (Business) from ₹ 2 Crores to ₹ 3 Crores.
 - o u/s 44ADA (Profession) from ₹ 50 Lakhs to ₹ 75 Lakhs.

c. Amendment to section 44BB and Section 44BBB

- It is proposed to deny the set-off of unabsorbed depreciation and brought forward loss determined on the basis of proper books of accounts maintained by the taxpayer against the profits calculated on presumptive basis.

d. Rationalization of NBFC categories for section 43B and 43D

- It is proposed that different categories of NBFC mentioned in section 43B and 43D of the Act has been substituted with such class of NBFC, as may be notified by the Central Government.

e. Clarification regarding benefits and perquisites in cash

- It is proposed to amend clause (iv) of section 28 to clarify that the said clause also applies to cases where benefit or perquisite is received in cash or in kind or partly in cash and partly in kind and resultant TDS u/s. 194R should be deducted.

CAPITAL GAINS

a. Restricting investment in residential house to ₹ 10 Crores for claiming deduction u/s. 54 and 54F

- It is proposed to restrict the amount of investment in residential house to ₹ 10 Crores for the purpose of claiming deduction u/s. 54 and 54F against capital gains. The said limit would also apply to deposit in the Capital Gains Account Scheme.

b. Taxability on transfer/redemption/maturity of Market Linked Debentures

- It is proposed to insert section 50AA to provide that the income from transfer/redemption/maturity of Market Linked Debentures shall be deemed to be short-term capital gains.
- It is proposed that 'Market Linked Debentures' means a security having debt security as its principal component, where the returns are market linked and includes any security which has been classified as such by SEBI.

c. Consideration u/s. 45(5A) to also include cheque, draft or any other mode

- It is proposed to clarify that for the purpose of computing capital gain u/s. 45(5A) of the Act on transfer of land / building under a JDA, the consideration amount shall also include amount received by 'cheque or draft or by any other mode'.

d. Prevention of double deduction of interest on borrowed capital for purchasing a house property

- It is proposed to provide u/s. 48 that the cost of acquisition or the cost of improvement of house property shall not include the amount of interest already claimed as deduction u/s. 24 or Chapter VIA.

e. Definition of cost of acquisition in case of Intangible assets, etc. for computing capital gains

- It is proposed to amend section 55 to provide that 'cost of acquisition' or 'cost of improvement' of capital assets being intangible asset or any other right shall be 'Nil'.

f. Conversion of physical gold into Electronic Gold Receipt (EGR) and vice versa to be exempt transfer

- It is proposed to exclude the conversion of physical form of gold into EGR and vice versa by a SEBI registered Vault Manager from the purview of 'transfer' for the purposes of capital gains levy.

OTHER SOURCES

a. Amendment to section 56(2)(viib) providing for fair value concept applicable to investment by non- residents

- Section 56(2)(viib) currently deals with issue of shares to residents at a fair value in case of a closely held company. These provisions are now proposed to be extended for issue of shares even to non-residents.

b. Taxability of proceeds from life insurance policies

- It is proposed to tax income from insurance policies (other than ULIP) issued on or after 01.04.2023 having premium or aggregate of premium exceeding ₹ 5,00,000 in any year, except if proceeds are received on death of the insured person.
- Premium paid would be allowed as deduction, if no deduction has been claimed earlier under any other provisions of the Act.

c. Taxability of winnings from online games

- It is proposed to introduce a new section 115BJ to provide for tax rate of 30% on winnings from online games.

DEDUCTIONS

- a. **Removal of certain funds from deduction under section 80G**
- The existing provisions of section 80G provide for 50% deduction for donation made to certain category of funds. It is now proposed to remove the following funds from eligibility of 80G deduction:
 - o Jawaharlal Nehru Memorial Fund
 - o Indira Gandhi Memorial Trust
 - o Rajiv Gandhi Foundation

INTERNATIONAL TAXATION & TRANSFER PRICING

- a. **Widening of scope of Section 9(1)(viii) to include 'Resident but not ordinarily resident'**
- Currently, monetary gift given by a person resident in India to a non-resident is deemed to accrue or arise in India. It is proposed to amend Section 9(1)(viii) to include monetary gifts given to 'not ordinarily resident' as well within its purview.
- b. **Reduction in time period for furnishing Transfer Pricing Study Report u/s. 92D(3)**
- Currently, in case of Transfer Pricing Assessment Proceedings, the Assessee is required to furnish the Transfer Pricing Study Report within a period of 30 days from the date of receipt of a notice issued in this regard, either by the AO or CIT(A), which could be extended to a further period of maximum 30 days. The said period of initial 30 days is proposed to be reduced to 10 days, which can be extended to a further period not exceeding 30 days.
- c. **Exclusions to NBFCs from thin capitalization Rules u/s. 94B**
- It is proposed to provide relief from applicability of Section 94B to notified non-banking financial companies (NBFCs). Thus, disallowance u/s. 94B(1) of excess interest will not be applicable to such notified NBFCs.

SPECIAL PROVISIONS

a. Clarification regarding interest u/s. 234B while filing Updated Return [w.r.e.f. 01-Apr-2022]

- Section 140B of the Act provides that for determination of additional tax while filing updated return, interest u/s. 234B shall be computed on assessed tax or the amount by which advance tax falls short of assessed tax. However, since the assessed tax is computed already after giving credit of advance tax claimed in earlier return, it is proposed to amend section 140B of the Act to clarify that interest u/s. 234B is to be calculated on the assessed tax only.

b. Rationalization of provisions of Prohibition of Benami Property Transactions Act, 1988

- It is proposed to allow filing of appeal by Initiating Officer (IO) or the aggrieved person, as the case may be, to the Appellate Tribunal against the order of the Adjudicating Authority within a period of 45 days from the date of receipt of such order instead of the existing time limit of 45 days from the date of the order.

c. Set off and withholding of refund in certain cases

- It is proposed to substitute section 245 and integrate the provisions of section 241A and 245 to provide that the tax authority can set off the amount to be refunded or any part thereof against any sum remaining payable by the person after giving him an intimation in writing.
- It is proposed that the AO, with the prior approval of PCIT/CIT, may withhold the refund till date of assessment/reassessment and in such cases, additional interest u/s. 244A(1A) shall not be payable.

RATIONALISATION OF PROVISIONS FOR CHARITABLE TRUST AND INSTITUTIONS

a. Rationalization of provisions of Charitable Trust and Institutions

- Several amendments have been proposed in section 11,12AA/12AB,10(23C) with a view to rationalize the provisions dealing with charitable trust and institutions.

- Amongst other things, it is proposed to clarify that the exemption u/s 11,12 and 10(23C) of the Act will be available only if the return of income has been furnished within the time allowed u/s 139 of the Act.
- The due date of filing of Form 10/9A by the trusts/institutions is proposed to be preponed and is now to be filed at least 2 months prior to the due date of furnishing the return of income u/s. 139(1).

PROCEDURAL AMENDMENTS

a. Reference to 'Cost Accountant' for valuation of inventory before passing of assessment order

- In order to ensure that inventory is valued in accordance with the provisions of law, it is proposed to amend section 142(2A) for enabling the AO to make a reference to the 'Cost Accountant' before passing the assessment order.

b. Alignment of timeline provisions u/s. 153 of the Act

- It is proposed to revise the time limit to pass assessment order u/s. 143 or 144 of the Act from 9 months to 12 months from the end of AY in which income was first assessable.
- It is proposed to insert a new sub-section (3A) in section 153 of the Act to provide that where an assessment or reassessment is pending as on the date of initiation of search u/s. 132 or making requisition u/s. 132A, then the time limit to pass such order of assessment or reassessment shall be extended by 12 months.

c. Introduction of the authority of Joint Commissioner (Appeals)

- In order to clear the bottleneck of huge pendency of cases, it is proposed to create a new authority for appeals at Joint Commissioner/Additional Commissioner level also to handle certain class of cases involving small amount of disputed demand. Such authority will function in the manner similar to CIT(A).
- Consequential amendments in the Act are made to ensure that the functioning of the JC(A) is aligned with that of CIT(A).

d. Rationalization of appeals to the Appellate Tribunal

- In order to address taxpayer's grievances and to ensure fair and equitable dispensation of judgements, it is proposed that the appeal against the following orders shall be made to the Appellate Tribunal:
 - o Appeal against the penalty orders passed by CIT(A) u/s.271AAB, 271AAC & 271AAD
 - o Appeal against an order passed u/s. 263 of the Act by PCCIT or CCIT or order passed u/s. 154 of the Act in respect of any such order
 - o A memorandum of cross-objections can be filed in all classes of cases against which an appeal can be made to the Appellate Tribunal.

e. Rationalization of provisions relating to reassessment proceedings

- To facilitate conduct and completion of reassessment proceedings in a seamless manner, following amendments relating to conduct of reassessment proceedings are proposed:
 - o Return against notice issued u/s. 148 shall be furnished within three months from the end of the month in which such notice has been issued or such further time as may be allowed by the AO on a request made by the assessee in this behalf.
 - o Notice u/s. 143(2) not mandatory for returns furnished beyond the period allowed u/s. 148.
 - o To exclude period of 15 days for calculating limitation period for issuing notice u/s. 148 when search u/s. 132 or requisition u/s. 132A is made after 15th March of any FY and such notice shall be deemed to be issued on 31st March of such FY.
 - o To exclude period of 15 days for calculating limitation period for issuing notice u/s. 148 and show cause u/s. 148A(b) in cases where information emanates from summons or survey on or before the 31st March of any FY in consequence of search or requisition initiated after 15th March of any FY.

f. Replacement of section 170A providing for business reorganisation

- It is proposed to enable the assessing officer to assess the total income of the relevant assessment year in accordance with the order of the business reorganization and the modified return furnished by the taxpayer.

PENALTIES

a. Penalty for furnishing inaccurate statement of financial transaction (SFT) u/s. 271FAA

- It is proposed that if any inaccuracy is found in the SFT transactions submitted by a prescribed reporting financial institution, then penalty of ₹ 5,000 shall be imposed on such institution.

OTHER PROPOSALS

a. Extension of time period for carry forward of losses in the hands of eligible start-ups u/s. 79

- Eligible start-ups are presently allowed to carry forward and set-off losses of first 7 AYS subject to shareholders remaining the same. The said provisions are now proposed to be amended to extend the period up to first 10 AYS.

b. Period of incorporation for eligible start-ups extended u/s. 80-IAC

- Sunset period to qualify as eligible start-up for claiming tax benefits u/s. 80-IAC extended till 31st March 2024.

c. Rationalization of double taxation on distribution of income to NR offshore derivative instruments holders

- It is proposed to amend section 10(4E) to provide exemption to any income distributed on offshore derivative instruments, entered into with an offshore Banking Unit of an eligible International Financial Services Centre (IFSC) to the extent such amount has been charged to tax in the hands of IFSC Banking Unit under Section 115AD.

INDIRECT TAX PROPOSALS

Customs

a. Rate related changes

A. Proposals Involving Changes in Basic Customs Duty Rate [wef 02-Feb-2023]

Sr.	Sector	Description of Goods	Old	New
1	Gems and Jewellery Sector	Seeds for use in manufacturing of rough lab-grown diamonds	5%	NIL
2	Capital Goods	Specified capital goods/machinery for manufacture of lithium-ion cell for use in battery of electrically operated vehicle (EVs)	As Applicable	NIL (up to 31.03.2024)
3	IT and Electronics	Camera lens and its inputs/parts for use in manufacture of camera module of cellular mobile phone	2.5	NIL
		Specified parts for manufacture of open cell of TV panel	5	2.5
4	Electronic Appliances	Heat coil for manufacture of electric kitchen chimneys	20	15
5	Chemicals	Styrene	2 (+0.2 SWS)	2.5 (+0.25 SWS)
		Vinyl chloride monomer	2 (+0.2 SWS)	2.5 (+0.25 SWS)

Sr.	Sector	Description of Goods	Old	New
6	Petrochemical	Naphtha	1 (+ 0.1 SWS)	2.5 (+0.25 SWS)
7	Precious Metals	Silver (including silver plated with gold or platinum), unwrought or in semi-manufactured forms, or in powder form	7.5 (+ 2.5 AIDC+ 0.75 SWS)	10 (+ 5 AIDC+ Nil SWS)
		Silver dore	6.1 (+ 2.5 AIDC+ 0.61 SWS)	10 (+ 4.35 AIDC+ NIL SWS)
8	Gems and Jewellery Sector	Articles of Precious Metals such as gold/silver/platinum	20 (+NIL AIDC +2 SWS)	25 (+NIL AIDC +NIL SWS)
		Imitation Jewellery	20 or 400/kg., whichever is higher (+NIL AIDC +2 or ₹ 40 per Kg SWS)	25 or 600/kg., whichever is higher (+NIL AIDC +NIL SWS)
9	Automobiles	Vehicle (including electric vehicles) in Semi-Knocked Down (SKD) Form	30 (+3 SWS)	35 (+NIL SWS)
		Vehicle in Completely Built Unit (CBU) Form, other than with CIF more than USD 40,000 or with engine capacity more than 3000 cc for petrol-run vehicle and more than 2500 cc for diesel-run vehicles, or with both	60 (+6 SWS)	70 (+NIL SWS)

Sr.	Sector	Description of Goods	Old	New
		Electrically operated Vehicle in Completely Built Unit (CBU) Form, other than with CIF value more than USD 40,000	60 (+ 6 SWS)	70 (+NIL SWS)
10	Others	Bicycles	30 (+ NIL AIDC +3 SWS)	35 (+ NIL AIDC +NIL SWS)
		Toys and parts of toys (other than parts of electronic toys)	60 (+ NIL AIDC +3 SWS)	70 (+ NIL AIDC +NIL SWS)

B. Other Related Changes

- Solar power plant/solar power project is excluded from the purview of Project Imports (to be effective from date of assent of President)
- Solar tempered glass for use in the manufacture of solar cell or solar module to be exempted till 31st March 2024 for the purpose of undertaking review
- Basic customs duty reduced on seeds used in the manufacture of lab grown diamonds
- Duty reduced on key inputs for domestic manufacture of shrimp feed
- Basic Customs Duty exemption on raw materials for manufacture of CRGO Steel, ferrous scrap and nickel cathode continued
- Customs duty exempted on vehicles, specified automobile parts/ components, sub-systems and tyres when imported by notified testing agencies, for the purpose of testing and/ or certification, subject to conditions.
- Concessional BCD of 2.5 % on copper scrap is continued.

- Basic customs duty on crude glycerin for use in manufacture of epichlorhydrin reduced to 2.5 % from 7.5 %.
- Duties on articles made from dore and bars of gold and platinum increased
- Import duty on silver dore, bars and articles increased
- Basic customs duty rate on compounded rubber increased to 25 % from 10 % or ₹ 30 per kg whichever is lower

b. Law related changes (changes with effect from date of enactment of Finance Bill, unless specified otherwise)

Customs Act, 1962

- In case of exemptions, if no time is defined, the period of 2 years would be applicable for validity of such exemption. However, now provided that no time limit is applicable in case of exemption granted to:
 - o Multi-lateral or Bilateral Trade agreements
 - o Obligations under International agreements, treaties, conventions including with respect to UN agencies, diplomats, international organizations
 - o Privileges of constitutional authorities
 - o Schemes under Foreign Trade Policy
 - o Central Government schemes having a validity of more than two years
 - o Re-imports, temporary imports, goods imported as gifts or personal baggage
- For timely disposal of application made to Settlement Commission
 - o Time limit of 9 months (which may be further extended up to a period of 3 months) from date of application has been introduced for passing an order
 - o If order is not passed within above time, then matter will be reminded back to adjudicating authority

Goods and Services Tax (GST)

(To be effective by way of issuance of notification by Government)

- Person supplying goods through e-commerce operator can also opt for Composition Scheme
- ITC payable, where payment to supplier has been delayed beyond 180 days, can now also be paid otherwise than output liability, including interest, if applicable. The same can be reavailed after making payment to the supplier
- ITC to be reversed in case of supply of warehoused goods to any person before clearance for home consumption
- ITC not available for goods or services or both used for Corporate Social Responsibility (CSR)
- Outward supplies or returns or annual returns cannot be furnished after expiry of three years
- Penal provisions made applicable to E-commerce Operators in case of supplies made through it by unregistered dealers or interstate supply by ineligible dealers or details not furnished in relation to supplies by unregistered dealer
- Punishment for certain offences removed so as to decriminalize such offences
- Provisions inserted for sharing of information furnished on Common Portal such as GST return, registration application, outward supplies, electronic invoice details, E-way bill or any other details with such other notified systems
- Provisions amended to include OIDAR services provided by any person located in non taxable territory to an unregistered person located in taxable territory
- Definition of "online information and database access or retrieval services" revised to remove the condition of rendering of the said supply "being essentially automated and involving minimal human intervention"
- In case of supply of services by way of transportation of goods, Place of supply, irrespective of destination of the goods, to be determined based on location of recipient of services in case of recipient being a registered dealer and in other cases, location at which goods are handed over for transportation.

KEY POLICY CHANGES IN FY 2022-23 AND BUDGET AMENDMENTS 2023

FEMA/RBI POLICY CHANGES

New Overseas Investment Regulations – breakthrough change for Private Equity/ Venture Capital ("PE/VC")

- RBI has introduced significant changes in Overseas Direct Investment ("ODI") policy by introduction of the FEMA (Overseas Direct Investments) Regulations along with its Rules ('OI Guidelines') on 22-Aug-2022 vide Circular No. FEMA 400/2022-RB.
- Key changes relate to allowing ODI for setting-up of Fund Management activity outside India by registered as well as regulated entities in financial services sector without any prior RBI approval.
- Even an Individual Sponsor can set up AIF management business in International Finance Service Centre ("IFSC") as ODI without any regulatory approvals.
- Investment in Units of Investment Fund Overseas shall be considered as Overseas Portfolio Investment ("OPI") if that fund is regulated by the financial sector in the host jurisdiction.
- Non-Resident ("NR") Investors can freely invest in 'Sovereign Green Bonds' issued by Govt. from fiscal year 2022-23 CIRCULAR NO. FMID.NO.07/14.01.006/2022-23, as an initiative for investment freedom to the NR.

BUDGET 2023 KEY INITIATIVES

Infrastructure & Investment:

- 100 transport infrastructure projects identified for end-to-end connectivity for ports, coal, steel and fertilizer sectors, Urban Infrastructure Development Fund ("UIDF") for creating Urban Infrastructure in Tier 1 and Tier 2 cities.

Governance:

- Three specialized AI centres in educational institutes to be set-up, 100 labs for 5G services-based development application and R&D grant for AI based solutions in agriculture, health, and sustainable cities.
- Digi Locker facility available only to the individuals, now extended to business enterprises and charitable trusts.
- Central Data Processing Centre for faster handling of admin work under the Companies Act
- Adoption of single IT system to upload all the documents and forward to other departments at individual's discretion.

For Youth upliftment and empowerment:

- Pradhan Mantri Kaushal Vikas Yojana ("PMKVY") 4.0 to be launched for on-job training, industry partnership, and alignment of courses with needs of industry for the youth of India. The scheme proposes to cover new age courses for Industry 4.0 like coding, AI, robotics, mechatronics, IOT, 3D printing, drones, and soft skills. 30 Skill India International Centres proposed to be set up across different States to skill the youth for international opportunities.

Tourism:

- At least 50 destinations to be developed for domestic and foreign tourists to boost tourism and promote cultural heritage.
- Unity malls to be set-up in every state capital for promotion of sale of One District-One Product ("ODOP"), Geographical Indication ("GI") products and handicraft products.

Financial Sector:

- Credit guarantee scheme for MSME revamped with an extended infusion of ₹ 9,000 Crores in corpus enabling the MSME to avail additional collateral free guaranteed credit of ₹ 2 Lakh Crores.
- Cost of the credit to be reduced by about 1 %.
- National Financial Information Registry to be set up to serve as the central repository of financial and ancillary information. It will facilitate efficient flow of credit, promote financial inclusion, and foster financial stability. A new legislative framework will

govern this credit public infrastructure, and it will be designed in consultation with the RBI.

- During Budget 2022 the FM had recommended setting up a Gujarat GIFT City for ease and inclusion of financial service for sustainable inflow of global capital & climate finance in the country. To further incentivise the development and success of units set up in GIFT city since July-2022, various measures proposed such as extension of the period of tax benefits to the funds in IFSC, Single Window IT System of various registrations, Integration of powers of SEZ, Acquisition financing norms and recognition of offshore derivative instruments as valid contracts.

SEBI

- As a measure of financial transparency and to boost IPO proceeds, various requirements were introduced in SEBI (ICDR) Regulations and also making merchant bankers, promoters, anchor investors and key management persons accountable for compliance with disclosures made in offer document. Threshold limits are set on the shareholding which would be tendered by the existing shareholder as offer for sale through IPO.
- SEBI has opened up the participation of the foreign investors in Indian Exchange Traded Commodity Derivatives (ETCDs) through the Foreign Portfolio Investors route vide Circular dated 29-Sept-2022, subject to risk management measures and applicable conditions.
- Vide the Circular dated 22-Sept-2022, SEBI has notified that Real Estate Investment Trusts ("REITs") may issue listed commercial papers subject to the guidelines prescribed by RBI, listing norms as specified by SEBI and overall debt limit permitted under SEBI (Real Estate Investment Trusts) Regulations

CAPITAL MARKET

Global macroeconomic uncertainty, unprecedented inflation, monetary policy tightening, volatile markets, etc., resulted in hurting investor sentiments, leading to a downbeat performance of global capital markets in FY 23. Though global macroeconomic and financial market developments exercised some influence on Indian capital markets, India's capital market had a good year, overall.

From April to November 2022, the buoyant performance of the primary market has been observed despite turmoil in global financial markets. Compared to FY 22, the number of firms opting to list on the bourses increased by 37 %, though the amount raised declined to almost half of what was raised in the last year.

Although the year so far has been lacklustre in terms of fund mobilisation through IPOs, the number of SMEs coming out with public offer has been quite encouraging. Compared to FY 22 (until November 2021), this year, not only did the number of SMEs coming with IPOs almost double, but the total funds raised by them were almost three times the funds raised by them in the same period last year.

Further, this year also witnessed the largest IPO ever in the history of India. In May 2022, the Central Government diluted its stake in the Life Insurance Corporation (LIC) of India and listed it on the stock exchanges, thereby making LIC's IPO the largest IPO ever in India and the sixth biggest IPO globally of 2022. Listing of LIC accounted for more than a third of resources mobilised in the primary equity market until November 2022.

In April-November 2022, the amount of resources mobilised by the issuance of debt securities in the primary market increased by 5 %, compared to the corresponding period last year. The total number of issues in the same period also increased by 11 %. From April to November 2022, public issues of debt increased by 10 % compared to the same period the year before, but the amount raised by public issues of debt in the same period decreased by 27 %. However, the underactivity in public debt issuances was more than compensated by private debt placements. The number of private debt placements increased by 11 % from 851 to 945, while resources mobilised increased by 6 % in April-November 2022, compared to the corresponding period in the year before.

The overall net investments by Foreign Portfolio Investors during FY 23 registered an outflow of ₹ 16,153 Crores at the end of December 2022 from an outflow of ₹ 5,578 Crores during FY 22 at the end of December 2021, with both the equity segment and the debt segment witnessing net FPI outflows.

The mutual fund industry's assets under management (AuM) increased by 8.1 % at the end of November 2022 on YoY basis, thanks to the market performance.

In April-December 2022, global stock markets declined because of geopolitical uncertainty. On the contrary, the Indian stock market saw a resilient performance, with the bluechip index Nifty 50 registering a return of 3.7 % during the same period. As regards the US, S&P 500 Average Index declined by 15.3 %, while Nasdaq Composite – heavily weighted (49 %) towards technology sector companies, declined sharply by 26.4 %. At the end of December 2022, Sensex closed 3.9 % higher from its closing level on March 31, 2022. Even among major emerging market economies, India outperformed its peers in April-December 2022.

Primary Market Resource Mobilization (Equity)										
Period	Public Issue (IPO + FPO)		Rights Issue		Qips		Preferential Allotments		Total	
	No. of Issues	Amount (₹ Cr.)	No. of Issues	Amount (₹ Cr.)	No. of Issues	Amount (₹ Cr.)	No. of Issues	Amount (₹ Cr.)	No. of Issues	Amount (₹ Cr.)
2021-2022	121	1,12,568	43	26,327	29	31,440	349	60,695	542	2,31,030
April - Nov 2021	76	89,166	18	22,659	23	26,704	233	43,004	350	1,81,532
April - Nov 2022	105	52,395	37	3,436	8	4,115	298	54,414	448	1,14,361

Resource Mobilization in Corporate Bond Market				
Period	Public Issue		Private Placement	
	No. of Issues	Amount (₹ Cr.)	No. of Issues	Amount (₹ Cr.)
2021-2022	28	11,589	1,405	5,88,037
April - Nov 2021	20	9,132	851	3,62,458
April - Nov 2022	22	6,624	945	3,85,373

ECONOMIC OUTLOOK

Overview

The global economy was on the path of recovery after the waning of the CoVID-19 pandemic until the Russia-Ukraine conflict broke out in February 2022. The conflict further disrupted the global supply chains and led to a spike in prices of critical commodities such as crude oil, natural gas, fertilisers, and wheat. In turn, this aggravated the inflationary pressures already triggered by uneven demand recovery, loose monetary policy and fiscal stimulus given in many Advanced Economies (AEs). The spike in global commodity prices, accompanied by extreme weather conditions and China's zero CoVID-19 policy, triggered inflationary pressures in many Emerging Market Economies (EMEs).

To counter the inflationary pressures, many central banks worldwide have raised interest rates and ended their bond purchase programmes in pursuance of their mandate to maintain price stability. This has led to the tightening of global financial conditions and resulted in an outflow of capital from most of the EMEs into the traditionally safe-haven market of the US, thereby exerting pressures on the currencies of EMEs. The Nominal Effective Exchange Rate of the US dollar appreciated 11.1 % in 2022, up to November. A stronger dollar and higher commodity prices means higher current account deficit and inflation pressures for many emerging and developing economies.

The impact of increased borrowing costs and stubbornly high inflation is beginning to show in multiple leading indicators of global economic activity. The global manufacturing PMI has now dropped into the contractionary zone of below 50 since September 2022 and stood at a 30-month low of 48.6 in December 2022, while the global composite PMI, a measure of overall economic activity, has remained in the contractionary zone since August 2022 and stood at 48.2 in December 2022. Owing to unfavourable global developments, the IMF has projected global growth to slow from 6.2 % in 2021 to 3.4 % in 2022 and 2.9 % in 2023 (January 2023, World Economic Outlook).

Global developments posed downside risks to India's growth and overall macroeconomic stability. Rising international commodity prices and extreme weather conditions like excessive heat and unseasonal rains in many parts of the country kept food inflation high in India. Retail inflation crept above the RBI's tolerance range in January 2022. It remained outside the target range for eleven months before returning to below the upper end of the target range of 6 % in November and December 2022, partially because of the easing of global commodity prices, pre-emptive measures taken by the government and monetary policy decisions of the Reserve Bank of India.

Monetary tightening by US Federal Reserve has also led to an outflow of portfolio investments from India, exerting pressure on the rupee. As a result, the rupee depreciated by 8.3 % between April 2022 and December 2022 against the US\$. Several other currencies lost even more value against the US Dollar than the Indian Rupee. India's current account deficit (CAD) widened in FY 2022-23 due to higher global prices for crude oil, edible oils and fertiliser, etc. Slower export growth in comparison to FY 2021-22 also contributed to the widening of the CAD. The outflow of portfolio investments led to a drawdown of foreign exchange reserves (forex) between January 2022 and December 2022.

As per the World Economic Outlook (October 2022, IMF) estimates, the Indian economy continues to be one of the fastest-growing major economies in FY 2022-23, which is a reflection of India's underlying economic resilience and strong macroeconomic fundamentals.

India's economy is relatively insulated from global spillovers compared to other EMEs, partly because of its large domestic market and relatively looser integration in global value chains and trade flows. As a result, despite external exogenous shocks, India's real GDP registered Y-o-Y growth of 9.7 % in H1 of FY 2022-23, higher than major economies. The growth momentum of Q2 has been sustained in Q3 of FY 2022-23, as indicated in the performance of High-Frequency Indicators (HFIs) during October-December 2022. PMI Manufacturing at 57.8 in December 2022 reflects a robust improvement in the health of the manufacturing sector that was the best seen since October 2020, driven by an upturn in output and a rebound in domestic consumption. The Index of Eight Core Industries registered Y-o-Y growth of 5.4 % in November 2022, with growth witnessed in the production of all the

sub-sectors except Crude Oil, Refinery Products and Natural Gas. The index of industrial production also rose to a 5-month high of 7.1 % in November 2022, driven by growth in all sub-sectors.

Rebound in consumption has also been driven by the pent-up demand for contact-intensive services. As a result, steady growth momentum in service activity has been witnessed in Q3 of FY 2022-23. PMI Services registered strong expansion during Q3 of FY 2022-23, which can be attributed to the growth in output and accommodative demand conditions, leading to a sustained upturn in sales. The growth impetus in rail freight and port traffic remains upbeat, with further improvement in the domestic aviation sector. Higher output in the manufacturing and services sectors raised the composite PMI to 59.4 in December 2022 from 56.7 in the previous month, signalling a strong pace of expansion.

GST collections, another indicator of economic activity, continue to register robust growth. GST collections during December 2022 were 15 % higher on a Y-o-Y basis, crossing the ₹ 1.4 Lakh Crores benchmark for successive nine months. Other HFIs, such as passenger traffic, e-way bills, electronic toll collection (ETC), etc., also point towards healthy domestic economic activity. Domestic auto sales registered y-o-y growth of 5.2 % in December 2022, indicating an improvement in demand conditions in urban and rural areas.

RBI Services and Infrastructure Outlook Survey suggests an improvement in demand conditions in Q3 and Q4 of 2022-23 for Services and Infrastructure businesses as reflected in their optimistic sentiments on turnover, job landscape, and overall business situation. While firms anticipate lower sales prices, they also anticipate input cost pressures easing, which is likely to boost output growth.

Economic growth

As per the First Advance Estimates (FAE) of National Income, 2022-23, India's Real GDP and Nominal GDP are projected to grow by 7 % (y-o-y) and 15.4 % (y-o-y), respectively, in FY 2022-23. On the demand side, private consumption has witnessed continued momentum. It is estimated to grow at 7.7 % in FY 2022-23 compared to 7.9 % in FY 2021-22. Gross Fixed Capital Formation (GFCF) is estimated to grow at 11.5 % in FY 2022-23, supported by various reforms and measures taken by the Government leading to the reinvigoration of the capex

cycle and crowding-in of private investment. The government has continued to support the investment activity with capital expenditure reaching ₹ 4.5 Lakh Crores during April-November 2022, which is 63.4 % higher than last year's corresponding period. Private investment also picked up in FY 2022-23, partially driven by increased public capex and because of the strengthening of the balance sheets of the Corporates and the consequent increase in credit flow. Exports are estimated to grow at 12.5 % in FY 2022-23 despite sustained supply chain disruptions and an uncertain geopolitical environment. The share of exports in GDP (at 2011-12 prices) also increased to 22.7 % in FY 2022-23 compared to 21.5 % in FY 2021-22.

On the supply side, agriculture, forestry and fishing are expected to witness y-o-y growth of 3.5 % in FY 2022-23. The growth in the agriculture sector is likely to remain buoyant, supported by healthy progress in Rabi sowing, with the area sown being higher than the previous year. This has led to a recovery in the rural economy. The improvement in rural demand can also be deduced from the robust domestic tractor, two and three-wheelers sales during Q3 of FY 2022-23.

The industry sector is likely to witness modest growth of 4.1 % in FY 2022-23 compared to a strong growth of 10.3 % in FY 2021-22. The services sector is expected to rebound with y-o-y growth of 9.1 % in FY 2022-23 compared to 8.4 % in FY 2021-22, driven by a recovery of the contact-intensive service sector (Trade, Hotels, Transport, Communication and services related to broadcasting) which is likely to witness the highest growth of 13.7 % on account of the release of pent-up demand.

Prices

The first half of the current financial year saw a persistent rise in inflation. Consumer price inflation peaked in April 2022 at 7.8 % before moderating to 5.7 % in December 2022. Moderation in inflation in later months could be attributed to good monsoons as well as prompt government measures that ensured adequate food supply. The Central Government undertook fiscal and non-fiscal measures to moderate the price rise. They include reduction in the excise duty on petrol and diesel, prohibition of the export of wheat products, imposition of export

duty on rice, reduction in import duties and cess on pulses. Monetary policy did its part well too. RBI's Monetary Policy Committee increased the policy repo rate under the liquidity adjustment facility (LAF) by 225 basis points from 4.0 % to 6.25 % between May and December 2022.

Inflation also abated at the wholesale level and stood at a 22-month low of 4.95 % in December 2022. Global economic slowdown and interest rate increases brought down commodity prices, contributing to a substantial decline in wholesale price inflation. However, even as inflation declined at the wholesale level, there has been a pass-through of previously high input costs onto retail prices; as a result, core inflation remains sticky at nearly 6 % and reflects the second-round effects of the supply shocks witnessed earlier this year.

In line with moderating price pressures, the RBI's Household Inflation Expectations Survey reveals that households' inflation expectations for the three months and one year ahead declined by 40 bps and 20 bps to 10.4 % and 10.8 %, respectively, with the lowering of inflation expectations being broad-based across respondent categories for three months and one year ahead.

Central Government Finances

While India entered the pandemic with stretched fiscal situation, a prudent and calibrated fiscal response by the Government enabled stable public finances even amidst the present uncertainties. The fiscal deficit of the Union Government, estimated at 9.2 % of GDP during the pandemic year FY 2020-21, moderated to 6.7 % of GDP in FY 2021-22 and is budgeted to decline further to 6.4 % of GDP in FY 2022-23. The gradual decline in the Union government's fiscal deficit in line with the fiscal glide path envisioned by the Government.

The fiscal deficit of the Union Government at the end of November 2022 stood at 58.9 % of the Budget Estimates, lower than the five-year moving average of 104.6 % of BE during the same period. The revenue deficit for April-November 2022 is 57.8 % of BE compared to the corresponding figure of 38.8 % in the previous year. After plummeting during the pandemic-affected year FY 2020-21, revenue receipts registered robust growth in FY 2021-22, driven by a rebound in the collection of all major direct and indirect taxes (except excise duties). Last year's revenue buoyancy momentum is continuing into the current

year. The Gross Tax Revenue registered a Y-o-Y growth of 15.5 % from April to November 2022, and the Net Tax Revenue to the Centre after the assignment to states registered a y-o-y growth of 7.9 %.

The total expenditure of the Union Government in FY 2020-21 rose to 17.7 % of GDP, higher than the previous 5-year average of 12.8 % of GDP. The Government adopted a pragmatic approach of increasing its expenditure in a calibrated way. In the subsequent year, FY 2021-22, the total Union Government expenditure was 16 % of GDP and a larger proportion of this accrued to capital expenditure. The Government of India had budgeted an unprecedented ₹ 7.5 Lakh Crores of Capital Expenditure for FY 2022-23, of which more than 59.6 % has been spent from April to November 2022. With the winding up of the pandemic-related support, the revenue expenditure of the Union government has been rationalised from 15.6 % of GDP in the pandemic year FY 2020-21 to 13.4 % of GDP in FY 2021-22. This contraction was led by a reduction of the subsidy expenditure as the economy recovered from the pandemic. In FY 2022-23, due to the sudden outbreak of geopolitical conflict that jeopardised food and energy security, there was a higher food and fertiliser subsidy requirement for supporting the vulnerable and ensuring macroeconomic stability.

The Revised Estimates place fiscal and revenue deficits at 6.4 % of GDP and 4.1 % of GDP, respectively, in FY 2022-23.

Money & Banking

Change in RBI's policy stance in FY 2022-23, accompanied by monetary tightening to control rising inflation, led to the tightening of domestic financial conditions, which was reflected in the lower growth of monetary aggregates and moderation of surplus liquidity conditions. RBI's move to hike the CRR by 50 bps resulted in a withdrawal of primary liquidity to the tune of ₹ 87,000 Crores from the banking system. Reserve money (M0) increased by 10.3 % (y-o-y) as on 30th December 2022, compared to 14.5 % last year. On the component side, growth in Currency in Circulation (CIC) broadly remained stable at levels seen after CoVID-19.

Monetary policy transmission is well underway as lending and deposit rates increased following the hike in policy rates. During FY 2022-23 (up to December 2022), the external benchmark-based lending rate

and 1-year median marginal cost of funds based lending rate (MCLR) increased by 225 bps and 115 bps, respectively. On the deposit side, the weighted average domestic term deposit rate (WADTDR) on outstanding Rupee Term Deposits increased by 59 bps in FY 2022-23 (up to November 2022).

After remaining subdued through 2020 and 2021, the yields on the 10-year government bond increased in 2022. The weighted average yield spike reflects the domestic bond market volatility stemming from volatility in crude prices, hawkish stance from major central banks, hardening of global bond yields and the pressure on the rupee. The monthly average yield on the 10-year government bond stood at 7.3 % in December 2022 after having peaked at 7.5 % in June 2022. Yields moderated in November and December 2022 because of a decline in the pace of rate hikes by major central banks and the declining domestic inflation rate.

While the global tightening cycle has contributed to a dampened global outlook, domestic appetite for credit has been on an upswing. Non-food credit offtake by Scheduled Commercial Banks (SCBs) has been growing in double digits since April 2022, with the increase being broad-based. Credit disbursed by nonbanking financial corporations (NBFCs) has also been on the rise. The balance sheet clean-up exercise has been vital in enhancing the lending ability of financial institutions. The Gross Non-Performing Assets (GNPA) ratio of SCBs has fallen to a seven-year low of 5.0, while the Capital-to-Risk Weighted Assets Ratio (CRAR) remains healthy at 16.0 and well above the regulatory requirement of 11.5. The health of NBFCs has continued to improve as well.

External Sector

After achieving an all-time high annual merchandise export of US\$ 422 Billion in FY 2021-22, global headwinds following the Russia-Ukraine conflict and the ripple effect of the global trade slowdown impacted India's merchandise export growth, wherein moderation in pace was observed in 2022. Monthly merchandise exports declined from US\$ 39.7 Billion in April 2022 to US\$ 34.5 Billion in December 2022. As the pandemic ebbed, India witnessed a revival in domestic demand resulting in strong import growth. Merchandise imports for April to December 2022 were US\$ 551.7 Billion against US\$ 441.5 Billion during

April-December 2021. Rising energy demand led to an increase in fuel imports, including crude oil and petroleum products, whose share in total imports rose to 29.7 % in April to December 2022 against 25.5 % in the corresponding period last year. However, export of goods and services together posted a growth of around 16% in US Dollar terms in April-December 2022 over April-December 2021 (US\$ 568.57 Billion vs US\$ 489.69 Billion).

Moderation in exports accompanied by rising imports led to a widening of the Merchandise Trade deficit to US\$ (-)218.9 Billion during April-December 2022 compared to US\$ (-)136.5 Billion in the corresponding period of the previous year. Headwinds due to the Russia-Ukraine conflict, elevated global commodity prices and continued supply chain constraints led to a rise in India's CAD to US\$ 36.4 Billion (4.4 % of GDP) in Q2 of FY 2022-23 in contrast to a deficit of US\$ 9.7 Billion (1.3 % of GDP) in Q2 of FY 2021-22.

Repercussions of the Russia-Ukraine conflict and aggressive monetary policy tightening by the US Federal Reserve caused global financial market volatility leading to heavy sell-off by Foreign Portfolio Investors in Q1 of FY 2022-23. However, these investors returned in Q2 of FY 2022-23 with a net inflow of FPI. Portfolio investment recorded a net outflow of US\$ 8.1 Billion in H1 of FY 2022-23 as against an inflow of US\$ 4.3 Billion a year ago, leading to a depletion of foreign exchange reserves to the tune of US\$ 25.8 Billion in H1 of FY 2022-23 in contrast to an accretion of US\$ 63.1 Billion in H1 of FY 2021-22. The outflow of FPI also exerted pressure on the Rupee.

Agriculture

The Indian agriculture sector is projected to grow by 3.5 % in FY 2022-23. Apart from meeting domestic requirements, India has also rapidly emerged as the net exporter of agricultural products in recent years. During FY 2021-22, agricultural exports reached an all-time high of US\$ 50.2 Billion. The buoyant performance of the sector could be ascribed to the measures taken by the Government to promote farmer-producer organisations, encourage crop diversification, and improve productivity in agriculture through support provided for mechanisation and the creation of the Agriculture Infrastructure Fund.

As per Fourth Advance Estimates for FY 2021-22, the production of food grains and oilseeds witnessed significant increase. However, the year 2022 witnessed an early heat wave during the wheat harvesting season, adversely affecting its production. The year also experienced a decline in the area sown under paddy in the Kharif season due to delayed monsoons and deficient rainfall. As of 30th September 2022, the area sown under paddy was about 20 Lakh hectares less than compared to 2021. However, as per the First Advance Estimates for FY 2022-23 (Kharif only), total foodgrain production in the country is estimated at 149.9 Million tonnes higher than the average Kharif food grain production of the previous five years.

During Kharif Marketing Season (KMS) 2021-22, 581.7 Lakh metric tons (LMT) of rice was procured against an estimated target of 532.7 LMT. In the current year, KMS 2022-23, 399.4 LMT of rice has been procured up to 15th January 2023. In addition, during Rabi Marketing Season (RMS) 2022-23, 187.9 LMT wheat has been procured against 433.4 LMT procured during RMS 2021-22. The procurement was lower as the market price of wheat was higher than its MSP during its procurement season.

Growth Outlook

Growth in FY 2023-24 will be supported by solid domestic demand and a pickup in capital investment. The current growth trajectory will be supported by multiple structural changes like IBC and GST that have enhanced the efficiency and transparency of the economy and ensured financial discipline and better compliance. More importantly, strong balance sheets in the corporate and financial sectors provide a solid underpinning to growth, unlike in the pre-pandemic years of FY 2018-19 and FY 2019-20. India's public digital infrastructure expansion is leading to accelerated financial inclusion for low-income households, micro and small businesses, and the economy's rapid formalisation. Together these two factors - balance sheet strength and digital advancement - are growth differentiators not only for FY 2023-24 but also in the years ahead.

Further, the execution of various path-breaking policies such as the PM Gati Shakti, National Logistics Policy and the PLI schemes will strengthen the infrastructural and manufacturing base while bringing

down costs in the value chain. This will lay a strong foundation for sustained economic growth and improved resilience.

Near-time downside risks to stability and growth emanate from global inflationary pressures, tightening global financial conditions, prolonged supply chain disruptions, global trade slowdown, etc. A rapid return to normalcy in the Chinese economy would lead to higher demand for commodities such as crude oil, industrial metals and coal, etc. That would raise input costs and aggravate India's external deficit.

On the other hand, if recessionary tendencies take hold in major AEs in 2023, it may trigger cessation of monetary tightening and a return of capital flows to India amidst a stable domestic inflation rate below 6 %. That would also dampen global prices of industrial and energy goods such as copper, iron ore, coal and crude oil. This will lower input costs for manufacturing enterprises, lead to an improvement in animal spirits and provide further impetus to private sector investment.

Various international agencies such as the World Bank, the IMF, and the ADB project India to grow between 6-7 % in 2023-24.



SECTORAL ANALYSIS

Agriculture and Animal Husbandry

Positive

Budget Proposal

- Agricultural credit target will be increased to ₹ 20 Lakh Crores (vs ₹ 18 Lakh Crores, up 11.11%YOY) with focus on animal husbandry, dairy and fisheries.
- Collaboration between farmers, state and industry will be done, ₹ 2,200 Crores will be outlaid for this collaboration under Atmanirbhar Clean Plant Program.
- Indian Institute of Millet Research, Hyderabad will be supported as the Centre of Excellence for sharing best practices, research and technologies at the international level.
- Over the next 3 years 1 Crore farmers will be facilitated to adopt natural farming.
- Duty reduced on key inputs for domestic manufacture of shrimp feed.
- New sub-scheme of PM Matsya Sampada Yojana with targeted investment of ₹ 6,000 Crores for fisheries.
- Initiated computerization of 63,000 Primary Agricultural Credit Societies (PACS) with an investment of ₹ 2,516 Crores to promote co-operative based economic development model for farmers.

Impact

- The budget provides a boost for shrimp and Millet exports and production of high value horticulture crops.
- The increased credit and massive decentralized storage capacity will enhance farmers remuneration by enabling them to sell the produce at appropriate times.
- Agriculture Accelerator Fund will encourage innovative agricultural startups.

Infrastructure

Positive

Budget Proposal

- Government to spend ₹ 10 Lakh Crores on Capex in FY 24, which will be around 3.3% of the GDP, 50 year interest free loans to states for driving capex growth
- 100 new critical projects for last mile connectivity for ports, coal, steel, fertilizer, and food grains sectors which will be taken up on priority with an investment of ₹ 75,000 Crores with ₹ 15,000 Crores from the private sources.
- Railways: A capital outlay of 2.40 Lakh Crores has been provided for the railways, the highest ever.
- 50 additional airports, Heliports, aerodromes & advanced landing grounds will be revived for improving regional air connectivity.
- Urban Planning reforms and setting up Urban Infrastructure Development Fund (UIDF)

Impact

- Capex investment provides a multiplier effect and the increase in Capex will provide a boost to economic growth.
- Emphasis on Urban Infrastructure and development of Tier 2 and Tier 3 cities will drive the development of 'Sustainable cities of tomorrow'.

Technology/Startups

Positive

Budget Proposal

- Centre of Excellence for Artificial Intelligence – 3 COE will be set-up in top educational institutions.
- National Data Governance Policy – to enable access to anonymized data & Simplified KYC.
- National Digital Library for children
- Scope of documents available in Digi Locker to be expanded and Labs for 5G Apps.

- Extension of date of incorporation by one year and benefit of carry forward of losses on change in ownership in startups from 7 years to 10 years from incorporation.

Impact

- Provide an Impetus for Make AI in India and Make AI work for India, will provide an effective AI ecosystem and nurture quality human resources in the field.
- Buildup of digital infrastructure, providing a boost to fintech startups operating in this space.
- The Income tax related benefits will provide further boost for innovative startups.

MSMEs

Positive

Budget Proposal

- Credit Guarantee for MSMEs – Infusion of ₹ 9,000 Crores in the corpus which would enable additional collateral free guaranteed credit of ₹ 2 Lakh Crores.
- Vivad Se Vishwas I – in cases of failure to execute contract during Covid, 95% of the forfeited amount relating to bid or performance security will be returned by Govt.
- Continued concessional BCD on copper scrap

Impact

- Addressing the liquidity and credit needs of MSMEs which are the backbone of our economy will boost the business prospects and growth amidst the monetary tightening and inflationary pressures.
- Because of these measures, cost of credit is expected to reduce by 1%.
- Will augment raw material availability for MSMEs.

Insurance

Negative

Budget Proposal

- To limit income tax exemption from proceeds of insurance policies with very high value". From the fiscal year 2023-24, earnings from insurance policies having an aggregate premium of more than ₹ 5 Lakhs will not be exempt from income tax. This does not apply to proceeds received on account of the death of the policyholder.

Impact

- The proposal comes as a blow to life insurers when it comes to high-value policies, especially market-linked policies.
- The finance minister's nudge for the adoption of the new income tax regime. The bedrock of insurance in India, so far, has been the big support in terms of tax exemptions and life insurers have been able to sell policies aggressively riding on the exemption advantage. This is now progressively expected to reduce.

Energy

Positive

Budget Proposal

- The budget provides ₹ 35,000 Crores for priority capital investments towards energy transition and net zero objectives.
- Battery Energy Storage Systems with capacity of 4,000 MWH to be supported with Viability Gap Funding.
- The Inter-state transmission system for evacuation and grid integration of 13GW renewable energy from Ladakh will be constructed with investment of ₹ 20,700 Crores including central support of ₹ 8,300 Crores.
- The target of the newly launched National Green Hydrogen Mission with an outlay of ₹ 19,700 Crores is to reach an annual production of 5 MMT by 2030.
- Green Credit Programme

Impact

- Rising environmental concerns on carbon emission from fossil fuel to accelerate the pace of Green Hydrogen adoption; this should further encourage investments in renewables, particularly solar.
- Expected to encourage behavioural change by introducing a Green Credit programme.
- It reflects the government's inclination to enable creation of carbon-free nation that thrives on sustainable, futuristic and alternative fuel technology.

Healthcare & Education:

Positive

Budget Proposal:

- 157 new nursing colleges will be established in colocation with the existing 157 medical colleges established since 2014.
- A Mission to eliminate Sickle-Cell Anaemia by 2047 will be established. There will be screening of 7 Crores people in 0-40 years age group in affected tribal areas. The government is on a mission to eradicate the disease.
- Dedicated multidisciplinary courses for medical devices, will be supported in existing institutions to ensure availability of skilled manpower for futuristic medical technologies, high-end manufacturing, and research.
- Three new centres of excellences for Artificial Intelligence (AI) in top institutions will be set up for conducting interdisciplinary research, develop cutting edge applications, etc.
- 38,800 teachers, support staff recruitment for 740 Eklavya Model Residential Schools.
- Ministry of Education allocated ₹ 1.12 Lakh Crores budget.
- Re-envision teachers' training and develop institutes of excellence at district levels, and set up a national digital library to make available quality books across subjects to children and youngsters.

Impact:

- Promoting nursing education through the setting up of 157 new nursing colleges will not only cover the shortage of trained healthcare workforce and lead to greater healthcare coverage but also help make quality care accessible to a larger population.
- Access to ICMR labs and other R&D facilities as well as encouragement of private sector investments, multi-disciplinary training for R&D and manufacturing of high-quality medical devices, and various other such measures are going to augur well for the overall universal healthcare access and quality in India.
- The centers of excellence in AI to be set up for sectors like health will ensure that the country starts creating tech-based solutions in-house. This will further encourage innovation in the country and ensure that the health tech sector in India picks up pace.
- The mission to eliminate sickle cell anaemia by 2047 through awareness generation and universal screening of 7 Crores people in affected tribal areas; an essential step taken in the right direction.
- The establishment of district training centres for educators will revolutionise both public and private school education across India.
- The digital and physical infrastructure, particularly for the most marginalised young people, will help build higher student engagement and interest and make learning an easy process.

