

UNION BUDGET 2023



KEY PROPOSALS

IMPACT ON BANKING & FINANCE AND
CAPITAL MARKETS

JURIS CORP OFFICES:

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TABLE OF CONTENTS

1. Infrastructure Financing	3
1.1 Amendment	3
1.2 Analysis	3
2. Financial Inclusion	4
2.1 Amendment	4
2.2 Analysis	4
3. Digital Payments	5
3.1 Amendment	5
3.2 Analysis	5
4. GIFT-IFSC	5
4.1 Proposed Amendments	5
4.2 Analysis	6
5. Environmental, Social and Governance	6
5.1 Propositions	6
5.2 Analysis	7
6. Green Growth	7
6.1 Amendment	7
6.2 Analysis	8
7. Scheme for taxation of Market Linked Debentures (“MLDs”)	8
7.1 Amendment	8
7.2 Analysis	8
8. Withdrawal of TDS exemption	8
8.1 Amendment	8
8.2 Analysis	8

GLOSSARY OF TERMS

Abbreviation	Meaning
BR Act	Banking Regulation Act, 1949
EXIM Bank	Export Import Bank of India
GDP	Gross Domestic Product
GIFT	Gujarat International Finance Tec-City
GSTN	Goods and Services Tax Network
IFSC	International Financial Services Centres
IFSCA	International Financial Services Centres Authority
INR	Indian Rupees
MLDs	Market Linked Debentures
MoPNG	Ministry of Petroleum & Natural Gas
MSMEs	Micro, Small, & Medium Enterprises
MWH	Megawatt-hour
NHB	National Housing Bank
RBI	Reserve Bank of India
SEBI	Securities and Exchange Board of India
SEZ	Special Economic Zones
SEZ Act	The Special Economic Zones Act, 2005 (as amended)
TDS	Tax Deducted at Source
UIDF	Urban Infrastructure Development Fund
UPI	Unified Payments Interface

With global economic uncertainty, India remains well positioned to leverage of the many economic opportunities that the coming years have to offer. The Union Budget 2023 has focussed on improving ease of doing business, continuity and stability on many fronts.

1. Infrastructure Financing

1.1 Amendment

The Honourable Finance Minister, Ms. Nirmala Sitharaman, in her Budget speech has listed seven key priorities of the Union Budget 2023 under the ‘**Saptrishi**’ mantras . One of these priorities is Infrastructure and Investment wherein she has laid specific emphasis on innovative ways of financing to ramp up the virtuous cycle of investment and job creation.

- It is proposed that the capital investment outlay would increase by 33% to INR 10,00,000 crore, totalling to 3.3% of the GDP.
- 50-year interest-free loans to state governments will be continued for one more year to increase investment in infrastructure and incentivize the states for complementary policy actions. The proposed outlay for support to state governments for capital investment in the Budget is INR 1,30,000 crore.
- To promote creation of urban infrastructure in Tier 2 and Tier 3 cities, the Budget proposes the establishment of UIDF through use of priority sector lending shortfall. The fund will be managed by the NHB.
- Expansion of scope of documents available in “**DigiLocker**” for individuals to enable more fintech innovation services.

1.2 Analysis

Investments have a powerful multiplier effect. Increase in capital investment outlay by 33% will pave way for increase in private investment. This will also help increase job opportunities, facilitate trade and augment productivity. The extension of 50-year interest-free loans to state governments by another year will further increase capital expenditure in the infrastructure space.

2. Financial Inclusion

2.1 Amendment

➤ **Credit guarantee scheme for MSMEs**

The government will infuse INR 9,000 crore and enable additional collateral-free guaranteed credit of INR 2,00,000 crore. Further, the cost of credit will be reduced by about 1%.

➤ **Set-up of national financial information registry**

To facilitate efficient flow of credit, promote financial inclusion, and foster financial stability, it is proposed to setup a national financial information registry which will serve as a central repository of financial and ancillary information.

➤ **Proposal to amend the BR Act, the Banking Companies Act and the RBI Act**

It is suggested that in order to improve bank governance and enhance investors' protection, certain amendments may be brought to the BR Act, the Banking Companies Act and the RBI Act.

2.2 Analysis

Increase in capital for MSMEs by enhancing the corpus of credit guarantee scheme will encourage the banking sector to increase flow of credit to MSMEs. Further, concession by way of reduction of the cost of credit by approximately 1% will play a pivotal role in ensuring more credit flow to MSMEs.

Financial inclusion supported by national financial information registry will ensure efficient flow of credit, promote financial inclusion, foster financial stability and create a robust information system. This will also negate duplication regarding registering the same information under different statutes with multiple authorities.

3. Digital Payments

3.1 Amendment

The Budget 2023 puts forth the government's vision to create a technology-driven and knowledge-based Indian economy.

- Digital payments continue to find wide acceptance. In 2022, they show increase of 76% in transactions and 91% in value. Fiscal support for this digital public infrastructure will continue in the year 2023-24.
- The Budget also proposes setting up of "Entity DigiLocker" for use by MSMEs, large business and charitable trusts. This will help storing and sharing documents online securely, whenever needed, with various authorities, regulators, banks and other business entities.

3.2 Analysis

The fiscal support towards the digital public infrastructure extends an opportunity to the citizens to partake to keep the momentum going in the growth of our digital economy. The continued support for start-ups coupled with the digital public infrastructure, which includes Aadhaar, Co-Win and UPI will receive a bigger push.

The proposal of "Entity DigiLocker" is a welcome step in storing data in digital form and can build the trust and confidence of people and entities in adapting such financial innovative systems. This will also enhance the accessibility of financial services with higher convenience and simplified processes with robust security.

4. GIFT-IFSC

4.1 Proposed Amendments

- Powers under SEZ Act to be granted to IFSC for regulation of GIFT IFSC along with single window regulatory mechanism across all tax and regulatory authorities viz. GSTN, SEZ, SEBI etc. This is a welcome move and will reduce loading between multiple authorities for businesses and ease doing business.

- The government has proposed setting up of their data embassies in GIFT IFSC.
- Other changes in GIFT IFSC
 - Acquisition financing shall be permitted by IFSC units of foreign banks;
 - Subsidiary of EXIM Bank shall be established for trade re-financing in GIFT IFSC;
 - Amending IFSC Act for statutory provisions for arbitration, ancillary services, and avoiding dual regulation under SEZ Act; and
 - Offshore derivative instruments shall be recognised as valid contracts.

4.2 Analysis

With the proposed amendments as put forth in the Budget 2023, GIFT City is poised to be competitive and comparable to other global financial hubs. Measures pertaining to delegation of powers under the SEZ Act will result in speedier redressal of regulatory issues relating to IFSC. The move to permit GIFT City branches of foreign banks to fund for the purpose of acquisition-financing will result in corporates having access to funding at competitive interest-rates. This may also act as a catalyst to encourage more foreign banks from opening branches in GIFT City, especially since there is no clarity on whether the same benefit will be extended to GIFT City branches of Indian banks.

Establishment of a subsidiary of EXIM Bank for trade re-financing in GIFT City is also a welcome move.

Further, the Budget 2023 recognising offshore derivative instruments as “valid contracts”, now re-kindles hope for FPIs to leverage offshore derivative instruments as instruments for investing in Indian markets.

5. Environmental, Social and Governance

5.1 Propositions

- **National Green Hydrogen Mission** outlay of INR 19,700 crore will facilitate transition of the economy to low carbon intensity, reduce dependence on fossil fuel

imports, and make the country assume technology and market leadership in this sunrise sector.

- **Green Credit Programme** will be notified under the Environment (Protection) Act, 1986. This will incentivize environmentally sustainable and responsive actions by companies, individuals and local bodies, and help mobilize additional resources for such activities.
- **Other Developmental Schemes**
 - Allocation of INR 35,000 crore for priority capital investments towards energy transition and net zero objectives, and energy security by MoPNG.
 - Battery energy storage systems with capacity of 4,000 MWH will be supported with viability gap funding. A detailed framework for pumped storage projects will also be formulated.

5.2 Analysis

Other than self-reliance through the hydrogen mission and energy transition fund allocation, credit programme and other regulatory changes envisaged will enable international interaction with the increasing global shift towards green markets and financial products. It will further India's commitment towards climate change and net-zero goals, a step in the direction of green reforms and promoting businesses that are environmentally sustainable.

6. Green Growth

6.1 Amendment

Recently SEBI, RBI and the government of India have been proactive in the field of sustainable and green development. Vide the Budget 2023-24, the government has further made their agenda clear with respect to green growth and the various schemes and investments in relation to this development. The government has also set a target of net-zero carbon emission by 2070.

6.2 Analysis

The spurt in importance to sustainable development globally has left a mark on India too as the Indian economy ushers in green industrial and economic transition.

7. Scheme for taxation of Market Linked Debentures (“MLDs”):

7.1 Amendment

To regulate income generated from MLDs, the Budget has proposed amendment to the tax regime. It is proposed that any income from MLDs is to be taxed as short-term capital gains at the current applicable rates.

7.2 Analysis

This implies that gains from MLD investment will be taxed at the investors’ slab rate. This change may require investors to hold MLDs to maturity. Investors may even look at liquidating their investments or move towards alternative modes of investments that are more tax friendly.

8. Withdrawal of TDS exemption

8.1 Amendment

Deduction of tax at source (“TDS”) exemption offered on income earned from interest payable on listed debentures under the Income Tax Act, 1961, has been proposed to be withdrawn. The proposed rate of TDS to be applicable on income earned from interest payment of listed debentures is 10%.

8.2 Analysis

The proposal may heavily impact the listed bond market space where retail investors are involved. Investors may even look at alternative modes of investments including investments in unlisted non-convertible debentures.

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