Budget 2024: Winds of change for India's promising financial sector

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Signalling a much-awaited period ahead for major overhaul in India's promising financial sector, the Finance Minister's 2024-25 budget speech highlighted a vision and regulators, financial institutions, and market participants across levels.

India’s banking industry has seen steady credit growth over the past decade, with market volume expected to cross USD 480 billion by 2029. Similarly, the fintech space is also flourishing, projected to touch USD 150 billion in 2025. Couple these projections with the impressive milestones and scope for further penetration for digital lending and insurance, and it becomes evident why the government is looking to sharpen its focus on this sector.

a slew of game-changing developments that are around the corner. Sweeping reforms, rapid technology development, and focusing on the top priorities can help the financial sector keep pace with the country's goals for sustainable economic growth.

Further strengthening of public sector banks through capital-raising exercises and upskilling of talent is expected to be a key area in the vision document. With the budget mentioning the need to develop in-house credit assessment capabilities for MSMEs, it is likely that the government will take this opportunity to outline further improvements to other capabilities of public sector banks.

The vision document is likely to provide further details when it comes to the digital lending and default loss guarantee guidelines for NBFCs. The vision document will have to walk a tightrope between encouraging innovation and collaboration in the NBFC space while also ensuring robust regulatory scrutiny and protection of citizens' interests. The push towards data democratization has long signalled upcoming policy reforms which will probably be laid out, aimed at enhancing governance, risk management, liquidity management, and asset quality in the NBFC sector. Regulatory changes are expected to mandate higher technology and digital practices, improved supervision, and robust customer protection measures with an emphasis on transparency, data integrity, and risk mitigation.

The vision document announcements signal policy

innovation in lending, and liquidity and stress management in banks, empowering the financial sector to expand their role in fostering credit inclusion and financial stability.

With around 40% of sovereign and corporate bonds set to mature by 2026 globally as per OECD projections, a significant increase in financing pressures is expected, especially in emerging economies like India. This will naturally entail further borrowing from the markets for the next three years. However, pressure on future interest payments will largely arise from new borrowings and the refinancing of fixed-rate debt. This is projected to lead to an

OECD area by 2026. The vision document should lay down a clear strategy addressing the imminent need for refinancing and increase in interest payments.

A special mention of the funding requirement of the infrastructure space may be on the cards given the likelihood of a significant rise in deals going forward. We are seeing a strong appetite for investments into a wide variety of infrastructure projects, including renewable energy, highway construction, data centres, smart metering, and EV-related projects. There is a treasure trove of funding opportunities here which are attracting interest from foreign players as well. We may see funding for such projects be a special area of focus in the financial sector vision document.

With large projects in transportation, energy, and urban development up to Rs 1 lac crore in 2024 in the pipeline, governments and infrastructure companies are expected to fund these projects through bonds. The vision document will likely address ways to boost the bond markets, particularly infrastructure bonds and green debt securities.

The insolvency resolution process timelines have been a point of concern in the IBC regime. To put things in perspective, in 2022, the average time taken for admission of an application by an operational creditor from the date of filing was 650 days. While steps have been taken to reduce this timeline, the delay in admission remains a concern.

The budget has several specific steps to enhance the insolvency resolution process in India, with the setting up of an integrated technology platform for IBC cases, additional NCLT benches

These amendments may include extending prepackaged insolvency to all companies, not just MSMEs, codifying group insolvency norms, and adopting a framework for a creditor-led resolution process under IBC to potentially replace the fast-track insolvency mechanism. With the increased focus on integrated technology, the IBC ecosystem is aiming to become far more efficient. The vision and strategy document can bring further clarity, addressing these aspects and making the IBC ecosystem swift and efficient.

Enhancing digitization and faster timelines will reshape the resolution process landscape

in the IBC process.

All in all, the financial sector vision and strategy document will continue to focus on the overarching themes of financial inclusion, greater financial literacy, further market penetration, governance, and fundraising.

(Haigreve Khaitan is Senior Partner at Khaitan & Co. The views expressed are personal.)

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