MARKET REPORT

HVS Monday Musings: Union Budget 2022: Hits and Misses for Indian Hospitality Sector

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This article highlights some of the key announcements in the Union Budget 2022 that will impact the Indian hospitality sector.

The Union Budget 2022 (Budget) can be summarized as a mix of hits and misses for the Indian hospitality sector, which after two years of bearing the brunt of the pandemic, was hoping for some much-needed reforms to help accelerate the sector's recovery. However, even though the Economic Survey 2021-22 acknowledged that the 'trajectory of tourism remains uncertain due to Omicron', the Budget failed to give any direct and immediate measures to boost the sector's revival. While few of the recommendations made by industry stakeholders to the government at various forums were incorporated into the Budget, most others were not.

On the brighter side, the Emergency Credit Line Guarantee Scheme (ECLGS) has been extended till March 2023 and the guarantee cover has been increased by INR 50,000 crore (or INR 500 billion) to INR 5 lakh crore (or INR 5 trillion), with the additional corpus exclusively earmarked for the hospitality and related segments. The sector has often requested the extension of ECLGS, and while this is only short-term relief, the government's positive response will bolster the sector's morale.

The funding to the Tourism Ministry for developing tourism infrastructure, capacity building, and marketing and promotion has been increased by 18.4% compared to the previous year. Furthermore, a greater focus on large-scale infrastructure development under the PM Gati Shakti plan, with a focus on roads, railways, airports, ports, and waterways, will not only assist the tourism sector to attain its full potential in the future but will also aid economic growth. For instance, the introduction of 400 new Vande Bharat trains over the next three years, as well as the development of 25,000 km of new highways this fiscal year, will improve last-mile connectivity to several tourist destinations in the country. Moreover, infrastructure development in northeast India is a focus under the new Prime Minister's Development Initiative for Northeast plan, which aims to encourage the region's growth. Meanwhile, the proposed development of eight new ropeways under the Parvatmala scheme as an eco-friendly alternative to regular roads will increase connectivity in hilly areas, which are seeing high demand from tourists.

The introduction of e-passports embedded with chips in 2022-23, in line with international standards, will strengthen security and ease international travel for citizens by expediting the immigration process. Moreover, the significant 35.4% increase in Capex is expected to accelerate the country’s economic recovery and aid job creation, reviving corporate travel.

The government also announced plans to launch the next phase of Ease of Doing Business, which will include, among other things, the digitization of manual processes and elimination of overlapping compliances and is expected to simplify approval processes for even hospitality projects in the future. While these announcements will help the hospitality sector grow in the long run, the Budget has lost the chance to provide more direct assistance to the COVID-battered tourism and hospitality sectors, by avoiding critical reforms such as providing infrastructure lending status to the sector or reducing GST rates on hotel tariffs to boost domestic travel, among other measures.