Research

Going for growth

Union Budget 2021-22

February 2021

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Executive summary

Growth-centric, expansionary

This is a growth-centric and expansionary budget that pushes many right buttons, while focussing on improving India's mid-term growth trajectory.

Spending will continue despite limited new tax revenue, and the focus is clearly on stimulating growth after a once-in-a-century shock.

While this implies higher-than-anticipated fiscal deficit and borrowings, and therefore adds an upside risk to interest rates, the quality of spending will improve.

The compound annual growth rate for capital expenditure over fiscal 2020 is a praiseworthy 28%, while revenue expenditure growth is contained at 12%.

Reduced dependence on Internal and Extra Budgetary Resources – essentially off-balance sheet financing done through public sector and government entities such as the National Highways Authority of India – for funding capex is also a positive.

The fiscal consolidation path has been stretched, and can be realised if growth remains healthy. The good part is, there are a number of steps to push that up.

The onus was clearly on the government to do the heavy lifting for reviving the investment cycle as a broad-based recovery in private capex is not yet in sight. Quite in line, the capex allocation for fiscal 2022 has been increased by 26% on-year, with sharp focus on infrastructure.

Apart from higher capex, one can see a three-pronged approach to infrastructure, where the budget lays out the institutional mechanism, front-ends spending, and catalyses private sector capital via asset monetisation.

A professionally managed development finance institution (DFI) with a starting capital of Rs 20,000 crore also augurs well.

There is enough and more meat in each of these moves, and the DFI will provide an additional funding avenue that can help bring to fruition all the projects under the National Infrastructure Pipeline.

To be sure, public investment not only crowds-in private investment, but also has a higher multiplier effect compared with revenue spending.

And the enhanced spending will also come as a shot in the arm for employment, with additional multiplier kicking in from an uptick to the construction sector.

There are also other noteworthy and progressive steps for the financial sector, including on privatisation of public sector banks, transfer of bad loans to a 'bad bank', adequate allocation for recapitalisation, and increase in foreign direct investment limit in insurance.

The thrust on domestic manufacturing is evident in higher customs duty for PLI-linked segments.

The better-than-expected recovery seen in the past few months led by larger companies is yet to fully benefit micro, small and medium enterprises.

A few steps in this regard will go a long way in supporting this segment that is so critical for jobs and exports.

If there is an overarching picture, it would be that this budget has set the tone on infrastructure growth for the next 3-4 years, which is a positive.

Implementation is all-crucial now, and is probably the elephant in the room.

A gambit for post-pandemic growth

The first budget of the decade, the first after a once-in-a-century global pandemic, and only the fourth to follow a contraction in independent India's history, chose to jumpstart a sluggish economy with an all-out thrust on investment and infrastructure spending.

The idea clearly is to push the growth multiplier rather than stoke consumption steroidally.

Keeping infrastructure and healthcare at its core, it brought back the importance of a countercyclical fiscal policy, even if it meant stretching the glide path of fiscal deficit.

To be sure, the economy is recovering faster than expected. Consistently good agriculture performance, successful flattening of the Covid-19 affliction curve and a pick-up in government spending in recent months has reduced the downside to the current fiscal's de-growth and led to upgrades in the next fiscal's outlook.

With monetary policy doing the heavy lifting in fiscal 2021 and nearly running out of ammunition for rate cuts, it is just as well that the baton has now been passed on to fiscal policy.

How has the budget delivered against expectations?

India's growth outlook for fiscal 2022

In the base case, CRISIL sees India's real gross domestic product (GDP) growth rebounding 11% in fiscal 2022 from 10% forecast earlier. The budget's focus on pushing capital expenditure (capex) despite walking a fiscal tightrope provides optimism and creates a platform for higher growth. Given that the focus is on investment rather than consumption push, the full impact of these spends will be seen in the near term via multiplier effects, and over time, through enhancement of productive capacity. To that extent, the budgetary provisions help raise the medium-term prospects for the economy.

Studies highlight how the positive spillover effects of public investment amplify during periods of uncertainty. Fiscal multipliers[1] suggest that an increase in capex by the central and state governments by one rupee each induces an increase in output by Rs 3.25 and Rs 2, respectively.

Despite the spurt in growth on-year, real GDP in fiscal 2022 is expected to be only be 2.4% higher than in the fiscal 2020. Growth will be driven by a very weak base, some rub-off from rising global growth-tide effect, control over the spread of Covid-19 cases, and the start of vaccinations that will boost confidence and support stronger recovery. Fiscal 2022 will, however, continue to see manufacturing outperforming the services sector, especially domestic contact-based services. With inflation softening, we believe monetary policy will stay accommodative for a while.

Risks to this forecast hold: Domestically, one major risk could be sub-normal monsoon this calendar year. The past two years have seen good rains and chances that they are normal this year too are uncertain because only once in the past 20 years has India seen more than two consecutive normal monsoon years. A monsoon failure can directly shave up to ~50 basis points (bps) off from the fiscal 2022 GDP growth forecast.

[1] April 2019, RBI Bulletin, Box III.1: Estimable Fiscal Multipliers for India

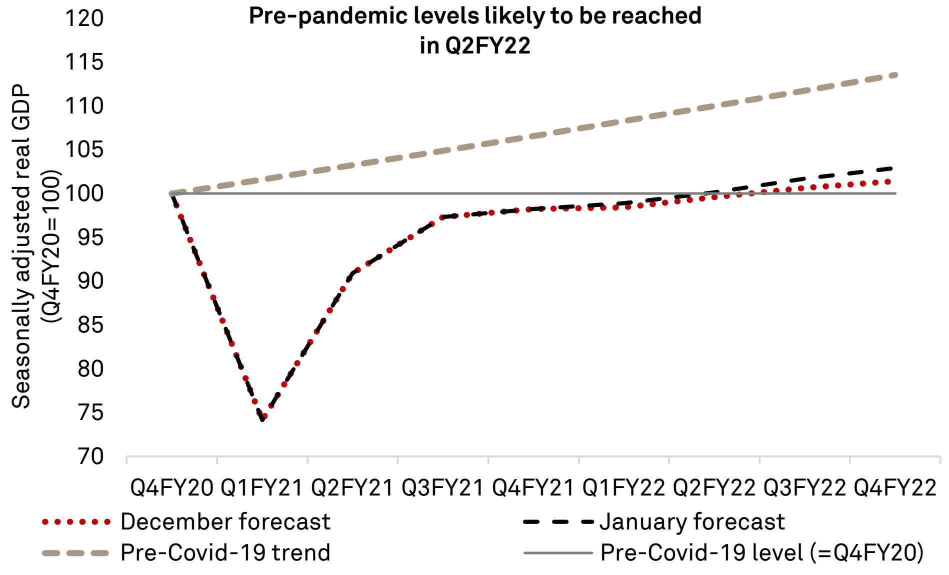
Another significant risk is that of premature withdrawal of fiscal stimulus by global economies where debt levels are high. Meanwhile, vaccine roll-outs have raised hopes around a stronger-than-expected turnaround in economic outlook.

An optimistic scenario would be where none of these risks manifest, private investments crowd in faster-than-expected and help revive sentiments rapidly, creating an upside to the 11% GDP growth forecast for fiscal 2022.

India will catch up to pre-pandemic GDP level in the second quarter of fiscal 2022

After the expected sharp contraction in real GDP growth in the first quarter of fiscal 2021 at 25.9% (seasonally adjusted (SA)), momentum in growth in the second quarter (22.6%, SA) was higher than expected. However, at the end of fiscal 2021, the economy still wouldn't have caught up with the pre-Covid-19 level (i.e., fourth quarter of fiscal 2020).

For fiscal 2022, our earlier December GDP growth forecast of 10% was largely mediated on a low-base effect and support from 'global-tide-lifting-all-boats' and successful bending of the Covid-19 curve. With the revised 11% growth forecast (due to the capex push and return to expenditure normalisation as communicated through the budget), we expect the economy to get back to its pre-pandemic levels in the second quarter of fiscal 2022. Even in this scenario, full-year real GDP will only be 2.4% higher than that in fiscal 2020.



Source: National Statistical Office (NSO), CRISIL

How does the budget support recovery?

The budget has refrained from supporting the economic recovery by pushing consumption. It has, instead, batted for investment spend, which raises the medium-term prospects.

The government's first response to the pandemic shock in fiscal 2021 was to focus on the most vulnerable sections of the population. The budget shifts emphasis to the next leg of growth, by stimulating investments. Thus, while this will mildly boost growth in fiscal 2022, it also augurs well for the medium term

The following table analyses the impact of the budget on fiscal 2022 growth prospects by assessing the impact on various components of demand.

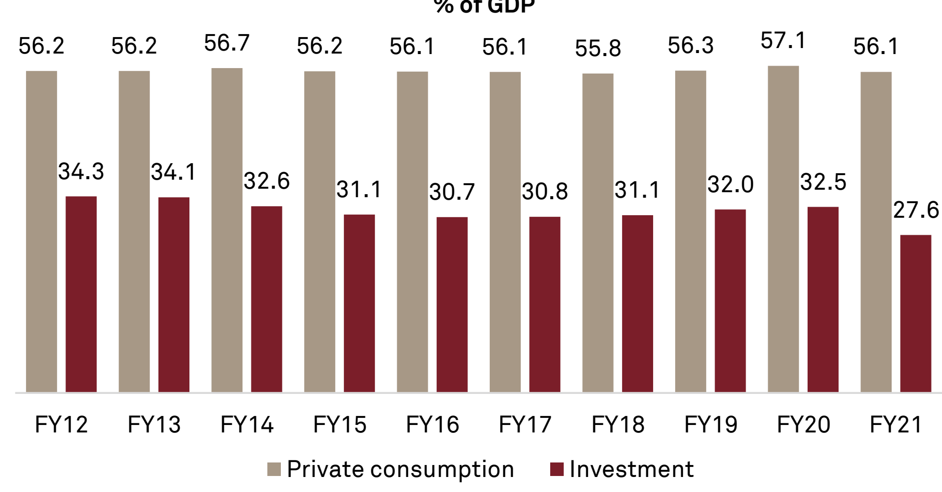
Demand component	Current situation	Factors that will shape the FY22 outlook
Private consumption expenditure	Private consumption is estimated to decline 9.5% in FY21 compared with 5.5% growth in FY20. Consumption, which was slowing even before the pandemic struck, tanked anew with imposition of lockdowns and decline in household incomes. Most of the decline, however, was concentrated in the first half (H1) at -18.9% vs -0.6% in second half (H2) of FY21.	• The budget will not significantly move private consumption in fiscal 2022 • FY22 budget allocation has been lowered (relative to FY21RE) for employment related schemes like MGNREGA (-34.5%), PMAY (-32.1%); PMGSY allocation saw a mild growth of 9.4% • Income support schemes, such as PM KISAN, has the same allocation as FY21RE • However, infrastructure push can improve employment growth. Moreover, continued focus on healthcare is also a positive as it has a high labour intensity • As the economy picks up and confidence improves, precautionary savings is expected to reduce and favour consumption
Investment	Investments, i.e., gross fixed capital formation (GFCF), have remained sluggish in the last few years, with their share in the GDP at 32.5% in FY20. It is estimated to fall further this fiscal, with the GFCF estimated to contract sharply by -14.5%	• Investments will receive a boost with 26.2% growth in capex budgeted by government for FY22 over FY21RE • Higher allocation for roads and highways by 16% relative to FY21RE will boost capex; while railway spending is ~1.2% lower than FY21RE, it would be 53% more than FY21BE. • However, capex by CPSEs is projected to decline 9.7% • Impact on overall investment will be modest as states, which play a greater role in driving government capex, face stressed finances • Expansion of projects under National Infrastructure Pipeline (NIP) and PLI schemes will also encourage private investment • Large players in some segments like cement are expected to lead the revival in capex despite low overall capacity utilisation
Government consumption expenditure	Government consumption spending supported the economy mildly, with 5.8% growth in fiscal 2021. Most of this growth	• Government consumption growth, which had jumped sharply to support the vulnerable sections, will moderate in FY22 relative to FY21

Demand component	Current situation	Factors that will shape the FY22 outlook
	is expected to come in H2 as H1 had seen 3.9% decline	• Revenue expenditure is budgeted to decline 2.7% relative to FY21RE • Many Covid-19 related emergency measures such as Covid-19 package for health system preparedness, PM Garib Kalyan Yojana will cease in FY22 • Allocation is budgeted to reduce for MSP, price stabilisation fund, and food and fertiliser subsidy relative to FY21RE
Net exports (exports minus imports)	Net exports contributed positively to growth this fiscal, due to a sharper fall in imports (-20.5%) relative to exports (-8.3%). However, trade imbalances have returned in H2, as imports have consistently improved, while export recovery has been uneven	• While hike in import duties on certain inputs will cap import growth and support domestic industry in the short term, it will hamper competitiveness of exports over the long run • Net exports' contribution to growth will reduce in FY22 as boost to domestic demand and rising commodity prices raise imports

A bigger push to investment rather than consumption: While there is some buoyancy in consumption demand, investments have stayed weak. Infrastructure deficit has only widened. Meanwhile, low interest rates also signal that the time is right to take up public investments, especially in infrastructure.

The budget's focus to push the pedal on investment is critical at this juncture. Studies highlight (*see box on 'Public investment can generate higher multipliers during uncertain times'*) how the positive spillover effects of public investment only amplify during periods of uncertainty. For the Indian economy specifically, capex typically has higher multiplier effect than revenue spending, as they crowd in private investment. This budget not only focuses on pushing central capex but also attempts to nudge state government capex. An RBI study points that an increase in capex by the central and state governments by one rupee each induces an increase in output by Rs 3.25 and Rs 2.0, respectively.

Investment is in dire straits



Source: Ministry of Statistics and Programme Implementation (MOSPI), Census and Economic Information Center (CEIC), CRISIL

Normalising the expenditure mix: While maintaining focus on capex, the budget also allows for some normalisation of extraordinary spending that took place in response to the pandemic. However, compared to a pre-pandemic trend, there is an improvement in the quality of spends. The government has not only chosen to re-orient expenditure but also tried to improve the expenditure mix to make way for capex.

Expenditure (% of total expenditure)	FY20 - growth slowdown	FY21 – Covid-19 hit		FY22	Arrows highlight change with respect to pre-pandemic trend
	Actual	BE	RE	BE	
Broad heads					
Revenue expenditure	87.5	86.5	87.3	84.1	↓
Capital expenditure	12.5	13.5	12.7	15.9	↑
Ministry or department-wise					
Interest payments	22.8	23.3	20.1	23.2	-
Defence	11.9	10.6	10.0	10.0	↓
Transfer to states	5.5	6.6	6.0	8.4	↑
Food and public distribution	4.3	4.0	12.7	7.3	↑
Rural development	5.3	4.8	6.3	5.6	-
Road transport and highways	2.9	3.0	3.0	3.4	↑
Railways	2.6	2.4	3.2	3.2	↑
Health	2.4	2.2	2.4	2.1	-
Telecommunication	1.1	2.2	1.2	1.7	-
Urban development	1.6	1.6	1.4	1.6	-
Housing and urban affairs	1.6	1.6	1.4	1.6	-
Shipping	0.1	0.1	0.0	0.0	-

Source: Budget documents, CRISIL

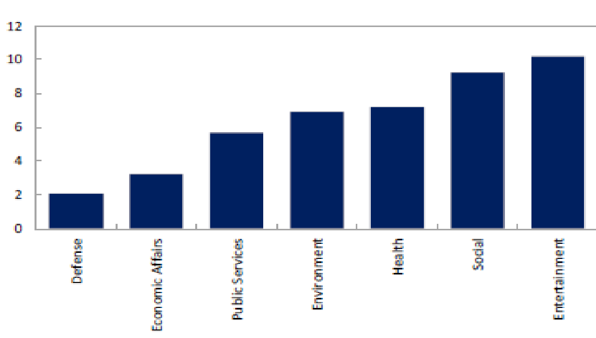
Box: Public investment can generate higher multipliers during uncertain times

Studies[2] suggest that government spending multipliers are typically larger than tax multipliers. This is especially true for public investment multipliers. A recent study[3] by the International Monetary Fund (IMF) highlights how during periods of uncertainty, the positive spillover effects of public investment only amplify. The study finds that increasing public investment by 1% of GDP can boost GDP by 2.7%, private investment by 10.1% and employment by 1.2% if investments are of high quality and if existing public and private debt burdens do not weaken the response of private sector to stimulus.

Effect of public investment on the net investment of private firms (one-year horizon)

Type of public sector investment

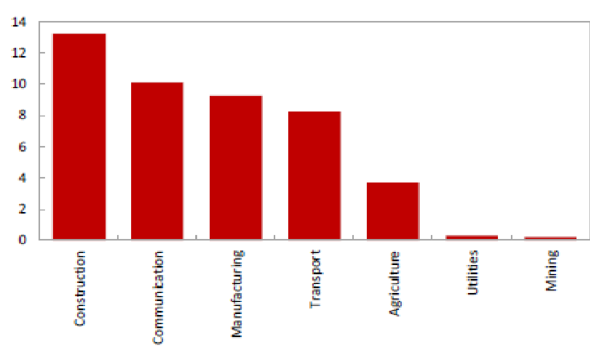
(% impact on private sector net investment)



- Public investments in entertainment, followed by healthcare and social services are associated with larger increases in private investment at a one-year horizon
- These sectors are labour-intensive and largely domestic in nature, allowing little scope for imports
- Public investments in the environment sector also have huge multipliers in general for the private sector

Effect on sectors in which private firms operate

(% impact on private sector net investment)



- Strong crowding-in effect for sectors critical to Covid-19 resolution (such as communication and transport)
- Sectors such as construction, communication and manufacturing can in turn play a pivotal role in supporting recovery
- Public investment can boost private investment, but the strength of corporate balance sheets plays an important role. Government support to financially constrained firms will be crucial in maximising the effect of public investment on private investment. The type of support includes transfers, equity infusions, debt restructuring, etc.

Source: Orbis, OECD and authors' estimates.
Notes: The effect of public investment on private investment depends both on the type of public investment (left panel) and on the economic sector in which firms operate (right panel). Defense includes defense and public order and safety, Social covers education and social protection, Entertainment includes recreation, culture and religion, and public services covers general public services and housing and community amenities.

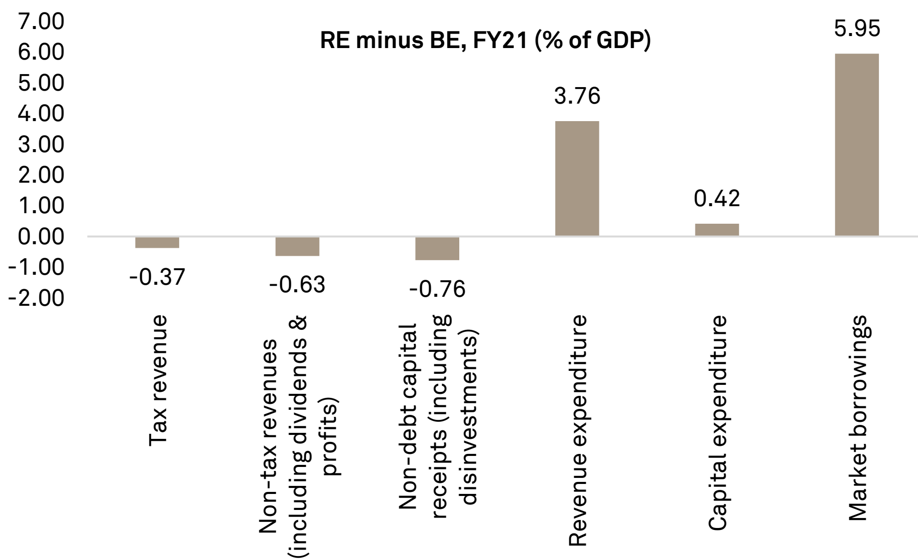
[2] Gechert, S., and Rannenberg, A. 2018. "Which Fiscal Multipliers are Regime-Dependent? A Meta-Regression Analysis
[3] Gaspar, V., Mauro, P., Pattillo, C., and Espinoza, R. 2020. "Public Investment for the Recovery"

Fiscal arithmetic

How it went awry in fiscal 2021

Covid-19 not only led to contraction in economic activity, it played havoc with public finances in fiscal 2021, too. As the economy shrunk and government revenues plunged, fiscal deficit almost tripled to ~9.5% of GDP from a budgeted 3.5%. Receipts under all three heads, i.e. tax revenue, non-tax revenue, and non-debt capital fell short in fiscal 2021 compared with their budgeted targets. Interestingly, the government still managed to increase its expenditure (both revenue and capital) by resorting to massive borrowings (market borrowings + other sources): it more than doubled from Rs 7.96 lakh crore (budgeted) to Rs 18.5 lakh crore (revised) in fiscal 2021.

How and why the fiscal deficit went for a toss in FY21



Source: Ministry of Finance, CRISIL

Does it add up for fiscal 2022?

The budget quite openly declares the government's intent of going expansionary to support the ongoing economic recovery – it not only pegs the fiscal deficit at 9.5% of GDP for this fiscal (higher than expected), it also fixes a not too conservative target at 6.8%. The fiscal math appears to be reasonably realistic on most accounts.

- *Growth assumption:* To begin with, the size of the GDP, which is estimated to increase by 14.4% in nominal terms in fiscal 2022 appears to be a conservative estimate and broadly in line with CRISIL's estimate
- *Revenue collection targets*: The government's gross tax collections were on a decline even before the pandemic, which accentuated the trend further. With the growth rebounding in fiscal 2022, tax collection should improve, though achieving 16.7% growth (as compared with the past 5-year average of 10.3%) could be a challenging task. That said, the target for indirect tax collections appears more realistic.

Revenue receipt estimates

	Rs lakh crore					Growth (%)					
	FY18	FY19	FY20	FY21 RE	FY22 BE	FY18	FY19	FY20	FY21 RE	FY22 BE	5 year average (FY16-FY20)
Gross tax revenue	19.2	20.8	20.1	19.0	22.2	11.8	8.4	-3.4	-5.5	16.7	10.3
Direct tax	10.0	11.3	10.5	9.1	11.1	17.9	13.4	-7.7	-13.8	22.4	9.0
- Corporation tax	5.7	6.6	5.6	4.5	5.5	17.8	16.2	-16.1	-19.9	22.6	6.1
- Income tax	4.3	4.7	4.9	4.6	5.6	18.1	9.8	4.2	-6.8	22.2	13.4
Indirect tax	9.2	9.5	9.6	9.9	11.1	5.9	2.9	1.8	3.6	11.4	12.4
-GST	4.4	5.8	5.9	5.2	6.3	--	31.4	3.0	-14.0	22.3	17.2

Source: Ministry of Finance, CRISIL

- Disinvestment targets to be monitored: The government has shown its resolve to go big on disinvestments by clearing the new disinvestment policy which provides a clear roadmap for disinvestment in all non-strategic and strategic sectors. But going by past experience, performance on the disinvestment front remains rather poor. For instance, as opposed to budgeted Rs 2.1 lakh crore receipts from disinvestments in fiscal 2021, the government only expects to earn Rs 0.32 lakh crore, despite a buoyant capital market and acute requirement of funds. The target of Rs 1.75 lakh crore, therefore, will have to be pursued relentlessly and proactively
- Enhanced transparency: Another reason why the deficit number has gone up is enhanced transparency in the budget. It relies less on off-budget items for funding investments and more on capex allocations. It also puts an end to the practice of funding Food Corporation of India's shortfall via borrowings from National Small Savings Fund (NSSF) and replaces it with budgetary allocation.

How did the pandemic alter long-term fiscal trends?

On the revenue side, taxes continue to remain the dominant source of income for the central government (their share in total receipts has gone up from 44.5% in fiscal 2010 to 56.9% in fiscal 2019). Since fiscal 2020, however, this has been on a decline, pushed further down by the pandemic to 39.0% in fiscal 2021. The government aims to correct this and has projected the share to go up to 44.4% in fiscal 2022 as economic recovery unfolds

- Government's total budgetary expenditure in relation to the size of GDP has been coming down over the years as it has tried to rein in fiscal deficit. From 16.1% of GDP in fiscal 2010, total expenditure was down to 13.2% in fiscal 2020. A large part of it is on account of pruning of revenue expenditure, which fell from 14.3% to 11.6% in this period. Capex, on the other hand, was relatively stable at a little below 2% of GDP. The pandemic, however, forced the government to go the expansionary path (even at the cost of higher borrowings) as total expenditure in fiscal 2021 is slated to go up to 17.7% and the government targets to maintain the pace even in fiscal 2022 (15.6% of GDP). There is also expected to be a change in mix, i.e,

revenue expenditure is expected to come down from 15.5% of GDP in fiscal 2021 to 13.1% in fiscal 2022, and capex is slated to go up from 2.3% to 2.5%.

- Central government's borrowings have come down in the past decade (from 5.2% of GDP in fiscal 2010 to 4.6% in fiscal 2020) in sync with the reduction in both the revenue and fiscal deficit. However, due to fall in revenue collections in fiscal 2021, this shot up to 9.5% of GDP and are expected to normalise to 6.8% of GDP in fiscal 2022.

% of GDP	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	Avg. (FY10-FY20)	FY21 RE	FY22 BE
Total expenditure	16.1	15.7	14.9	14.2	13.9	13.3	13.0	12.8	12.5	12.3	13.2	12.9	17.7	15.6
On revenue account	14.3	13.6	13.1	12.5	12.2	11.8	11.2	11.0	11.0	10.6	11.6	7.6	15.5	13.1
of which interest payments	*3.3*	*3.1*	*3.1*	*3.1*	*3.3*	*3.2*	*3.2*	*3.1*	*3.1*	*3.1*	*3.0*	*2.5*	*3.6*	*3.6*
*major subsidies**	*2.1*	*2.2*	*2.4*	*2.5*	*2.2*	*2.0*	*1.8*	*1.3*	*1.1*	*1.0*	*1.1*	*1.8*	*3.1*	*1.5*
On capital account	1.8	2.1	1.8	1.7	1.7	1.6	1.8	1.8	1.5	1.6	1.6	1.7	2.3	2.5
Gross tax revenue	9.8	10.4	10.2	10.4	10.1	10.0	10.6	11.1	11.2	11.0	9.9	8.8	9.8	9.9
Tax revenue (net to Centre)	7.2	7.5	7.2	7.5	7.3	7.2	6.9	7.2	7.3	7.0	6.7	4.4	6.9	6.9
Non tax revenue	1.8	2.9	1.4	1.4	1.8	1.6	1.8	1.8	1.1	1.2	1.6	1.2	1.1	1.1
of which dividend and profits	*0.8*	*0.6*	*0.6*	*0.5*	*0.8*	*0.7*	*0.8*	*0.8*	*0.5*	*0.6*	*0.9*	*2.8*	*0.5*	*0.5*
Capital receipts	*7.1*	*5.3*	*6.5*	*5.9*	*5.0*	*3.9*	*4.2*	*4.0*	*4.1*	*4.0*	*4.9*	*2.7*	*9.7*	*7.6*
of which disinvestment receipts	0.4	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.6	0.5	0.2	2.3	0.2	0.8
Borrowings and other liabilities	5.2	4.9	5.9	4.9	4.5	3.4	3.9	3.5	3.5	3.4	4.6	4.3	9.5	6.8

% of Total	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	Avg. (FY10-FY20)	FY21 RE	FY22 BE
Total expenditure	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
On revenue account	89.0	86.9	87.8	88.2	88.0	88.2	85.9	85.6	87.7	86.7	87.5	87.4	87.3	84.1
of which interest payments	20.8	19.5	20.9	22.2	24.0	24.2	24.7	24.3	24.7	25.2	22.8	23.0	20.1	23.2
*major subsidies**	13.1	13.7	16.2	17.5	15.7	15.0	13.5	10.3	8.9	8.5	8.5	12.8	17.3	9.6
On capital account	11.0	13.1	12.2	11.8	12.0	11.8	14.1	14.4	12.3	13.3	12.5	12.6	12.7	15.9
Gross tax revenue	60.9	66.6	67.3	70.9	72.1	78.5	81.9	86.5	89.8	89.8	74.8	76.3	55.1	63.6
Tax revenue (net to Centre)	44.5	47.9	47.7	50.8	51.7	57.0	53.1	55.5	58.1	56.9	50.5	52.1	39.0	44.4

% of Total	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	Avg. (FY10-FY20)	FY21 RE	FY22 BE
Non tax revenue	11.3	18.4	9.2	9.4	12.6	12.5	14.1	13.8	9.0	10.2	12.2	12.1	6.1	7.0
of which dividend and profits	4.9	4.0	3.8	3.7	5.7	5.7	6.3	6.2	4.3	4.9	6.9	5.1	2.8	3.0
Capital receipts	44.2	33.8	43.1	39.8	35.7	30.5	32.8	30.7	32.9	33.0	37.3	35.8	54.8	48.7
of which disinvestment receipts	2.4	1.9	1.4	1.8	1.9	2.4	2.4	2.4	4.7	4.1	1.9	2.5	0.9	5.0
Borrowings and other liabilities	32.4	31.1	39.1	33.5	31.9	26.7	30.0	27.0	27.6	28.0	34.8	31.1	53.6	43.3

Medium-term guidance on fiscal path

A sharp fall in revenue and the need to maintain spending has meant that borrowings went up manifold in fiscal 2021. Coupled with a fall in the base (i.e. GDP), debt-to-GDP in fiscal 2021 is likely to have reached way above the target of 50.1%. The government, however, refrained from mentioning the rolling two-year targets of the debt-to-GDP ratio citing that, "The Covid-19 related uncertainty makes any forecast of economic growth and fiscal variables including the specification of a return path challenging. The government endeavours to return to the path of fiscal consolidation as soon as economic growth and receipts return to their long-run averages". The finance minister, however, did mention in her speech that the government aims to gradually bring down the fiscal deficit to 4.5% of GDP by fiscal 2026.

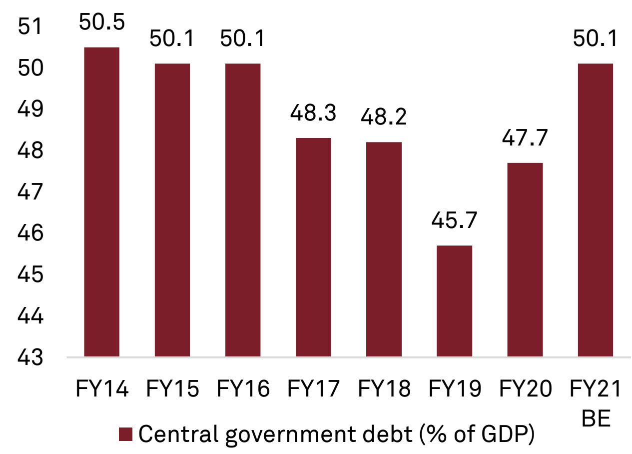
All said, the debt path going ahead will be governed by how primary deficit (i.e., fiscal deficit sans interest payments) behaves and how the 'g-i'[4] differential moves. A lower primary deficit and greater differential would be the key to reducing the debt burden going ahead.

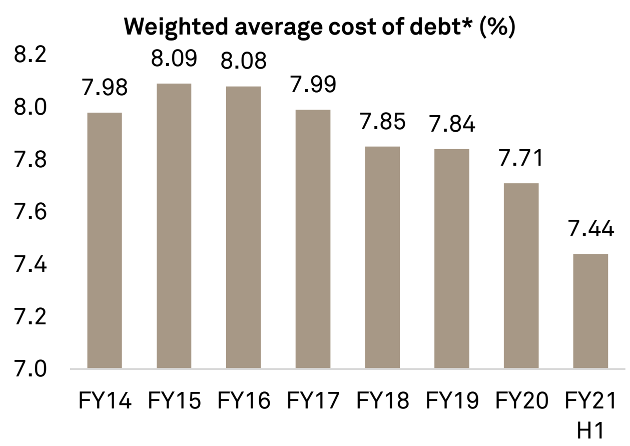
The central government has, over the years, been able to considerably bring down the primary deficit (from 3.17% in fiscal 2010, it was down to 1.6% in fiscal 2020). Therefore, the focus should be to generate high growth, while keeping interest cost in check. Fortunately, the latter has been coming down over the past few years (*see chart below*), thanks to lower interest rates.

Going ahead, interest cost can only go up as economic recovery takes hold, so faster growth will be critical for trimming the debt ratio.

[4] g denotes nominal GDP growth and i refers to the cost of borrowing for the government

Debt ratio is a key monitorable going ahead





** On outstanding debt, as on date*

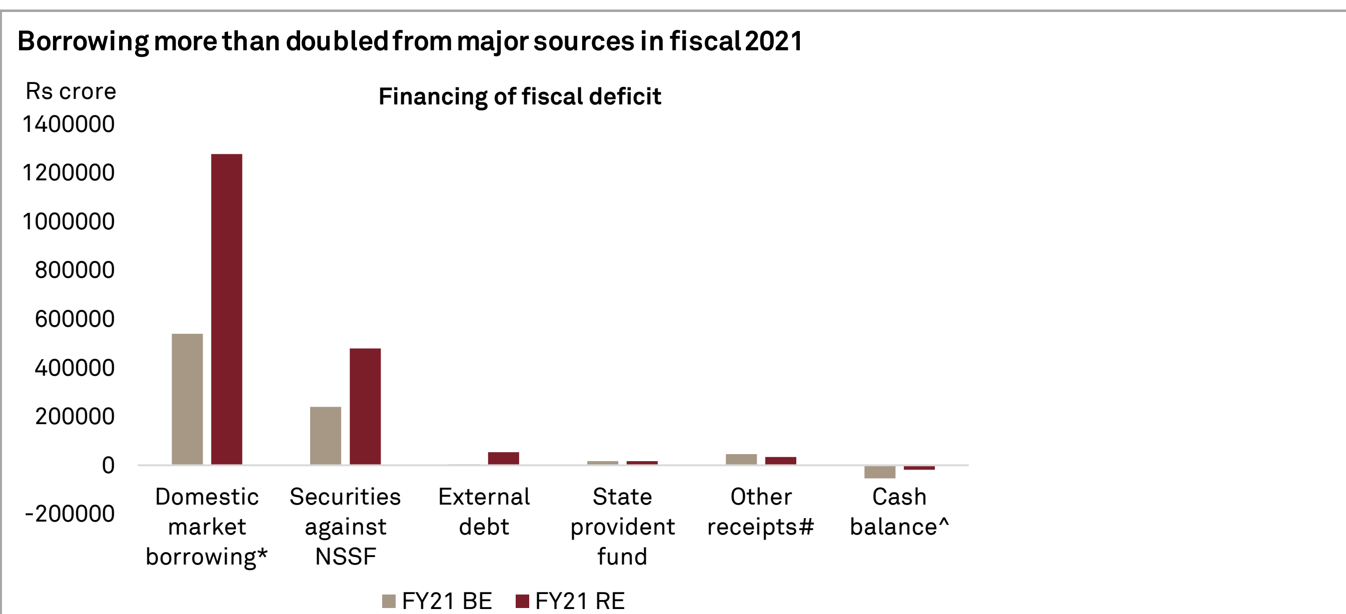
Source: Ministry of Finance

Government expands borrowing to accommodate a wider deficit

How did the government finance a higher fiscal deficit in fiscal 2021?

- The 23% shortfall in revenue and 84.8% shortfall in disinvestment relative to budget estimates led the Centre to ramp up its borrowing to finance expenditure, which grew 13.4%
- Most of the borrowing was done through the domestic debt market (69.1% of the revised fiscal deficit). Net borrowing via dated government securities (G-secs) doubled to Rs 10.5 lakh crore, compared with a BE of Rs 5.1 lakh crore, and Rs 4.7 lakh crore in fiscal 2020. Borrowings through short-term treasury bills (T-bills) also rose sharply to Rs 2.2 lakh crore net, nine times the BE of Rs 25,000 crore, and 49.9% higher on-year
- Centre's borrowings from the NSSF also doubled to Rs 4.81 compared with Rs 2.4 lakh crore BE and Rs 2.4 lakh crore in the previous year. This financed 26% of the fiscal deficit, similar to 25.7% in fiscal 2020
- The pandemic forced the d

Borrowing more than doubled from major sources in fiscal 2021



*Note: *includes borrowings through G-Secs and T-bills; #Includes net receipts from internal debt and public account and POLIF, ^decrease(+)/increase(-), Data for each category is net of repayments*

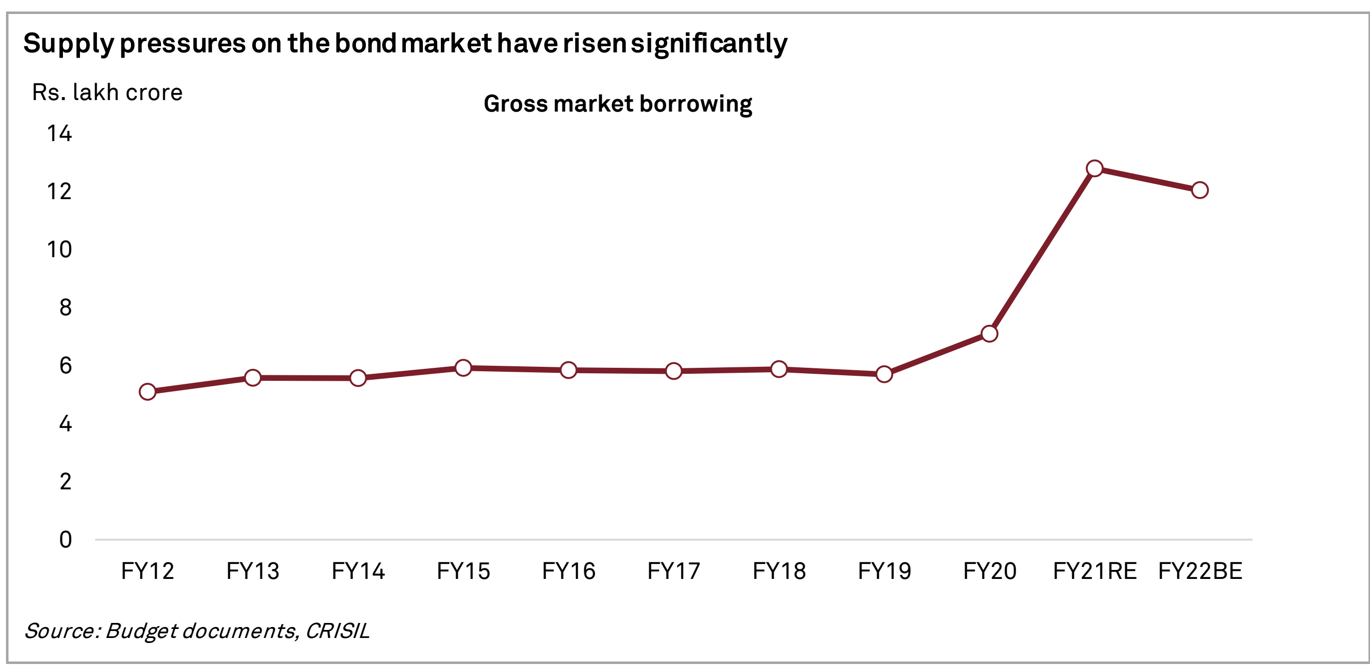
Source: Budget documents, CRISIL

How are borrowing requirements expected to change in fiscal 2022?

- While total revenue is budgeted to rise 15% in fiscal 2022 over fiscal 2021RE, it would still be 11.5% lower than fiscal 21BE, implying it is not expected to reach pre-pandemic trend level
- However, total expenditure would be 1% higher than fiscal 2021RE, and 14.5% higher than fiscal 2021BE. This has meant that government's borrowing would remain higher than pre-pandemic levels, and not see a significant reduction relative to previous year
- Majority of the financing would again be raised through domestic debt market (64.7% of fiscal 2022 fiscal deficit). Net market borrowing through G-secs and T-bills is budgeted at Rs 9.75 lakh crore, 23.7% lower than fiscal 2021RE, but 80.5% higher than fiscal 2021BE
- Borrowing from NSSF is budgeted to moderate to Rs 3.9 lakh crore, 18.4% lower than fiscal 2021RE, but 63.3% higher than fiscal 2021BE
- External debt financing is expected to normalise to Rs 1514 crore, 97.2% lower than fiscal 2021RE

What would be the likely impact on bond yields?

- Gross market borrowing (fresh bond issuances) through G-secs rose to a record Rs 12.8 lakh crore in fiscal 2021, a whopping 80.3% higher on-year. Despite this, benchmark bond yields fell, with 10-year G-sec below 6%, thanks to the unprecedented monetary easing and open market purchases by the RBI
- While gross market borrowing is budgeted to moderate to Rs 12.06 lakh crore in fiscal 2022, it would still be higher than pre-pandemic level (Rs 7.1 lakh crore in fiscal 2020)
- Supply pressures will have a bearing on yields once the RBI starts unwinding its ultra-accommodative stance. As on December, the RBI maintained its stance to stay accommodative at least into the beginning of fiscal 2022. Upside risks also persist on account of rising crude oil prices and US Treasury yields



Source: Budget documents, CRISIL

Create a platform for raising medium-term growth potential

Fiscal 2021 was all about keeping the economy afloat and recovering from the pandemic. Given the lack of fiscal latitude due to severely curtailed revenues following the pandemic, and the subsequent extraordinary social spending requirements, the government's fiscal support was targeted primarily at the vulnerable sections. The budget for fiscal 2022 tries to lift the medium-term growth potential through a capital expenditure push, and sharper focus on financial sector reforms:

1. **Recapitalising public sector banks so that they can support the economy during recovery phase:**

   The pandemic landed a double whammy on a financial sector that was already weighed down by non-performing assets (NPAs) and slack credit demand. The RBI, in its latest Financial Stability Report, said the gross NPA ratio of all scheduled commercial banks could increase from 7.5% in September 2020 to 13.5% by September 2021. Hence, frontloading of capital infusion for banks to withstand possible asset quality deterioration was an imperative. The budget does this by marking out Rs 20,000 crore for fiscal 2022.

2. **Cleaning up bank books:**

   In our earlier report titled, '*Minus nine now*' (September 2020), we had said streamlining of the Insolvency and Bankruptcy Code (IBC) would deliver intended benefits over the medium term through resolution of bad loans. While the IBC stands suspended following the pandemic, the budget has announced the formation of an asset management company and an asset reconstruction company to resolve stressed assets of public sector banks. The intention is to consolidate, manage and dispose of such stressed assets.

3. **Reforms in manufacturing:**

   The budget provides support for the manufacturing sector, which was particularly important given that it was in recession even before the pandemic struck, and was one of the worst-affected in fiscal 2021 after services.

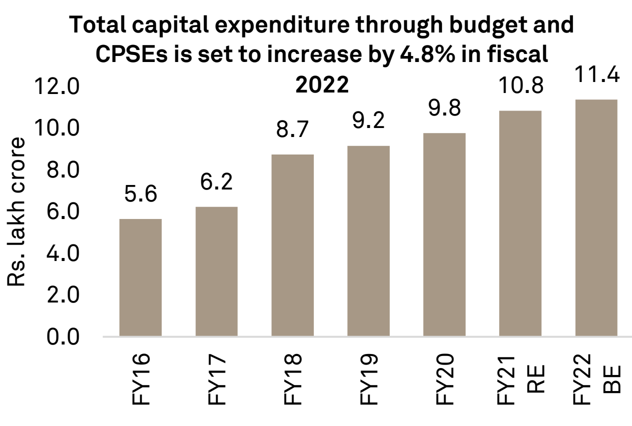
Earlier, through the Atmanirbhar Bharat package, the government had provided a boost to the manufacturing sector via the Production-Linked Incentive scheme. As much as Rs 1.97 lakh crore is expected to be spent over the next five years in sectors such as electronics, automobiles/auto components, pharma, telecom, and textiles to enhance domestic manufacturing capacities. The budget complements these reforms with the announcement of customs duty rationalisation, with particular focus on MSMEs.

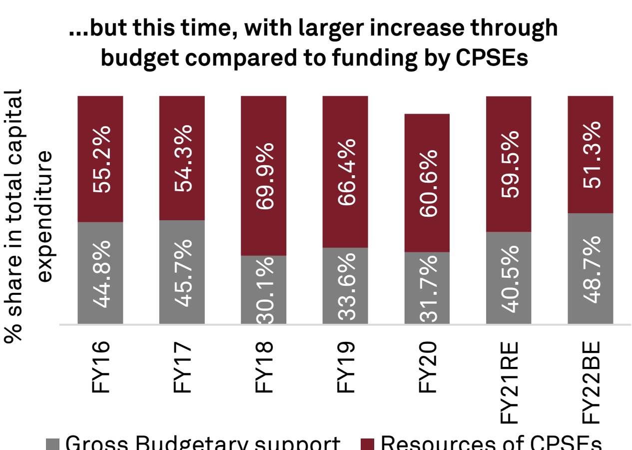
4. **Roadmap for public sector investment**

The budget bats for a massive push to infrastructure creation by taking the lead in capex for fiscal 2022. As mentioned in an earlier section, public investment has a high multiplier effect on growth and employment. The budget intends to augment funds for the flagship National Infrastructure Pipeline, and lays down a roadmap to do so by increasing capital expenditure, monetising assets and developing instruments for infrastructure financing.

a. **Increasing capex:**

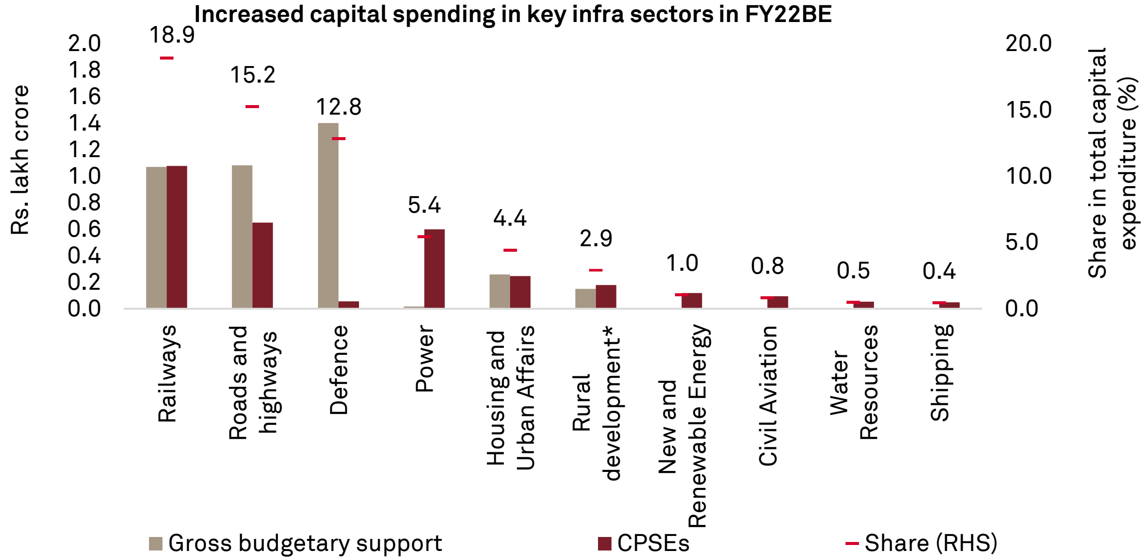
- In a year since the pandemic, the government has managed to keep up capital spending through the budget despite reorientation of expenditure among other sectors. Capex by the government grew by 30.7% in fiscal 2021 (RE), higher than the 18.1% growth envisaged in the BE. In fiscal 2022 as well, capex through budget is expected to increase by 26.2% over revised estimates, to Rs 5.5 lakh crore. Total capex through budget and by central public sector enterprises (CPSEs) is expected to increase by 4.8%, to ~Rs. 11.4 lakh crore.
- Further, the trend of increasing reliance on CPSEs to fund capex seen in the past five fiscals seems to be reversing. Fiscals 2021 and 2022 are expected to see their share of capex through gross budgetary support (GBS) increasing substantially (compared with fiscal 2020). In fiscal 2022, capital expenditure through GBS accounts for 48.7% of total, while CPSEs are budgeted to fund the balance 51.3%. This is a significant change from fiscal 2020, when CPSEs funded more than 60% of capex *(see figure below)*.





Source: Union budget documents (various years), NSO, CRISIL

The increased capital spending, both through the budget and by CPSEs, is concentrated in sectors such as railways, national highways, defence, and power. All the major sectors of physical infrastructure have seen an increase in budgeted capital spending over fiscal 2021, with the exception of rural development, new and renewable energy, and water resources.



*Note: *Capital expenditure for rural development includes expenditure made under Pradhan Mantri Gram Sadak Yojana*

Source: Union budget documents, CRISIL

b. Facilitating infrastructure financing:

Increased public investment can also support crowding-in of private investments, subject to the health of corporate balance sheets. Infrastructure financing, given its long gestation period and problems of asset-liability mismatches, has often proved a challenge. The possibility of rising NPAs, as highlighted by the RBI, further impairs the ability of banks to lend. The budget thus seeks to incentivise private sector investment by providing new instruments of infrastructure financing such as a development financial institution, and allowing for debt financing of infrastructure investment trusts (InvITs) and real estate investment trusts (REITs).

c. Asset monetisation:

Another push to infrastructure financing comes with the launch of National Monetisation Pipeline to leverage operating public infrastructure – the first of its kind in India. The government has already envisaged monetisation of roads, railways, airports, and oil and gas pipelines under this initiative.

Macroeconomic outlook for fiscals 2021 and 2022

Macro variable	FY20	FY21F	FY22F	Rationale for outlook
Real GDP (%, y-o-y)	4.0	-7.7*	11.0	The budget's focus on pushing capex despite a tight fiscal situation provides optimism and creates a platform for higher growth. However, given that the focus is on an investment-push rather than consumption, the full-impact of these spends on growth will be seen in the near term via multiplier effects and over time through enhancement of productive capacity. Growth in fiscal 2022 will mainly be driven by a very weak base and some rub-off from rising global growth-tide effect, control over the Covid-19 case spread, and the start of vaccinations that will boost confidence and support stronger recovery.

Macro variable	FY20	FY21F	FY22F	Rationale for outlook
CPI inflation (%, y-o-y)	4.8	6.4	5.0	Still high food prices in some categories and rising commodity prices suggest inflationary pressures would ease only gradually. The demand push from the budget could also keep core inflation sticky.
10-year G-sec yield (%, March-end)	6.2	6.2	6.5	Gross market borrowing, which jumped to a record high of Rs 12.8 lakh crore in fiscal 2021, will only slightly moderate to Rs 12.06 lakh crore in fiscal 2022. Supply pressures will have a bearing on yields once the RBI starts unwinding its ultra-accommodative stance.
Current account balance/ GDP (%)	-0.9	1.8	-1.2	While export recovery has been uneven and depends on the Covid-19 trajectory in major economies, imports are expected to see consistent recovery on account of continued improvement in domestic demand. Rising crude oil prices will also crank up import growth.
Rs/$ demand. (March average)	74.4	74.0	75.0	Rising crude oil prices and recovery in import demand will put downward pressure on the rupee. The local currency will, however, remain range bound with lower interest rates globally encouraging foreign investor inflows in the domestic markets.

**NSO estimate*

Source: CRISIL

Capital market

Budget impact Positive

Key budget proposals

- Increase market borrowing by Rs 80,000 crore to fund the 9.5% fiscal deficit in current fiscal
- Set divestment target at Rs 1.75 lakh crore in fiscal 2022 versus Rs 2.1 lakh crore this fiscal
- Set up Development Finance Institution (DFI) to promote infrastructure financing
- Provide a permanent institutional framework for liquidity
- Set up an asset reconstruction company (ARC) and asset management company (AMC) for stressed asset resolution
- Infrastructure debt funds (IDF) to issue zero-coupon bonds to channelise investment into infrastructure sector/companies
- Rules for international sovereign wealth fund (SWF) and pension fund rationalised to aid infrastructure financing in India
- Dividend income tax for foreign portfolio investors reduced to lower treaty rate; advance tax liability on dividend income to be paid only after declaration or payment of dividend
- Tax incentives offered for relocating foreign funds to the International Financial Services Centre (IFSC) and tax exemption given to the investment division of foreign banks located in IFSC
- Rules to be notified to ease hardship faced by non-resident Indians with regards to double taxation on accrued incomes in their foreign retirement accounts
- Dividend payment to InvITs/ REITs exempt from tax deducted at source
- Foreign direct investment in insurance hiked to 74% from the current 49%
- Contribution beyond Rs 2.5 lakh per annum in unit-linked insurance plans (ULIPs) and provident fund (PF) to be taxed in line with equity mutual funds
- Retraction of expense apportioning in case of delay in contribution towards the PF corpus by an employer
- Securities and Exchange Board of India (SEBI) to be notified as a regulator for gold exchange by unifying the SEBI Act, Depositories Act and Government Securities Act into securities market code.

Budget impact

- The government's aim to ramp up spending to boost pandemic-affected growth is expected to increase the supply of securities in the capital market, both in debt and equities. On the debt side, the expected additional market borrowing of Rs 80,000 crore would push yields up in the short term
- Higher fiscal deficit, of 6.8% for fiscal 2022 and at above-normal levels till 2025, is expected to keep the supply high for central government securities. State governments too are expected to have larger deficits than stated in the Fiscal Responsibility and Budget Management Act, which will lead to a larger flow of State Development Loans. This, along with liquidity measures by the Reserve Bank of India will push up

yields. Second, crowding out due to large supplies of sovereign instruments is likely to have an adverse impact on corporate bond spreads over the short to medium timeframe

- Meanwhile, the higher divestment target of Rs 1.75 lakh crore in fiscal 2022 is also going to lead to an influx of securities on the equity side with the expected stake sale of the unlisted insurance behemoth, LIC
- Meanwhile, the government has raised the ante on providing long-term debt financing, resolving stressed assets, and providing market liquidity over the long term. To this end, it has a proposed a professionally managed DFI to act as a provider, enabler and catalyst for infrastructure financing. While the government has apportioned Rs 20,000 crore to capitalise this institution, the three-year plan is to have a lending portfolio of at least Rs 5 lakh crore.
- Further, the move to have a permanent institutional framework to provide liquidity to the corporate bond market by buying investment-grade debt securities in stressed and normal times will help develop the segment and boost confidence in the long term. It would be critical to evaluate if the institution can play a role in corporate bond market repos besides outright buy and sell
- The move to launch a DFI and an ARC, and allow IDFs to issue zero-coupon bonds to finance long-term infrastructure projects while also securitising the debt market will also provide a fillip to development of the bond market and benefit market participants. This includes domestic institutional investors such as mutual funds, AIFs, insurance companies, and the investor community. Further, the move to rationalise rules for international SWP and pension funds to invest in infrastructure projects in India through the AIF, InvIT and IDF routes is also a big plus for the development of the capital market
- Measures to reduce tax incidence on foreign investors and promote IFSC as an attractive location for foreign funds to relocate and manage their funds is expected to aid foreign flows
- In the personal finance space, income earned and interest received on contribution beyond Rs 2.5 lakh per annum in ULIPs and PF respectively will now become taxable. While the tax incidence is for investment beyond the threshold, it would reduce incentive for contribution beyond ~Rs 20,000 per month in ULIPs and voluntary PF and increase the tax incidence in the organised segment of PF, especially for salaried individuals with annual emoluments of more than ~Rs 40 lakh. The new Wage Code applicable from April 1, 2021, which has laid down rules to make basic salary 50% of total income of the individual, will add to higher tax incidence for individuals in the high income tax bracket. Meanwhile, retraction of expense apportioning in case of delay in contribution towards the PF corpus by an employer would incentivise timely payments and aid the retirement planning corpus for individuals in the organised segment

Sectoral impact

Banking and financial services

Positive

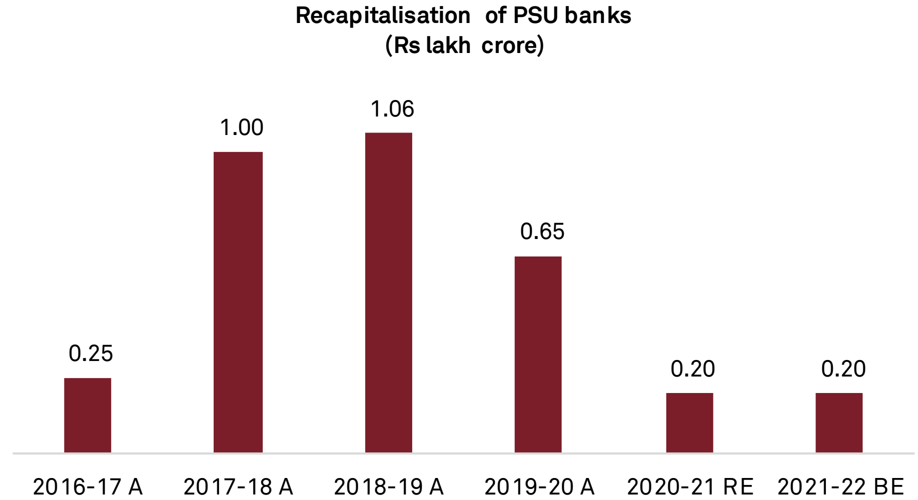
Key budget announcements

- Recapitalisation of Rs 20,000 crore in fiscal 2022 to strengthen the financial capacity of public sector banks (PSBs)
- Privatisation of two PSBs, other than IDBI Bank, and a general insurance company in fiscal 2022
- Permissible FDI limit in insurance companies to increase from the current 49% to 74%
- The government aims to set up an ARC and an AMC to house stressed assets currently in the books of Indian financial institutions
- Setting up of a DFI with a capital of Rs 20,000 crore, allowing access to funds through the issuance of tax-efficient zero-coupon bonds by infrastructure debt funds, and financing through InvITs and REITs by foreign portfolio investors. The government aims to have a portfolio of Rs 5 lakh crore within three years

Budget impact

- With a few public sector banks not conforming to Tier-1 capital ratios in line with Basel III norms as of September 2020, the government revised its earlier budget estimates for recapitalisation of PSU banks from nil to Rs 20,000 crore for fiscal 2021. That would be sufficient to meet the increased capital adequacy norms (with the last tranche of 0.625% capital conservation buffer, effective from April 2021). That would also meet capital requirements arising due to replacement of additional Tier-1 bonds (which, according to market interactions, are likely to be in the range of Rs 20,000-25,000 crore), and to fund the credit growth of PSU banks, which is expected to be around 6% for fiscal 2022 (total bank credit growth is pegged at 8-10% for fiscal 2022).

Recapitalisation of PSU banks (Rs lakh crore)



Note: A — actuals; RE — revised estimates; and BE — budgetary estimates

Source: GoI

- Privatisation of PSBs and a general insurance company through stake sale would reduce the burden on the government for recapitalisation, and increase competition within the banking and insurance space. It would increase independence and bring in a professional approach, which will improve operational and financial efficiencies within the banking and insurance industries. This is a structurally positive change but will need change in law.
- An ARC and an AMC will be set up to consolidate and take over existing stressed debt, and then manage and dispose of assets to alternative investment funds and other potential investors for eventual value realisation. With most PSBs having reasonable provision cover for NPAs, transfer of stressed loans to ARC will be more feasible. The setting up of ARC and AMC will help banks and non-banking finance companies (NBFCs), which had turned risk averse, to focus on fresh lending, enabling credit growth. Since bad loans will be transferred to a single entity specialising in the business, this would lead to better and faster recovery. Such a specialised entity typically has better access to competitive funds due to government support, but its structure and operations will be the key monitorable.
- Increased foreign direct investment (FDI) limit would not only improve traction in the insurance market, but will also help attract more domestic and foreign players willing to bring in cutting-edge technologies and expertise. The insurance sector, pegged approximately at Rs 40 lakh crore and clocking a compound annual growth rate (CAGR) of 12% over the past five years, will continue to see healthy growth on account under-penetration and government initiatives.
- The government's move to increase the existing National Infrastructure Pipeline (NIP) from 6,835 to 7,400 projects cumulatively costing Rs 132 lakh crore till fiscal 2025, would lead to higher requirement of funds from banks and financial institutions. CRISIL estimates investments under InvITS and REITs to grow by another Rs 8 lakh crore over the next five years from the existing Rs 2 lakh crore, which would support financial institutions in lending to infrastructure projects.

Infrastructure Positive

Key budget proposals

- Budgeted capex allocation for fiscal 2022 increased 26% over fiscal 2021 RE, to Rs 5.54 lakh crore. But including IEBR, capex is up only 5%
- Budgeted infrastructure allocation for nine core sectors increased 15% on-year over fiscal 2021RE
- Innovative modes to finance infrastructure build-out, such as a dedicated development finance institution, zero-coupon bonds by infrastructure debt funds, and debt financing of investment trusts and real estate investment trusts
- Setting up of National Monetisation Pipeline

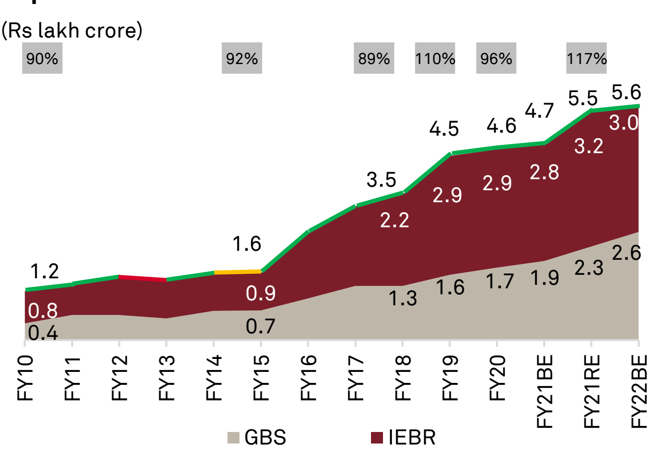
Overall capex allocation

(Rs lakh crore)

	FY20	FY21BE	FY21RE	FY22BE
Total	9.8	10.8	10.8	11.4
IEBR	6.4	6.7	6.4	5.8
GBS	3.4	4.1	4.4	5.6

Top 9 infra ministries

(Rs lakh crore)



GBS: Gross budgetary support; IEBR – Internal and extra budgetary resources

Notes:

% in grey box indicates achievement ratio for the year

Sectors included: Roads, railways, housing and urban affairs, civil aviation, power, shipping, rural development, water resources, and new and renewable energy

Source: Budget documents, CRISIL Research

Budget impact

Gross budgetary support increased ~7% in fiscal 2021 RE over BE despite the pandemic, owing to back-loading of capex in the second half of the fiscal. For fiscal 2022, the budgeted outlay has jumped up 26% on-year, with the government's focus on reviving the economy. This will lead to higher dependency on government spending, which will rise to 46% in fiscal 2022 versus 41% in previous fiscal, hence providing stability and transparency in capex allocation and spend.

Outlay for core infrastructure ministries

	FY20			FY21BE			FY21RE				FY22BE				
('000 crore)	Budget	IEBR	Total	Budget	IEBR	Total	Budget	IEBR	Total	FY21 RE vs BE	Budget	IEBR	Total	vs FY21RE	vs FY21BE
Ministry of Railways	67.84	80.17	148.01	70.00	90.79	160.79	108.40	132.44	240.84	50%	107.10	107.76	214.86	-11%	34%
Ministry of Road Transport and Highways	68.37	74.99	143.36	81.98	65.00	146.98	92.05	65.00	157.05	7%	108.23	65.00	173.23	10%	18%
National Highway Authority of India	31.69	74.99	106.68	42.50	65.00	107.50	49.05	65.00	114.05	6%	57.35	65.00	122.35	7%	14%
Ministry of Power	1.62	62.64	64.25	1.08	49.88	50.97	0.38	50.25	50.63	-1%	1.56	59.99	61.56	22%	21%
Ministry of Housing and Urban Affairs	19.30	38.46	57.77	21.15	31.89	53.04	10.31	29.63	39.94	-25%	25.76	24.60	50.35	26%	-5%
Ministry of Rural Development	0.01	10.81	10.82	0.10	10.00	10.10	0.00	20.00	20.00	98%	0.00	17.87	17.87	-11%	77%
Pradhan Mantri Gram Sadak Yojana	14.02	0.00	14.02	19.50	0.00	19.50	13.71	0.00	13.71	-30%	15.00	0.00	15.00	9%	-23%
Ministry of New and Renewable Energy	0.07	10.45	10.52	0.05	13.73	13.78	0.17	10.09	10.26	-26%	0.01	11.78	11.79	15%	-14%
Ministry of Civil Aviation	0.02	0.00	0.02	0.03	5.19	5.22	0.05	6.95	7.00	34%	0.04	9.27	9.31	33%	79%
Ministry of Water Resources	0.31	3.90	4.21	0.39	5.08	5.46	0.14	6.53	6.66	22%	0.32	5.20	5.52	-17%	1%
Ministry of Shipping	0.26	2.93	3.19	0.09	3.72	3.80	0.17	3.03	3.20	-16%	0.18	4.82	5.00	56%	32%

Source: Budget documents, CRISIL Research

- Capex allocation for the nine core infrastructure sectors – civil aviation, new and renewable energy, power, railways, roads, shipping, rural development, urban development, and water resources – is expected to increase 17% in fiscal 2022 over fiscal 2021 budgeted spend. For fiscal 2022, while budgeted allocation has increased ~15% over fiscal 2021 RE, IEBR is seen declining 5%. This implies headwinds in raising external funding, with overall outlay rising a modest 3%
- Innovative modes of financing, such as setting up of a dedicated financing institution, issuance of zero coupon bonds, and enhancing focus on asset monetisation via the National Monetisation Pipeline, have been announced; but the contours of the schemes are awaited, implementation of which will be key
  - In roads, the government has been able to realise only two toll-operate-transfer bundles over three years, totaling Rs. 11,200 crore. With the National Highways Authority of India (NHAI)-led asset monetisation likely to contribute only 5-10% of its funding requirement, reliance on budgetary support is enormous and critical

Roads and highways

- In fiscal 2021, gross budgetary support is estimated to be 12.3% higher than budgeted, resulting in a 12% rise in national highway construction, or 7,767 km (YTD, December 2020)
- Fiscal 2022BE gross budgetary support has been raised a robust 17.6% over fiscal 2021 RE, to Rs 1.08 lakh crore. However, NHAI's IEBR allocation is stagnant at Rs 65,000 crore – to reduce its dependence on

external borrowings. NHAI's borrowings rose 11x over the past five years to ~Rs 2.6 lakh crore, with debt-equity ratio at 1.4x, as of September 2020

- While fiscal 2022BE allocation under PMGSY has increased 9% over fiscal 2021 RE, to Rs 15,000 crore, the sum is lower than the average Rs 19,000 crore allocated annually since fiscal 2017

Railways:

- Gross budgetary support in fiscal 2021RE is ~55% higher than budgeted, primarily because of a one-time special loan to support the sector because of the pandemic. Excluding this, the overall spend would have contracted 59%.
- Gross budgetary support has shrunk 11% in fiscal 2022 over fiscal 2021RE over a high base because of the one-time Covid-19-related spend. Minus the spend, gross budgetary support would have risen 2.7x, led by doubling, new lines, and rolling stock.
- IEBR support for fiscal 2022 is expected decline 18% over fiscal 2021RE, owing to halving of funds raised by Indian Railway Finance Corporation

Ports:

Transfer of management of major ports to private operators will improve their competiveness; typically, turnaround time of privately-managed domestic ports is less than half that of major ports. This will also allow private players to increase market share. However, modalities with regard to revenue sharing will be a key monitorable

Power and renewable energy — Positive

Key budget proposals

- Rs 3.06 lakh crore assistance package for power distribution companies (discoms) over five years based on achievement of reforms
- Budget outlay for power sector pegged at Rs 61,555 crore for fiscal 2022; ~21% higher than budgeted and ~22% higher than revised estimates (RE) for fiscal 2021
- Framework for power consumers to choose from more than one distribution licensee
- Higher allocation for Solar Energy Corporation of India (SECI) and Indian Renewable Energy Development Agency (IREDA) by 28% (Rs 760 crore) and 16% (Rs 11,018 crore), respectively, compared with fiscal 2021 RE
- Higher allocation of 94% for grid-connected solar, over fiscal 2021 RE
- Increase in customs duty on imported solar inverters from 5% to 20%

Budget impact

- The Rs 3.06 lakh crore package will support 41 ailing state discoms
  - It will provide funding support to the discoms over and above the Rs 1.2 lakh crore provided under Atmanirbhar Bharat in fiscal 2021. Though the funding mechanism is yet to be clarified, as per CRISIL's analysis, the combined ~Rs 4.2 lakh crore tots up to about double their incremental debt requirement

of ~Rs 2 lakh crore between fiscals 2020 and 2023, and is close to the full incremental debt requirement till fiscal 2025. While the added liquidity support is a breather for the sector, structural improvement targets, which are yet to be detailed, will be key to improving the operational and fiscal health of the discoms. The specific reforms and conditions for availing of the package are to be notified and thus remains a key monitorable

  - Rural Electrification Corporation Ltd (REC) is also set to raise ~69% higher funds through IEBR in fiscal 2022 over revise estimates of fiscal 2021

- Increase in budget outlay for power sector is on account of:
  - Higher budgeted expenditure by central power generation companies (gencos) such as NTPC, National Hydro Power Corporation, and Satluj Jal Vidyut Nigam for coal-based capacity additions of 2-2.5 GW in fiscal 2022 and several hydroelectric power projects in Himachal Pradesh and Jammu & Kashmir
  - Allocation was higher to the Integrated Power Development Scheme (IPDS), which aims to augment T&D infrastructure in urban areas, in fiscal 2022 by ~417% as against revised estimates for fiscal 2021. It is only marginally lower (5%) compared with the actual spend in fiscal 2020, where fiscal 2021 expenditure was pulled down due to slowdown in infrastructure activity. Execution momentum is expected to recover in fiscal 2022, leading to higher allocation on-year
  - Allocation for Smart Grids Scheme with the objective of establishing an institutional mechanism under 'National Smart Grid Mission' to set up an electrical grid with automation, communication, and IT systems. This is expected to enhance T&D infrastructure, aiding loss reduction
  - Expenditure for setting up a separate central transmission utility (CTU) for unbundling of planning and execution arms of Power Grid Corporation of India Ltd

Key schemes with higher budgetary allocations

	Actual FY20	Budgeted FY21	Revised FY21	Budgeted FY22	Growth of BE FY22 over actual FY20	Growth of BE FY22 over RE FY21
Investment in public enterprises	62,636	49,884	50,246	59,991	-4%	19%
IPDS	877	900	300	1,550	72%	417%
Smart grids	6	40	20	40	556%	100%
Creation of CTU	0	0	8	30	-	275%

Source: Union Budget 2021-22, CRISIL Research

- The power distribution segment, which currently is monopolised by state or private discoms, is expected to become competitive because of the entry of multiple distributors in a single area, thus encouraging efficiency, strengthening distribution infrastructure and improving quality of service to consumers
- Higher allocation for IREDA by ~16% will increase liquidity in the sector. Of the Rs 12,696 crore sanctioned in fiscal 2020, Rs 5,948 crore was towards renewable energy (solar, wind and hydro), accounting for ~47% of its sanctioned portfolio
- Higher allocation to SECI (though 100% IEBR) will support funding towards central financial assistance for solar parks (current capacity estimated at ~8 GW) and the payment security fund maintained for projects

in which it is an intermediary. As of December 2020, ~6 GW of solar and ~2 GW of wind projects are operational under SECI, while ~32 GW and ~8 GW, respectively, are under development

- Higher allocation to grid-connected solar is primarily focussed on central financial assistance to solar rooftop and KUSUM scheme. Under this, the Ministry of New and Renewable Energy envisages support to 7.5 GW of grid-connected solar (40% subsidy under solar rooftop programme from the Centre) and for funding towards 30% of subsidy under KUSUM. However, CRISIL expects a large proportion of the allocation to remain unutilised due to slow momentum in both schemes. Capacity addition in rooftop segment was low at ~1 GW in fiscal 2020, with 1.0-1.5 GW expected in fiscal 2021 and 2022 each. Achievement ratio for solar spend also remained only 66% of budgeted for fiscal 2020, and fiscal 2021 RE revised downwards by 46%
- Customs duty on imported inverters has been increased from 5% to 20%. However, imported inverters formed a low share of the overall Indian inverter market (0-10% as on fiscal 2020), due to the presence of several global MNCs and local manufacturers in India. At the current inverter price of $0.15 per Watt, the increase in customs duty will hike import price to $0.18 per Watt (inclusive of 5% GST), or by 14.3%. However, as inverters form only a small 5-6% share of the total project capital cost for a solar utility plant, this sharp increase in customs duty will impact capital cost by just 1-1.5%

Oil and gas — Positive

Key budget proposals

- Pradhan Mantri Ujjwala Yojana to be extended to cover 1 crore more beneficiaries
- Agriculture Infrastructure and Development Cess (AIDC) of Rs 2.5 and Rs 4 per litre on petrol and diesel, respectively
- Rs 14,073 crore budgeted for petroleum-related subsidies
- City gas distribution network to be expanded to 100 additional districts over the next three years
- Independent gas transport system operator to be set up for facilitation and coordination of booking of common carrier capacity in all natural gas pipelines
- Gas pipeline project to be launched in Jammu & Kashmir
- Government to conclude privatisation of Bharat Petroleum Corporation Ltd (BPCL) in fiscal 2022

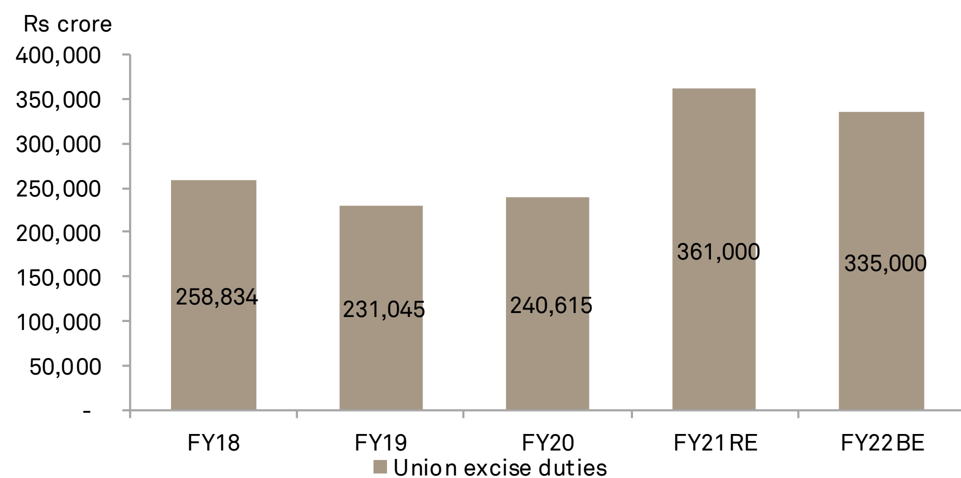
Budget impact

- Additional 1 crore LPG connections in fiscal 2022 will help the government achieve 100% penetration, from 97.5% as on April 1, 2020
- The government has proposed AIDC Cess of Rs 2.5 and Rs 4 per litre on petrol and diesel, respectively. However, at the same time, basic excise duty has been reduced to Rs 1.4 per litre from Rs 2.98 in petrol, and Rs 4 per litre from Rs 4.83 in diesel. Also, special additional excise duty has been reduced to Rs 11 per litre from Rs 12 in petrol, and Rs 8 per litre from Rs 9 in diesel. Thus, we do not expect any change in retail selling price of petrol and diesel, despite the addition of agri cess
- The government has budgeted Rs 14,073 crore for petroleum-related subsidies in fiscal 2022 compared with Rs 39,055 crore in fiscal 2021 (revised budgeted amount). We expect this to adequately cover the

subsidy requirement of Rs 10,000-11,000 crore in fiscal 2022 as per CRISIL estimates assuming crude oil prices range between $50 and 55/bbl in 2021

- Connecting 100 new districts to the city gas distribution network, in addition to 406 districts already covered (comprising 53% of area), will significantly enhance coverage and provide cleaner fuel to customers, in line with the government's objective. Till date, the government has allocated 228 geographical areas covering ~70% of population
- An independent operator will help regulate open-access non-discriminatory access to common carrier capacity in gas pipelines. This, in turn, will ensure transparency as all gas marketers will have equal access to the common carrier part of gas pipelines and will be able to book capacity depending on availability
- Private participation in the refining and marketing sector will increase as a result of privatisation of BPCL. This is also likely to reduce government intervention in the sector

Revenue from union excise duty to decline in fiscal 2022



Note: Excise duty on fuel accounted for ~93% of net union excise duties in FY20
RE: Revised estimate, BE: Budgeted estimate
Source: Budget documents

Housing — Neutral

Key budget proposals

- Additional tax benefit for buyers (Rs 1,50,000 under Section 80EEA) and developers (80-IBA) of affordable houses (up to ticket size of Rs 45 lakh) extended till March 2022
- Budgetary allocation for PMAY Urban up 2.6x to Rs 21,000 crore (RE) in fiscal 2021 over BE; down 62% on-year in fiscal 2022 to Rs 8,000 crore (BE)
- PMAY Gramin expenditure up ~34% in fiscal 2021 to Rs 39,500 crore (RE) over BE; total allocation down 5% to Rs 37,367 crore (BE) in fiscal 2022

Budget impact

- The extension under Section 80EEA would continue to drive affordable housing (up to ticket size of Rs 45 lakh) demand, especially in markets with high inventory, such as MMR and Delhi-NCR, and benefit 40-50% of under-construction projects in the top 10 cities. Additional deduction of Rs 1.5 lakh will benefit home buyers for around first five years (when interest outgo is higher than Rs 2 lakh). The extension under Section 80-IBA will continue to provide profit-linked tax exemption to developers
- **PMAY Urban** witnessed spending of Rs 15,209 crore over April-January 2021. With this, the cumulative spending on the scheme (since fiscal 2016) till March 2021 is estimated to be Rs 0.9 lakh crore. However, the central government will need an additional Rs 0.87 lakh crore over the next two years to achieve the targeted completion of 11 million houses. With a budgetary allocation of Rs 8,000 crore for fiscal 2022, dependence on IEBR for financing through Housing and Urban Development Corporation will be crucial and monitorable
- **PMAY Gramin** to witness central government spending of Rs 39,500 crore during fiscal 2021RE, 34% higher than fiscal 2021BE because of doubling of IEBR allocations. With this, the cumulative spending on the scheme (since fiscal 2017) till March 2021 is estimated to be Rs 1.45 lakh crore. However, the central government will need an additional Rs 0.85 lakh crore in fiscal 2022 to achieve the targeted completion of 29.5 million houses. With total allocation of Rs 37,367 crore for fiscal 2022, progress on completion will remain monitorable

Agriculture and allied sectors — Neutral

Key budget proposals

- At Rs 1,23,018 crore, allocation to the Department of Agriculture, Cooperation and Farmers' Welfare (DACFW) is down 8% from BE fiscal 2021, but up 5% from RE fiscal 2021
  - Allocation for the Pradhan Mantri Kisan Samman Nidhi (PM-Kisan) Scheme of Rs 65,000 crore, similar to RE fiscal 2021
- Allocation to the Department of Rural Development (DoRD) up 9% from BE fiscal 2021 , but down 33% from RE fiscal 2021
- Fertiliser subsidy at Rs 80,011 crore, up 12% from BE fiscal 2021 but down 41% from RE fiscal 2021
- Rural Infrastructure Development Fund (RIDF) under National Bank for Agriculture and Rural Development (NABARD) pegged at Rs 40,000 crore, up 34% from BE fiscal 2021
- Allocation to the Department of Food and Public Distribution budgeted at Rs 2,53,974 crore, 108% higher than BE 2020-21, but 42% lower than RE
- Agricultural credit target increased 10% to Rs 16.5 lakh crore
- Corpus of the Micro Irrigation Fund created last fiscal under the NABARD doubled to Rs 10,000 crore
- Agri cess on top 3 imported edible oils, palm, soybean and sunflower; base import duty, however, is reduced
- Rs 700 crore budgeted for the formation of 10,000 new farmer producer organisations (FPOs), against Rs 500 crore BE fiscal 2021 . The amount is a 2.8x increase over RE fiscal 2021 of Rs 250 crore

- Allocation for the scheme to augment ethanol production capacity doubled to Rs 300 crore (Rs 150 crore last fiscal); aims to achieve 10% ethanol-petrol blending rate by 2022 and 20% by 2025

Allocation under various government schemes is as under:

S No	Schemes	BE 2021 (Rs crore)	RE 2021 (Rs crore)	BE 2022 (Rs crore)
1	Food subsidy	1,15,570	4,22,618	2,42,836
2	PM-Kisan	75,000	65,000	65,000
3	Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)	61,500	1,11,500	73,000
4	Pradhan Mantri Gram Sadak Yojana (PMGSY)	19,500	13,706	15,000
5	Pradhan Mantri Fasal Bima Yojana (PMFBY)	15,695	15,306	16,000
6	Pradhan Mantri Krishi Sinchai Yojana (PMKSY)	4000	2563	4000
7	Pradhan Mantri Kisan Sampada Yojana	1081	750	700
8	Pradhan Mantri Annadata Aay Sanrakshan Abhiyan (PM_AASHA)	500	300	400

Budget impact

- Total budget allocation for DACFW and DoRD, though unchanged from BE fiscal 2021 , is down 19% from RE fiscal 2021 due to pandemic-led one-time allocations, which are expected to normalise in the next fiscal
- Fertiliser subsidy in RE fiscal 2021 was ~90% higher than BE. Fiscal 2022 to start with almost zero fertiliser rollover subsidy. However, timeliness of disbursement of additional subsidy will remain a key monitorable. The subsidy in BE fiscal 2021 is up 12% (over BE fiscal 2021) and should be sufficient to take care of subsidy needs of the sector for the coming fiscal
- A 34% increase in RIDF is likely to aid structural development, especially in irrigation, rural roads, rural bridges and animal husbandry
- Cess for agriculture infrastructure should structurally aid in development of farm-gate infrastructure, which should benefit the agriculture sector in the medium to long run
- Spending on distribution of food grains under the Public Distribution System (PDS) increased 3.59x this fiscal over BE fiscal 2021 due to the pandemic. A 108% increase in allocation (over BE fiscal 2021) next fiscal implies higher supply via the PDS will continue, supporting the government's procurement of paddy and wheat, and sustaining farmer income. However, the spending is 42% lower than RE fiscal 2021
- MGNREGA provides income support to 34% of rural households. Therefore, a 19% increase in allocation over BE fiscal 2021 to positively impact rural income. However, the allocation is ~36% lower than RE fiscal 2021 due to one-time support provided last fiscal to increase rural employment during the pandemic
- Allocation for the PMGSY is down 23% from fiscal 2021, which is in line with the decline in achievement targets
- Import duty on crude palm oil reduced from 27.5% to 15%. However, agri cess levied is 17.5%, effectively leading to a 5% increase in the net import duty for the product. This is likely to push up imports of refined

palm oil, thereby negatively impacting domestic edible oil refiners. As for crude soybean and crude sunflower oil, import duty is reduced from 35% to 15% and agri cess levied is 20%. The net impact on both the oil categories will be zero

- Import duty on prawn feed to rise from 5% to 15%. However, it is not expected to have a major impact on the seafood industry as feed imports account for less than 5% of the total feed consumed in the country
- Higher agriculture credit target to increase institutional credit flow to farmers and animal husbandry, dairy and fisheries sectors
- Increase in allocation towards setting up of 10,000 new FPOs (in addition to the existing 6,000) will cater to ~7% of the farmer population, increasing the proportion of farmers serviced by FPOs to ~11% from 4%
- Sugar millers have been able to achieve 7.5% ethanol blending in sugar season 2020 (October 2019-September 2020). The additional allocation of Rs 150 crore will be extended to mills by way of soft loans with subsidised interest rates (50% of current interest rate or 6%, whichever is lower) and is expected help achieve the 10% ethanol blending rate in sugar season 2021

Automotive and auto components — Neutral

Key budget proposals

- Scrappage policy: Vehicles to undergo fitness tests – passenger vehicles (PVs) that are over 20 years old and commercial vehicles (CVs) that are over 15 years old
- Import duty on specific auto components increased from 7.5%/10% to 15%
- Infrastructure push with an increase in outlay of ~10% vs RE fiscal 2021 under the Ministry of Road Transport & Highways
- Agriculture infrastructure cess of Rs 2.5/litre on petrol and Rs 4/litre on diesel. However, the rise in cess to be offset by reduction in 'special additional' and 'additional' excise duties
- Removal of anti-dumping duty/ countervailing duty (ADD/CVD) and reduction in customs duty on steel
- Rs 18,000 crore scheme to support augmentation of public bus transport services through public-private partnership model to enable private players to finance, acquire, operate and maintain over 20,000 buses
- Customs duty on carbon black (tyre raw material) increased from 5% to 7.5%, but reduced on caprolactam (used to manufacture nylon tyre cord fabric, a tyre raw material) from 7.5% to 5%

Parameter	BE 2021 (Rs Crore)	RE 2021 (Rs Crore)	BE 2022 (Rs Crore)
FAME	693	318	757

Note: FAME- Faster Adoption and Manufacturing of (Hybrid and) Electric Vehicle

Source: CRISIL Research

Budget impact

- PVs over 20 years old are quite limited in the population, while more incentives would be needed to promote scrapping of CVs over 15-years. For example, incentives of over Rs 1 lakh would be needed for a medium commercial vehicle (MCV, 18.5-tonne truck) in addition to the scrap value, for transporters to

scrap their 15-year and older MCV (MCVs have a high share in 15 year and older population). Without an incentive, we do not see the scheme providing impetus to CV sales

- The higher import duty for select auto components is in line with the sharper focus on localisation and the recently introduced Production-Linked Incentive scheme. Given that average localisation for automobile OEMs is ~90%, only those with lower localisation, especially the large car and high-end SUV makers (representing <15% of PV sales), are expected to see cost escalation
- CV demand, especially for tippers, will get some support from construction-led infrastructure push in sectors such as roads and urban infrastructure
- Lower ADD/CVD on steel to reduce metal prices, leading to lower input costs for automobile OEMs
- Considering average state transport undertaking purchases (including hire purchases) over the past five years at ~10,500 units, a Rs 18,000 crore outlay to acquire and operate over 20,000 buses should support bus demand. It is important to understand the modalities of the scheme and the duration over which the procurement will be spread
- Change in customs duty on tyre raw materials to lead to a net increase in tyre input cost. This is expected to be passed through

Healthcare and wellbeing — Positive

Key budget proposals

- Budgetary allocation towards health and well-being increased to Rs 2.23 lakh crore in fiscal 2022
- Provision of Rs 35,000 crore for Covid-19 vaccines in fiscal 2022

Ministry/Department	Actuals FY20 (Rs crore)	BE FY21 (Rs crore)	RE FY21 (Rs crore)	BE FY22 (Rs crore)
Healthcare	**64,331**	**67,112**	**82,928**	**122,124**
D/o Health & Family Welfare	62,397	65,012	78,866	71,269
D/o Health Research	1,934	2,100	4,062	2,663
Vaccination				35,000
FC Grants for Health				13,192
Well-being	**21,928**	**27,340**	**19,946**	**101,722**
M/o AYUSH	1,784	2,122	2,322	2,970
D/o Drinking Water & Sanitation	18,264	21,518	17,024	60,030
Nutrition	1,880	3,700	600	2,700
FC Grants for Water and Sanitation				36,022
Overall (Health and wellbeing)	**86,259**	**94,452**	**102,874**	**223,846**

Source: Budget document

Budget impact

- Government healthcare expenditure will now cover preventive and curative health and well-being. Of this, healthcare-related measures will account for 71% of the budgeted expenditure of Rs 94,452 crore for fiscal 2021. A large part of the remaining spend on well-being will be contributed by the Jal Shakti Abhiyan
- Revised core healthcare expenditure for fiscal 2021 is 24% higher than BE fiscal 2021 on account of a Rs 13,857 crore allocation towards a one-time Covid-19 Emergency Response and Health System Preparedness Package. BE for fiscal 2022 is 47% higher than RE fiscal 2021 on account of a Rs 35,000 crore allocation for Covid-19 vaccination and financial grant of Rs 13,192 crore to states for health-related expenditure. While details on vaccine funding are awaited, a large part is expected to be spent on expanding the coverage and developing related infrastructure, including cold storage. If the entire corpus of Rs 35,000 crore is spent on vaccine procurement (with limited spend on vaccine-related infrastructure), the initiative can cover almost 50% of the population (~590 million people with two doses, each procured at Rs 300 centrally by the government). Vaccines currently account for only 2-3% of the domestic pharma market and the increased allocation will boost the market share and revenue of pharmaceutical manufacturers. The increased devolution of funds to states will further strengthen healthcare infrastructure and services at the grassroots level
- On the well-being front, under the Ministry of Jal Shakti, allocation for drinking water and sanitation is up 3.5 times compared with RE fiscal 2021. Provision of potable drinking water via functional tap connections to rural households will impact health and hygiene positively

Steel — Positive

Key budget proposals

- Capital expenditure budgeted to increase 34.5% to Rs 5.54 lakh crore
- Anti-dumping duty (ADD) on import of certain steel products temporarily revoked
- Customs duty on flat, long and semi-finished steel slashed to a uniform 7.5%
- Customs duty on steel scrap (including stainless) exempted up to March 2022, versus 2.5% earlier

Budget impact

- Boost to the infrastructure segment (25-30% of steel consumption) will increase demand for the metal in fiscal 2022
- Reduction of import duty on finished and semi-finished steel products to 7.5% from 10-12.5% is expected to have limited impact on the industry. Landed cost of imported steel will likely fall 2-4% (keeping all other variables constant), while domestic steel prices are already at a discount of 6-8% to landed price. Also, 55% of India's imports are from the free trade agreement economies of Japan and Korea
- ADD has been temporarily withdrawn on niche steel products – alloy steel (bars and rods), high speed steel of non-cobalt grade, aluminium/zinc-coated flat steel and stainless steel flat products. Currently, 2-3 million tonne (35-40% of finished steel imports) of these products are imported. This move could increase imports marginally or lead to domestic price cuts if the landed cost of imported steel falls below the local

price of the mentioned categories. However, a major impact is unlikely as imports are due to lack of local production and not price differential

- Exemption of customs duty on imports will reduce landed scrap cost for electric-arc/ induction furnace players by 2.5%, thereby expanding their spreads. Typically, steel scrap is used by these secondary steel producers in a 40-45% blending mix along with sponge and pig iron

Annexure

Commodity	Rate of customs duty		Rate of excise duty		Impact	Remarks
	From	To	From	To		
Flat steel	10% / 12.5%	10%				~65% of total flat steel is imported from FTA economies of Japan and Korea, thereby limited impact. The move will lead to a 2-4% fall in the landed cost of steel for non-FTA countries. However, given domestic prices are at a 6-8% discount, the impact would be limited
Long steel	10%	7.5%				India merely imports <2% of its total long steel consumption, thereby limiting any major impact
Semis	10%	7.50%				No major impact, as semi-finished steel imports are almost negligible
Steel scrap	2.50%	nil				India imports 7-8 million tonnes of scrap for steel manufacturing by EAF/IF players, the cost of which will reduce 2-4%.
Copper scrap	5.0%	2.5%				Reduction in customs duty on copper imports is unlikely to impact primary copper producers in India, as it is largely met through imports due to a deficit in the domestic market
Gold & silver	12.5%	7.5%				Imposition of agriculture infrastructure and development cess of 2.5% will offset some portion of the 5% import duty reduction, leading to an overall ~2-3% fall in gold prices. Customs duty has been increased on synthetic cut and polished stones and cut and polished zirconia, leading to a marginal cost increase for players
Synthetic cut & polished stones	7.5%	15%				
Cut & polished cubic zirconia	7.5%	15%				
Petrol (unbranded)			*Rs. 2.98 per litre **Rs. 12 per litre	*Rs. 1.4 per litre **Rs. 11 per litre		Imposition of agriculture infrastructure and development cess at Rs 2.5 per litre to offset the impact of the reduction in excise duty, resulting in no change in RSP
Diesel (unbranded)			*Rs. 4.83 per litre **Rs. 9 per litre	*Rs. 1.8 per litre **Rs. 8 per litre		

*Note: * Basic excise duty ** Special additional excise duty*

Commodity	Rate of customs duty		Rate of excise duty		Impact	Remarks
	From	To	From	To		
Medical devices^	Health cess of 5%	Nil				This exemption is available only to medical devices imported by international organisations and diplomatic missions, and hence, would not have a significant impact on the industry
Naphtha	4%	2.5%				India is a net exporter of naphtha. Therefore, the decline in import duty will not have any major impact
Carbon black	5%	7.5%				Domestic carbon black players would be adding capacities over the next 3-4 years. Hence, the rise in import duty will protect the domestic industry from cheaper imports
Specified list of auto-components	7.5% / 10%	15%				Increase in import duty is in line with the government's focus to promote higher localisation and the recently introduced production linked incentive scheme. However, automobile OEMs with a lower level of localisation (those having a product portfolio of large cars and high-end SUVs) are expected to see an increase in costs
Caprolactam	7.5%	5.0%				Caprolactam is used to manufacture nylon tyre cord fabric used in manufacturing tyres. Reduction in duty will be a pass-through benefit for tyre OEMs
Carbon Black	5.0%	7.5%				Carbon Black is a key component in manufacturing tyres (~24% of tyre cost). Higher customs duty would increase the cost for tyre OEMs, which is expected to be passed through.
PCBA for charger/ adapter	10%	15%				Import of chargers/adapters have been reducing by an average -20% y-o-y since fiscal 2018, as India's domestic manufacturing capability has been rising. The increase in import duty for parts would further boost manufacturing across the value chain.
Other input parts of charger/ adapter	**Nil**	**2.50%**				

**Note: Import duties for mobile components such as PCBA, Camera Module & Connectors already exist to the tune of 10 -20% announced in FY19 and FY20 budgets under the Phased Manufacturing Programme (PMP)*

Commodity	Rate of customs duty		Rate of excise duty		Impact	Remarks
	From	To	From	To		
Crude palm oil	27.50%	15%				Import duty on crude palm oil has been reduced from 27.5% to 15%, however, agriculture infrastructure development cess levied is 17.5%, leading to a 5% increase in the net import duty for oil. This will lead to higher imports of refined palm oil, negatively impacting domestic edible oil refiners
Crude soybean oil	35%	15%				Imposition of agriculture infrastructure development cess at 20% to offset the impact of the reduction in customs duty, resulting in no change in customs duty
Crude sunflower oil	35%	15%				
Prawn feed	5%	15%				Import duty on prawn feed to rise from 5% to 15%. However, this would not have a major impact on the seafood industry, as feed imports account for less than 5% of the total feed consumed
Fish feed in pellet form	5%	15%				
Apples	70%	15%				Import duty on apples declined to 15% from 70%. While cess on apple imposed at 35% , leading to an overall decline of 25% in the customs duty. Price of imported apple could be lower, and, in turn, negatively impact domestic apple prices
Peas	50%	10%				Customs duty on peas is reduced from 50% to 10%, while reduction in import duty is not expected to change prices of imported peas, as the government imposed 40% Agriculture Infrastructure and Development Cess (AIDC) on the same.
Kabuli chana	60%	10%				Customs duty on kabuli chana is reduced from 60% to 10%. Reduction in import duty is expected to lower prices of imported kabuli chana, as the government has imposed only 30% Agriculture Infrastructure and Development Cess (AIDC) on the same.
Bengal gram	60%	10%				Basic customs duty on bengal gram is reduced from 60% to 10%. However, the reduction in import duty is not expected to change prices of imported gram, as the government imposed 50% AIDC on the same value
Chick peas	60%	10%				Basic customs duty on chick peas is reduced from 60% to 10%. However, the reduction in import duty is not expected to lead to change in prices, as the government has imposed 50% AIDC on the same.

Commodity	Rate of customs duty		Rate of excise duty		Impact	Remarks
	From	To	From	To		
Lentils	30%	10%				Customs duty on lentils has been reduced from 30% to 10%, reduction in import duty is not expected to change prices of imported lentils, as the government imposed 20% AIDC on the same
Maize bran	Nil	15%				Customs duty on maize bran is increased to 15%, which would negatively impact imports, and is expected to push domestic maize prices benefiting farmers
De-oiled rice bran cake	Nil	15%				Customs duty on rice bran cake is increased to 15%, which would negatively impact imports, and will push domestic prices aiding farmer price realisation
Cotton (not carded or combed)	5%	5%				Cotton and cotton waste, which is currently under nil rate of import duty, will be subjected to 10% import duty through the budgetary announcement comprising 5% basic customs duty and another 5% AIDC on cotton. This is expected to create higher demand for domestic cotton and lead to an increase in cotton crop prices for farmers

Notes

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It is India's foremost provider of ratings, data, research, analytics and solutions, with a strong track record of growth, culture of innovation and global footprint.

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