

UNION BUDGET

Analysis of Union Budget 2014-15, Economic Research Department

July 2014



The FY15 Budget has made a bold attempt to reignite growth through a bottom-up approach. The Budget has something in it for all, with primary emphasis on Bijli, Sadak, Pani, Makan and Souchalay. There are also tax concessions for *Aam Aadmi* class and empowering women. The Budget has also attempted to give a thrust to investment in agriculture and manufacturing. The Budget has taken a number of initiatives for the banking sector. The provision to allow banks to issue long term bonds without the precondition of CRR/SLR is a big positive for the infrastructure sector and will alleviate the ALM mismatches on banking book. Also, the move to increase the limits on section 80C from ₹1 lakh to ₹1.5 lakh will also provide a boost to the declining financial savings of the households.

On the whole, the budget has brought back the focus on fiscal consolidation process, with the fiscal deficit estimated at 4.1% in FY15, with estimated tax buoyancy at 1.4. We believe, this is an ambitious target, and challenges remain in overhauling the current subsidy regime.



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FOREWORD

The new Government, in nearly six weeks' time had, managed to carve out a budget that addresses concerns of all segments of the society. An attempt has been made to address basic issues, i.e. Bijli, Sadak, Pani, Makan and Souchalay (BSPMS).

Allowing banks to issue long term bonds without recourse to statutory pre-emption (CRR/SLR) for financing infrastructure is a positive step. Allowing infrastructure loans for longer periods, matching the life of the asset (5X25 structure) is a big positive. It will prevent undue stress in repayment of infrastructure loans and will also reduce user charges. Bank consolidation in a time bound manner is a welcome move. Setting up of 6 more DRTs is expected to help banks in recovering dues particularly when asset quality is the top priority of banks. Increasing the limits on section 80C from ₹1 lakh to ₹1.5 lakh will also provide a boost to financial savings.

The new Government's focus on infrastructure, will possibly lead to a faster growth in productivity rather than consumption. This will help creating a lower and stable inflation regime. This in conjunction with the recent Railways initiative to transport perishable goods in AC compartments will address some of the supply side logistics.

The Budget has announced opening of more IITs and IIMs in the country which augurs well for education loan given by banks. Introduction of uniform KYC norms and inter-usability of the KYC records across the entire financial sector may provide a big relief to banks that find it difficult to meet KYC requirements.

The thrust to infrastructure, manufacturing and skill development will help support growth in the economy. Overall the Budget is growth enhancing and has laid down a very credible roadmap for economic reform with emphasis on both physical and social capital formation. There is a clear recognition that reforms must now be accelerated incrementally rather than through big bang announcements.

Arundhati Bhattacharya

KEY HIGHLIGHTS OF THE UNION BUDGET 2014-15

The highlights of the Union Budget 2014-15, presented by Finance Minister Arun Jaitley in Parliament today:

- Admitting a daunting task, Government has retained the Interim Budget fiscal deficit target of 4.1% for FY15 and estimated at 3.6% for FY16 and 3.0% for FY17.
- Income-tax exemption limit raised by ₹50,000 to ₹2.5 lakh. Further, to boost financial savings exemption limit for investment in financial instruments under 80C raised to ₹1.5 lakh from ₹1 lakh and investment limit in PPF raised to ₹1.5 lakh from ₹1 lakh. Kisan Vikas Patra to be reintroduced, National Savings Certificate with insurance cover to be launched.
- The nominal growth rate of GDP is expected to be 13.4% for FY15, same as Interim Budget. This translates into a 7.4% inflation rate, assuming a 6.0% GDP projection in the next fiscal.
- FDI limit in defence manufacturing and insurance hiked to 49% from 26% currently. Pledges to provide necessary tax changes to introduce real estate investment trusts and infrastructure investment trusts.
- Total borrowings requirement for FY15 is budgeted at ₹6,00,000 crore. Net market borrowings at ₹4,61,204 crore budgeted to finance nearly 86.8% of the fiscal deficit in FY15 (89.5% in FY14). This implies that Government may continue with its reliance on borrowings through short-term papers in FY15.
- The expenditure on subsidies for food, fertilizer & fuel has been pegged at ₹2,51,397 crore (2.0% of GDP), slightly higher than the revised estimates of ₹2,45,452 crore in FY14.
- Tax revenue for the current fiscal pegged at ₹9,77,258 crore (against FY14 (RE) of ₹8,36,026 crore), projected to grow at 16.9% in FY15, on the back of estimated tax buoyancy at 1.4.
- The Budget has proposed time bound programme as Financial Inclusion Mission to be launched on 15 August this year with focus on the weaker sections of the society. Banks to be encouraged to extend long term loans to infrastructure sector. Banks to be permitted to raise long term funds for lending to infrastructure sector with minimum regulatory pre-emption such as CRR, SLR and Priority Sector Lending (PSL). Government in favour of consolidation of PSU banks.
- Deduction limit on interest on loan for self-occupied house raised to ₹2 lakh from ₹1.5 lakh. ₹4,000 crore set aside to increase flow of cheaper credit for affordable housing to the urban poor.
- Disinvestment target of ₹63,425 crore. We believe the current buoyant condition in the equity market will be extremely conducive for achieving the target.
- For the development of Skill India, 5 IIMs and 5 IITs to be opened.
- A sum of ₹7,060 crore is provided in the current fiscal for the project of developing “one hundred Smart Cities”.

MACRO VIEW

The FY15 Budget has made a bold attempt to reignite growth through a bottom-up approach. The Budget has something in it for all, with primary emphasis on Bijli, Sadak, Pani, Makan and Souchalay (BSPMS). There are also tax concessions for *Aam admi* class and empowering women. The Budget has also attempted to give a thrust to investment in agriculture and manufacturing. For development of rural infrastructure, the RIDF corpus has been increased to ₹25,000 crore. Also, Warehouse Infrastructure Fund and Long Term Rural Credit Fund with ₹5,000 crore allocation has been created. This augurs well for declining long term investment in agriculture. The MSME sector which provides employment opportunities to 60 million persons and contributes to 45% of India's manufacturing output has been proposed an allocation of ₹10,000 crore.

The Budget has taken a number of initiatives for the banking sector. Allowing banks to issue long term bonds without recourse to statutory pre-emption (CRR/SLR) for financing infrastructure is a positive step. Allowing infrastructure loans to be given for longer periods matching the life of the asset (5X25 structure) is a big positive. It will prevent undue stress in repayment of infrastructure loans and will also reduce user charges. Bank consolidation in a time bound manner is a welcome move. Setting up of 6 more DRTs is expected to help banks in recovering dues particularly when asset quality is the number one priority of banks. Increasing the limits on section 80C from ₹1 lakh to ₹1.5 lakh will also provide a boost to financial savings. It may be noted that the household contributes to 75% of total savings.

Increase in tax exemption limit for individuals and senior citizens will provide opportunity for banks to mobilize more deposits particularly when deposit growth of banks has fallen to low levels. However, increase in PPF limit and the step to encourage small savings will ensure healthy competition with bank deposits. Tax rebate for self-occupied house and continuation of interest subvention for agriculture credit will provide opportunity for banks to push credit to these two sectors particularly when credit growth is as low as 13% in the current financial year.

The change in MSME definition and the setting up of a fund to provide equity capital to this sector is expected to boost productivity and scale and is a positive for Banks. The benefits given to manufacturing sector as well as tax holiday for power producers etc. are positives and will impact banks' portfolio of such accounts positively.

The Budget has announced opening of more IITs and IIMs in the country which augurs well for education loan given by banks. Introduction of uniform KYC norms and inter-usability of the KYC records across the entire financial sector may provide big relief to banks and this may act as an enabler for financial inclusion.

The steps to increase the housing loan exemption from ₹1.5 lakh to ₹2 lakhs will act as a feel good factor for the *Aam Aadmi* class and provide an incentive to banks to provide more credit to the retail sector.

The new Government commensurate focus on infrastructure, will possibly led to a faster growth in productivity rather than consumption. This will help in a lower and stable inflation regime. This in conjunction with the recent Railways initiative to transport perishable goods in AC compartments will address supply side logistics.

Increase in FDI in defence and insurance sectors is a welcome move and as per the market expectations will go a long way in development of these sectors. Insurance penetration in India is lowest amongst BRICS nations. In case the Government can quickly clear the pending insurance bill through the Parliamentary process, it would open big opportunities for development of the insurance sector.

On the whole, the budget has brought back the focus on fiscal consolidation process, with the fiscal deficit estimated at 4.1% in FY15. We believe, this is an ambitious target, and challenges remain in overhauling the current subsidy regime. The target for net tax revenue at ₹9.77 lakh crore has in-built tax buoyancy at 1.4, whereas the historical tax buoyancy has been around 1.12-1.15. The disinvestment target at ₹63,425 crore looks reasonable and pragmatic. Interestingly, the Government has indications that 4.1% fiscal deficit target may not be sacrosanct and it will remain a challenge to maintain it at such levels. We believe that the nominal GDP projection in the budget at FY15 at 13.4% presupposes a GDP growth of 6%, and inflation at 7.4% (Economic Survey GDP estimates at 5.4%-5.9%). On the hindsight, it looks difficult to achieve such a nominal GDP target and a more conservative target may be at 12.5%. In such a case, fiscal deficit as a percentage of GDP may be higher at 4.2% for the current fiscal. However, the huge cash balances may act as a counterbalancing factor in such a case.

The Budget has acknowledged that there are impediments to growth and such may be removed in a time bound manner. Specifically, with the Government intent on reaching a fiscal deficit target at 3% by FY17, we need to be continuously vigilant and watchful. Overall, the thrust to infrastructure, manufacturing and skill development will help support growth in the economy. The Budget is growth enhancing and has laid down a very credible roadmap for economic reform with emphasis on both physical and social capital formation. There is a clear recognition that reforms must be accelerated incrementally rather than through big bang announcements.

THE BSPMS THRUST: *BIJLI-SADAK- PANI- MAKAN-SAUCHALAYA*

Economic policy has often to strike a delicate balance between the two goals of economic growth and human welfare which need not necessarily be contradictory. In this Budget the Finance Minister has efficiently managed the goal of human welfare by providing enough resources.

- ◆ Electrification in the rural areas has been given priority. ₹500 crore is allocated for “Deen Dayal Upadhyaya Gram Jyoti Yojana” for feeder separation to augment power supply to the rural areas.
- ◆ Connecting rural areas and cities through road infrastructure has also been emphasized in the budget. ₹14,389 crore has been provided for Pradhan Mantri Gram Sadak Yojna (PMGSY).
- ◆ Providing safe drinking water through community water purification plants has been outlined in next 3 years. ₹3600 crore has been set aside for National Rural Drinking Water.
- ◆ Government has also made provision for the housing. Allocation for National Housing Bank has been increased to ₹8000 crore to support Rural housing. Mission on Low Cost Affordable Housing anchored in the National Housing Bank to be set up.
- ◆ Slum development to be included in the list of Corporate Social Responsibility (CSR) activities to encourage the private sector to contribute more. Sanitation issue is being take care with “Swachh Bharat Abhiyan” to cover every household with sanitation facility by the year 2019.

JOB MODEL IN BUDGET

As per NSSO data, for the 12 year period ended FY12, the total number of jobs created were 76 million, of which the number of people employed in agriculture declined by 6 million, whereas in industry, it increased by 17 million, and the residual in the service sector. This clearly implies that there is an urgent need to create jobs in agriculture and manufacturing. In the Budget, wage employment would be provided under MGNREGA through works that are more productive, asset creating and substantially linked to agriculture and allied activities.

Table 1: Budget at a glance (₹ Crore and as a % of GDP)

	FY12	FY13	FY14 (RE)	FY15 (Interim Budget)	FY15 (BE)	FY14 (% Gr)	FY15 (Interim Budget)/FY14 (% Gr)	FY15 (BE)/FY14 (% Gr)	Decadal CAGR % (Decade ended FY14)
Revenue Receipts	751437	877613	1029252	1167131	1189763	17.3	13.4	15.6	14.4
% of GDP	8.3	8.7	9.1	9.1	9.2				
Tax Revenue (net to centre)	629765	740256	836026	986417	977258	12.9	18.0	16.9	15.7
% of GDP	7.0	7.3	7.4	7.7	7.6				
Non-Tax Revenue	121672	137357	193226	180714	212505	40.7	-6.5	10.0	10.1
% of GDP	1.4	1.4	1.7	1.4	1.7				
Capital Receipts	568918	532754	561182	596083	605129	5.3	6.2	7.8	12.7
% of GDP	6.3	5.3	4.9	4.6	4.7				
Recoveries of Loans	18850	16267	10802	10527	10527	-33.6	-2.5	-2.5	-17.7
% of GDP	0.2	0.2	0.1	0.1	0.1				
Other Receipts	18088	25890	25841	56925	63425	-0.2	120.3	145.4	21.7
% of GDP	0.2	0.3	0.2	0.4	0.5				
Borrowings and other liabilities	531980	490597	524539	528631	531177	6.9	0.8	1.3	17.3
% of GDP	5.9	4.9	4.6	4.1	4.1				
Total Receipts	1304365	1410367	1590434	1763214	1794892	12.8	10.9	12.9	13.6
% of GDP	14.5	13.9	14.0	13.7	13.9				
Non-Plan Expenditure	891990	996742	1114902	1207892	1219892	11.9	8.3	9.4	13.2
% of GDP	9.9	9.9	9.8	9.4	9.5				
On Revenue Account of which,	812049	914301	1027689	1107781	1114609	12.4	7.8	8.5	14.8
% of GDP	9.0	9.0	9.1	8.6	8.7				
Interest Payments	273150	313169	380066	427011	427011	21.4	12.4	12.4	13.0
% of GDP	3.0	3.1	3.3	3.3	3.3				
On Capital Account	79941	82441	87214	100111	105283	5.8	14.8	20.7	2.7
% of GDP	0.9	0.8	0.8	0.8	0.8				
Plan Expenditure	412375	413625	475532	555322	575000	15.0	16.8	20.9	15.3
% of GDP	4.6	4.1	4.2	4.3	4.5				
On Revenue Account	333737	329208	371851	442273	453503	13.0	18.9	22.0	17.4
% of GDP	3.7	3.3	3.3	3.4	3.5				
On Capital Account	78639	84417	103681	113049	121497	22.8	9.0	17.2	9.8
% of GDP	0.9	0.8	0.9	0.9	0.9				
Total Expenditure	1304365	1410367	1590434	1763214	1794892	12.8	10.9	12.9	13.8
% of GDP	14.5	13.9	14.0	13.7	13.9				
Revenue Expenditure	1145785	1243509	1399540	1550054	1568111	12.5	10.8	12.0	15.4
% of GDP	12.7	12.3	12.3	12.1	12.2				
Of Which, Grants for creation of Capital Assets	132582	115513	121283	146581	168104	5.0	20.9	38.6	
% of GDP	1.5	1.1	1.1	1.1	1.3				
Capital Expenditure	158580	166858	190894	213160	226781	14.4	11.7	18.8	5.9
% of GDP	1.8	1.6	1.7	1.7	1.8				
Revenue Deficit	394348	365896	370288	382923	378348	1.2	3.4	2.2	18.8
% of GDP	4.4	3.6	3.3	3.0	2.9				
Effective Revenue Deficit	261766	250383	249005	236342	210244	-0.6	-0.1	-15.6	
% of GDP	2.6	2.5	2.2	1.8	1.6				
Fiscal Deficit	515990	490597	524539	528631	531177	6.9	0.0	1.3	17.2
% of GDP	5.7	4.9	4.6	4.1	4.1				
Primary Deficit	242840	177428	144473	101620	104166	-18.6	-0.3	-27.9	-271.3
% of GDP	2.7	1.8	1.3	0.8	0.8				
Memoranda									
Nominal GDP	9009722	10113281	11355073	12839952	12876653				
Growth rate(%)	15.7	12.2	12.3	13.1	13.4				
Source: Union Budget documents & SBI Research									

Source: Union Budget documents & SBI Research

Table 2: Direct and Indirect taxes (₹ crore and as a % of GDP)

	FY12	FY13	FY14 RE	FY15 (Interim Budget)	FY15 (BE)	FY14 (% Gr)	FY15 (Interim Budget)/ FY14 (% Gr)	FY15 (BE)/FY14 (% Gr)	Decadal CAGR % (Decade ended FY14)
Gross Tax Revenue	889177	1036235	1158906	1379199	1364524	11.8	19.0	17.7	16.0
% of GDP	9.9	10.2	10.2	10.7	10.6				
Direct Tax									
Corporation Tax	322816	356326	393677	451005	451005	10.5	14.6	14.6	18.9
% of GDP	3.6	3.5	3.5	3.5	3.5				
Taxes on Income Other than Corporation Tax	164485	196512	236194	306466	278275	20.2	29.8	17.8	19.0
% of GDP	1.8	1.9	2.1	2.4	2.2				
Indiect Tax									
Customs	149328	165346	175056	201314	201819	5.9	15.0	15.3	13.1
% of GDP	1.7	1.6	1.5	1.6	1.6				
Union Excise Duty	144901	176535	179538	200585	207110	1.7	11.7	15.4	6.8
% of GDP	1.6	1.7	1.6	1.6	1.6				
Service Tax	97509	132601	164927	215478	215973	24.4	30.7	31.0	31.3
% of GDP	1.1	1.3	1.5	1.7	1.7				
Source: Union Budget documents & SBI Research									

Source: Union Budget documents & SBI Research

GOVERNMENT BORROWINGS

The total borrowings requirement for FY15 at ₹6,00,000 crore is marginally higher as compared to ₹5,96,083 crore in Interim Budget. Consequently, Net market borrowings is being revised to ₹4,61,204 crore as compared to budgeted amount of ₹4,57,321 crore in interim budget. Moreover there has been no change in short term borrowings.

We do not envisage any pressure on the yield curve owing to the Government Borrowing requirement. Attractive real interest rates and benign liquidity condition will also be conducive for bank's deposit mobilisation. Although there may be a possibilities of minor increase in fiscal deficit, but there would not be any increase in borrowing.

DISINVESTMENT

In the last few years economic slowdown followed by global financial crisis has made Government revenue collection a challenging task. In addition to that counter cyclical expenditure and burden arising from necessary subsidy allocation has aggravated the situation.

However, one must bear in mind that disinvestment proceeds ideally do not form the part of the Consolidated Funds of India (CFI). The Government in November, 2005 has constituted 'National Investment Fund' (NIF), to be maintained outside the CFI into which the proceeds from disinvestment of Central PSU would be channelized. The objective of NIF was that 75% of the annual income of the fund will be used to finance selected social sector schemes and residual 25% to meet capital investment requirements of profitable and revivable PSUs in order to enlarge their capital base to finance expansion/diversification. The corpus of Fund is of a permanent nature and income generated from the investments made out of NIF is alone available for meeting the objectives of NIF. However from April 2009 onwards, till March 2013 the disinvestment proceeds were being used in full for funding capital expenditure of the following social sector programmes of the Government namely - Mahatma Gandhi National Rural Employment Guarantee Scheme (MNREGA), Indira Awas Yojana, Rajiv Gandhi Gramin Vidyutikaran Yojana, Jawaharlal Nehru National Urban Renewal Mission, Accelerated Irrigation Benefits Programme and Accelerated Power Development and Reform Programme.

Table 3: Expenditure Trends (₹ crore and as a % of GDP)

	FY12	FY13	FY14(RE)	FY15 (Interim Budget)	FY15 (BE)	FY14 (% Gr)	FY15 (Interim Budg- et)/ FY14 (% Gr)	FY15 (BE)/ FY14 (% Gr)	Decadal CAGR % (Decade ended FY14)
Non Plan Expenditure	891990	996742	1114902	1207892	1219892	11.9	8.3	9.4	13.2
% of GDP	9.9	9.9	9.8	9.4	9.5				
Interest payments	273150	313169	380066	427011	427011	21.4	12.4	12.4	13.0
% of GDP	3.0	3.1	3.3	3.3	3.3				
Defence Expenditure	170913	181776	203672	224000	229000	12.0	10.0	12.4	11.6
% of GDP	1.9	1.8	1.8	1.7	1.8				
Subsidies	217941	257079	255516	255708	260658	-0.6	0.1	2.0	21.0
% of GDP	2.4	2.5	2.3	2.0	2.0				
Othr Non Plan Expenditure	229986	244718	275648	301173	303223	12.6	9.3	10.0	10.0
% of GDP	2.6	2.4	2.4	2.3	2.4				
Plan Expenditure	412375	413625	475532	555322	575000	15.0	16.8	20.9	15.3
% of GDP	4.6	4.1	4.2	4.3	4.5				
on Revenue Account	333737	329208	371851	442273	453503	13.0	18.9	22.0	17.4
% of GDP	3.7	3.3	3.3	3.4	3.5				
on capital Account	78639	84417	103681	113049	121947	22.8	9.0	17.6	9.8
% of GDP	0.9	0.8	0.9	0.9	0.9				
Total Expenditure	1304365	1410367	1590434	1763214	1794892	12.8	10.9	12.9	13.8
% of GDP	14.5	13.9	14.0	13.7	13.9				
on Revenue Account	1145785	1243509	1399540	1550054	1568111	12.5	10.8	12.0	15.4
% of GDP	12.7	12.3	12.3	12.1	12.2				
on capital Account	158580	166858	190894	213160	226781	14.4	11.7	18.8	5.9
% of GDP	1.8	1.6	1.7	1.7	1.8				

Source: Union Budget documents & SBI Research

Disinvestment in the Current Scenario

The Finance Minister has budgeted a disinvestment target of ₹63,425 crore, compared to ₹56,925 crore estimated in the Interim Budget presented in February. We believe the current buoyant condition in the equity market will be extremely conducive for achieving this target. Our estimates suggest that if Government make an attempt to bring down free float of listed PSU companies to 75% from existing level, generating around ₹60,000 crore will not be an impossible task.

Table 4: Government Borrowings (₹ crore and as a % of GDP)

	FY12	FY13	FY14RE	FY15 (Interim Budget)	FY15 (BE)	FY14 (% Gr)	FY15 (Interim Budget)/FY14 (% Gr)	FY15 (BE)/ FY14 (% Gr)	Decadal CAGR % (Decade ended FY14)
Gross Market Borrowings	509796	558000	563911	597000	600000	1.1	5.9	6.4	24.2
% GDP	5.7	5.5	5.0	4.6	4.7				
Less repayments	73585	90644	95009	139679	138795	4.8	99.6	46.1	12.0
% GDP	0.8	0.9	0.8	1.5	1.1				
Net Market Borrowings	436211	467356	468902	407321	461205	0.3	-13.1	-1.6	29.4
% GDP	4.8	4.6	4.1	3.2	3.6				

Source: Union Budget documents & SBI Research

The policy governing disinvestment should however strike a balance between the short run and long run benefits of asset sale by government. The intended beneficiaries of disinvestment process, particularly the retail investors, must be ensured that the pricing process is reliable. The end deployment of funds through asset sale must be used for creation of new physical assets so that any possible loss of dividends due to reduced ownership is compensated by higher tax revenues in future.

Table 5: Subsidy Trends (₹ crore and as a % of GDP)									
	FY12	FY13	FY14 (RE)	FY15 (Interim Budget)	FY15 (BE)	FY14 (% Gr)	FY15 (Interim Budget)/ FY14 (% Gr)	FY15 (BE)/ FY14 (% Gr)	Decadal CAGR % (Decade ended FY14)
Total Subsidies	217941	257079	255516	255708	260658	-0.6	0.1	2.0	21.0
% of GDP	2.4	2.5	2.3	2.0	2.0				
Fertiliser Subsidy	70013	65613	67972	67970	72970	3.6	0.0	7.4	17.5
% of GDP	0.8	0.6	0.6	52.9	0.6				
Food Subsidy	72822	85000	92000	115000	115000	8.2	25.0	25.0	15.2
% of GDP	0.8	0.8	0.8	0.9	0.9				
Petroleum Subsidy	68484	96880	85480	63427	63427	-11.8	-25.8	-25.8	45.3
% of GDP	0.8	1.0	0.8	0.5	0.5				
Interest Subsidies	5049	7270	8175	8463	8313	12.4	3.5	1.7	34.6
% of GDP	0.1	0.1	0.1	0.1	0.1				
Other Subsidies	1573	2316	1890	847	947	-18.4	-55.2	-49.9	10.7
% of GDP	0.0	0.0	0.0	0.0	0.0				

Source: Union Budget documents & SBI Research

BANKING SECTOR

The capital requirement for banks under Basel-III is estimated to be over ₹5 lakh crore. To maintain 51% shareholding the Government would be required to bring matching capital of ₹2.40 lakh crore. As the Government has not made any budgetary provisions, possibly it will allow banks to raise capital by increasing the shareholding of the people. Alternately, the Government may bring down their holding below 51% without losing controlling stake as recommended by the Nayak Committee.

For banks the budget has many attractive provisions. Apart from the provisions mentioned above, RBI will create a framework for licensing small banks and other differentiated banks. Differentiated banks serving niche interests, local area banks, payment banks etc, are expected to meet credit and remittance needs of small business, unorganized sector, low income households, farmers and migrant work force. Although this is positive step from the point of view of financial inclusion however, differentiated banks will intensify competition in banking sector.

AGRICULTURE

To provide institutional finance to landless farmers, it has been proposed to provide finance to 5 lakh joint farming groups of "Bhoomi Heen Kisan" through NABARD. A target of ₹8 lakh crore has been set for agriculture credit during FY15. The NABARD finance to Bhoomi Heen Kisan is expected to provide impetus to financial inclusive drive.

INSURANCE

FDI cap in the insurance sector will be increased up to 49% from 26% with full Indian management and control through the FIPB route. In 2000, Indian insurance sector was opened up for private players and a number of global players entered to the market through joint venture with Indian peers. In the last 13 years, these companies have explored many new distribution channels, has done product innovations to boost business. However, most of the private players have accumulated losses, not due to inefficiency but due to the nature of this business. The move to increase FDI limit from 26% to 49%, will help the insurers to expand their foot print in the country. Additionally, in our view, the increase in FDI limit in the insurance may receive ₹5,000-6,000 crore of foreign investment in the sector, apart from deeper product expertise and better underwriting skills.

CAPITAL MARKET

The Government has indicated that the ongoing process of consultations with all the stakeholders on the enactment of the Indian Financial Code and reports of the Financial Sector Legislative Reforms Commission (FSLRC) will be completed. The Government in close consultation with the RBI will also put in place a modern monetary policy framework.

The Government will also introduce a special small savings instrument to cater to the requirements of educating and marriage of the Girl Child. This is a welcome move in the current social scenario in the country.

A National Savings Certificate with insurance cover to provide additional benefits for the small saver will be introduced. In the PPF Scheme, annual ceiling will be enhanced to ₹1.5 lakh p.a. from ₹1 lakh at present.

MSME

The MSME sector has been provided with a special impetus in the Union Budget. Apart from the steps outlined above, an entrepreneur friendly legal bankruptcy framework will also be developed for MSMEs to enable easy exit. A nationwide 'District level Incubation and Accelerator Programme' would be taken up for incubation of new ideas and providing necessary support for accelerating entrepreneurship.

TAX MEASURES

The Finance Minister has proposed a number of measures to revive the economy, promote investment in manufacturing sector and rationalize tax provisions so as to reduce litigation as well as to address the problem of inverted duty structure in certain areas. With such moves, the direct tax proposals involve a sacrifice of ₹22,200 crore while indirect tax proposal will yield a revenue of ₹7,725 crore.

I. DIRECT TAXES - INDIVIDUAL INCOME TAX

- ◆ Personal Income-tax exemption limit raised from ₹2 lakh to ₹2.5 lakh in the case of individual taxpayers, below the age of 60 years. For senior citizens, the tax exemption limit raised from ₹2.5 lakh to ₹3 lakh.
- ◆ No change in the tax rates or surcharge for both the corporates and the individuals, HUFs, firms etc. The education cess to continue at 3%. Government will revive the revised direct taxes code (DTC) taking into account the comments of stakeholders.
- ◆ Investment limit under section 80C of the Income-tax Act raised from ₹1 lakh to ₹1.5 lakh. In further relief to the depositors, under the PPF Scheme, annual investment ceiling enhanced to ₹1.5 lakh p.a. from ₹1 lakh p.a.
- ◆ Exemption on housing loans interest on self-occupied property increased from ₹1.5 lakh to ₹2 lakh.

These moves, is likely to be benefit about two crore tax payers of small, marginal and senior citizens. We estimate that the average tax savings for salaried class may be as much as ₹13,000, purely on account of increase in exemption limit and enhancement in deductions.

II. INDIRECT TAXES - INDUSTRY IMPACT

a) CHEMICALS

To encourage new investment and capacity addition in the chemicals and petrochemicals sector, basic customs duty has been reduced.

Impact: Indian chemical industry is a much diversified industry with more than 70,000 commercial products. It accounted for about 13% of the gross value added by the industry segment and 13% of India's total exports. FMCG companies engaged in the manufacture of soap would ensure some savings on their raw material cost bill. This would benefit consumers also in the form of low price.

b) ELECTRICAL & ELECTRONIC ITEMS

Several steps have been taken to boost domestic production of electronic items and reduce our dependence on imports. These include imposition of basic customs duty on certain items, exemption from SAD on inputs/components for PC manufacturing, imposition of education cess on imported electronic products for parity etc.

Impact: According to Government estimates, India's electronics import bill is expected to exceed that of oil by 2020, which makes it imperative to push manufacturing of electronics locally.

c) STEEL

To give an impetus to the stainless steel industry, basic customs duty on imported flat-rolled products of stainless steel increased from 5% to 7.5%.

Impact: Hike in Customs duty is a positive for steel manufacturing companies which are facing severe competition from the Chinese, Japanese and Korean steel manufacturers that were dumping their inventory in the Indian market.

d) GREEN ENERGY

To develop renewable energy, various items have been exempted from excise duty. To finance Clean Environment initiatives, Clean Energy Cess has been increased from ₹50 per tonne to ₹100 per tonne. Concessional basic customs duty of 5% extended to machinery and equipment required for setting up of a project for solar energy production and compressed biogas plants (Bio-CNG).

Impact: These measures presage a positive direction to enhance energy security through renewable sources, with both large-scale projects and distributed projects and transmission lines connecting green energy corridors to load centres.

e) COAL

Anthracite coal, bituminous coal, coking coal, steam coal and other coal to attract 2.5% basic customs duty and 2% CVD to eliminate all assessment disputes and transaction costs associated with testing of various parameters of coal. Basic customs duty on metallurgical coke increased from Nil to 2.5% in line with the duty on coking coal.

Impact: The imposition of a 2.5% duty on metallurgical coke which is produced from coking coal, in line with the duty on coking coal may affect the steel industry which imports substantial quantities of coking coal.

f) GEMS & JEWELLERY

To prevent mis-use and avoid assessment disputes, basic customs duty on semi-processed, half cut or broken diamonds, cut and polished diamonds and coloured gemstones rationalized at 2.5%. To encourage exports, pre-forms of precious and semi-precious stones exempted from basic customs duty.

Impact: The gems and jewellery sector contributes about 6-7% to the country's GDP, apart from large scale employment generations and foreign exchange earnings. These measures will help in realize the potential as early as possible.

g) REAL ESTATE AND HOUSING

Incentives for Real Estate Investment Trusts (REITS) has been allowed complete pass through for the purpose of taxation. A modified REITS type structure for infrastructure projects as the Infrastructure Investment Trusts (INVITS). These two instruments to attract long term finance from foreign and domestic sources including the NRIs. The FM has also announced to build Low Cost Affordable Housing anchored in the National Housing Bank. A sum of ₹4000 crore is provided for NHB from the priority sector lending shortfall with a view to increase the flow of cheaper credit for affordable housing to the urban poor segment.

Impact: The proposals announced in Budget for the realty sector are expected to improve liquidity for cash-short real estate companies, improve demand for housing and increase the supply of affordable houses. The immediate benefit would be to companies with a large portfolio of leased assets.

h) TEXTILES

To develop and promote handloom products and carry forward the rich tradition of handlooms of Varanasi, Government has provided ₹50 crore in the budget to set up a Trade Facilitation Centre and a Crafts Museum. Further to develop, textile mega-cluster at Varanasi and six more at Bareilly, Lucknow, Surat, Kutch, Bhagalpur and Mysore, a sum of ₹500 crore has been provided.

Impact: Textiles sector is the second largest provider of employment after agriculture. It contributes about 14% to industrial production, 4% to the GDP, and 17% to the country's export earnings. Budget announcement indicate (i) incentivisation of exports (readymade garments exporters to benefit from enhancement of duty free drawback entitlement for imports) (ii) promote investments by way of investment allowance @ 15% for manufacturing units investing more than ₹25 crore in new plant and machinery (iii) Reduction in customs duty on some reformat / feedstock inputs to benefit some synthetic yarn manufacturers (iii) Easy Exit – develop an entrepreneur friendly bankruptcy framework for SMEs.

i) METALS

The export duty on bauxite increased from 10% to 20%.

Impact: The total resources of bauxite in India stands at 3,290 million tonnes (MT). India occupies sixth place in the world with a share of 3.19% of world reserves. Hike in export duty will constraint bauxite exports and improve raw material availability for these companies.

j) FOOD PROCESSING

The food processing industry is one of the largest industries in India and is ranked fifth in terms of production, consumption, export and expected growth. Presently, the Indian food processing industry accounts for 32% of the country's total food market. Relaxation in excise duty will give impetus to this industry.

k) FERTILIZER

New Urea Policy would be formulated.

Impact: The move will help in partially solving the working capital issue for the fertilizer manufacturers.

l) FOOTWEAR

To boost footwear industry, in the budget, Government has reduced excise duty from 12% to 6% on footwear of retail price between ₹500 to ₹1000 per pair.

Impact: India is the second largest global producer of footwear after China, accounting for 13% of global footwear production of 16 billion pairs. Nearly 95% of its production goes to meet its own domestic demand. Reduction in excise duty would further help in production and consumption and facilitate India as a global leader in footwear market.

m) TOURISM

- ◆ Facility of Electronic Travel Authorization (e-Visa) to be introduced in phased manner at nine airports in India.
- ◆ Countries to which the Electronic Travel authorisation facility would be extended would be identified in a phased manner.
- ◆ ₹500 crore will be provided for developing 5 tourist circuits around specific themes.

Impact: The announcement of e-Visas at nine key airports would bring destination India into the spotlight. It will also create an immediate window of opportunity for the upcoming inbound season.

MINING

- ◆ Major incentive by way of tax break in construction of slurry pipes for transportation of iron ore
- ◆ Normalisation of import duties on all forms of imported coal removes delays and procedural issues that importers face - this measure in some way indicates using coal for existing power plants and conservation of resources.
- ◆ Import of low quality coal would also enable setting up of new coal washeries.
- ◆ Amending the Mines and Mineral Development and Regulation (MMDR) Act 1957 likely to resolve the existing impasse on sharing of royalties (royalties are generally raised every three years)
- ◆ Encourage the participation of private parties in mining and seeks to empower state governments to set up special courts for the speedy trial of offences relating to illegal mining
- ◆ Government will take a view on the MMDR Bill 2011 that provides for sharing of 26% profits with tribal and project-affected people from mining activity
- ◆ Revision of rate of royalty on minerals to be taken up on request from the states - Royalties on iron ore to be hiked from 10% to 15% with the intention of passing the incremental benefits to states.
- ◆ More challenging issues to be taken up through legislative and structural changes, once the budget roll-out for the sector takes effect.

Impact: The mining sector has been under controversy for the past few years. Any major sweeping changes may put the sector under lot of flak at state level and hence, winning the confidence of the states was primary to considerations in undertaking changes in the budget.

INFRASTRUCTURE

- ◆ An institution to provide support to mainstreaming PPPs called 3PIndia to be set up with a corpus of ₹500 crore.
- ◆ Bank lending norms to infrastructure and facilitating setting up infra trusts positive for improved access to funding for a sector which needs high quantum of long term financing.
- ◆ Coal linkage rationalization and provision of coal for standing projects and easier mining laws are key for reviving the sector but steps on the ground more important.
- ◆ Extension of 80 IA is positive, though MAT relief would have been useful for sector which is going through financial stress. Extension of 80 IA to power sector is also a positive.
- ◆ Measures to encourage banks to raise long-term loans with flexible structuring, allocation of substantive funds for highways, ports, smart cities, augmenting warehousing capacity, developing convention centres, investments in affordable housing etc., encouraging PPPs in various sectors, steps to build institutional capacity such as PPP institute, plans to revive special economic zones (SEZs) and encouraging a stable and predictable tax regime.
- ◆ Steps such as increasing the limit for Public Provident Fund and the FDI limit in insurance are also expected to boost long-term capital which may be channelized into the infrastructure sector.
- ◆ Government initiative to kick-start the investment cycle through 65% increase in capital investment target of PSUs to ₹2.48 lakh crore. The fund allocations towards infrastructure projects like highways, rural roads, ports, gas grid, Jal Marg Vikas and urban infrastructure will also boost capital expenditure.
- ◆ Setting up of 16 new ports and laying down rail infrastructure to connect ports with hinterland will decongest the ports.

Impact: India has emerged as the largest PPP market in the world with over 900 projects in various stages of development. The above measure would develop more nuanced and sophisticated models of contracting and also develop quick dispute redressal mechanism. As the 12th Five Year plan estimates employment elasticity in construction sector at 1.13, hence Government measures to boost infrastructure would have significant impact on employment generation.

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