बैंक ऑफ़ बड़ौदा Bank of Baroda

UNION BUDGET 2021-22

01 February 2021

Big push for investments

The FM surprised by increasing FY21/22 fiscal deficit to 9.5%/6.8% of GDP from 4.6% of GDP in FY20. Spending in FY21 is 28.4% higher than FY20 led by subsidies, MNREGA, health and capex. Capex has got a boost even in FY22 with a 26.2% increase. This along with setting up of an infra bank will boost India's infra sector. Two PSBs and an insurance company were added to disinvestment list. While equity markets rallied, bond yields inched up on gross borrowing of Rs 12.1tn. We expect yields to increase further in FY22.

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Fiscal deficit at 9.5% in FY21: To cushion the impact of pandemic, the Centre increased its fiscal deficit to 9.5% of GDP in FY21 (RE) compared with 4.6% of GDP in FY20. Spending has been increased to Rs 34.5tn in FY21 (RE) (17.7% of GDP) compared with Rs 26.9tn in FY20 (13.2% of GDP). Higher spending is attributed to subsidies, interest pay-out, health, MNREGA and capex.

FY22 revenue estimates achievable: After a decline of 5.5% in gross tax collections in FY21 (RE), tax collections are estimated to increase by 16.7% in FY22 (BE). The increase is led by direct taxes which are estimated to go up by more than 22% on the back of nominal GDP growth of 14.4% and a low base. In addition, non-tax collections are estimated to increase by 15.4% with pick-up in dividends and 5G auction. Disinvestment receipts are estimated to increase to Rs 1.75tn from Rs 320bn in FY21 (RE).

Capex spending in focus in FY22: Centre's capex is estimated to increase to 2.3% of GDP in FY21 (RE) from 1.7% of GDP in FY20. This will further increase to 2.5% of GDP in FY22 (BE). More importantly, the Centre has allocated Rs 200bn for setting up a National infra Bank with ambition of an asset base of Rs 5tn over 3 years. This implies a large push in infra spending in coming years. In addition, public sector banks will be able to off-load bad debts to asset reconstruction company to be set up next year.

Fiscal Deficit at 6.8% in FY22: The revenue estimates for FY22 look credible. However, the elevated gross and net borrowing in FY21 and now at Rs 12.1tn and Rs 9.2tn respectively in FY22 (BE) will put upward pressure on yields. Centre is reducing short-term and NSSF borrowing in FY22. Short-term yields have already moved up after RBI began normalisation of reverse repo operations. Given the fiscal impulse, we don't see any policy rate cut in FY22.

KEY HIGHLIGHTS

- Investments, capex and asset monetisation key themes of FY22 Budget.
- Fiscal deficit for FY21/FY22 estimated at 9.5%/6.8% of GDP.
- Gross/net borrowings in FY22 estimated at Rs 12.1tn/Rs 9.2tn.

Counter cyclical Budget

Investment revival key theme

The Budget surprised positively on the extent of fiscal impulse to GDP. Expenditure to GDP ratio in FY21 (RE) is estimated to increase to 17.7% of GDP from 13.2% of GDP in FY20. Within this, capital spending to GDP ratio is estimated to increase to 2.3% of GDP in FY21 (RE) from 1.7% in FY20. Capital spending is estimated to increase to 2.5% of GDP in FY22 (BE) and thus drive economic recovery.

While expenditure to GDP ratio increased, tax to GDP ratio fell to 9.8% of GDP from 9.9% of GDP led by lower direct tax collections. Indirect tax collections are estimated to increase in FY21 (RE) on account of higher excise collections. At the same time, disinvestment and other non-tax revenues have been far lower in FY21.

However, the spending undertaken by the government in this and next year will impart a positive fiscal impulse and thus drive tax and non-tax collections higher next year. We now expect real and nominal GDP growth to be higher than our initial estimate of 10.5% and 14% respectively.

Thus tax to GDP ratio is estimated to increase to 9.9% of GDP in FY22 (BE). We believe these estimates are credible and achievable. In addition, disinvestment receipts are estimated at Rs 1.75tn which can also be achieved given the buoyant capital markets.

Along with spending increase, the Budget has continued on the reform agenda by including two public sector banks and one insurance company for disinvestment/ strategic sale. A National Bank for Financing Infrastructure and Development has been earmarked Rs 200bn with ambition of creating an asset pool of Rs 5tn over next 3 years. This will be structurally positive in financing government's infra pipeline and reducing risk on bank balance sheets. For public sector banks, the Budget was even more positive as it has set the ball rolling for creation of an Asset Reconstruction and Management Company to dispose of bad debts along with additional recap of Rs 200bn.

Healthcare and well-being segment has received a large allocation across ministries at Rs 2.24tn in FY22 (BE) compared with Rs 945tn in FY21 (BE). For agriculture sector, the government has rejigged certain duties and cesses including excise on petrol and diesel to fund India's agriculture infrastructure.

We believe the Budget is a continuation of reform process outlined with reduction in corporate tax rate, PLI scheme for 13 manufacturing sectors and now higher allocation to infrastructure sector along with creation of an infra DFI.

Revival in both direct and indirect taxes in FY22

With an underlying recovery in economic activity, Budget assumes sharp rebound in direct tax collections at Rs 11.1tn (higher by 22.4%) in FY22 compared with a decline of 13.8% in FY21 (RE) at Rs 9.1tn. Both corporate and income tax collections are likely to see a pull back. Corporate tax collections are estimated to increase by 22.6% to Rs 5.5tn after a decline of 19.9% in FY21 (RE) to Rs 4.5tn. Income tax collections are also estimated to increase by 22.2% to Rs 5.6tn in FY22 after a decline of 6.8% in FY21 (RE) at Rs 4.6tn.

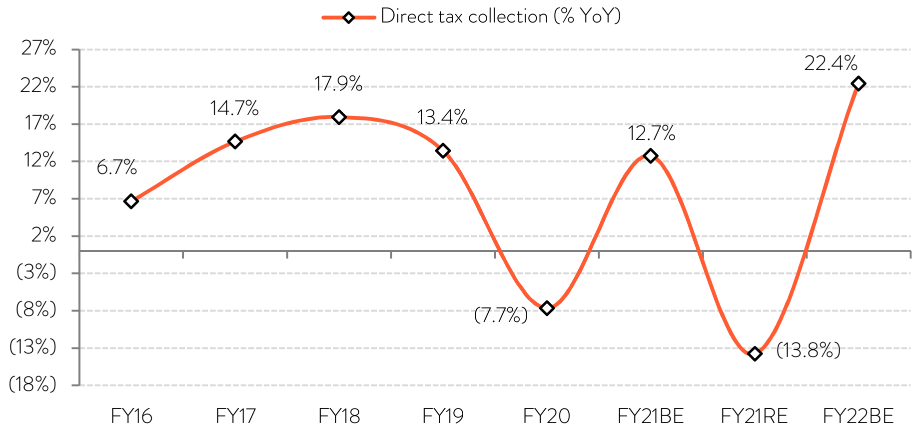
Even indirect tax collections are likely to see a revival led by GST and customs. Indirect tax collection are estimated to increase by 11.4% in FY22 (BE) to Rs 11tn from Rs 9.9tn (3.6% increase over FY20) in FY21 (RE). GST collections are estimated to jump by 22.3% to Rs 6.3tn from Rs 5.2tn in FY21 (RE). GST collections in Dec'20 increased by 8% to Rs 1.2tn. The current run-rate implies the CGST collections are achievable.

The increase in domestic demand implies higher imports and thus customs duties. At the same time, the government has rationalised duty structure to remove inverted duty structure and support make in India. Customs collections are estimated to increase by 21.4% to Rs 1.36tn in FY22 (BE) compared with an increase of 2.5% in FY21 (RE).

Excise duty collections are likely to increase to Rs 3.61tn in FY21 (RE) from Rs 2.4tn in FY20 on the back of increase in excise duty on petrol and diesel. For FY22 (BE), excise collections are estimated at Rs 3.35tn. The decrease is on account of allocation of excise duty of Rs 2.5/litre on petrol and Rs 4/litre on diesel to agri infrastructure development cess.

As a result of higher direct and indirect tax collections, centre's tax revenues are expected to rise by 16.7% to Rs 22.2tn in FY22 (BE) from Rs 19tn in FY21RE. This compares with nominal GDP growth of 14.4% pegged in the FY22 (BE). Centre's net tax collections are estimated to increase by 14.9% to Rs 15.5tn in FY22 (BE) following a decline of 0.9% in FY21 (RE) to Rs 13.4tn.

FIG 1 – DIRECT TAX COLLECTIONS TO BOUNCE BACK



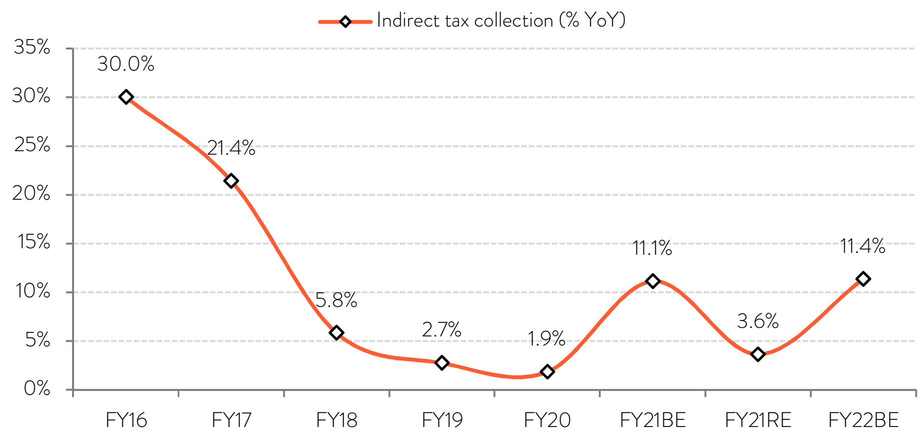
Source: Budget Documents, Bank of Baroda Research | Note: BE-Budget Estimates; RE-Revised Estimates

FIG 2 – INDIRECT TAX COLLECTIONS

(Rs bn)	FY19	FY20	FY21BE	FY21RE	FY22BE
Customs	**1,178**	**1,093**	**1,380**	**1,120**	**1,360**
Change (%)	(8.7%)	(7.2%)	10.4%	2.5%	21.4%
Union excise duties	**2,310**	**2,406**	**2,670**	**3,610**	**3,350**
Change (%)	(10.9%)	4.1%	7.7%	50.0%	(7.2%)
CGST	4,575	4,941	5,800	4,310	5,300
Change (%)	125.1%	8.0%	12.8%	(12.8%)	23.0%
IGST	289	91	-	-	-
Change (%)	(83.6)	(68.5)	-	-	-
Cess	951	956	1,105	841	1,000
Change (%)	51.9%	0.5%	12.4%	(12.0%)	18.9%
Total GST	**5,816**	**5,987**	**6,905**	**5,151**	**6,300**
Change (%)	31.4%	3.0%	12.8%	(14.0%)	22.3%

Source: Budget Documents, Bank of Baroda Research | Note: BE-Budget Estimates; RE-Revised Estimates

FIG 3 – INDIRECT TAX COLLECTIONS TO ALSO SEE REVIVAL IN FY22



Source: Budget Documents, Bank of Baroda Research | Note: BE-Budget Estimates; RE-Revised Estimates

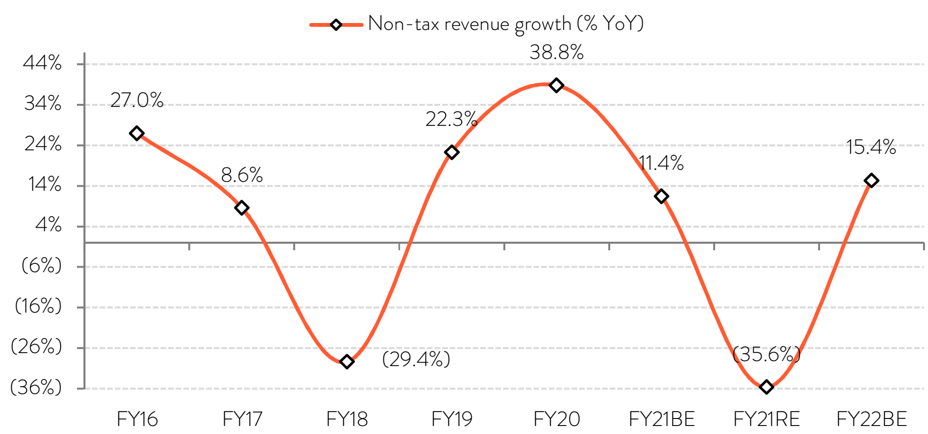
Non-tax revenues to stabilize, Disinvestment target high

Centre's non-tax revenues have been far lower in FY21 (RE) at Rs 2.1tn compared with FY21 (BE) of Rs 3.85tn. The slippage is on account of lower than estimated dividends and profits at Rs 965bn in FY21 (RE) compared with FY21 (BE) of Rs 1.55tn. Even other non-tax revenue is sharply lower.

With an economic recovery underway in FY22, dividends from PSUs are likely to increase to Rs 1.03tn, 7.2% increase over FY21 (RE). Same is the case with other non-tax revenue which is now pegged at Rs 1.24tn on account of 5G auctions.

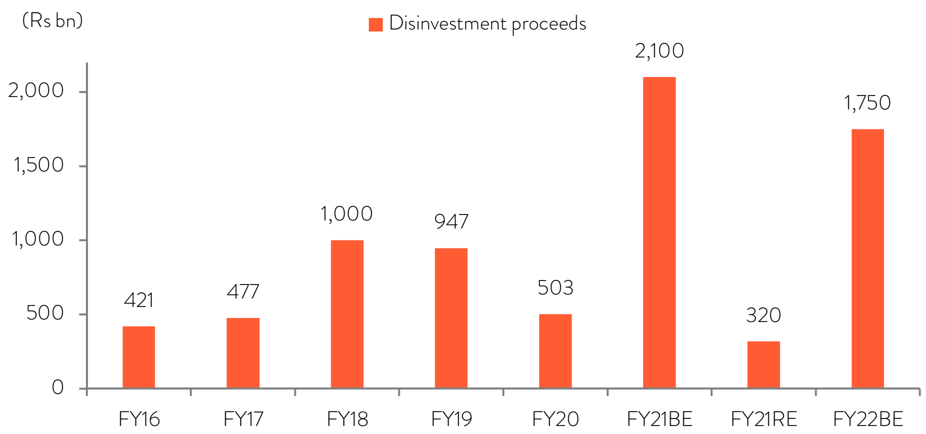
Disinvestment receipts too are estimated to increase to Rs 1.75tn from a low of Rs 320bn in FY21 (RE) on account of disinvestment/ strategic sale of LIC, BPCL, Air India, BEML and two PSBs and one insurance company among others.

FIG 4 – NON-TAX REVENUE GROWTH TO ALSO IMPROVE



Source: Budget Documents, Bank of Baroda Research | Note: BE-Budget Estimates; RE-Revised Estimates

FIG 5 – DISINVESTMENT PROCEEDS TO RECOVER IN FY22



Source: Budget Documents, Bank of Baroda Research | Note: BE-Budget Estimates; RE-Revised Estimates

Expenditure momentum maintained

The Budget completely surprised by increasing FY21 (RE) expenditure to Rs 34.5tn as against Rs 30.4tn in the FY21 (BE). Notably, the spending in FY20 was Rs 26.9tn. Thus the aggregate spending in FY21 (RE) is estimated to be Rs 7.64tn (3.9% of GDP) higher than last year.

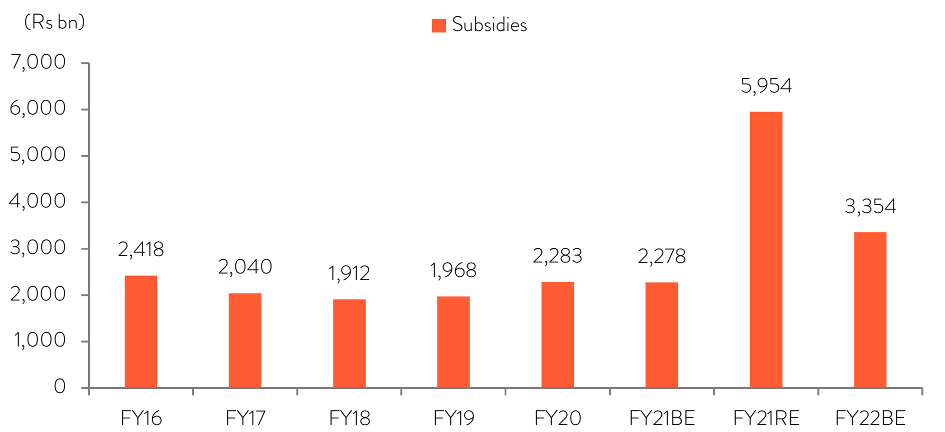
Maximum increase was seen in subsidy pay out on account of food and fertiliser. Food subsidy increased to Rs 4.23tn in FY21 (RE) from Rs 1.09tn in FY20, an increase of Rs 3.13tn (1.6% of GDP). Similarly, fertiliser subsidy too increased by Rs 528bn over FY20 to Rs 1.34tn. The increase in food subsidy can be explained by allocation towards Atmanirbhar scheme to provide food to those impacted most by the pandemic. Overall subsidy is estimated to fall to Rs 3.35tn in FY22 (BE) led by reduction in food, fertiliser and petroleum subsidies.

FIG 6 – FOOD AND FERTILISER SUBSIDIES JUMP IN FY21RE

(Rs bn)	FY19	FY20	FY21BE	FY21RE	FY22BE
Food	**1,013**	**1,087**	**1,156**	**4,226**	**2,428**
% of GDP	0.5%	0.5%	0.5%	2.2%	1.1%
Urea	**706**	**811**	**713**	**1,339**	**795**
% of GDP	0.4%	0.4%	0.3%	0.7%	0.4%
Oil	**248**	**385**	**409**	**388**	**130**
% of GDP	0.1%	0.2%	0.2%	0.2%	0.1%
Total GST	**1,968**	**2,283**	**2,278**	**5,954**	**3,354**
% of GDP	1.0%	1.1%	1.0%	3.1%	1.5%

Source: Budget Documents, Bank of Baroda Research | Note: BE-Budget Estimates; RE-Revised Estimates

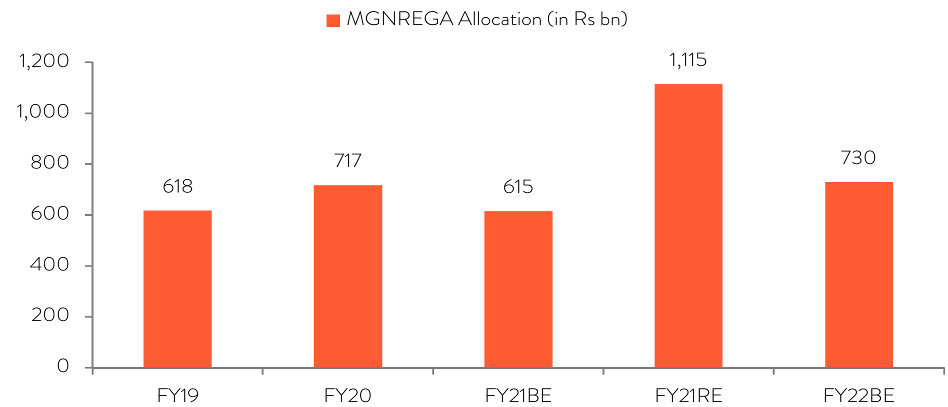
FIG 7 – SUBSIDIES BURDEN TO EASE AFTER SPIKING IN FY21



Source: Budget Documents, Bank of Baroda Research | Note: BE-Budget Estimates; RE-Revised Estimates

Apart from subsidies, spend on rural development has also seen a large increase in FY21 (RE) to Rs 2.16tn led by higher MNREGA allocation of Rs 1.12tn compared with Rs 717bn in FY20. This was done to provide job opportunities to migrants returning from cities. The allocation on MNREGA spend next year has been kept at Rs 730bn as private sector job creation should pick up.

FIG 8 – MNREGA ALLOCATION PICKS UP SHARPLY IN FY21RE

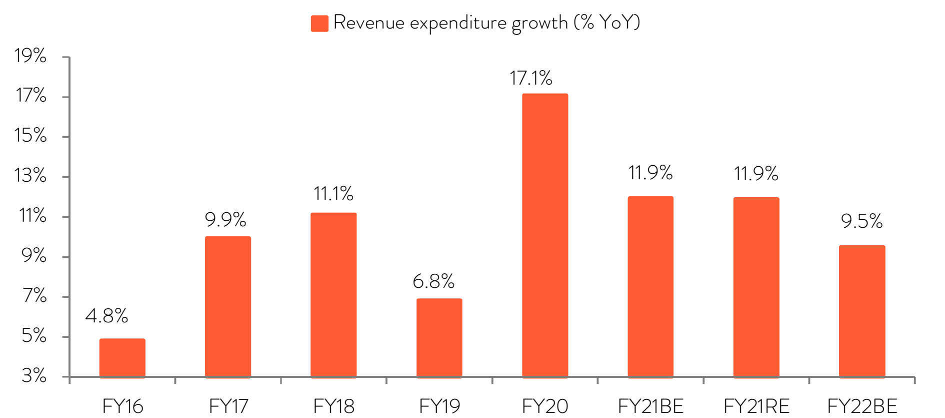


Source: Budget Documents, Bank of Baroda Research | Note: BE-Budget Estimates; RE-Revised Estimates

Transfer to states have also seen a large increase in FY21 (RE) at Rs 2.07tn compared with Rs 1.49tn in FY20. The transfer can be explained by increased allocation towards centrally sponsored schemes. The same is estimated to increase to Rs 2.93tn in FY22 (BE).

The other two areas which have seen an increase in FY21 (RE) are interest payments by Centre and allocation towards transport sector. While the former has increased to Rs 6.92tn in FY21 (RE) from Rs 6.12tn in FY20, the latter has increased to Rs 2.19tn in FY21 (RE) from Rs 1.53tn in FY20. Interest cost of Centre is estimated now to increase to Rs 8.1tn in FY22 (BE), an increase of 16.9% over the last year. This is on account of higher borrowing. At the same time, spending on transport sector is estimated to increase to Rs 2.33tn.

FIG 9 – REVENUE EXPENDITURE TO MODERATE FURTHER



Source: Budget Documents, Bank of Baroda Research | Note: BE-Budget Estimates; RE-Revised Estimates

Thus after the spending push seen in FY21 (RE) the Centre has kept a relatively modest spending target of Rs 34.8tn in FY22 (BE) which is 1% higher than last year's revised estimate.

The overall capital allocation towards IEBR has been reduced to Rs 5.8tn in FY22 (BE) as against Rs 6.5tn in FY21 (RE). This is on account of 32.3% drop in spending by Department of Consumer affairs, food and public distribution, as major allocation has been channelled through the budgetary route now.

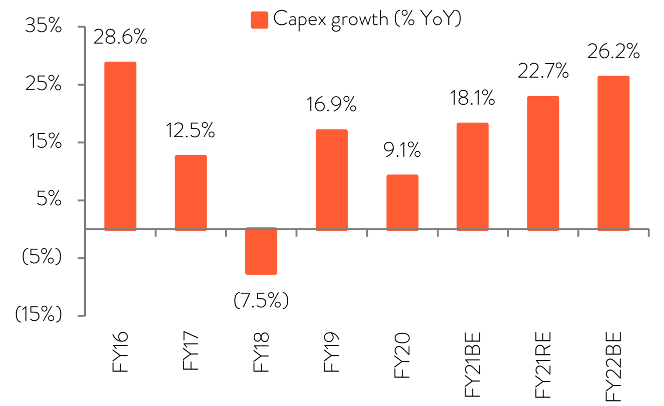
While IEBR capital allocation is lower, the Centre has increased its overall capital spending by Rs 1.15tn in FY22 (BE) to Rs 5.54tn. In fact, this amount is Rs 2.2tn higher than the actual for FY20 at Rs 3.36tn. Thus the emphasis by the government is to spend and revive economic growth by crowding-in private investments.

FIG 10 – MINISTRY-WISE IEBR

(Ministry wise IEBR, Rs bn)	FY19	FY20	FY21RE	FY22BE
Consumer affairs	1643	1778	1518	1027
Defence	0	320	128	56
Petroleum and Natural gas	944	1056	989	1046
Railways	858	802	1324	1078
Road, Transport and Highways	620	750	650	650
Others	2060	1710	1845	1971
Total IEBR	**6126**	**6416**	**6455**	**5828**

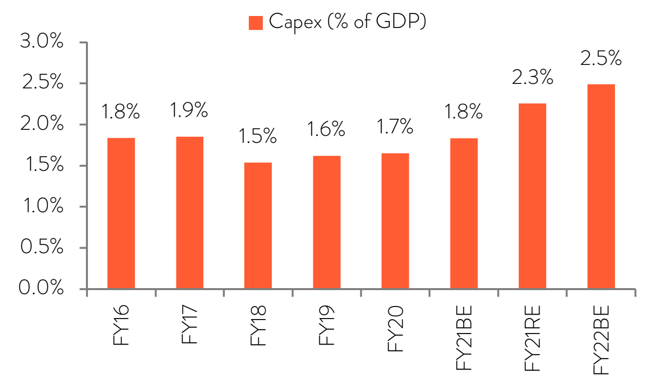
Source: Budget Documents, Bank of Baroda Research | Note: BE-Budget Estimates; RE-Revised Estimates

FIG 11 – CAPEX SPENDING TO GET A BIG PUSH



Source: Budget Documents, Bank of Baroda Research | Note: BE-Budget Estimates; RE-Revised Estimates

FIG 12 – CAPEX AS % OF GDP ALSO TO RISE



Source: Budget Documents, Bank of Baroda Research | Note: BE-Budget Estimates; RE-Revised Estimates

Fiscal deficit at 9.5% in FY21, 6.8% in FY22

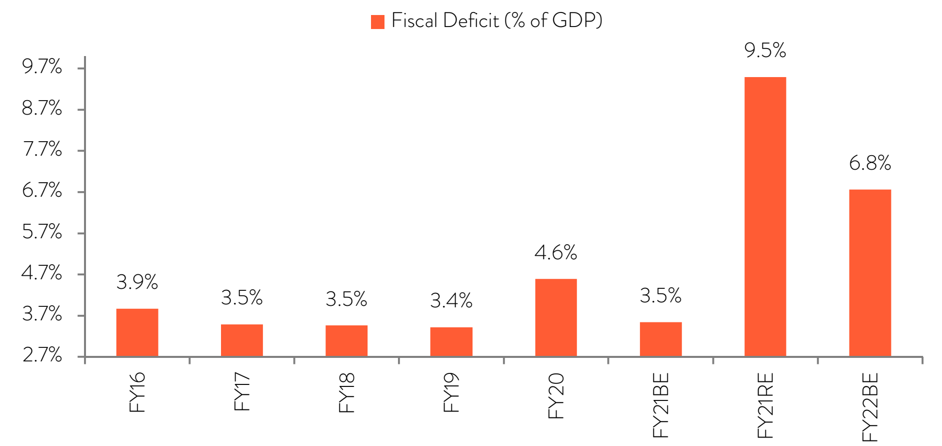
The overall fiscal deficit was a complete surprise at 9.5% of GDP in FY21 (RE) or Rs 18.5tn which is Rs 9.15tn more than FY20 fiscal deficit of Rs 9.34tn. The fiscal expansion is on account of an estimated Rs 7.6tn jump in spending over and above FY20 amount of Rs 26.9tn and lower revenue and disinvestment receipts.

In FY22 (BE), the Centre is now estimating a fiscal deficit of 6.8% of GDP on the back of an economic recovery driving tax and non-tax revenues higher by 15% to Rs 17.9tn. Disinvestment receipts are also estimated to increase to Rs 1.75tn from Rs 320bn in FY21 (RE).

While revenue spending is expected to come down to 29.3tn in FY22 (BE) from Rs 30.1tn in FY21 (RE), capital spending is expected to increase to Rs 5.54tn from Rs 4.39tn, an increase of 26.2%.

Thus the overall fiscal deficit is expected to fall to Rs 15.06tn from Rs 18.5tn in FY21 (RE). While the fiscal deficit has fallen by Rs 3.42tn, Centre's gross borrowing has only fallen by Rs 700bn. The Centre has reduced short-term borrowings by Rs 1.75tn in FY22 (BE) to Rs 500bn and NSSF borrowings by Rs 886bn to Rs 3.9tn. The net borrowing is estimated at Rs 9.2tn in FY22 (BE) as against Rs 10.5tn in FY21 (RE). In addition, the FM announced additional borrowing of Rs 800bn in FY21 itself. Thus bond yields did inch up after the announcement and we believe there is room for further increase in bond yields as credit growth revives in FY22.

FIG 13 – FISCAL CONSOLIDATION BEGINS IN FY22



Source: Budget Documents, Bank of Baroda Research | Note: BE-Budget Estimates; RE-Revised Estimates

Key Highlights of Budget 2021-22

The Budget presented by the FM builds up on the principle of Atmanirbhar Bharat laid out by the Honourable PM. The Budget assumes special importance as it comes against a backdrop of a contraction in domestic growth, which has happened only 3 times earlier. The 6 pillars for the Budget are: 1) Health and wellbeing, 2) physical and financial capital, and infrastructure, 3) inclusive development for aspirational India, 4) reinvigorating human capital, 5) innovation and R&D and 6) minimum government and maximum governance. The key measures announced under these themes are as follows:

Health and wellbeing

The Budget outlay for Health and wellbeing was increased by 137% to Rs 2.24tn in FY22BE from Rs 945bn in FY21BE. The major schemes introduced are:

- Provision of Rs 350bn for Covid-19 vaccine in FY22BE.
- Jal Jeevan Mission (urban) with an outlay of Rs 2.88tn to be implemented over the next 5 years to provide potable water.
- PM Atmanirbhar Swasth Bharat Yojana launched with an outlay of Rs 642bn for the next 6 years. This will be in addition to the National Health Mission. The scheme aims to strengthen existing health institutions and also set up new institutions to detect and cure new and emerging diseases.
- Mission Poshan 2.0 to merge Supplementary Nutrition Programme with Poshan Abhiyan to improve nutritional outcomes in the 112 aspirational districts.
- An outlay of Rs 22bn for 42 urban centres with a population of over 1mn to tackle air pollution. Additionally, a voluntary vehicle scrapping policy was also introduced to phase out old and unfit vehicles.

Infrastructure

- With the objective to achieve US$ 5tn economy, government had launched the Production Linked Incentive (PLI) scheme with a corpus of Rs 1.97tn for 13 sectors over 5 years, beginning in FY22 to promote manufacturing sector.
- Mega Investment Textiles Parks (MITRA) to be launched to attract investment and boost employment. 7 such parks will be setup in next 3 years.
- National Infrastructure Pipeline to be extended to 7,400 projects versus 6,835 earlier.

- In order to cater to the needs of long term debt financing for infrastructure, Government has proposed to set up Development Financial Institution (DFI) with a corpus of Rs 200bn and objective to create a lending portfolio Rs 5tn in a span of 3-years.
- "National Monetisation Pipeline" to be launched to identify brownfield infrastructure assets for monetisation. Setting up of an asset monetisation dashboard to track progress and provide information to potential investors.
- Some of proposals in this regard are: National Highways Authority of India (NHAI) and Power Grid Corporation of India Limited (PGCIL) to monetise their assets worth Rs 5bn and Rs 7bn respectively through InvITs. Dedicated Freight Corridors (DFCs) and next lot of airports to also be monetised. Apart from this, NHAI toll roads, transmission assets of PGCIL, oil and gas pipelines of sate run oil companies, sports stadiums etc. also proposed to be monetised.
- Additional 8,500kms roads and 11,000kms of national highway corridors to be awarded under the Bharatmala Pariyojana.
- 100% electrification of broad-gauge railways routes to be completed by Dec'23.
- To improve urban mobility, a new scheme with an outlay of Rs 180bn has been launched which will support public bus transport services.
- Government to launch a "reforms-based result-linked" power distribution sector scheme with an estimated cost of Rs 3.06tn distributed over 5 years. This will provide assistance to DISCOMS for infrastructure creation linked to financial improvements.
- 7 major ports worth Rs 20bn to be managed on a PPP mode in FY22.
- Government plans to double the recycling capacity of Indian recycling yards from 4.5mn light displacement tonne (ldt) by FY24 and make more yards HKC compliant. This will provide employment opportunities for 0.15mn people.
- Coverage of Ujjwala Scheme to be extended to 10mn more beneficiaries.
- A single Securities Markets Code by 2022 which will include the provision of SEBI Act, 1992, Depositories Act, 1996, Securities Contracts (Regulation) Act, 1956 and Government Securities Act, 2007.
- Government will support the development of World class fintech hub at GIFT IFSC. Further, formation of Permanent institutional framework for corporate bond market has been proposed. It will help in development of bond markets

with the purchase of investment grade debt securities during both stressed as well as normal times.

- For development of commodity market ecosystem, SEBI will be notified as regulator for Warehousing Development and Regulatory Authority.
- FDI limit in insurance sector has been enhanced from 49% to 74%.
- Asset Reconstruction Company Limited and Asset Management Company will be formed to resolve stressed assets problem of PSBs. Additional recapitalization of Rs 200bn for PSBs has also been proposed.
- In order to ease compliance requirements, the definition of small companies has been changed with paid up capital limit increased to Rs 20mn (earlier Rs 5mn) and turnover limit to Rs 100mn (earlier Rs 50mn).
- Government has announced strategic disinvestment of 2 PSU banks and 1 insurance company in FY22. Disinvestment of BPCL, Air India, Shipping Corp, Container Corp will be completed this year. LIC IPO will also be made available in FY22. Receipts from disinvestments has been pegged at Rs 1.75tn in FY22.

Inclusive Development for Aspirational India

- Agri credit target has been raised to Rs 16.5tn for FY22 with focus toward animal husbandry, fisheries and dairy.
- Government has enhanced the allocation to Rural Infra Development Fund to Rs 400bn from Rs 300bn.
- Agri Infra fund will be made available to APMC, to better utilize their infrastructure facilities. Separately, an additional 1,000 mandis will be integrated with e-NAM.
- With the objective to boost value addition in agriculture, Operation Green Scheme is extended across 22 perishable products.
- Coverage of One Nation One Ration Card to be extended to remaining 4 states in the coming months.
- Government has proposed to create a portal to collect data on gig workers, building as well as construction workers. Social security benefits will also be extended to gig and platform workers. Minimum wages will be applied to all workers and will be covered under Employee State Insurance Corporation.

- To improve credit flow under Stand up India scheme for SC, STs and women, Government has proposed to lower the margin requirement to 15% from 25% earlier. It has also allocated over Rs 157 bn to MSME sector.

Reinvigorating human capital

- Government has proposed to set up 100 new Sainik school. 750 new Eklavya school will also be set up in tribal areas. Central assistance will be enhanced to Rs 352bn for a period of 6-years till FY26 by revamping the Post Matric Scholarship scheme which will benefit over 40mn SC students.

- Government will allocate Rs 3bn towards realigning the National Apprenticeship Training Scheme (NATS) in order to provide post-education apprenticeship, training graduates and diploma holders in engineering.

Innovation and R&D

- National Research Foundation with an outlay of Rs 500bn spread over 5 years to be set up.

- Rs 15bn for a scheme to incentivise digital payments.

- A Deep Ocean Mission to be set up with a cost of Rs 40bn over 5 years.

Direct Tax proposals

- Senior citizens aged at 75 years with pension and interest income will be exempted from filing income tax returns.

- Government has proposed to reduce the timeline for re-opening of tax returns from 6 years to 3 years.

- With the success of Vivaad se Vishawas scheme, Government has further proposed to reduce the litigation process by forming Dispute Resolution Committee for small tax payers.

- Formation of National Faceless Income Tax Appellate Tribunal Centre has also been proposed to ease the compliance.

- Government has proposed to raise threshold limit of turnover to Rs 100mn (previously Rs 50mn) for tax audit for persons who carry out 95% digital transactions.

- Dividend payment to REIT/InvIT to be exempted from TDS, Additionally deduction of tax on dividend income at lower treaty rate has also been proposed for foreign portfolio investors.

- Infrastructure Debt Funds which will raise funds by issuing tax efficient Zero Coupon Bonds has also been proposed.
- In order to ease compliance burden, pre filled forms will be made available and will also cover capital gains from listed securities, dividend income, etc
- Additional deduction of Rs 0.15mn for loans taken up till FY22 for purchase of affordable house. Tax holiday also extended till FY22.

Indirect taxation

- Steps to be taken to smoothen the GST framework further.
- Revised custom duty structure to be implemented from 1 Oct 2021, after an extensive review of 400 existing exemptions. All new custom duty exemptions to be valid upto 31st Mar following 2 years from date of issue.
- Government has raised custom duties on certain products to promote domestic manufacturing. Custom duties on some parts for mobiles raised from 0% to 2.5%. Exemptions on parts of chargers and sub-parts of mobiles withdrawn. Duty on solar invertors increased to 20% from 5%, and on solar lanterns to 15% from 5%. Exemption on tunnel boring machine has also been withdrawn and will now be taxed at 7.5%. Its parts will attract a duty of 2.5%. Customs duty on certain auto parts has also been raised to 15%. Duty on cotton has been raise from 0% to 10% and on raw silk and silk yarn from 10% to 15%.
- Rationalisation of custom duty rates on gold and silver to account for the sharp increase in their prices recently. Current duty rate is 12.5%.
- To benefit MSMEs, government has made the following changes in the custom duty structure. Custom duty on certain stainless steel products has been reduced to 7.5% as iron and steel prices have risen recently. Further, to support metal re-cyclers, duty on steel scrap has been removed, for copper scarp duty has been reduced to 2.5% from 5%. Duty on steel screws and plastic builder wares (15% from 10%), prawn feed (15% from 5%) and finished synthetic gem stones has been increased. Exemptions on certain types of leather have been lifted.
- Custom duties on textile items such as nylon chips, nylon fiber and yarn has been reduced to 5%.
- Custom duty on Naphtha also reduced to 2.5%.
- Apart from this, the government has also prescribed definite timelines for Anti-Dumping Duty (ADD) and Countervailing Duty (CVD) investigations.

FIG 14 – FISCAL ESTIMATES

(Rs bn)	FY19	FY20	FY21BE	FY21RE	FY22BE	Increase (%) FY21RE	Increase (%) FY22BE
Tax Revenue							
Corporation Tax	6,636	5,569	6,810	4,460	5,470	(19.9)	22.6
Taxes on Income	4,730	4,927	6,380	4,590	5,610	(6.8)	22.2
Indirect Taxes	9,373	9,547	10,965	9,895	11,020	3.6	11.4
Total - Tax Revenue	20,795	20,100	24,230	19,003	22,171	(5.5)	16.7
Less: State's Share	7,615	6,507	7,842	5,500	6,656	(15.5)	21.0
Centre's Tax Revenue	13,172	13,569	16,359	13,445	15,454	(0.9)	14.9
Total Non-Tax Revenue	2,357	3,272	3,850	2,107	2,430	(35.6)	15.4
Centre's Revenue (net)	**15,529**	**16,841**	**20,209**	**15,552**	**17,884**	**(7.7)**	**15.0**
Capital Receipts							
Internal Debt Market Borrowing	4,227	4,740	5,449	10,528	9,247	122.1	(12.2)
Disinvestment	947	503	2,100	320	1,750	(36.4)	446.9
Others	2,447	4,780	2,664	8,104	5,951	69.5	(26.6)
Total Capital Receipts	**7,622**	**10,023**	**10,213**	**18,952**	**16,948**	**89.1**	**(10.6)**
Draw-down of Cash Balances	**-**	**50**	**-530**	**-174**	**714**	**-**	**-**
Total Receipts	**23,151**	**26,863**	**30,422**	**34,503**	**34,832**	**28.4**	**1.0**
Expenditure							
Interest Payments	5,826	6,121	7,082	6,929	8,097	13.2	16.9
Defence Expenditure	2,908	3,187	3,231	3,438	3,471	7.9	0.9
Subsidies	1,968	2,283	2,278	5,954	3,354	160.7	(43.7)
Transfer to States	1,191	1,489	2,004	2,070	2,933	39.0	41.7
Rural Development	1,328	1,424	1,448	2,163	1,946	51.9	(10.0)
Transport	1,436	1,534	1,696	2,186	2,331	42.5	6.6
Home Affairs	981	1,199	1,144	981	1,135	(18.1)	15.7
Education	803	894	993	851	932	(4.9)	9.6
Agriculture	633	1,125	1,548	1,454	1,483	29.3	2.0
Others	6,076	7,608	8,998	8,477	9,150	11.4	7.9
Total Expenditure	**23,151**	**26,863**	**30,422**	**34,503**	**34,832**	**28.4**	**1.0**
Revenue	20,074	23,506	26,301	30,111	29,290	28.1	(2.7)
Capital	3,077	3,357	4,121	4,392	5,542	30.8	26.2
Revenue Deficit	4,545	6,665	6,092	14,560	11,406	-	-
Fiscal Deficit	**6,494**	**9,337**	**7,963**	**18,487**	**15,068**	**-**	**-**
% of GDP	**3.4%**	**4.6%**	**3.5%**	**9.5%**	**6.8%**	**-**	**-**

Source: Union Budget Documents, Bank of Baroda Research; BE- Budget Estimates; RE- Revised Estimate

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