RESEARCH

Analysis of Interim Budget & Other fiscal measures

February 2009

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CRISIL RESEARCH

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Foreword

On paper, a fiscal stimulus

The immediate reaction to the interim budget was that it did nothing. Nor should anything have been expected, given the limitations imposed by convention on the last budget presented before a general election. The only thing it is supposed to accomplish is that the government does not run out of spending power before the full budget is presented by a new regime. However, given the overall macroeconomic situation, it was only natural that expectations about major stimulus measures built up. In such situations, hope invariably triumphs over experience.

But, going by the numbers, this was not an entirely appropriate reaction. Admittedly, there were no big-bang, high-profile initiatives that would boost demand in the short term. There simply could not have been, given the nature of the event. However, at a macro level, the Finance Minister presented a budget with a fiscal deficit estimated to be 6 per cent of GDP in 2008-09. Even with the simple extrapolations of funding requirements for existing programmes for the full year 2009-10, the deficit barely comes down to 5.5 per cent. By any textbook standard, this is a pretty significant fiscal stimulus! It has completely abandoned the objectives of fiscal responsibility, at least for the time being.

Can this abandonment have significant consequences in the future? They well could. However, looking at debt sustainability in a variety of growth and interest rate scenarios, we come to the conclusion that the current increase in the deficit is not likely to lead to a runaway build-up of debt. This will be good news for the next finance minister, who will have to find a way to balance the conflict between sustaining growth through public expenditure and keeping the deficit in check.

At the end of the day, though, the stimulus is so far on paper. The money needs to be spent for it to have any impact. We shall wait and watch.

Dr Subir Gokarn

Chief Economist, Standard & Poor's Asia Pacific

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Interim Budget and Indian Economy

Introduction

The interim budget comes against the backdrop of a global financial crisis that has severely dented India's growth prospects. The situation has been so dynamic that, within a span of 8 months, the focus has shifted from high inflation to slipping growth. The last few months have seen an extraordinarily heavy dose of fiscal stimulus packages and pumping of large sums of money into the system at reduced interest rates across the globe. Policy makers in India too have responded with a series of measures both on the monetary and fiscal side. The sharper-than-expected fall in inflation has allowed monetary authorities to aggressively cut interest rates. Given the rising deficit levels, there is limited room for fiscal stimulus. Any steps being taken on the fiscal side need to be timely and well targeted. The tentative nature of the interim budget creates some uncertainty on the continuity and nature of the fiscal measures once the new government is in place after elections. Accordingly, our economic analysis focuses on broader issues that are more enduring, and would remain relevant irrespective of the outcome of Lok Sabha elections to be held in April/May 2009. These issues relate to the economic prospects for 2009-10, the nature of fiscal slippage, implications of slowdown on revenue buoyancy and medium-term debt sustainability.

I. Prospects for 2009-10

In spite of the policy measures announced today, the prevailing global economic slowdown is expected to pull down growth further in 2009-10. We expect growth to slide further in first half of 2009-10, and post a mild recovery beginning in the third quarter. Overall, we expect the economy to grow at around 6.1 per cent in the next fiscal as compared to 7.1 per cent in 2008-09. The services sector, which accounts for nearly 65 per cent of GDP, is expected to decelerate sharply from 9.6 per cent in 2008-09 (advanced estimates) to 7.7 per cent in 2009-10, as demand weakens further. Industrial growth is expected to remain weak at 4.5 per cent (vis-à-vis 4.8 per cent in 2008-09 advanced estimates) due to demand constraints - both exports and domestic - with the financing crunch continuing at least in the first half of the year.

Government expenditure would continue to be the key demand driver in 2009-10, although its growth will moderate from 2008-09 levels. Government consumption expenditure is projected to expand by 7.5 per cent in 2009-10. Investment activity is expected to come to a near stand-still next year, with gross fixed capital formation growing at merely 0.5 per cent in the next fiscal as compared to nearly 9 per cent in 2008-09. Both demand slowdown and financing constraints would hit corporate investment. With corporate profits shrinking and other sources of funds drying up, the supply of funds is expected to be tight. The continuation of the global crisis into 2009-10 implies further contraction in external trade.

Table 1: Indian economy in 2009-10	
	2009-10
Real GDP factor cost (y-o-y percentage growth)	6.1
Supply-side	
Agriculture	3.0
Industry	4.5
Services	7.7
Hotels, transport and communications	8.0
Finance	7.5
Community and social	7.3
Demand-side	
Private final consumption expenditure	5.2
Government final consumption expenditure	7.5
Gross fixed capital formation	0.5
Exports	-2.0
Imports	-3.0
Other macroeconomic variables	
WPI inflation (average)	3.0-3.5
Interest rate (10-year G-sec March-end)	6.3-6.5
Exchange rate (Rs-$ March end)	45.5-46.0
Fiscal deficit	5.5-6.0

Note: Industry includes mining and quarrying, manufacturing, electricity, gas and water supply, construction

Source: CRISIL assessment

Among other macroeconomic indicators, inflation would continue to fall in the first half of 2009-10 as prices of commodities, especially oil, are expected to remain at a relatively low level due to global slowdown. The high base of last year will exert further downward pressure on inflation. In the latter half of the year, inflation should start picking up as demand recovers. We expect average WPI inflation to remain in the 3.0-3.5 per cent range. The steady infusion of liquidity and further easing of the monetary policy by the RBI as well as a decline in credit demand by the private sector as a result of growth slowdown would keep interest rates at a moderate level in the early part of the next fiscal. In contrast, the increased government demand for funds to finance its deficit and a pick up in inflation towards the end of the fiscal would push the interest rates up towards March-end.

During 2008-09, the Indian currency depreciated from around Rs 39 per dollar at the beginning of the year to a low of Rs 50 a dollar in October. It has subsequently recovered some ground. With some normalisation in the pattern of capital flows next year, the rupee should move back towards its fundamental trend, which is to appreciate. The demand for dollars should remain subdued with oil and other imports expected to slowdown. With exports declining, the supply of dollars would have to come from capital inflow. The margin of error for the exchange rate forecast remains high in view of the continued global financial instability.

On the fiscal front, given the current environment, the government has pushed ahead the FRBM target. With further fiscal stimulus expected after the national elections and the implementation of the remaining part of the sixth pay commission pay hikes, the fiscal deficit would remain under pressure. The good news is that oil, food and fertilizer subsidies and off budget liabilities are expected to decline next year. Tax revenue would suffer as growth is expected to be significantly lower next year. Assuming that all the expenditure proposals materialize and some new are introduced, the fiscal deficit to GDP ratio is expected to be around 5.5-6.0 per cent in 2009-10.

Table 2: India - Key risks

External risks	Real sector risks	Financial sector risks	Politics and policy risks
Deeper global recession	Market failures	Resumption of bank lending	Necessary postponement of full fiscal strategy
Export slowdown	Real estate - delivery uncertainties	Impairment of other channels of finance	Hung Parliament
Concentrated sectoral and regional impact	Income uncertainty	Legacy effects on balance sheets	Delays in policy response
Reduced remittances and capital inflows	Automobiles and consumer durables		Difficulties in converging on policy measures

Source: CRISIL

CRISIL macroeconomic forecasts set out here are based firmly in our view of the fundamentals. However, we recognize that the outlook for the world economy can change quickly, given that financial markets continue to be extremely volatile. As a result, frequent revisions to our outlook could become necessary in 2009-10. The revisions would largely be driven by any worsening of the macroeconomic risks and uncertainty that the Indian economy is facing at present. Table 2 documents the risk profile of the Indian economy in 2009-10. A significant deterioration in any of these risks would require a reassessment of the current forecasts.

II. Fiscal Trends and Outlook

The fiscal correction of the last few years decisively reversed in 2008-09. The fiscal deficit had declined from 6.2 per cent of GDP to 3.1 per cent of GDP between 2000-01 and 2007-08. Moreover, the liabilities of the central government in relation to GDP came down during this period. The fiscal deficit has now been estimated at 6 per cent of GDP in 2008-09. If off-budget spending is taken into consideration, it touches 8 per cent of GDP. The concern is whether the recent fiscal worsening is a transitory phenomenon or whether there structural factors driving it. This distinction is important as transitory factors will correct themselves but structural factors will have lasting impact on fiscal sustainability. Fiscal stress due to the sharp global slowdown and its impact on the Indian economy (and hence, revenue buoyancy), a subsidy shock from high oil and commodity prices and the additional spending on the fiscal stimulus can be broadly classified as transitory in nature and will correct themselves when the cycle turns. On the structural side, the key positive developments in the last few years have been the disciplining impact of Fiscal Responsibility and Budget Management Bill (FRBM) and wider coverage of services sector tax. But the unreformed subsidy regime and persistence of populist measures like farm loan waiver are structural factors which accentuate the impact of cyclical factors and make the fiscal situation vulnerable, as we saw in 2008-09. Since this budget is interim, and hence, tentative in nature, our analysis will focus on themes which retain their relevance even if the budget is revised after elections. These relate to fiscal slippage in 2008-09, revenue buoyancy in the face of economic slowdown and medium-term fiscal prospects.

a) Fiscal Slippage in 2008-09

While expenditures have overshot budget targets, revenues have fallen short, leading to a sharp jump in fiscal deficit. Corporation tax and personal income tax, which exhibited robust growth in last fiscal, have not performed well in 2008-09, growing at 15.1 per cent and 19.4 per cent, respectively, on a y-o-y basis. Fiscal performance is contingent upon performance of the economy, revenue buoyancy and expenditure prudence. The advance estimate of GDP of 2008-09 shows a growth rate of 7.1 per cent, following an average 9 per cent growth in the preceding 3 years. The manufacturing sector, which is the key contributor to corporation tax and excise duties, has received a major blow, as the advance estimate shows a growth rate of 4.1 in 2008-09 vis-à-vis the average 9.7 per cent growth in the preceding 3 years. Due to the global turmoil, India's external trade performance has been dented considerably, leading to less-than-expected growth in customs. Since 1993-94, the service sector's contribution to the government's corpus had been increasing steadily, and service tax collections posted an average growth of 55 per cent per annum in the preceding 3 years. In 2008-09, this sector too has experienced moderation, but growth remains healthy at 27 per cent.

On the expenditure front, the Government of India (GOI) has achieved significant grip over non-developmental expenditure. The non-developmental revenue expenditure, which had been growing at a high rate till 2002-03, has been brought down to 6-8 per cent annual growth. Similarly, non-developmental capital expenditure has also been controlled to a manageable level, although there have been sporadic spurts due to rise in defense expenditure. Table 3 shows the percentage deviation in indicators from the budgeted amount. As is quite evident, fiscal deficit has always been lower than the budgeted estimate since 2002-03 owing to high GDP growth and compression in expenditure. Revenue deficit, which was a cause of worry till 2001-02, has been controlled and reduced, starting with 2003-04. Nevertheless, the fiscal compression has resulted in less-than-budgeted growth in plan expenditure in some years. Similarly, non-plan expenditure has exceeded the budgeted estimate in the past couple of years. But the extremely favourable GDP growth has reduced the gap between receipts and expenditure. The reversal in 2008-09 is largely the result of expenditures which were not budgeted for 2008-09 (Box 1).

Table 3: Per cent deviation from budgeted

		Difference between actual and budget estimate							
Year	Industrial growth	Fiscal deficit	Revenue deficit	Plan expenditure	Non-plan expenditure	Revenue expenditure	Capital expenditure	Total expenditure	Gross tax revenue
2000-01	6.4	6.8	10.1	-6.2	-3.0	-1.2	-16.8	-3.8	-2.5
2001-02	2.7	21.2	27.1	6.4	-5.1	-2.9	-5.9	-3.4	-17.5
2002-03	7.1	-3.1	13.1	-1.8	-2.7	-0.3	-13.0	-2.4	-8.3
2003-04	7.4	-19.8	-12.5	1.1	9.8	-1.1	50.5	7.4	1.1
2004-05	10.3	-8.9	2.8	-9.1	10.0	-0.3	22.7	4.2	-4.0
2005-06	10.2	-3.1	-3.2	-2.0	-1.4	-1.5	-2.2	-1.6	-1.0
2006-07	11.0	-4.1	-5.3	-1.7	5.7	5.4	-9.3	3.4	5.8
2007-08	8.1	-15.9	-26.5	0.0	6.8	5.5	-1.5	4.7	8.2
2008-09 RE	4.8	145.0	337.2	16.3	21.8	22.1	5.1	20.0	-8.7

Source: Union budgets, Various issues

Box 1: Non-budgeted expenditure in 2008-09	
Category	**Expenditure (Rs crs)**
Farm loan waiver	15,000
Pay hike	28,505
Off-budget subsidies on oil and fertiliser	130,808
Additional expenditure on NREGA	25,000
Total cash outgo by two supplementary demand for grants	234,036

Source: Budget documents

The good news is that the subsidy shock from the spike in oil and fertiliser prices will correct itself in 2009-10. But the pressure from payments on farm loan waivers, pay hikes and further stimulus along with reduced tax buoyancy will keep the fiscal pressure alive.

b) Economic Downturn and Tax Buoyancy

Higher economic growth, especially if that is propelled by industrial growth, leads to an increase in tax collections for the government. Whether the higher growth is translating into adequately high tax revenue is measured by tax buoyancy. This is expressed as 'percentage change in tax revenues per unit percentage change in tax-base i.e., GDP at market price at current price'. When tax-buoyancy is greater than one, it implies that the growth in tax collection has surpassed the growth in GDP.

Table 4 brings home the point. The average real GDP growth in phase-I (i.e., 1993-94 to 1996-97) was 6.8 per cent, followed by 5.2 per cent growth in phase-II (i.e., 1997-98 to 2002-03). Phase-III (2003-04 to 2007-08) witnessed an extremely high growth rate to the tune of 8.6 per cent per annum. A cursory look at the table shows that gross tax buoyancy is higher during the high-growth phase and vice-versa. Income tax buoyancy has moved in line with the GDP growth rate, whereas corporate income tax has remained buoyant even when growth remained subdued. That is largely due to the sudden 25 per cent jump in corporate tax collection in 1999-2000 and 2002-03. Indirect tax buoyancy, which nose-dived during phase-II, has gained some grounds in the high growth phase. However, as the economy moves to a higher growth trajectory, the share of indirect tax is likely to come down due to its regressive nature.

Table 4: Tax buoyancy in different growth phases

		Tax buoyancy				
	GDP growth	Gross tax	Direct tax		Indirect tax	
			Corporate tax	Income tax	Custom+excise	Service tax
1993-94 to 1996-97	6.8	1.15	1.35	1.55	1.06	3.72
1997-98 to 2002-03	5.2	0.92	1.83	1.67	0.76	2.11
2003-04 to 2008-09	8.6	1.36	1.96	1.67	0.63	3.61

Note

Service tax was introduced in 1994-95. Hence, buoyancy for Phase-I is for the period 1994-95 to 1996-97.

Source: CRISIL estimates

Tax collections increase more than proportionately with respect to the base (GDP) in an economic upturn and decline more than proportionately in a downturn. Since GDP growth is expected to weaken in the year ahead, the tax buoyancy too is expected to slide. During the recent downturn (1997-98 to 2002-03) the overall tax buoyancy fell from 1.15 to 0.92. It again rose to 1.36 during the recent high-growth phase. The budget expects the tax buoyancy to fall to 0.63, which is much lower than what was witnessed during the previous downturn. It seems a bit conservative with the real GDP growth of 7 per cent (nominal growth of 11 per cent) assumed in the budget.

c) Debt Sustainability

A steady improvement in the fiscal situation since 2003-04 led to a reversal in the trend of rising debt/GDP ratio (herein after debt ratio) that had been witnessed in the preceding 6 years. The liabilities of the central government as a percentage of GDP rose by 13 percentage points between 1997-98 and 2002-03. Between 2003-04 and 2005-06, they stabilised at around 63 per cent of GDP. The descent in the debt ratio started in 2006-07, and by 2007-08, the debt ratio was down to 61 per cent. For 2008-09, the debt ratio was budgeted to decline to 56 per cent of GDP; instead, it rose to 59.6 per cent of GDP due to rise in the primary deficit and off budget liabilities of the government.

The behaviour of the debt ratio can be explained using the debt dynamics identity[1]. From 1992-93 to 1996-97, the average cost of central government debt was at 9.4 per cent as against the nominal GDP growth 16.3 per cent. Therefore, the government could maintain a stable debt ratio by running primary deficit up to 3.7 per cent of GDP. The actual primary deficit, at 1.4 per cent of GDP, was lower than was required to keep the debt ratio stable. The favourable debt dynamics reduced the debt ratio of the central government by 5 percentage points during this period. The situation, however, changed after 1997-98. The average cost of debt remained high, but the nominal growth fell to an average of 10.1 per cent for the 6-year period starting 1997-98. As a result, the primary deficit/GDP target for a stable debt ratio declined to 0.3. But the actual primary deficit/GDP was higher at 1.3 per cent, leading to an increasing debt ratio since 1997-98.

The recent stabilisation of the debt ratio and its decline since 2006-07 was the result of the positive differential of growth rates over interest rates post 2003-04. The average cost of internal debt of the government has come down from 9.7 per cent in 1999-2000 to 6.8 per cent in 2007-08. The GDP growth during the same period has significantly improved in both nominal and real terms.

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[1] $\Delta D = PD/GDP + (i-g) \times D$

Where

D	= Debt/Nominal GDP
PD	= Primary or non-interest deficit
i	= Nominal Interest rate
g	= Nominal GDP growth

Table 5: Post reform debt dynamics of the central government

	1992-93 to 1996-97 (period of falling debt ratio)	1997-98 to 2002-03 (period of rising debt ratio)	2003-04 to 2007-08 (period of falling debt ratio)	2008-09
Average cost of govt debt	9.40%	9.60%	7.10%	6.70%
Nominal GDP growth	16.30%	10.10%	14.00%	14.90%
Primary deficit/GDP for a stable debt ratio	3.70%	0.30%	3.60%	4.90%
Actual primary deficit/GDP	1.36%	1.30%	0.00%	2.50%
Internal debt/GDP	54 → 49	51 → 64	63 → 61	59.60%

Source: CRISIL simulations

We have simulated the future scenario using the simple debt dynamics identity to work out the trajectory of debt/GDP ratio of the central government over the next 5 years (2009-10 to 2013-14) under alternate assumptions of growth and interest rates (Table 6). GDP growth is likely to remain weak in 2009-10, pick up marginally in 2010-11, and stabilise at around 8 per cent after 2011-12. This implies an average growth of around 7 per cent over the next 5 years. Assuming that average real growth slips to 7 per cent (our base case scenario), and nominal cost of debt is at around 7 per cent, and inflation stays at 5 per cent in the next 5 years, the debt/GDP of the central government is expected to remain stable at current levels, and then reduce marginally by 2012-13. This is because the positive differential between growth rate and interest rate allows the government to run a primary deficit of around 2.9 per cent, and yet maintain stability in the debt ratio. Going ahead, despite the pressure of government borrowings, there is limited upside to interest rates in the next 1-2 years because of falling inflation and the RBI's soft stance. However, growth too is expected to remain weak in the the next two years. If the real GDP growth returns to 8 per cent (nominal growth of around 13 per cent) by 2011-12 (our base scenario), the debt ratio will decline marginally. The medium-term fiscal policy statement accompanying the budget estimates the total liabilities of the government to fall to 51.1 per cent by 2011-12. We think this is too aggressive and expect only a marginal reduction in the debt ratio to 56 per cent. However, if the average real GDP growth falls to 6 per cent over the next 5 years, then the debt ratio would increase.

The current downturn notwithstanding, the structural upward shift in growth rates and a downward shift in interest rates will help in stemming the explosive debt dynamics in future. This gives government some leeway to run a primary deficit and yet maintain stability in the debt ratio. But there is no room for complacency, as India's debt ratio is quite high and it needs to be brought down. In view of the need for fiscal stimulus directly through public spending and other instruments aimed at firms and consumers, the FRBM targets have been pushed ahead and rightly so. If this is prudently done, it will not call into question the medium-term sustainability of government finances. But adherence to the FRBM criteria, once the normalcy in growth is achieved, would be the key to sustainable government finances going ahead.

Table 6: Terminal values of debt/GDP of central government under alternate assumptions					
Nominal GDP growth	**8**	**9**	**10**	**12**	**14**
Interest rate					
6.5	67	64	61	56	50
7.0	68	65	62	57	52
8.0	72	68	65	60	54
9.0	75	72	68	62	57

Source: CRISIL simulations

Table 7: Budget 2009- 10 at a glance				
(Rs billion)	**2007-08**	**2008-09**	**2008-09**	**2009-10**
	Actuals	**BE**	**RE**	**BE**
1. Revenue receipts	5,419.3	6,029.4	5,621.7	6,095.5
2. Tax revenue (net to centre)	4,395.5	5,071.5	4,659.7	4,976.0
3. Non-tax revenue	1,023.8	957.9	962.0	1,119.6
4. Capital receipts (5+6+7)	1,708.1	1,479.5	3,387.8	3,436.8
5. Recoveries of loans	51.0	45.0	97.0	97.3
6. Other receipts	388.0	101.7	25.7	11.2
7. Borrowings and other liabilities	1,269.1	1,332.9	3,265.1	3,328.4
8. Total receipts (1+4)	7,127.3	7,508.8	9,009.5	9,532.3
9. Non-plan expenditure	5,076.5	5,075.0	6,180.0	6,680.8
10. On revenue account	4,209.2	4,483.5	5,617.9	5,997.4
of which:				
11. Interest payments	1,710.3	1,908.1	1,926.9	2,255.1
12. On capital account	867.3	591.5	562.1	683.5
13. Plan expenditure	2,050.8	2,433.9	2,829.6	2,851.5
14. On revenue account	1,735.7	2,097.7	2,416.6	2,483.5
15. On capital account	315.1	336.2	413.0	368.0
16. Total expenditure	7,127.3	7,508.8	9,009.5	9,532.3
18. Revenue expenditure	5,944.9	6,581.2	8,034.5	8,480.9
19. Capital expenditure	1,182.4	927.7	975.1	1,051.5
20. Revenue deficit	525.7	551.8	2,412.7	2,385.3
as a percentage of GDP	-1.1	-1.0	-4.4	-4.0
21. Fiscal deficit	1,269.1	1,332.9	3,265.2	3,328.4
as a percentage of GDP	-2.7	-2.5	-6.0	-5.5
22. Primary deficit	-441.2	-575.2	1,338.2	1,073.2
as a percentage of GDP	-0.9	-1.1	-2.5	-1.8

Source: Union Budget 2009-10

Sectoral impact

The Interim Budget presented on February 16, 2009, does not have any major announcements that affect the industry, except for some measures such as extension of interest subsidy (on pre- and post-shipment credit) to boost exports in sectors such as textiles, leather and gems & jewellery. However, a slew of fiscal measures were announced as part of the stimulus packages on December 7, 2008 and January 2, 2009, respectively. While some of these measures are positive for the respective sectors, the excise duty reduction (by 4 per cent) across sectors has been mostly passed on to consumers.

In the following sections, we assess the impact on all those sectors wherein there have been any announcements in the Interim Budget or the aforementioned fiscal stimuli packages.

Automobiles

		Marginally positive
Announcement in	**Proposals**	**Impact**
Fiscal stimulus - I	Ad valorem cenvat rate being cut by 4% across auto segments	The net impact of various policy changes is marginally positive across auto segments. However, lower economic growth prospects, weak consumer sentiment, higher interest rates and stringent disbursement norms will continue to impact automobile demand. Reduction in excise duty, fuel prices and car finance rates, partly offset by the increase in prices by some car manufacturers in January 2009, has resulted in a 3 per cent reduction in the ownership cost for a typical compact car. For an executive segment motorcycle, cost of ownership has declined by 4-5 per cent.
Fiscal stimulus - II	Accelerated depreciation of 50% will be provided on commercial vehicles bought on or after January 1, 2009 upto March 31, 2009	
Other announcements	Cut in diesel prices by Rs 2 and petrol prices by Rs 5 on January 28, 2009	

Banking and Finance

<table>
<tr><th></th><th></th><th>Neutral</th></tr>
<tr><th>Announcement in</th><th>Proposals</th><th>Impact</th></tr>
<tr><td>Fiscal stimulus - I</td><td>Exceptional / concessional treatment to the commercial real estate exposures, which are restructured up to June 30, 2009

Refinance facility of Rs 40 billion for NHB

Loans less than Rs 2 million granted by banks to HFCs for on-lending to individuals for purchase / construction of dwelling units may be classified under priority sector</td><td rowspan="3">Banks: Many liquidity-enhancing measures, aimed at improving credit access to sectors like housing and SME have been announced. However, relaxing non-performing loan norms in the real estate and corporate sectors may weaken asset quality and put greater stress on the banking sector. The monetary easing and fiscal stimulus measures would be effective, provided there is revival in business and consumer confidence. With economic recovery likely to be protracted, these measures would have limited impact on the banking sector.

HFCs and NBFCs: Effectiveness of fiscal measures facilitating credit availability will depend on their implementation and revival in business and consumer confidence. Like banks, fiscal stimulus would have limited impact on HFCs and NBFCs.</td></tr>
<tr><td>Fiscal stimulus - II</td><td>SPV created to provide liquidity support to NBFCs for financing CVs</td></tr>
<tr><td>Other announcements</td><td>NBFCs-ND-SI and HFCs registered with NHB permitted to raise short term foreign funds with prior approval

NBFCs-ND-SI permitted to raise funds by issuing perpetual debt instruments that can be included in their Tier 1 capital

Change in provisions for standard assets and risk weights on exposures to corporates, commercial real estate and NBFCs-ND-SI</td></tr>
</table>

Note

CVs: Commercial vehicles; HFCs: Housing finance companies; NBFCs: Non-banking financial companies

NBFCs-ND-SI: Systemically important non-deposit taking non-banking financial companies; NHB: National Housing Bank

SME: Small and medium enterprise; SPV: Special purpose vehicle

Cement

Announcement in	Proposals	Impact
		Neutral
Fiscal stimulus - I	Excise duty on bulk cement has been reduced to 10 per cent ad valorem or Rs 280 per tonne, whichever is higher. Earlier this was 14 per cent ad valorem or Rs 400 per tonne, whichever was higher.	The lowering of excise duty on packaged and bulk cement in the fiscal stimulus led to cement producers lowering cement prices in December 2008. As a result, the overall impact on the sector is neutral.
	Excise duty on packaged cement reduced to Rs 230 per tonne from Rs 350 per tonne, where MRP of cement is less than Rs 3,800 per tonne. Where MRP for cement is greater than Rs 3,800 per tonne, excise duty has been reduced from 12 per cent ad valorem to 8 per cent ad valorem.	The imposition of customs duty on imported cement will not have a major impact as the amount of cement imported into India is negligible.
Fiscal stimulus - II	The exemption on additional customs duty has been withdrawn. Imported cement to attract counter-vailing duty equal to applicable excise duty rate. Further special additional duty of four per cent to be levied.	

Construction

Announcement in	Proposals	Impact
		Neutral
Interim Budget	An allocation of Rs 118.4 billion under the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) has been made for 2009-10 IIFCL has been authorised to raise Rs 100 billion via tax-free bonds	The allocation under JNNURM will lead to increased focus on the development of urban infrastructure. The amount sanctioned this year is relatively higher than the Rs 68.7 billion sanctioned in the previous budget. However, the crucial factor here would be the actual outlay. With IIFCL being authorised to raise funds via tax-free bonds, delays in order execution by construction companies as a result of developers failing to achieve financial closure will reduce.

IIFCL: India Infrastructure Finance Company Ltd

Household Appliances

		Neutral
Announcement in	**Proposals**	**Impact**
Fiscal stimulus - I	Excise duty reduced from 16 per cent to 12 per cent on December 7, 2008	The overall impact is neutral as a significant portion of the production of major household appliances producers is in excise free zones. Other producers have partially passed on the excise duty cut.

Housing

		Marginally positive
Announcement in	**Proposals**	**Impact**
Fiscal stimulus - I	Classification of loans under Rs 2 million as priority sector lending Rs 40 billion re-finance facility for National Housing Bank	The new classification of loans is aimed at encouraging banks to lend. However, due to the deterioration in the job market scenario owing to the prevailing slowdown, especially in the IT/ITeS and financial services sectors, banks may continue to hesitate to increase their advances. The Rs 40 billion re-finance facility for NHB will ensure easier availability of loans for the sector. The reduction in the lending rates of PSU banks by 150-200 bps has prompted large private players such as HDFC and ICICI Bank to cut rates by 50-75bps.
Other announcements	Reduction in home loans rates by PSU banks to 8.5 per cent for loans upto Rs 0.5 million (10 per cent margin) and 9.25 per cent for loans in the range of Rs 0.5-2.0 million (15 per cent margin)	

Media and Entertainment

		Neutral
Announcement in	**Proposals**	**Impact**
Other announcements	On February 12, 2009, the government announced exemption of customs duty on newsprint, uncoated paper used for printing newspapers, and lightweight coated paper used for printing magazines. Earlier, newsprint used to attract a customs duty of 3 per cent, while the duty on lightweight coated paper was 5 per cent.	The newspaper publishing segment has been experiencing severe margin pressure due to the economic slowdown adversely impacting advertising revenues and the sharp rise in international newsprint and paper prices. This move is expected to provide some relief to the industry.

Paper

		Neutral
Announcement in	**Proposals**	**Impact**
Fiscal stimulus - I	Excise duty reduced from 8 per cent to 4 per cent for most varieties of paper	Producers have passed on the duty cuts. Overall impact is neutral.
Other announcements	Newsprint, uncoated paper used for printing newspapers and light-weight coated (LWC) paper used for printing magazines exempted from customs duty on February 11, 2009	The impact is neutral as domestic newsprint prices are lower than the landed costs even after the duty cuts.

Roads

		Marginally positive
Announcement in	**Proposals**	**Impact**
Interim Budget	Allocation of Rs 40 billion towards the development of rural roads in line with previous budgets Rs 99.9 billion for planned spending on national highways	Though allocations for the roads and highways sector have been provided, implementation may be slow due to policy ambiguity at the state and central government levels and delays on account of land acquisition.
	IIFCL authorised to raise Rs 100 billion via tax-free bonds by March 2009, with approval to raise an additional Rs 300 billion IIFCL to refinance 60 per cent of commercial bank loans for PPP projects involving an investment of Rs 1,000 billion over the next 18 months	The refinance facility provided by IIFCL to banks will improve the credit availability for infrastructure projects such as BOT road projects undertaken by the private sector and facilitate in achieving financial closure for projects.

IIFCL: India Infrastructure Finance Company Ltd; PPP: Public private partnership; BOT: Build-operate-transfer

Steel

Announcement in	Proposals	Impact
		Marginally positive
Fiscal stimulus - I	The export duty of 8 per cent on iron ore fines has been withdrawn while the rate of export duty on iron ore lumps and pellets has been reduced from 15 per cent to 5 per cent ad valorem Reduction in excise duty from 14 per cent to 10 per cent	The government has taken measures to protect the domestic steel industry by bringing HR coils under the restricted category and levy of import duty on flat and long products. These measures will marginally benefit steel players as it has made domestic prices of flats competitive vis-à-vis international prices. The reduction in excise duty will have no impact, except where the output is sold directly to the consumer, as most of the steel sold is MODVAT'able. The withdrawal of export duty on iron ore fines and reduction of export duty on iron ore lumps and pellets will encourage iron ore exports.
Fiscal stimulus - II	Customs duty rate on all ferro-alloys has been restored to 5 per cent from zero Customs duty rate on TMT bars and structurals has been restored to 10 per cent to zero	
Other announcements	Levy of 5 per cent custom duty from zero on pig iron, spiegeleisen, semi-finished products, flat products and long products DEPB on steel items reintroduced since November 14, 2008. HR coil brought under 'Restricted Category'	

Textiles

		Marginally positive
Announcement in	**Proposals**	**Impact**
Interim Budget	Interest subvention of 2 per cent on pre-shipment and post-shipment export credit extended till September 30, 2009	The measures announced in the interim budget and the earlier fiscal stimulus packages are marginally positive for the sector. The extension of interest subvention on pre-shipment and post-shipment credit till September 30, 2009 will benefit exporters through lower interest costs on working capital loans. However, the interest rate after subvention will not be lower than 7 per cent. The impact of the across-the-board excise duty cut of 4 per cent has been negligible on the cotton textiles chain as excise duty is optional. The reduction in excise duty on polyester and other man-made fibres from 8 per cent to 4 per cent has been passed on. The increase in the duty drawback rates on fabrics, and the extension of the DEPB scheme up to December 31, 2009 will benefit exporters.
Fiscal stimulus - I	Across-the-board cut of 4 per cent in excise duty Interest subvention of 2 per cent on pre-shipment and post-shipment export credit till March 31, 2009	
Fiscal stimulus - II	Drawback rates increased on: a. Cotton knitted fabrics, from 4.5 per cent to 5.0 per cent; b. Man-made knitted fabrics, from 8.7 per cent to 8.9 per cent; and c. Woollen knitted fabrics, from 5.7 per cent to 5.8 per cent Duty drawback value cap on grey cotton yarn increased from Rs 8 per kg to Rs 12 per kg The Duty Entitlement Pass Book (DEPB) scheme has been extended till December 31, 2009	

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