

INDIA BUDGET 2022

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INDEX

Foreword	2
Budget Highlights	5
Direct Tax Proposals.....	9
Indirect Tax Proposals.....	24
Key Policy Changes in FY 2021-22 and Budget Amendments 2022	30
Capital Market	32
Economic Outlook	34
Sectoral Analysis.....	43

Foreword

Unlike the previous year's Union Budget that focused on providing relief and creating capacities to overcome the pandemic, the theme in the Union Budget 2022 is clearly futuristic, as also, is a distinct directional change from the conservative fiscal stance of previous years.

The budget proposed no significant changes in corporate, individual and indirect tax regimes, giving credence to the government's intent of a consistent and a predictable tax regime. While India was on a directionally fiscal consolidation-low inflation path from 2014 to 2020, the fiscal expansion in FY 20-21 accommodating a fiscal deficit 6.9% was considered a one-time measure to pull the economy out of pandemic. With strong traction in both direct and indirect tax collections in the run up to the budget & robust growth forecasts for FY 23 there was expectations in certain quarter that the government may go back to targeting lower fiscal deficit in the coming year. However, the finance minister unveiled a budget targeting a steep growth in capital outlay for capacity creation in infrastructure, both through direct central allocations and through the states.

The highlight of the budget was clearly the 35% increase in capital expenditure to ₹ 7.5 lakh crore, accounting for 2.9% of the GDP & 19% of the gross expenditure, highest in both counts in the last 18 years. This is proposed to be financed by a mix of incremental borrowings (Fiscal deficit pegged at 6.4% of GDP) and revenue buoyancy, with total direct and indirect tax revenues expected to grow by a modest 9.5%. This is directionally in line with the government's vision of propelling the GDP to USD 5 trillion in the next 4 to 5 years, as also, to create world class physical infrastructure in roads, power, ports, water-supply and housing by 2047, a vision laid out by the Prime Minister. This also provides a platform for greater private participation in capital creation, which was conspicuously absent over the last decade, but has picked considerable pace off-late, due to reasons ranging from well capitalized banks, policy measures like PLI, and existing industrial capacities getting optimally utilized. Executing the massive infrastructure creation plan would be a stiff challenge, given the frantic activity witnessed in the

sector on a much lower base in 2021-22. Particular emphasis would be on ministries of roads, power, railways, ports and for the development of North-east, where most of the budgeted ₹ 7.5 lakh crore is proposed to be spent on.

A possible fallout of the proposed fiscal deficit number shall be significantly larger government borrowing programme in the current year, leading to an upward bias both in interest rates and inflation, and also possibly crowding out the much-needed non-government credit growth from the banking system. The key though, is the estimation of budgetary numbers. The fiscal deficit target of 6.4% is based on a very modest 9.5% tax revenue growth, which can be easily grow by 15%+ with nominal economic growth of 13.5% projected for FY 23, as also, the recently witnessed direct tax and GST traction continuing into FY 23. This is achievable even without the excise duty windfall achieved in FY 22, as corporate taxes and GST flip back to their pre pandemic contributions of 3.5% and 3.1% of GDP. If tax revenues indeed grow by 15%+, as they should, and not 9.5% budgeted for FY 23, fiscal deficit shall be contained below 5%, aiding policy headroom for further growth, and taking India back to the path of fiscal discipline.

Despite the multiple state elections that are immediately due, the budget was surprisingly muted from a populist perspective, with no significant new doles announced. On the contrary, the subsidy bill was reduced by a significant 28% to ₹ 3.18 lac crore for FY 23 from ₹ 4.33 Lac crore in FY 22. There is an increase, however, in allocation for MSP support to wheat and rice farmers to ₹ 2.33 lac crores, despite surplus stocks with FCI, which by far remains the only significant populist announcement in the budget, to keep the protesting farmers at bay.

The budget also laid a path to gradual adoption of digital currency, with announcement of the 'digital rupee'. Provision for a 30% tax on income on sale of digital assets including instruments like crypto-currencies and NFTs recognizes a potentially large market and a revenue source, while setting the ball rolling for policy formation to effectively govern the hitherto ungoverned universe.

The budget aims to speed up self-reliance goals, with an increased emphasis of domestic procurement of defence purchases, broadening of the scope of PLI sectors for import substitution in the electrical & electronics sector, incentivizing higher domestic production of pulses etc.

Apart from outlining revenue and expenses budgeted, the budget also laid emphasis on easing tax administration for taxpayers, by enabling backdated corrections to filed returns, and recognizing the contribution of taxpayers in aiding the post COVID bounce-back. It also rationalized certain tax brackets, including those for capital gains on shareholders of private companies, moderated MAT and modified GST / custom duties on certain items, the list of changes being much smaller than is usual in the budgetary announcements.

Overall, the finance minister needs to be complimented for avoiding populism despite elections, further accelerating the focus on capital creation, as also, for conservative revenue growth estimates creating fiscal buffers to limit increased government borrowings in an environment of upward bias both in inflation and interest rates.



BUDGET HIGHLIGHTS

Economy

- Fiscal deficit at 6.9% of GDP in RE (Revised Estimate) for the FY 2021-22 and 6.4% BE (Budgeted Estimate) for the FY 2022-23.
- Revenue receipts for the FY 2022-23 are pegged at ₹ 22.04 lakh crores while revenue expenditure at ₹ 31.95 lakh crores.
- Capital receipt for the FY 2022-23 are pegged at ₹ 17.40 lakh crores while the outlay for capital expenditure to be stepped up sharply by 35.4% from ₹ 5.54 lakh crore to ₹ 7.50 lakh crore in 2022-23. Effective capital expenditure of the government is estimated at ₹ 10.68 lakh crore in 2022-23, about 4.1% of GDP.
- The revised estimated expenditure for the FY 2021-22 has been pegged at ₹ 37.70 lakh crores and receipt at ₹ 35.96 lakh crores.
- Estimated growth of GDP for year 2022-23 at 9.2% - highest among all large economies.

Budgetary Allocations

- ₹ 39,44,908 crores allocated for the Total Budgeted Expenditure.
- ₹ 5,25,166 crores allocated to Defence.
- ₹ 1,99,107 crores allocated for Road Transport and Highways.
- ₹ 1,40,367 crores allocated for Railways.
- ₹ 1,38,203 crores allocated to Rural Development.
- ₹ 1,32,513 crores allocated to Agriculture and Farmers' welfare.
- ₹ 1,07,715 crores allocated to Chemical and Fertilizers.
- ₹ 1,05,406 crores allocated to Communications.
- ₹ 1,04,277 crores allocated to Education sector.
- ₹ 86,200 crores allocated to Health and Family welfare.

- ₹ 76,549 crores allocated for Housing and Urban Affairs.
- ₹ 25,172 crores allocated for Women and Child Development.
- ₹ 22,974 crores allocated to Power and renewable energy.
- ₹ 21,422 crores allocated to Micro, Small and Medium Enterprises (MSME).
- ₹ 16,893 crores allocated to Labour and Employment.
- ₹ 14,421 crores allocated to Commerce and Industry.
- ₹ 2,999 crores allocated for Skill development and Entrepreneurship.
- ₹ 2,400 crores allocated for Tourism promotion.

Direct Taxes

- No change in basic tax rates / slabs
- Transfer of 'Virtual Digital Asset' taxable @30% & also subject to 1% TDS. Gifting of such assets also subject to tax in the hands of recipient.
- Reduced tax rate of 15% applicable to Foreign Dividend is proposed to be withdrawn.
- AMT rates for Co-operative Societies reduced from 18.5% to 15%
- Surcharge on income from LTCG in case of individual/HUF/AOP restricted at 15%.
- Surcharge of AOPs that has only companies as members capped at 15%.
- Surcharge reduced to 7% for Co-operative Societies having total income 1cr to 10cr.
- TDS on immovable property to be paid on the value higher of sale consideration or stamp duty value.
- Disallowance u/s 14A to apply even if no exempt income received/ accrued during the relevant year.

- Health and Education cess not to be allowed as business expenditure u/s 37.
- Onus to prove source of source of loans/borrowings u/s. 68
- No Set off of losses against the Undisclosed Income detected during search/survey.
- New provision for filing of updated return on payment of additional tax within 2 years from the end of the relevant A.Y.
- Last date for commencement of manufacturing industries for claiming lower tax regime u/s 115BAB extended upto 31-Mar-2024.
- Applicability of Deduction extended for eligible Start-ups incorporated before 31-Mar-2023.
- New section 194R is introduced to deduct TDS @10% on benefit or perquisite of business/profession.

Indirect Taxes

- Special Economic Zones Act to be replaced with a new legislation to enable States to become partners in 'Development of Enterprise and Service Hubs'.
- Customs Administration of SEZs to be fully IT driven and function on the Customs National Portal - shall be implemented by 30th September 2022.
- Simplifying the Customs rate and tariff structure particularly for sectors like chemicals, textiles and metals and minimise disputes.
- Removal of exemption on items which are or can be manufactured in India and providing concessional duties on raw material that go into manufacturing of intermediate products – in line with the objective of 'Make in India' and 'Atmanirbhar Bharat'.
- A simplified regulatory framework to be implemented by June this year - To facilitate export of jewellery through e-commerce.

- Amendments to Indian Customs Tariff to aligned with HS-2022, published by World Customs Organisation (WCO).
- General exemption provided in various products giving effective rates of BCD now incorporated in Tariff.
- Customs administration to be fully IT driven in SEZs.
- Phasing out concessional rates in capital goods and project imports gradually and apply a moderate tariff of 7.5%.



DIRECT TAX PROPOSALS

(Unless specified, proposals shall take effect from AY 2023-24)

RATES OF TAX / THRESHOLD LIMIT

a. Individual, HUF, AOP or BOI, Artificial Judicial Person

Normal Regime

- No change in tax slabs and basic tax rates.
- Surcharge in case of income earned from Long term capital gains is proposed to be capped @15%.
- In case of AOPs consisting of only companies as its members, it is proposed that surcharge shall not exceed 15%.
- No change in Health and Education Cess, which is @ 4%.
- No change in Tax rebate for resident individual whose income does not exceeding ₹ 5 lakhs which is at ₹ 12,500.
- Effective tax rate shall be as under:

Taxable Income Slab (₹)	Tax Rates (including surcharge & cess)		
	General	Senior Citizen	Very Senior Citizen
Up to 2,50,000	NIL	NIL	NIL
2,50,001 to 3,00,000	5.20%	NIL	NIL
3,00,001 to 5,00,000	5.20%	5.20%	NIL
5,00,001 to 10,00,000	20.80%	20.80%	20.80%
10,00,001 to 50,00,000	31.20%	31.20%	31.20%
50,00,001 to 1,00,00,000	34.32%	34.32%	34.32%
1,00,00,001 to 2,00,00,000	35.88%	35.88%	35.88%

Taxable Income Slab (₹)	Tax Rates (including surcharge & cess)		
	General	Senior Citizen	Very Senior Citizen
2,00,00,001 to 5,00,00,000	39.00%	39.00%	39.00%
5,00,00,001 and above	42.75%	42.75%	42.75%

New Optional Regime

- No change in the rates of Optional Regime. Effective rates are as under:

Taxable Income Slab (₹)	Rate of Tax
Up to 2,50,000	NIL
2,50,001 to 5,00,000	5.20%
5,00,001 to 7,50,000	10.40%
7,50,001 to 10,00,000	15.60%
10,00,001 to 12,50,000	20.80%
12,50,001 to 15,00,000	26.00%
15,00,001 to 50,00,000	31.20%
50,00,001 to 1,00,00,000	34.32%
1,00,00,001 to 2,00,00,000	35.88%
2,00,00,001 to 5,00,00,000	39.00%
Above 5,00,00,000	42.75%

b. Firm and LLP

- No change in basic tax rate of 30% and surcharge of 12% for income above ₹ 1 crore.
- No change in Health and Education Cess, which is 4%.
- Effective Tax rates shall be as under (subject to AMT).

Taxable Income	Tax Rates (Including surcharge and cess)
Up to ₹ 1 Crore	31.20%
Above ₹ 1 Crore	34.94%

c. Companies:

Normal Regime

- No change in Tax rate of 25% for domestic companies, having total turnover or gross receipts not exceeding ₹ 400 crores in FY 2020-21.
- For Domestic companies, surcharge of 7% is applicable where income exceeds ₹ 1 crore and 12% where income exceeds ₹ 10 crores.
- For foreign companies, surcharge of 2% is applicable where income exceeds ₹ 1 crore and 5% where income exceeds ₹ 10 crores.
- No change in Health and Education Cess, which is 4%.
- Effective tax rates shall be as under (Subject to MAT):

Particulars	Domestic Company	Foreign Company
Turnover/Gross Receipts up to ₹ 400 crores in FY 2020-21		
Taxable Income upto ₹ 1 crore	26.00%	41.60%
Taxable Income above ₹ 1 crore to ₹ 10 crores	27.82%	42.43%
Taxable Income above ₹ 10 Crores	29.12%	43.68%
Turnover/Gross Receipts above ₹ 400 Crores in FY 2020-21		
Taxable Income upto ₹1 crore	31.20%	41.60%
Taxable Income above ₹1 crore to ₹10 crores	33.38%	42.43%
Taxable Income above ₹10 Crores	34.94%	43.68%

Optional Regime

- No change in the rates of Optional Regime. The provisions of MAT shall not be applicable.
- Effective rates for companies under both the sections are as under:

Particulars	As per section 115BAA	As per section 115BAB
Effective Tax Rate (Including surcharge and cess)	25.17%	17.16%

d. Co-operative society

Normal Regime

- There is no change in the slab rates for tax. The same are as under:

Taxable Income Slab	Tax Rates
Up to ₹ 10,000	10%
₹ 10,001 to ₹ 20,000	20%
Above ₹ 20,000	30%

- Surcharge is reduced to 7% in case of income exceeding ₹ 1 crore but less than ₹ 10 crores.
- Surcharge @ 12% shall be levied in case of income exceeding ₹ 10 crores.

Optional Regime

- No change has been proposed in the tax rate for Optional Regime. The effective tax rate shall be 25.17%.

e. Minimum Alternative Tax (MAT) & Alternate Minimum Tax (AMT)

- No change in basic MAT @ 15%, AMT @ 18.5% (except Co-operative Societies). AMT rate is proposed to be reduced from 18.5% to 15% for Co-operative Societies.
- No change in Surcharge and Cess rates.

TDS / TCS PROVISIONS

a. Rationalization of provisions relating to Higher TDS/TCS for non-filers of return

- The existing provisions of section 206AB and 206CCA provide for higher rate of TDS/TCS in case of payments to certain "Specified Persons". It has been now proposed to change the definition of "Specified Person" to cover a person who has not filed their return of income for 1 year instead of previously applicable 2 years.
- It is further proposed that this section shall not apply for TDS deduction u/s 194-IA (TDS on sale of immovable property), 194-IB (TDS on rent by Individual & HUF) and 194M (TDS on payment to resident contractors & professionals).

b. Rationalization of provisions concerning TDS on sale of immovable property

- TDS u/s 194-IA on sale of immovable property is presently calculated @ 1% on the sale consideration amount. It is now proposed that the said TDS would apply on sum paid/credited to the resident or stamp duty value of such property, whichever is higher. In case the consideration amount or stamp duty value are both less than ₹ 50 lakhs then no tax is required to be deducted.

c. Insertion of new TDS provisions u/s 194R on benefit or perquisite of a business or profession [w.e.f. 01-Jul-2022]

- It is proposed to levy TDS on benefit or perquisite, whether convertible into money or not, arising from carrying out of a business or profession @ 10% subject to the value of benefit or perquisite exceeding ₹ 20,000/- during the financial year.
- The provisions of the said section shall not apply to an individual or HUF whose total sale / gross receipts / turnover does not exceed ₹ 1 crore in case of business or ₹ 50 lakhs in case of profession.

d. TDS on payment for transfer of Virtual Digital Asset [w.e.f. 01-Jul-2022]

- It is proposed to insert new section 194S to provide for deduction of tax on payment for transfer of virtual digital asset to a resident @ 1% of such sum.

- No tax is to be deducted in case the payer is the specified person and the value or the aggregate of such value of consideration to a resident is less than ₹ 50,000 during the financial year. In any other case, the said limit is proposed to be ₹ 10,000 during the financial year.
- It is also proposed to provide that if tax has been deducted under section 194S, then no tax is required to be collected or deducted in respect of the said transaction under any other provisions of the Act.

BUSINESS INCOME

a. Clarification regarding non allowability of Cess and Surcharge [w.r.e.f. AY 2005-06]

- It is proposed to insert explanation to Section 40 to clarify that tax includes cess and surcharge which cannot be allowed as business expense.

b. Amendment to section 43B regarding deduction of interest only on actual payment

- It is proposed to amend section 43B to provide that conversion of interest payable into debentures or any other instrument, for deferring the liability to pay to a future date, shall not be treated to have been actually paid and therefore disallowable.

c. Clarification on allowability of expense u/s. 37 [w.e.f. A.Y. 2022-23]

- Section 37 provides for disallowance of expenditure incurred for any purpose which is an offence or prohibited by law. It is now proposed that such expenditure shall include and shall be deemed to have always included expenditure incurred:
 - o In respect of any violation of law whether in India or outside India.
 - o In respect of any benefit or perquisite, in whatever form, provided to or accepted by such person, which is in violation of any law or rule or regulation or guideline governing the conduct of such person, irrespective of whether or not such person is carrying business or profession.

- o To compound an offence under any law, whether in India or outside India.

d. Clarification in respect of disallowance u/s. 14A [w.e.f. A.Y. 2022-23]

- It is proposed to insert explanation in Section 14A to clarify that expenditure incurred to earn exempt income will not be allowed as deduction even when no exempt income is accrued or received during the previous year.

DEDUCTIONS

a. Extension of date of incorporation for eligible start up u/s. 80-IAC [w.e.f. A.Y. 2022-23]

- It is proposed to amend the last date for incorporation of eligible start-ups to 31-Mar-2023 from 01-Apr-2022 for the purpose of claiming deduction u/s. 80-IAC.

SPECIAL PROVISIONS

a. Scheme for taxation of Virtual Digital Assets

- It is proposed to introduce section 115BBH to provide for income-tax on transfer of any virtual digital asset @ 30%.
- No deduction in respect of any expenditure (other than cost of acquisition) or allowance or set off of any loss shall be allowed to the assessee under any provision of the Act while computing income from transfer of such asset.
- Further, no set off of any loss arising from transfer of virtual digital asset shall be allowed against any income computed under any other provision of the Act and such loss shall not be allowed to be carried forward to subsequent assessment years.
- The term "Virtual Digital Asset" is widely defined in section 2(47A) of the Act.
- It is proposed to provide that gifting of virtual digital assets would be taxable as 'Income from Other Sources' under section 56(2)(x) in the hands of the recipient.

b. Extension of last date for commencement of manufacturing or production u/s. 115BAB [w.e.f. A.Y. 2022-23]

- It is proposed to amend section 115BAB (providing for beneficial tax rate for companies @ 15%) to extend the last date of commencement of manufacturing or production to 31-Mar-2024 from the existing cut-off date of 31-Mar-2023.

c. Withdrawal of concessional tax rate on dividend income under section 115BBD

- In certain cases where Indian companies are receiving dividends from foreign companies the same is currently taxed @15%. It is now proposed that the concessional rate of tax of 15% as per section 115BBD of the Act shall not apply.

d. Exemption of amount received for medical treatment and on account of death due to COVID-19 [w.r.e.f. AY 2020-21 onwards]

- It is proposed to exempt/ exclude from the definition of "perquisite"; any sum paid by the employer in respect of any expenditure actually incurred by the employee on his medical treatment or treatment of any member of his family in respect of any illness relating to COVID-19 subject to certain conditions.
- It is further proposed to amend the provisions of section 56(2)(x) to provide that the following shall not be the income of a person subject to such other conditions as may be notified by the Central Government:
 - o Any sum of money received by an individual from any person in respect of any expenditure actually incurred by him on his medical treatment or treatment of any member of his family, in respect of any illness related to COVID-19.
 - o Any sum of money received by a member of the family of a deceased person from the employer of the deceased person (without limit), or from any other person or persons upto ₹ 10 lacs where the cause of death of such person is illness relating to COVID-19 and the payment is received within twelve months from the date of death of such person.

RATIONALISATION OF PROVISIONS FOR CHARITABLE TRUST AND INSTITUTIONS

a. Trusts and Institutions to maintain Books of Accounts

- It is proposed that Trusts and Institutions covered u/s.11, 12 or 10(23C) shall keep and maintain books of accounts if the total income without giving effects to these sections exceeds the maximum amount not chargeable to tax.

b. Penalty for passing on unreasonable benefit to Trustee or Specified person

- It is proposed to insert a new section 271AAE that provides for penal consequences to a Trust for passing unreasonable benefit to a Trustee or other Specified persons.

c. Bringing Consistency in provisions of two Regimes of Section 11 and 10(23C)

- It is proposed to amend section 10(23C) to provide that if 85% of income is applied or accumulated for a period up to 5 years for the objects of the Trust, the same shall not be included in Total Income of the Previous Year.
- It is proposed to amend section 11 and 10(23C) to provide that any income which is not utilized for the purpose for which it is accumulated or set apart shall be deemed to be the income of such person in the last year of the period.

d. Provision of Exit Tax u/s.115TD to apply to Trust registered u/s. 10(23C)

- Section 115TD levies an exit tax when a charitable organization u/s. 11 is converted/merged into a non-charitable organization. It is now proposed to widen the applicability of Section 115TD to also cover Trusts registered u/s. 10(23C).

e. Filing of return by person claiming exemption u/s. 10(23C)

- It is proposed that in order to claim exemption u/s. 10(23C), a trust or institution is required to furnish return of income for previous year in accordance with the provisions of Section 139(4C).

f. No deduction in respect of any expenditure or set off of loss to be allowed to Assessee

- It is proposed to amend section 10(23C) to provide that the method for determining the amount of expenditure shall apply as they apply in computing income under 'Profit and Gains from Business & Profession' and no deduction of disallowable expenditure or set off of loss will be allowed to the assessee.

g. Taxation of certain income at Special rate

- It is proposed to insert section 115BBI to provide that any income arising by virtue of violation of the provisions of the regime u/s. 10(23C)/11, shall be taxed at a special rate of 30% of such specified income.

PROCEDURAL AMENDMENTS

a. Introduction of filing of 'updated return' u/s. 139(8A) after the due date of belated return / revised return [w.e.f. A.Y. 2022-23]

- In case of taxpayers who have missed the due date of filing of belated return or revised return and who want to voluntarily file return or correct the particulars of income of original return; it is proposed that such taxpayers be permitted to file 'updated return' on payment of additional tax.
- Such updated return can be filed upto 24 months from the end of the relevant AY.
- The additional tax shall be 25% on the aggregate of tax and interest otherwise applicable on the additional income where the updated return is filed before completion of 12 months from the end of AY; and 50% where the updated return is filed before completion of 24 months from the end of AY.
- Updated return cannot be filed in the following cases: -
 - o Return of loss.
 - o Return resulting in reduction in tax liability.
 - o Return resulting in refund or increase in refund.

- Updated return cannot be filed by the following persons:-
 - o Search / survey action is initiated against such person.
 - o Any money, bullion, etc. found in some other search case belonging to such person.
 - o Books of accounts, documents, etc. seized in some other search case belonging to such person.

The above exclusion is applicable for the AY in which search / survey is conducted and preceding 2 years.

- Further, no updated return is allowed to be furnished for the relevant AY where: -
 - o Updated return is already furnished for such AY.
 - o Assessment, reassessment, revision proceedings is pending or completed for such AY.
 - o AO has information against such person under PMLA Act, Black Money Act, section 90/90A, etc. and the same is already communicated to the assessee.
 - o Prosecution proceedings is initiated for such AY.
- It is mandatory to pay taxes before filing such updated return, else it shall be treated as a defective return.

b. Procedural amendment in Dispute Resolution Committee (DRC) provisions [w.e.f. AY 2022-23]

- It is proposed to enable the Assessing Officer to pass an order giving effect to the resolution of dispute by the DRC, within 1 month from the end of the month in which the order is received.

c. Widening power of Principle Chief Commissioner or Principle Commissioner Amendments in provisions of Section 263 of the Act (w.e.f. 01-Apr-2022)

- It is proposed to revise Section 263 of the Act to provide that the Principal Chief Commissioner or the Chief Commissioner or the Principal Commissioner or Commissioner who is assigned the jurisdiction of transfer pricing may call for and examine the record

of any proceeding under this Act, and if he considers that any order passed by the TPO, working under his jurisdiction, to be erroneous in so far as it is prejudicial to the interests of revenue, he may pass an order directing revision of the order of TPO.

- Subsequently, Section 153 of the Act is also proposed to be amended to give two months' time to AO to give effect to the order of the TPO consequent to directions in the revised order.
- Further, the following amendments are proposed in Section 153:
 - Provisions of Section 153(3) and 153(5) shall also be applicable to order passed by TPO u/s. 92CA.
 - Section 153(5A) is proposed to be inserted to give effect to an order passed by TPO based on direction under Section 263 and forwards such order to the AO. The AO shall proceed to modify the order of assessment or reassessment or recomputation, in conformity with such order of the TPO, within two months from the end of the month in which such order of the TPO is received by him.
 - Provision of Section 153(6) shall also be applicable to orders referred in Section 153(5A) of the Act.

d. Widening the scope of reporting by persons engaged in specified activities [w.e.f. AY 2022-23]

- It is proposed to expand the reporting requirements presently applicable to producer of cinematographic films, now even to persons engaged in specified activities, such as event management, production of programs for telecasting on television or OTT platforms, etc.

e. Rationalization of provisions relating to Faceless Assessment

- In order to streamline the process of faceless assessment, certain modifications are proposed in the procedures of conducting faceless assessment.
- It is also proposed to omit sub-section (9) of section 144B from its date of inception i.e. 01-Apr-2021. Consequently, it is proposed

that assessment proceedings under Faceless Assessment Scheme shall not be treated as void if the procedures mentioned in section 144B are not followed.

f. Rationalization of provisions relating to assessment and reassessment [w.e.f. AY 2022-23]

- In order to align the scheme of search assessments with the intent of the Act while reopening the cases u/s.148; certain provisions relating to assessments and reassessments have been rationalized; gist of which is as under:
 - o Certain approvals u/s.148 are no more necessary.
 - o Insertion of a new section 148B to provide that no order of assessment or reassessment or re-computation under the Act shall be passed by an Assessing Officer below the rank of Joint Commissioner except with prior requisite approvals in respect of assessments consequent to search, survey and requisition.
 - o Amendment of section 149(1)(b) to include income represented in the form of expenditure in respect of a transaction or in relation to an event or occasion or an entry or entries in the books of account also.
 - o Insertion of new sub-section (1A) in section 149 that where income represented in the form of asset or expenditure has escaped assessment and such investment or expenditure is made in each previous year within the period referred in section 149, notice u/s.148 shall be issued for every such assessment year.

g. Amendment in section 248 and insertion of new section 239A [w.e.f. AY 2022-23]

- A new section 239A is proposed to be inserted to provide that a person who has made the deduction of tax under an agreement or arrangement and borne the tax liability when no tax deduction was required, may file an application for refund of such tax deducted before the Assessing Officer and may further file an appeal before the Commissioner (Appeals) u/s.246A if not satisfied with such an order.

- The provisions of section 248 of the Act will not apply in cases where the date of tax payment, to the credit of Central Government is on or after 01-Apr-2022.

PENALTIES

a. Increase in amount of penalty u/s. 272A [w.e.f. A.Y. 2022-23]

- It is proposed to levy penalty of ₹ 500 per day for failures listed u/s. 272A(2) from the existing penalty amount of ₹ 100 per day.

b. Punishment provisions for failure to pay TCS [w.e.f. AY 2022-23]

- It is proposed to cover act of failure to pay tax collected at source for punishment for second and subsequent offence.

c. Empowering CIT(A) to levy penalty in various cases [w.e.f. AY 2022-23]

- It is proposed to empower the CIT(A) also to levy penalty in cases involving undisclosed income pursuant to search u/s. 132 or otherwise, or for false entry, etc. in the books of accounts.

OTHER PROPOSALS

a. Non availability of set-off of loss in search cases [w.e.f. AY 2022-23]

- It is proposed to introduce a new section 79A, wherein no set-off of any loss or unabsorbed depreciation shall be allowed against any undisclosed income detected during the course of search / survey proceedings (other than TDS survey).

b. Additional onus to prove source of source u/s. 68

- It is proposed to amend the provisions of section 68 to provide that the nature of source of any sum, whether it is a loan or borrowing or any other liability credited in the books, shall be treated as explained only if the source of funds in the hands of lender or creditor is also explained.

- However, this additional onus shall not be applicable if the creditor is a well-regulated entity i.e., it is a Venture Capital Fund, Venture Capital Company registered with SEBI.

- c. Scope of provisions pertaining to dividend and bonus stripping widened**
- It is proposed to extend the existing dividend and bonus stripping provisions u/s. 94(8) to securities, InvIT, REIT and AIF.

- d. Amendments related to successor entity subsequent to business reorganization [w.e.f. AY 2022-23]**
- It is proposed to insert a sub-section (2A) to section 170 to provide that the assessment or other proceedings pending or completed on the predecessor in the event of a business reorganization, shall be deemed to have been made on the successor.
- For the entities going through business reorganization, it is proposed to insert a new section 170A to enable them to file modified returns for the period between the date of effectivity of the order and the date of issuance of final order of the competent authority.



INDIRECT TAX PROPOSALS

Customs

a. Rate related changes

A. Proposals Involving Changes in Basic Customs Duty Rate [wef 02-Feb-2022]

Sr.	Sector	Description of Goods	Old	New
1	Edible Oil	Microbial fats and oils and their fractions	30%	100%
2	Food Stuff	Cocoa Beans, whole or broken, raw or roasted	30%	15%
3	Fuels, Chemicals and Plastics	Fuel oil	5%	2.5%
		Straight run fuel oil	5%	2.5%
		Low sulphur wax residue	5%	2.5%
		Vacuum residue, Slurry	5%	2.5%
		Vacuum gasoil	5%	2.5%
		Sodium cyanide	7.5%	10%
		Methyl alcohol (methanol)	10%	2.5%
		Acetic Acid	10%	5%
4	Paper	Recovered (waste and scrap) paper or paperboard for use in manufacturing of paper, paperboard or newsprint	NIL	2.5%
5	Umbrellas	Umbrellas	10%	20%
6	Gems and Jewellery Sector	Simply Sawn Natural Diamonds imported under Kimberley Process Certification Scheme (KPCS)	Applicable Rate	NIL
		Cut and Polished Diamonds	7.5%	5%
		Cut and Polished Natural Gemstones	7.5%	5%

Sr.	Sector	Description of Goods	Old	New
		Imitation Jewellery	20%	Higher of 20% or ₹ 400 per kg
7	Metals	Iron and steel scrap, including stainless steel scrap [Exemption extended up to 31 March, 2023]	NIL	NIL
8	Electrical and Electronics Sector	Camera lens for use in manufacture of Camera Module for Cellular Mobile Phone	10/15 %	2.5%
		Specified parts for use in manufacture of transformers of chargers/adapters	10/15 %	5%
		Copper/Aluminum based Copper clad laminate for use in manufacture of PCB/MCPCB	5/7.5 %	NIL
		Following items used in manufacture of X-ray items: a) X-Ray grid b) Multi Leaf Collimator/ Iris c) Static User Interface	5%	10%
		X-Ray Machines	7.5%	10%
9	Solar Energy Sector	Solar Cells (other than those exclusively used with ITA-1 items)	20%	25%
		Solar Modules (other than those exclusively used with ITA-1 items)	20%	40%
		Note: Effective BCD rate on above goods will continue to be 'Nil' till 31 March, 2022		

Sr.	Sector	Description of Goods	Old	New
10	Toys	Parts of electronic toys for manufacture of electronic toys	15%	25%
11	Capital Goods	S. G. Ingot Castings used in manufacturing of Plastic Processing Machinery	10%	7.5%
		Ball Screw and Linear Motion Guide used in manufacturing of Plastic Processing Machinery	7.5%	5%
		Bushing (made up of platinum and rhodium alloy, imported in exchange of worn-out bushing exported for refurbishment)	10%	7.5%
		Coffee roasting, brewing or vending machineries for use in the manufacturing or processing of coffee	10%	7.5%

B. Other Rate Related Changes

- Review of levy of Social Welfare Surcharge (SWS) on various items

Exempted	Exemption Withdrawn
Edible fruits and nuts; peel of citrus fruits or melons	Specified Men's or boy's overcoats, car coats, capes, cloaks, anoraks (including ski-jackets), wind-cheaters, wind-jackets and similar articles, knitted or crocheted
Edible Oils	
Mineral Products	
Cotton	
Man-made Filaments and Textile Material	Specified Articles of apparel and clothing accessories, knitted or crocheted.
Man-made Staple Fibres	Specified HSN of Upholstery fabrics

- Sector Specific withdrawal of exemption or concession with immediate effect or in phased manner.
 - o Exemption / concessional rates provided to specified capital goods in Textile Sectors, Power Sector, Petroleum Sectors, Leather Sectors, Food Packaging Sectors.
- b. Law related changes (changes with effect from date of enactment of Finance Bill, unless specified otherwise)**

Customs Act, 1962

- In order to check and measure undervaluation of imported goods, additional obligation is casted on importer;
- Certain changes prescribed for Advance Ruling:
 - o Fees prescribed for making an application;
 - o Withdrawal of application without any time limit;
 - o Ruling valid for 3 years, subject to change in law/facts.
- Provision made to protect data furnished by importers or exporters to Customs department.

Customs Tariff Act, 1975

- Complementary Amendments made to align Indian Customs Tariff with HS-2022, published by World Customs Organisation (WCO), in order to bring clarity in classification.

Customs Import of Goods at Concessional Rate of duty (IGCR), Rules 2017

- Amendment to facilitate export of specified items, scheme for duty free imports meant for use in exported goods, based on end-use monitoring with automation / standardizing of details (Henceforth, Transaction based permission / intimations not required).

Central Excise

- Two new Tariff items relating to E12 and E 15 fuel blends have been inserted in the Fourth Schedule to the Central Excise Tariff Act, 1944 (to be effective from enactment of Finance Act).

- To promote blending of fuel, the Government proposes to charge an additional differential excise duty of ₹ 2 per liter from 1st October 2022 on unblended fuel.
- Chewing Tobacco, preparations containing chewing tobacco, Jarda scented tobacco and Pan masala containing tobacco is now covered under Retail Sale Price (RSP) based valuation (w.e.f. 2 February 2022).
- Provisions / clarification issued to ensure uniform implementation of RSP based valuation on notified goods (w.e.f. 2 February 2022).

Goods and Services Tax (GST)

(To be effective by way of issuance of notification by Government)

- Certain amendment proposed to give effect to changes related to filing of returns.
 - o Input Tax Credit (ITC) can be availed, subject to certain conditions and restrictions, communicated by means of an auto-generated statement;
 - o Allow transfer of balance in electronic cash ledger to distinct person (entities with same PAN);
 - o Time limit to avail ITC, issue debit/credit note, amendments in outward supply / tax collection at source return, is extended till 30 November following the end of financial year;
 - o Provisions made for restricting certain percentage of electronic credit ledger to be utilized against output tax liability, subject to conditions;
 - o Recipient is required to reverse ITC availed, for which supplier has not paid tax, along with interest. Subsequently, on payment of tax by such supplier, recipient may be allowed to re-avail ITC, subject to conditions as may be prescribed;
 - o Wrongly availed and utilized ITC would be subject to 18 per cent interest effective from 1 July 2017.

- Non filer of returns (GSTR 1 and GSTR 3B) may be allowed to furnish subsequent returns subject to certain conditions and restrictions;
- Cancellation of Registration based on continuous non-filing of returns may be prescribed (replaced with six months continuous non-filing of returns).

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KEY POLICY CHANGES IN FY 2021-22 AND BUDGET AMENDMENTS 2022

FEMA / RBI

- The Reserve Bank of India ("**RBI**"), vide its Circular No. RBI/2021-22/137 A.P. (DIR Series) Circular No. 20 dated 10-Dec-2021, has made the Legal Entity Identifier ("**LEI**") mandatory for cross border transactions / capital or current transactions of 50 Crores and above w.e.f. 01-Oct-2022. LEI is a 20-digit alpha numeric unique number used to identify parties to financial transactions worldwide to improve the quality and accuracy of the financial data systems for better risk management.
- An announcement was made in the Union Budget 2021-22 that debt financing of InvITs and REITs by FPIs will be enabled by making suitable amendments in the relevant legislations. In line with the same, RBI issued a notification RBI/2021-22/120, A.P. (DIR Series) Circular No. 16 dated 08-Nov-2021 stating that foreign portfolio investors can acquire debt securities issued by InvITs and REITs. Such investments shall be reckoned within the limits and subject to the terms and conditions for investments by FPIs in debt securities under the respective regulations of Medium Term Framework and Voluntary Retention Route.
- Foreign direct investment (FDI) in the Defence sector is permitted up to 74 per cent under the automatic route, from 49 per cent. The raised limit will, among other things, help firms seeking new industrial licenses.
- The FDI cap in the telecom sector (under the automatic route) has been increased from 49 per cent to 100 per cent vide Press Note No. 4 (2021 Series), to accompany other major structural and process reforms for the telecom sector, which are primarily aimed at increasing liquidity and reducing the regulatory burden of the telecom sector.

- Qualified jewellers notified by International Financial Services Centres Authority will be permitted to import specified forms of gold through India International Bullion Exchange (IIBX). Earlier, such imports were allowed only to nominated agencies as notified by the RBI (in case of banks) and directorate general of foreign trade (DGFT).
- In view of cessation of LIBOR as a benchmark rate, the benchmark rate in case of FCY ECB/TC shall refer to any widely accepted interbank rate or alternative reference rate (ARR) of 6-month tenor, applicable to the currency of borrowing. Benchmark rate in case of Rupee denominated ECB/TC will be prevailing yield of the Government of India securities of corresponding maturity.

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CAPITAL MARKET

The year 2021-22 so far has been an exceptional year for the primary markets with a boom in fundraising through IPOs by many new age companies/tech start-ups/unicorns. The tremendous response by all categories of investors in IPOs of companies was reflective of not only the confidence in markets, but also that in corporate sector performance and prospects of the economy in the long run.

In April-November 2021, IPOs of 75 companies have listed, garnering ₹ 89,066 crore, as compared to 29 companies raising ₹ 14,733 crore during April-November 2020, indicating stupendous rise of 504.5 per cent in fund mobilization. The money raised by IPOs has been greater than what has been raised in any year in last decade by a large margin. Amount raised through rights issues however declined by 62.6 per cent to ₹ 22,659 crore in April-November 2021, as compared to ₹ 60,608 crore during corresponding period of previous year. Though amount raised through Qualified Institutional Placements (QIP) declined by 52.9 per cent, amount raised by way of preferential allotment increased by 67.3 per cent during April-November 2021, as compared to same period previous year.

The amount raised through public issues in debt doubled as 20 public issues raised ₹ 9,132 crore during April-November 2021, as compared to 10 issues which raised ₹ 3,871 crore during the corresponding period of previous year. However, number of issues and amount mobilized through private placement declined. Overall, debt mobilization slowed, and this contrast with equity market suggest an increased appetite for risk among investors.

In addition to equity and debt, corporates are also diversifying into a large number of new instruments such as hybrids & convertibles, Real Estate Investment Trusts (REITs), Infrastructure Investment Trusts (InvITs) etc. Resource mobilization by InvITs was ₹ 15,506 crore in April-November 2021.

During April-November 2021, FPIs made a net investment of ₹ 24,124 crore in Indian securities, 82.8 per cent lower than what was made in

same period previous year. The net inflows from FPIs increased to the tune of 9.2 per cent to US\$288.4 billion from US\$ 264 billion at end November 2020. The net Assets Under Management (AUM) of mutual fund industry rose by 24.4 per cent to ₹ 37.3 lakh crore at the end of November 2021 from ₹ 30.0 lakh crore end of November 2020. Net resource mobilization by mutual funds was ₹ 2.54 lakh crore during April-November 2021, as compared to ₹ 2.73 lakh crore during April-November 2020.

The benchmark stock market indices in India - Sensex and Nifty 50, increased by 17.7 per cent and 18.1 per cent, respectively during April-December 2021. Driven by good corporate earnings, sharp rise in COVID-19 vaccination and opening up of business establishment across the country, Sensex and Nifty scaled up to touch its peak at 61,766 and 18,477 respectively on 18th October 2021.

Primary Market Resource Mobilization through Public and Rights Issues (Equity)								
Period	Public Issue (IPO + FPO)		Rights Issue		QIPs		Total	
	No. of Issues	Amount (₹ Cr.)	No. of Issues	Amount (₹ Cr.)	No. of Issues	Amount (₹ Cr.)	No. of Issues	Amount (₹ Cr.)
2020-21	57	46,060	21	64,059	31	78,738	109	1,88,857
April - Nov 2020	30	29,733	15	60,608	16	56,725	61	1,47,066
April - Nov 2021	75	89,066	18	22,659	23	26,704	116	1,38,429

Resource Mobilization in Corporate Bond Market				
Period	Public Issue		Private Placement	
	No. of Issues	Amount (₹ Cr.)	No. of Issues	Amount (₹ Cr.)
2020-21	18	10,588	1,995	7,71,840
April - Nov 2020	10	3,871	1,299	4,88,071
April - Nov 2021	20	9,132	851	3,62,458

ECONOMIC OUTLOOK

Overview

The COVID-19 pandemic that broke out in early 2020 continued to inflict health and economic shocks across countries in 2021-22 with its resurgent waves. The Delta variant of COVID-19 struck India in the beginning of 2021-22 marking the onset of the second wave. Unlike the first wave, the second wave was asynchronous in its onset across states and more intense in its spread, entering the rural hinterland. The second wave temporarily stalled the momentum of economic recovery that India has been witnessing since the second half of 2020-21, besides adding to health challenges. However, the economic impact of second wave was muted compared to that of the first wave. After the peaking of second wave in mid-May 2021, the economy swiftly rebounded in second quarter of 2021-22 as also reflected in revival of key high frequency indicators such as GST collections, power consumption, PMI Manufacturing and Services, rail freight and port activity. Aiding the swift recovery was India's rapid progress in vaccination starting January 2021 that helped contain the sequential decline in momentum due to second wave. Latest readings of key high frequency indicators further suggest robust recovery momentum in Oct-Dec quarter of 2021-22.

Given the asynchronous nature of the second wave, India's policy response constituted a differentiated, state-level policy response in close coordination with the Central Government for rapid rebooting of health infrastructure and effective implementation of 'Test, Track, Treat, Vaccinate and COVID-appropriate behaviour'. Further, Government announced a relief package of ₹ 6.29 lakh crore in June 2021 to combat the second wave, strengthen public health system and provide impetus for economic growth and employment. The package included provision of safety nets for vulnerable households and small businesses and a host of supply side measures. Safety nets included extension of Pradhan Mantri Garib Kalyan Yojana (PMGKY) and Aatmanirbhar Bharat Rozgar Yojana (ANBRY) besides additional fertilizer subsidy. Supply side measures included provisions for public health care, loan guarantee scheme for COVID-19 affected sectors, expansion of Emergency Credit

Line Guarantee Scheme (ECLGS), Credit Guarantee Scheme for Micro Finance Institutions, Scheme for Tourism sector workers, boost for Project Exports through National 1 Export Insurance Account (NEIA), assistance for Broadband to each Village through Bharat Net PPP Model, and ₹ 3 lakh crore for Reform-Based Result Linked Power Distribution Scheme. Several other reforms were initiated for Public Sector Banks that focussed on tech-enabled, simplified, and collaborative banking. Government also initiated nine structural reforms, five procedural reforms plus relief measures for the Telecom Service Providers. Further, Government is implementing Production Linked Incentive (PLI) schemes in 14 key sectors that have been specifically designed to attract investments in sectors of core competency and cutting-edge technology; ensure efficiency and bring economies of size and scale in the manufacturing sector and make Indian manufacturers globally competitive.

To augment productive capacity of the economy in the medium term, Government provided a large fiscal stimulus in the form of capital expenditure. In line with the 2021-22 Budget's steep increase of 34.5 per cent in outlay, Central Government stepped up public capital expenditure in Apr-Nov 2021 by 13.5 per cent over the corresponding period of the last year and 28 per cent over corresponding 2019-20 levels. The Capex spending was and continues to be focused on Railways, Road transport and highways, and Housing and Urban Affairs – sectors crucial for industrial turnaround and included in the National Infrastructure Pipeline. Further, to utilize inter-ministerial synergies in infrastructure sector, Government launched the Gati Shakti Master Plan, bringing 16 Ministries including Railways and Roadways together for integrated planning and coordinated implementation of infrastructure connectivity projects. The infrastructure and connectivity push have far-reaching consequences for medium to long-term growth and employment generation.

Economic growth

As per the first Advance Estimates of annual national income released by the National Statistical Office (NSO), India's real GDP is estimated to grow by 9.2 per cent in 2021-22, as compared to a contraction of 7.3 per cent in 2020-21. With this, the economy stands to recover 101.3 per cent of the pre-pandemic output of 2019-20. This is further

supported by strong rebound seen in several high frequency indicators in Q3: 2021-22 and rapid progress in vaccination coverage.

On the demand side, the recovery has been broad based. While investment and exports have achieved more than full recovery of corresponding pre-pandemic 2019-20 levels, private consumption has also improved to recover 97.1 per cent of corresponding pre-pandemic levels and stands fully recovered in H2 of FY 2021-22. Concurrently, private consumption expenditure is estimated to grow at 6.9 per cent in 2021-22 as against a contraction of 9.1 per cent in 2020-21 and fixed investment is estimated to grow by 15 per cent in 2021-22 as against a contraction of 10.8 per cent in 2020-21. Government consumption expenditure is estimated to grow by 7.6 per cent in 2021-22 as against 2.9 per cent in 2020-21. Exports and imports of goods and services are estimated to grow by 16.5 per cent and 29.4 per cent (at constant prices) respectively in 2021-22. These estimates confirm strengthening of economic recovery on the back of rising capex in public sector, increasing resilience of India's exports, investment cycle uptick and improved consumption levels.

On the supply side, while agriculture continues to lend unwavering support to economic recovery, manufacturing and construction exhibited a sharp rebound to recover more than 100 per cent of corresponding pre-pandemic output levels. These developments clearly reflect uptick in consumer and investor sentiment, release of pent-up demand, especially in construction supported by growing public capex and housing cycle upturn. Recovery in services sector has improved to almost reach corresponding pre-pandemic levels at 99.2 per cent, reflecting gradual adaptability of contact-intensive service sectors to the pandemic situation. Concurrently, growth of gross value added (GVA) at constant (2011-12) basic prices is estimated to be at 8.6 per cent in 2021-22, as compared to a contraction of 6.2 per cent in 2020-21. The growth in agriculture and allied, industry and services is estimated to be at 3.9 per cent, 11.8 per cent and 8.2 per cent respectively in 2021-22, as compared to 3.6 per cent, (-) 7.0 per cent and (-) 8.4 per cent respectively in 2020-21.

Prices

The average inflation rate based on Consumer Price Index-Combined (CPI-C) moderated from 5.9 per cent in 2014-15 to 3.4 per cent in

2018-19. However, it increased again to 4.8 per cent in 2019-20, and further to 6.2 per cent in 2020-21. During April-December 2021, retail inflation rate moderated to 5.2 per cent in 2021-22 (April-December) as against 6.6 per cent in the corresponding period last year. CPI-C based inflation rate stood at 5.6 per cent in December 2021. Food inflation based on Consumer Food Price Index (CFPI) declined from 6.4 per cent in 2014-15 to 0.1 per cent in 2018-19. It increased to 6.7 per cent in 2019-20 and further to 7.7 per cent in 2020-21. However, during 2021-22, CFPI declined to 2.9 per cent (April-December) as against 9.1 per cent in the corresponding period last year and stood at 4.0 per cent in December 2021. Inflation measured in terms of Wholesale Price Index (WPI) declined from 4.3 per cent in 2018-19 to 1.3 per cent in 2020-21. It increased to 12.5 per cent in 2021-22 (April-December) and stood at 13.6 per cent in December 2021.

Central Government Finances

The fiscal deficit and revenue deficit for 2021-22 were budgeted at 6.8 per cent of GDP and 5.1 per cent of GDP respectively. The BE 2021-22 envisaged a tax to GDP ratio of 9.9 per cent and total expenditure to GDP ratio of 15.6 per cent. The envisaged growth for Gross Tax Revenue was 16.7 per cent over 2020-21 Revised Estimates (RE). The total expenditure in BE 2021-22 was estimated to increase by 1 per cent over RE 2020-21.

As per the data on Union Government Finances released by Controller General of Accounts for April-November 2021, the Gross Tax Revenue increased by 50.3 per cent in comparison to the April-November 2020, and by 31.3 per cent in comparison to the April-November 2019. The non-tax revenue registered an increase of 79.5 per cent during April-November 2021, over the corresponding period of the previous year. At the end of November 2021, the nondebt capital receipts stood at 11 per cent of the BE 2021-22.

Major subsidies increased by 14.1 per cent during April-November 2021, as compared to April-November 2020. Food subsidy increased by 41.2 per cent and nutrient-based fertilizer subsidy increased by 53.3 per cent during April-November 2021, as compared to the corresponding period in 2020-21.

Fiscal deficit of the Central Government during April to November 2021 stood at 46.2 per cent of the BE, much lower compared to 135.1 per cent during the same period in 2020-21 and 114.8 per cent during the same period in 2019-20. The revenue deficit for April-November 2021 is 38.8 per cent of BE and is much lower than the corresponding figure of 139.9 per cent in the previous year. The Revised Estimates place fiscal and revenue deficits at 6.9 per cent of GDP and 4.7 per cent of GDP respectively in 2021- 22.

Monetary Management and Financial Intermediation

Monetary policy remained accommodative during 2021. The Monetary Policy Committee (MPC) of the Reserve Bank met six times since February 2021. All the meetings were held as per the schedule and attended by all the MPC members. Monetary policy and liquidity operations since the beginning of COVID-19 pandemic in March 2020 have been geared towards mitigating the adverse impact of the unprecedented demand and supply-side shocks inflicted on the on the Indian economy. The MPC maintained status quo on the policy repo rate during February 2021 to December 2021 after a substantial cut of 115 basis points (bps) during March-May 2020 and cumulatively 250 basis points since February 2019.

During 2021-22, the growth of monetary aggregates witnessed higher growth as compared to previous few years on account of higher liquidity in the economy. In 2021- 22 so far, Reserve money (M0) recorded a Year on Year (YoY) growth of 13 per cent as on December 24,2021 as compared to 14.9 per cent a year ago. Expansion in M0 during 2021-22 so far was driven by Banker's deposit with RBI from the component side. The growth of Broad Money (M3) stood at 9.3 per cent as on December 17, 2021, as compared to 12.4 per cent in the corresponding period a year ago. Aggregate deposits contributed the most in the growth of M3.

External Sector

Merchandise exports (customs basis) during 2021-22 (April-December), were US\$ 301.4 billion, which increased by 49.7 per cent over the level of US\$ 201.4 billion in the corresponding period of the previous year. During 2021-22 (April-December), merchandise imports were US\$ 443.8 billion, registering an increase of 68.9 per cent over the level of US\$

262.8 billion in corresponding period of the previous year. Oil imports increased from US\$ 54.0 billion in 2020-21 (April- December) to US\$ 118.3 billion in 2021-22 (April- December). Merchandise trade deficit increased from US\$ 61.4 billion in 2020- 21 (April-December) to US\$ 142.4 billion in 2021-22 (April-December).

India recorded a current account deficit of 0.2 per cent of GDP in 2021-22 (April-September) as against a surplus of 3.0 per cent in 2020-21 (April-September) on the back of a sharp increase in trade deficit. Net invisible receipts were higher in 2021-22 (April-September), on account of higher net receipts of services and private transfers.

Net FDI inflows at US\$ 21.2 billion in 2021-22 (April-September) were lower than US\$ 23.9 billion in 2020-21 (April-September). Portfolio investment recorded a net inflow of US\$ 4.3 billion in 2021-22 (April-September) as compared with US\$ 7.6 billion a year ago.

The average monthly exchange rate of rupee (RBI's reference rate) was ₹ 74.28 per US dollar in 2021-22 (April-December), as compared to ₹ 74.63 per US dollar during 2020-21 (April-December).

External debt as at end September 2021 remains low at 20.1 per cent of GDP. After witnessing significant decline since 2015-16, India's external liabilities to GDP ratio has increased to 44.94 per cent at the end 2020-21. However, at the end-September 2021 it again decreased to 42.80 per cent.

Sectoral Developments

Agriculture

In 2020-21 (as per Fourth Advance Estimates), total food grain production in the country is estimated at 308.7 million tonnes which is higher by 11.1 million tonnes than the production of food grain of 297.5 million tonnes during 2019-20. Rice production during 2020-21 is estimated at 122.3 million tonnes as compared to 118.9 million tonnes in 2019-20. Wheat production during 2020-21 is estimated at 109.5 million tonnes as compared to 107.9 million tonnes during 2019-20. Government has increased Minimum Support Prices (MSP) for all mandated kharif, rabi and other commercial crops. The enhanced MSP ensures a return of 1.5 times overall India weighted average cost of production for the season 2021-22.

Milk production in the country has increased from 146.3 million tonnes (2014-15) to 198.4 million tonnes (2019-20). The per capita availability of milk is at 406 grams per day in (2019-20). Egg production in the country has increased from 78.48 billion in 2014-15 to 114.38 billion in 2019-20. The per capita availability of egg is at 86 eggs per annum in 2019-20. The fish production in India has reached an all-time high of 14.5 million metric tons during 2020-21. Overall, fisheries sector has demonstrated an outstanding double-digit average annual growth of 10.87 per cent since 2014-15. The agriculture credit flow for the year 2020-21 was ₹ 15,75,398 crore against the target of ₹ 15,00,000 crore for the year. The agriculture credit flow target for 2021-22 has been fixed at ₹ 16,50,000 crore and till 30th September 2021 against this target a sum of ₹ 7,36,589.05 crore has been disbursed.

Banking and Non-Banking Sector

Bank credit growth was 7.3 per cent as on December 17, 2021 as compared to 6.0 per cent in the corresponding period of the previous year. The non-food credit growth (YoY) was 7.1 per cent in October 2021, as compared with a growth of 5.9 per cent in October 2020. The moderation in credit growth in 2021-22 was witnessed in mostly Agriculture and Allied Activities and Personal Loan sector.

Gross Non-Performing Advances (GNPA) ratio (i.e. GNPA as a percentage of Gross Advances) of Scheduled Commercial Banks decreased from 7.3 per cent at end-March 2021 to 6.9 per cent at end-September 2021. Restructured Standard Advances (RSA) ratio of Scheduled Commercial Banks (SCBs) increased from 0.8 per cent to 1.8 per cent during the same period. Overall, the Stressed Advances ratio of SCBs decreased from 7.9 per cent at the end of September 2020 to 6.9 per cent at end-September 2021. GNPA ratio of Public Sector Banks (PSBs) decreased to 9.1 per cent at end-March 2021 from 10.3 at end-March 2020 and the Stressed Advances ratios decreased from 9.96 per cent at end-September 2020 to 8.8 per cent at end-September 2021. However, this has to be seen in conjunction with the asset classification relief provided to borrowers on account of COVID-19.

Non-Banking Financial Sector

Total assets of NBFCs had increased from ₹ 29.23 lakh crore in March 2019 to ₹ 30.81 lakh crore in March 2020, and further to ₹ 34.75 lakh

crore in March 2021 and ₹ 35.11 lakh crore in the end of September 2021, resulting in an annual growth of 12.8 per cent during 2020-21 as compared with 9.1 per cent in 2019-20.

Industry

The performance of the industrial sectors based on the Index of Industrial Production (IIP) comprising mining, manufacturing and electricity registered a growth of (-) 8.4 per cent in 2020-21 as compared to (-) 0.8 per cent in 2019-20. As per the sectoral classification, mining, manufacturing and electricity sectors registered (-) 7.8 per cent, (-) 9.6 per cent and (-) 0.5 per cent growth during 2020-21 respectively. Among the use-based categories, primary goods, capital goods, intermediate goods, infrastructure/construction goods, consumer durables goods and consumer non-durables goods have attained (-) 7 per cent, (-) 18.6 per cent, (-) 9.4 per cent, (-) 8.7 per cent, (-) 15.0 per cent and (-) 2.2 per cent growth respectively in 2020-21. The cumulative growth of IIP during April-November 2021-22 is 17.4 per cent as compared to (-) 15.3 per cent during April-November 2020-21.

The eight-core infrastructure supportive industries, viz. coal, crude oil, natural gas, refinery products, fertilizers, steel, cement and electricity that have a total weight of nearly 40 per cent in the Index of Industrial Production (IIP) grew by (-) 6.4 per cent in 2020-21 as compared to 0.4 per cent in 2019-20. The production of fertilizer increased by 1.7, coal, crude Oil, Natural Gas, refinery products, Steel, Cement and Electricity fell by 1.9 per cent, 5.2 per cent, 8.2 per cent, 11.2 per cent, 8.7 per cent, 10.8 per cent, 0.5 per cent respectively during 2020-21. The cumulative growth of eight core industries during April-November 2020-22 was 13.7 per cent as compared to (-) 11.1 per cent during April- November 2020-21.

Prospects

Latest GDP estimates and movement in key economic activity indicators confirm strengthened momentum of India's economic recovery. While the Indian economy is poised to achieve more than full recovery of pre-pandemic output level in 2021-22, recent surge in Omicron infections and global inflation due to persistent supply bottlenecks continue to pose challenges to the pace of recovery. On the assumption that the year ahead will not experience pandemic induced disruptions on

economic activity and liquidity withdrawal in both domestic and global markets will be orderly, India's nominal GDP is expected to grow by 11.1 per cent in the financial year 2022-23 over 2021-22.



SECTORAL ANALYSIS

Automobile

Positive

Budget Proposal

- Battery swapping policy and inter-operability standards will be formulated to overcome the space constraint in Urban areas for setting up a charging station.
- The private sector will be encouraged to develop sustainable and innovative business models for 'Battery or Energy as a Service'.

Impact

- The government's proposal to introduce a battery swapping policy with interoperability standards for electric vehicles (EVs) will benefit the entire ecosystem of the EV business, particularly the electric two-wheeler and three-wheeler segments. The regulation will hasten the development of battery swapping stations, where EV owners may recharge their vehicles by exchanging out depleted batteries for fully charged ones. It will ease range anxiety and charging time, which are two of the most common concerns among potential electric vehicle purchasers. This will improve efficiency in the EV eco-system.

Healthcare

Neutral

Budget Proposal

- An open platform for National Digital Health Ecosystem to be rolled out.
- 'National Tele Mental Health Programme' for quality mental health counselling and care services to be launched.
- A network of 23 tele-mental health centres of excellence will be set up, with NIMHANS being the nodal centre and International Institute of Information Technology-Bangalore (IIITB) providing technology support.

Impact:

- Impetus given to the healthcare sector in the form of announcing the National Digital Health Ecosystem which will consist of digital registries of health providers and health facilities, unique health identity and universal access to health facilities. With the help of this digital ecosystem, the public can access higher quality healthcare facilities as well as healthcare workers can provide quality driven service.
- COVID-19 pandemic has accentuated mental health problems in people of all ages. To better access to quality mental health counselling and care services, a National Tele Mental Health Program will be launched. This is the much-awaited move by the government as India's 14 per cent of India's population lives with some form of mental illness and there exists a treatment gap of 72-92%.

Telecom

Positive

Budget Proposal

- Scheme for design-led manufacturing to be launched to build a strong ecosystem for 5G as part of the Production Linked Incentive Scheme.
- Required spectrum auctions will be conducted in 2022 to facilitate rollout of 5G mobile services within 2022-23 by private telecom providers.
- To enable affordable broadband and mobile service proliferation in rural and remote areas, five per cent of annual collections under the Universal Service Obligation Fund will be allocated. This will promote R&D and commercialization of technologies and solutions.

Impact:

- The telecom sector reforms are poised to boost 4G proliferation, infuse liquidity and create an enabling environment for investment into 5G networks.
- The (5G) roll-out across the country will also happen much faster than other previous generation rollouts considering the

fact that the finance minister in her speech has also talked about fiberisation of all villages by 2025.

Agriculture

Positive

Budget Proposal

- ₹ 2.37 lakh crore direct payment to 1.63 crore farmers for procurement of wheat and paddy.
- Chemical-free Natural farming to be promoted throughout the county.
- NABARD to facilitate fund with blended capital to finance startups for agriculture & rural enterprise.
- 'Kisan Drones' for crop assessment, digitization of land records, spraying of insecticides and nutrients was announced.
- The government is also implementing the Ken-Betwa Link Project, which is expected to cost over ₹ 44,600 crore.

Impact:

- 'Kisan Droner' will help with better upkeeping of the crops and will reduce labour work and to an extant will be able to increase crop produce.

The Ken-Betwa Link Project will provide irrigation benefits to over 9 lakh hectares of farmers' lands, drinking water supply for over 60 lakh people, over 100 mega-watts of hydro and 27 megawatts of solar power.

Banking & Finance

Positive

Budget Proposal

- 100 per cent of 1.5 lakh post offices to come on the core banking system.
- Scheduled Commercial Banks to set up 75 Digital Banking Units (DBUs) in 75 districts.
- Introduction of Digital Rupee by the Reserve Bank of India starting 2022-23.

Impact

- Inclusion of post office in the core banking systems would provide depositors access to net & mobile banking, ATMs and also provide online transfer of funds between post offices and bank accounts. This will be helpful, especially for farmers and senior citizens in rural areas.
- Setting up of Digital Banking Units in 75 districts would ensure that the benefits of digital banking reach everyone in a consumer-friendly manner.
- The central bank digital currency (CBDC) is a digital form of fiat currency which can be transacted using wallets backed by blockchain and is regulated by the central bank. Digital currency will lead to more efficient and cheaper currency management system.

Energy – Power & Coal

Positive

Budget Proposal

- Solar modules get additional allocation of ₹ 19,500 crores.
- Five to seven per cent biomass pellets to be co-fired in thermal power plants.
- Four pilot projects to be set up for coal gasification and conversion of coal into chemicals for the industry.

Impact

- The PLI scheme for solar sector would promote domestic manufacturing of solar modules to support self-reliance and reduce imports from China.
- Biomass pellets will be co-fired in thermal power plants resulting in CO₂ savings of 38 MMT annually. This will also provide extra income to farmers and job opportunities to locals and help avoid stubble burning in agriculture fields.

Railways

Positive

Budget Proposal

- One Station One Product concept to help local businesses & supply chains.
- 2000 Km of railway network to be brought under Kavach, the indigenous world class technology and capacity augmentation in 2022-23.
- 400 new generation Vande Bharat Trains to be manufactured during the next three years.
- 100 PM Gati Shakti Cargo terminals for multimodal logistics to be developed during the next three years.

Impact

- Manufacturing 400 new generation Vande Bharat Trains is a decisive step towards engine-less propulsion system for its passenger which are more energy efficient. This will be an addition to existing 102 in the pipeline.
- With an eye on farmers, the rail sector will also develop 'One Station One Product' which will leverage the local produce carried on the railways. The railways will also roll out postal railways for carriage of parcels, giving a thrust to a new business area.

Defence

Positive

Budget Proposal

- 68% of capital procurement budget earmarked for domestic industry in 2022-23, up from 58% in 2021-22.
- Defence R&D to be opened up for industry, startups and academia with 25% of defence R&D budget earmarked.
- Independent nodal umbrella body to be set up for meeting testing and certification requirements.

Impact:

- Measures are in line with the 'Vocal for Local' push and will certainly boost domestic defence industries.

- Creation of nodal body for setting up testing and certification requirements of defence systems and platforms will help the domestic industry through faster processes and cost-efficiency.

Education

Positive

Budget Proposal

- One class-One TV channel' programme of PM eVIDYA to be expanded to 200 TV channels.
- Virtual labs and skilling e-labs to be set up to promote critical thinking skills and simulated learning environment.
- High-quality e-content will be developed for delivery through Digital Teachers.
- Digital University for world-class quality universal education with personalised learning experience to be established.

Impact

- One class-One TV channel programme and supplementary teaching would enable states to provide supplementary education in regional languages for classes 1-12.
- Virtual labs and simulated learning environment would inculcate crucial critical thinking among students and bring out some creativity in them.
- A competitive mechanism for development of quality e-content by the teachers will empower and equip them with digital tools of teaching and facilitate better learning outcomes.
- Digital University would provide access to students across the country for world-class quality universal education with personalised learning experience which would be available in different Indian languages and ICT formats at their doorsteps.