SBI Research

PRELUDE TO UNION BUDGET 2024-25:

The 6% MSP trap: How politics of MSP is stifling the continued shift to smart & emerging agriculture practices, obviating redressal of pressing issues in agri value chain financing / livelihood support / Agri Credit Guarantee Trust Fund that can catapult incremental credit flows….. Bank Deposits taxation warrants immediate parity with competing avenues… Fiscal consolidation sans too much obsession with fiscal stance required.. Revisit to IBC a MUST to keep its competitive edge…PLI for MSMEs needed to lower our import dependency on China…India should adopt a 'critical minerals' policy for mass employment…Personal taxes to be aligned with Corporate taxes with calibrated approach to GST 2.0 …Divestment needs a concrete roadmap for attracting capital & confidence of FIs…

Issue # 10, FY25 8-July-2024

Executive Summary….1/4

- The Government should focus on adherence to fiscal prudence and continue on the fiscal consolidation path, but at the same time refrain from obsessing too much over the fiscal stance (with FD estimated around ~4.9% in FY25 budget as per SBI projections) as it may come in the way of long-term sustainable growth path, by striking the right balance by limiting the consolidation to 20 bps (at max) this fiscal
- The estimated decline in both Gross, as also Net market borrowings of GoI, in FY25 (Rs 13.5 lakh crore and Rs 11.1 lakh crore respectively) should also come as an enabler for the GoI's glide path for fiscal prudence/ consolidation
- Parity on taxation front for bank deposits (both Demand and Time) vis-à-vis other investment avenues is an immediate need given the shifting preference of select cohorts of investors to alternate asset classes whose returns have been trumping bank deposits. Basis, our analysis, the impact on revenue foregone for GoI of any such move would not be significant
- After a decade of transformative changes, the Indian banking system stands much healthier ready to scale up to meet emerging challenges as the country embarks on the Viksit Bharat sojourn. There is, thus, an imminent need to shift to focussed reforms that specifically meet calibrated Decarbonization and ESG targets at industry level
- The fault lines in the IBC set-up needs to be critically analyzed (chiefly from a time bound resolution angle as average resolution period has zoomed up to 863 days now) in view of conflicting situations arising of late pertaining to litigation, dissenting creditors and poor infrastructure that can dilute the very spirit of this radical, yet largely successful approach to course correct the flow of resources to productive sectors while also addressing insolvency issues

Executive Summary….2/4

- Credit to Agri & Allied activities increased ~3.5 X by March'24, hitting Rs 20.7 lakh crore, against Rs 6 lakh crore in FY14, standing at ~37% of the output in the Agriculture and allied sectors (~Rs 56.19 lakh crore at current prices in FY23)

- **While MSP has been instrumental in price discovery mechanism, benefitting ~1.6 crore farmers, the issues innate to MSP mechanism viz. needless politics, disincentivizing private investment, neglect of non-MSP crops, reduction in export competitiveness & burden of trade disputes,** alternative mechanism needs to be looked into vigorously, viz. obligation to private parties for buying crops at MSP (or above MSP), encouraging crop diversification, promoting high-value and climate-resilient crops to increase farmers' income opportunities as also strengthening agricultural marketing infrastructure through increase in public investment in agri infrastructure

- **While the share of food grain in total Agri & Allied output is 17% (Livestock @31% tops the list), the share of food grains procured by the Govt. through MSP vide institutional mechanism works out to 6% of the total Agri & Allied output, though it has entailed an expenditure of Rs 3.4 lakh crore in FY23 (Rs 1.79 lakh crore in FY15).** MSP of all the 22 crops has witnessed average increase of 100%+ during the last decade

- Analyzing eNAM prices, we understand prices of major crops are already above MSP even though prices of not so widely cultivated crops are a little under MSP…hence GoI could devise a plan to provide price support to the farmers, if only market prices fall lower than MSP (viz. Directly compensating the farmers the difference between selling price and MSP that would soften the fiscal cost of the GoI). Also, promising sectors with incremental value addition like livestock and horticulture should occupy a larger share of policy initiatives

Executive Summary….3/4

- **The agri and allied sector, under some state of slack even though undergoing a mélange of PHY-GITAL transformation, needs a few unconventional yet rewarding Big Bang approaches**
  - A Livelihood Credit Card (LCC) encompassing a multi-purpose loan covering a rural household's entire activities for ease of doing KCC (with an initial pilot launch of one million) should further reinvigorate rural demand
  - Changing the dynamics of KCC 'review & renewal' mechanism with repayment of 'interest alone' being the criteria for renewal while simultaneously deepening use of technology by Banks
  - Forming a comprehensive omnibus Credit Guarantee Fund Trust-Agri & Allied Sectors (CGFT-AAS) which will act as a credit accelerator and ensure coverage of all fresh Agri loans including AVCF with a capital outlay of ~Rs 11,320 crore over 5 years, should boost fresh agri credit multiple times AND creating an institutional framework for enhancing demand for milk in Mid-Day meals for children could provide additional income stream for ~1.58 cr farmers

- The hitherto fragmented and disheartened shift towards creating a vibrant and holistic Agri Value Chain needs an immediate revisit, including removing frictions in financing channels given the favourable trend being witnessed in the rural economy, growing horizontally with urban ecosphere. The value unlocking as also value creation should encompass end-to-end activities; farming, aggregating, grading/sorting, warehousing, value additions through processing and retailing, in particular on postproduction stage(s). The low hanging fruits can easily be captured with a little effort in this regard

- The departure from announcing farm loans waivers, post-pandemic, that have had a seriously distorting impact on credit culture (not limited to agri sector alone but spreading like a bush fire to other related strata) could be reignited in the light of recent Telengana government's decision to waive farm loans that could have a fiscal cost of ~Rs 31,000 crore, soon finding takers by many as an immediately gratifying populist measure that ultimately serves as a Self Goal, the fiscal Harakiri gravely thwarting the competitiveness of the state(s) in the medium run

Executive Summary….4/4

- PLI scheme has been a game changer towards augmenting incremental manufacturing capacity, drawing fresh investments to the tune of ~ Rs 1 lakh crore, with incremental sales of Rs 8.61 lakh crore (with exports share being ~40%) and facilitating employment generation of ~8.78 lakh
  - **Given the fact that MSMEs contribute around 45% of exports and around 40% in manufacturing GVA, a separate PLI scheme for MSMEs should boost the sectoral contribution further and facilitate employment generation with representation from across Textile, Garments, Handicraft, Food Processing, Leather, Electronics, Auto Components, Bulk Drugs etc.**

- Given the complete change sweeping the PSBs under successive EASE reforms and policy support, the roadmap ahead could be dotted with reduction of ownership stake in PSU banks, greater HR autonomy, further investments in digital and IT infrastructure and aligning PSL framework to nation's priorities. Also, the divestment targets need to be more realistic and start now sans hesitations/ deliberations given the maturity of Indian Banking system and need to scale up in collaboration with global peers, reducing the stake in IDBI Bank a good fit case for such reality check

- **Given the critical importance of rare earth metals in particular, and minerals in general, India needs to develop a mineral strategy for the entire value chain from exploration to recycling, implying building capacity at each stage of the value chain**

- The Personal Income Tax, making the most of the revenue mop-up kitty, needs to be aligned with the Corporate tax rate while endeavoring to bring all payers under the New Tax Regime in a calibrated manner. GST 2.0 reforms can be pursued by pulling more items within the ambit of GST like electricity and ATF first

Key issues in Fiscal

Specific Suggestions

1. Focus on adherence to fiscal prudence and continue on the fiscal consolidation path, but not obsessing too much over the fiscal stance: Fiscal Deficit at 4.9%

2. Nominal GDP growth at 11%

3. Net Government Borrowings at Rs ~11.1 lakh crore

4. Is India transitioning to a welfare state? Hard earned fiscal consolidation must not be thrown away even as we debate over empowering the masses. "*Cut your coat according to your cloth'*

5. Share of Non-Tax revenue in Overall Revenue of Central Government declining over time even as share of Personal Income Taxes now at more than 30%. Over time, Personal Income Taxes ideally could converge to Corporate Taxes by shifting to New Tax regime

6. There needs to be a comprehensive SOP when a new state is carved out from the parent state

7. Need for second round of reforms in GST (*GST 2.0*) with the rationalization of tax rates and inclusion of electricity tariff → then Aviation turbine fuel → and finally Petrol/Diesel

8. Exempting / Lowering health insurance products from GST at least for all retail and health focused products

Fiscal Deficit may be budgeted below 5% of GDP in FY25

- In the Interim Budget, Government has targeted fiscal deficit of 5.1% of GDP for FY25, however on the back of stupendous growth in GST revenues along-with higher dividends from PSUs and RBI, we believe that Government may budget fiscal deficit of less than 5% of GDP (may be 4.9%) for FY25
- Capital expenditure which was budgeted at Rs 11.1 lakh crore in the interim budget is expected to increase to Rs 11.8 lakh crore in the upcoming budget. Thus, the total capex of the government (capex through budget & CPSE and Grants for creation of capital assets) is likely to increase to Rs 19.1 lakh crore in FY25 (from Rs 18.4 lakh crore earlier)
- Nominal GDP is expected to grow at 11% and we expect tax buoyancy to be between 1.2-1.3 with gross tax revenue growing over 13%
- The Government needs to focus on fiscal prudence and continue the fiscal consolidation path; however, it may refrain from obsessing too much over the fiscal stance as it may come in the way of long-term sustainable growth path and strike the right balance by limiting the consolidation to 20 bps (at max) this fiscal when compared to the interim budget estimate

Budget at a glance					
Rs lakh crore	**FY24 PE**	**FY25 IBE**	**FY25 SBI**	**FY25 IBE / FY24 PE (% yoy)**	**FY25 SBI / FY24 PE (% yoy)**
Tax Revenue	23.3	26.0	26.8	11.8	15.2
Non-tax Revenue	4.0	4.0	5.1	-0.7	26.4
Recoveries of Loans	0.3	0.3	0.3	6.1	6.1
Other Receipts	0.3	0.5	0.5	51.0	51.0
Total Receipts	**27.9**	**30.8**	**32.7**	**10.4**	**17.2**
Total Expenditure	**44.4**	**47.7**	**48.6**	**7.3**	**9.4**
Fiscal deficit	16.5	16.9	15.9	-	
Fiscal Deficit (% of GDP)	**5.6**	**5.1**	**4.9**		
Memo item:					
GDP	295.4	327.7	327.8	11.0	11.0
Source: CGA, Interim budget documents, SBI Research					

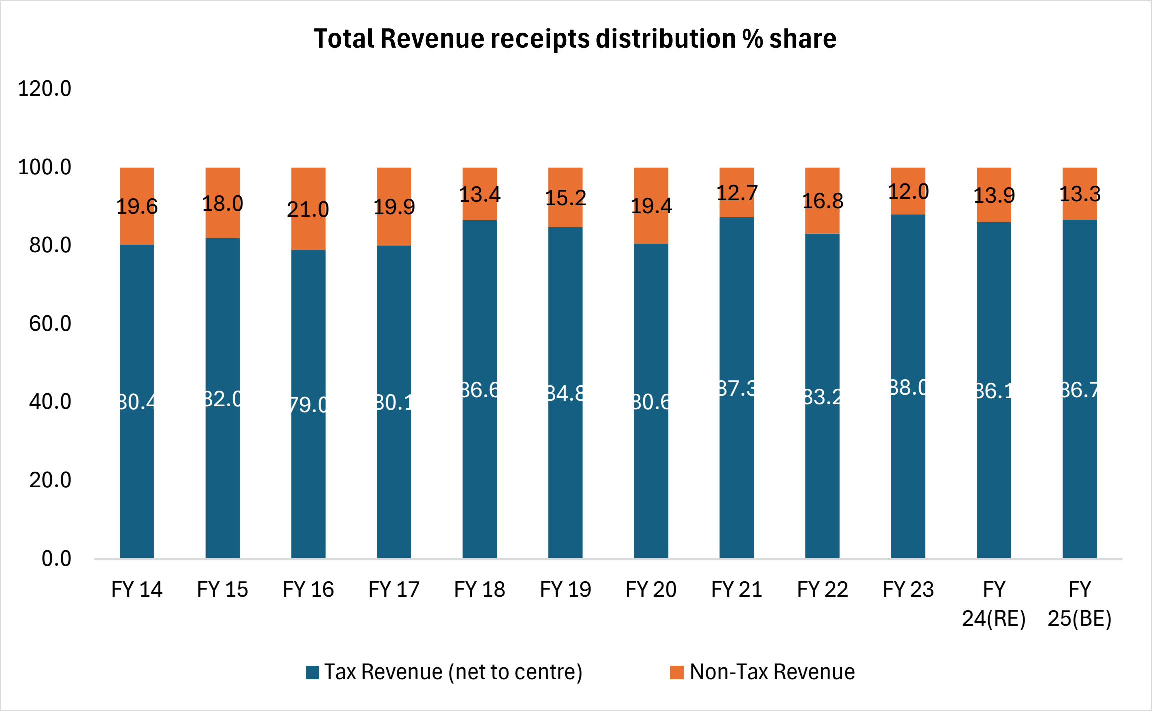
With lower fiscal deficit, Government borrowing likely to reduce moderately to Rs 13.5 lakh crore in FY25

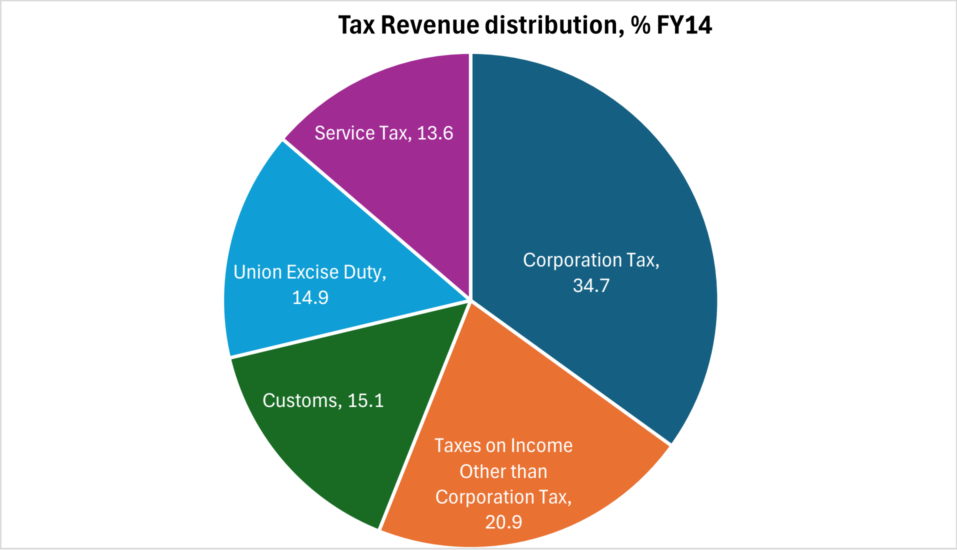
- As the budgeted fiscal deficit gets lowered, gross market borrowing of the government will also reduce to around Rs 13.5 lakh crore in FY25 compared to Rs 14.1 lakh crore in the interim budget and net market borrowing to Rs 11.1 lakh crore against Rs 11.8 lakh crore earlier. This along with India's inclusion in Global Bond indices will keep the yield curve movements anchored

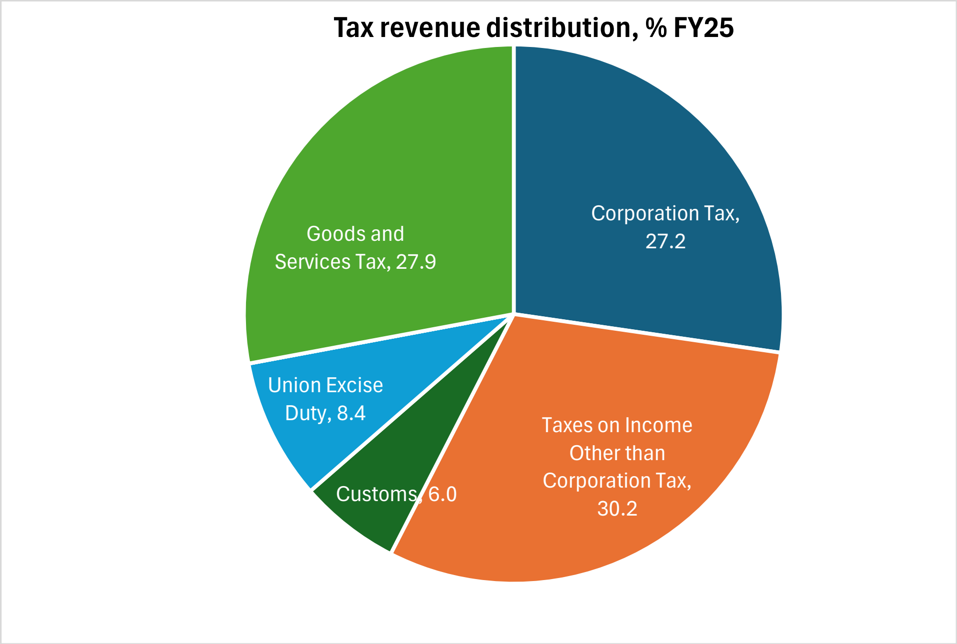
Market Borrowings (Rs lakh crore)			
	FY24 RE	FY25 IBE	FY25 SBI
Centre			
Gross Borrowing	15.4	14.1	13.5
Repayments	3.6	2.4	2.4
Net Borrowing	11.8	11.8	11.1
State			
Gross Borrowing	10.1	10.0	10.2
Repayments	2.8	3.2	3.2
Net Borrowing	7.3	6.9	7.0
Source: SBI Research			

Composition of Union Government taxes

- Share of tax non-tax revenue of the Centre has reduced over time
- Meanwhile, within tax revenue the share of corporation tax has reduced while the share of income tax has increased during FY14 and FY25







Is India transitioning to a welfare state?

- India seems to be transitioning to a ‘welfare state’ with many states going for more welfare-oriented schemes for its citizens

- Many states including Maharashtra, Andhra Pradesh, Karnataka and Kerala are now spending or proposing to spend significant amount of their revenue receipts on welfare schemes

- It may be mentioned that some schemes which are designed for welfare of health and education of women and children, girl child are essential for women empowerment, economic growth and development of the country, but these must be properly targeted

- Some states have revenue receipts growth lower than their allocation to such schemes, such as Karnataka and West Bengal

- Other states yearly revenue receipt growth is just about the same level of proposed spend indicating states will have lower leeway of spending revenue receipts elsewhere

Major welfare schemes and the amount allocated in FY25 BE

State	Scheme	Allocation (Rs crore)	% of Revenue Receipts	Revenue receipts, 5 year CAGR (%)
Maharashtra	Construction of 35 lakh affordable homes under PMAY	7425	11%	10%
	A fee waiver for girls from OBC and EWS families pursuing higher education. This initiative is expected to benefit 2 lakh girls	2000		
	CM ladki bahin yojana-provide a monthly stipend of Rs 1500 to eligible women aged between 21 and 60	46000		
	3 free gas cylinders annually to 52.4 lakh households under the newly announced CM Anna Suraksha Yojana	1258		
Andhra Pradesh	Jagananna Vidya Kanuka, school-kits with uniform, bags, shoes, textbooks, etc. provided to 47 lakh children annually	3367	11%	12%
	Jagananna Gorumudda to serve tasty & quality food to more than 43 lakh students	1910		
	Jagananna Ammavodi scheme (for mothers of students in Government schools)	6450		
	YSR Cheyutha scheme (financial assistance to eligible women)	5060		
	YSR Sunna Vaddi reactivation of SHGs	4969		
Karnataka	Gruha Lakshmi Scheme-Woman head of her family (BPL) to get ₹2,000 every month	28608	15%	8%
	Gruha Jyoti (free electricity upto 200 units)	9657		
Kerala	Kerala Social Security Pension Ltd	10729	8%	8%
	Karunya Arogya Suraksha Padhathi/ Jan Arogya Yojana	679		
Odisha	Biju Swasthya Kalyan Yojana	5450	8-10%	13%
	Mukhya Mantri Swasthya Seva Mission	2992		
	Financial Assistance to Women SHGs and their Federations	1179		
	Mukhyamantri Sampoorna Pushti Yojana (MSPY)	554		
	Subhadra Yojana - Cash vocuher of Rs 50,000 for 2 years for married women for food/ household expenditure *	5000-10000		
	Rs 5,000 scholarship per year to tribal students *	1000-1200		
West Bengal	Taruner Swapno- financial assistance for students in class 11 for purchasing smartphones or tablet computers	900	10%	8%
	Lakshmir Bhandar-: Financial assistance of Rs 1,200 per month for women from SC/ST communities and to Rs 1,000 per month for women from other categories	14400		
	Samudra Sathi to fisherman,West Bengal Handloom and Khadi Weavers Financial Benefit Scheme 2024,Swasthya Sathi Scheme for migrant workers residing outside of West Bengal	850		
	Financial support to Krishak Bandhu	5800		
	Talent support for meritorious students	1201		

Source: SBI Research, Budget Documents, PRS, selected 6 representative states major schemes; * Estimate for these schemes

….However States' fiscal position should be examined simultaneously

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- Some states have the capacity to pay for such schemes, for instance Odisha has higher non-tax revenue thus no borrowing
- However at a broader level, the welfare expenditure should be looked at vis-à-vis their respective fiscal situation and borrowing pattern

State wise gross market borrowing (Rs lakh cr)

States	FY12	FY24	X times
Andhra Pradesh	174	684	3.9
Bihar	36	476	13.1
Karnataka	95	810	8.5
Kerala	75	424	5.7
Maharashtra	190	1100	5.8
Odisha	29	0	-
West Bengal	190	699	3.7

State wise Fiscal Deficit (% of GDP)

States	FY11	FY24(RE)	Change in bps (FY24/FY11)
Andhra Pradesh	3.7	4.2	49.0
Bihar	2.0	8.9	695.0
Karnataka	2.6	2.7	10.0
Kerala	2.9	3.5	52.0
Maharashtra	1.8	2.8	98.0
Odisha	0.3	3.0	270.0
West Bengal	4.2	3.5	-70.0

How division of States impact Revenues

- The bifurcation of states impacts the tax situation of parent states significantly
- **In case of Bihar**, the share of non-tax revenue as total revenue declined from 14% in year 2000 to merely 3.3% in 2004 and is still below the pre-division mark
- **The same trend is visible in the case of MP and AP also**

How Division of States impact their Revenues					
Rs crore	**Bihar (Undivided)**	**Bihar**	**Jharkhand**	**Bihar**	**Jharkhand**
Year	2000	2004	2004	2024	2024
Revenue Receipts (RR)	12579	13525	7443	212327	98337
of which , state's own Tax Revenue	3638	3361	2278	49700	30857
state's own Non-tax Revenue (NTR)	1759	446	1151	6512	17259
NTR as % of RR	**14.0%**	**3.3%**	**15.5%**	**3.1%**	**17.6%**
FD as % of GDP	**11.9%**	**6.2%**	**3.9%**	**8.9%**	**2.7%**
Rs crore	**MP (Undivided)**	**MP**	**Chhattisgarh**	**MP**	**Chhattisgarh**
Year	2000	2004	2004	2024	2024
Revenue Receipts (RR)	13204	14289	5959	225710	106001
of which , state's own Tax Revenue	5795	6789	2588	86500	38000
state's own Non-tax Revenue (NTR)	2469	1480	1124	14913	18200
NTR as % of RR	**18.7%**	**10.4%**	**18.9%**	**6.6%**	**17.2%**
FD as % of GDP	**4.9%**	**7.1%**	**5.7%**	**3.6%**	**6.5%**
Rs crore	**AP (Undivided)**			**AP**	**Telangana**
Year	2013			2024	2024
Revenue Receipts (RR)	103830			206224	216567
of which , state's own Tax Revenue	59875			102599	131029
state's own Non-tax Revenue (NTR)	15999			15400	22808
NTR as % of RR	**15.4%**			**7.5%**	**10.5%**
FD as % of GDP	**4.3%**			**4.2%**	**2.3%**
Source: SBI Research,RBI, Budget documents , FY24 FD is RE					

Outlining Financial Sector Reforms

The Budget might propose a future agenda of continued financial sector with emphasis on ESG….

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1993-2013	2014-2024	Future agenda
Deregulation of interest rates	Jan Dhan	ESG and decarbonization
New asset recognition and income recognition	Digitization, financial inclusion	Green deposits
ALM	Recapitalisation of PSBs	Deepening Base III and IFRS adoption
Computerization	API based banking	Expected loss-based provision
Product development	Insolvency and Bankruptcy Code	Co-lending with NBFC
Basel I & II	Major Consolidation in Banking	Central Bank Digital Currency (CBDC)-
Nationalization of 20 major private banks in two phases	GST- The backbone of efficient, business friendly taxation architecture	Hyper-customisation
Introduction of priority sector lending	Basel III	Stress on ethical AI
	Platform business models	Customer redressal system
		Tax parity on bank deposits in line with other asset classes
		HR reforms and continued consolidation in PSB
		Awareness, innovation and reforms in NPS and pension products

Tax Parity on Term Deposits in line with Other Asset classes

- The present dispensation for Equity/MF holdings stipulate Short Term Capital Gains tax at a flat rate of 15% while the Long-Term Capital Gains are taxed at a moderate 10%, with exemption allowed till income of LTCG up to one lakh during a given FY…also, the setting-off of loss against profits and carrying over the loss up to next eight years make the opportunity cost of such alternate investments quite lucrative
- In line with MF/equity markets, we propose that the Government should tweak the ‘tax on deposits interest” and make flat tax treatment across maturity ladder
- Household net financial savings has declined to 5.3% of GDP in FY23 and is expected to be 5.4% in FY24. If we make deposits rate attractive in line with MFs, then this could push up household financial savings and CASA
- As this amount will be in the hand of depositors, it could unleash an additional spending and thereby additional GST revenue to the Government
- **Increase in bank deposits will bring not only stability in core deposit base and financial system but also financial stability in household savings as banking system is better regulated and having a superior trust as compared to other alternatives with high volatility/risk**
- **Deposits are taxed on accrual basis and other asset classes only on redemption and there is also a need to remove this treatment**

Long-term goals & short-term steps in Banking and Pensions

Long Term Goals	Short Term Steps
Banking	
Need for larger number of big banks	• Issuance of new banking licenses • Consolidation of existing banks
Reforms for PSU bank	• Reduction of ownership stake in PSU banks • HR autonomy • Investments in digital and IT infrastructure • Aligning PSL framework to nation's priorities
Supporting the MSME sector	• Extending credit to Informal Micro Enterprises • Improving the share of Credit Guarantees to MSMEs • Addressing issue of Delayed Payments
Pensions	
Driving awareness for pension products	• Multi-media awareness campaigns • Include financial literacy programs in school and college curriculum
Foster innovation in pension offerings	• NPS reforms • Flexibility in investment options • Introduction of inflation protected annuity products

Source: SBI Research

Disinvestment of PSBs, including stake stale in IDBI Bank

- As Banks are in good condition, Government should take stance on disinvestment of PSBs
- Further, Government and Life Insurance Corporation of India are selling an almost 61% stake in IDBI Bank. They invited bids from buyers in October 2022. In January 2023, DIPAM received several expressions of interest for the IDBI Bank stake on offer. We expect Government to clarify this in the Budget

Outlining baby steps in Agriculture through this budget

Specific Suggestions

1. Obsession with MSP is clouding shift towards holistic agri approach

2. Adopting a 360° approach towards Agri Value Chain Financing like

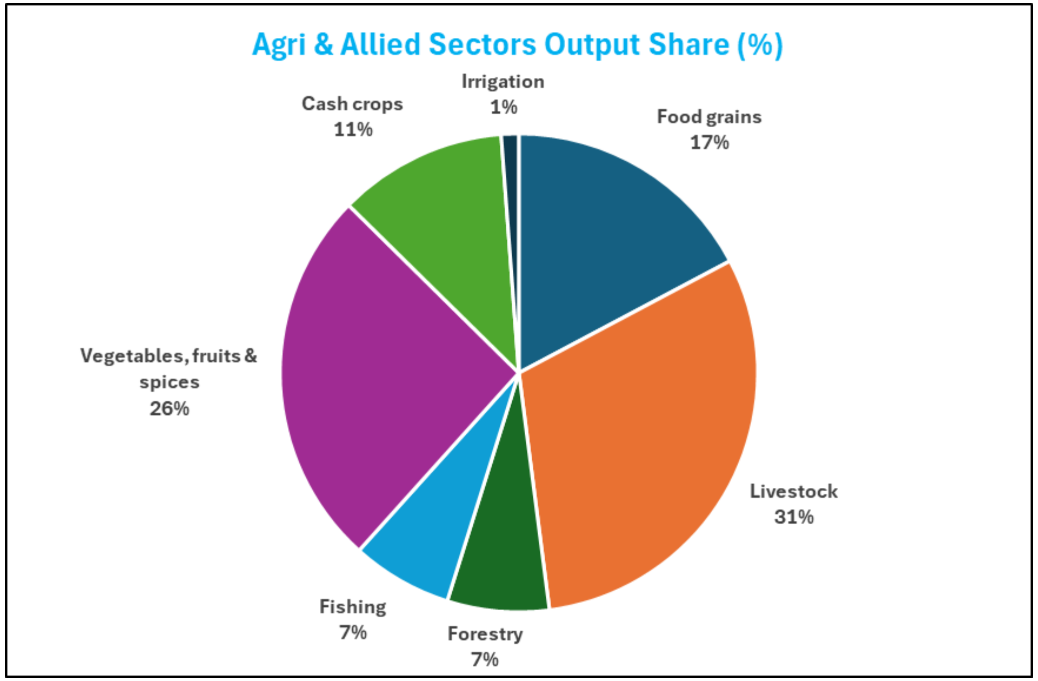
    - As MSP which is an output price is common across the country, there is sufficient rationale to move towards One Nation/One Scale of Finance for the 23 commodities covered by the MSP system. This will be a major reform in Agri Value Chain financing particularly for crop cultivation

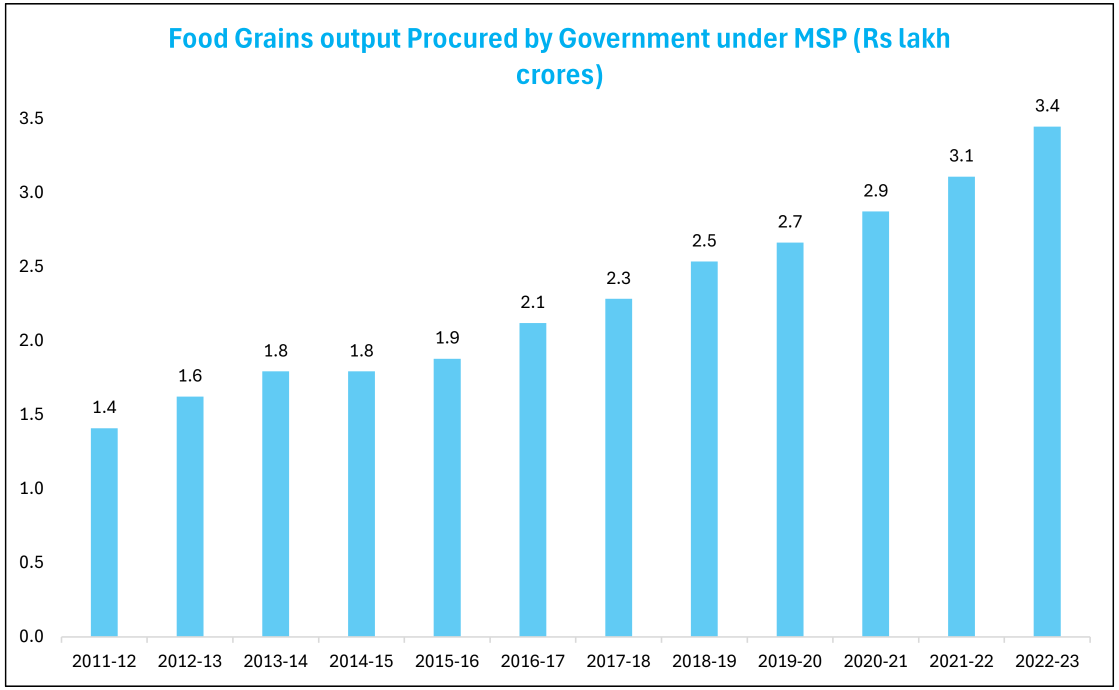
    - In States where land records are digitised and Banks are given a provision to record their loan interest on the digitised land portal, the regulator may mandate Banks to lend up to Rs 3 lakhs without collateral, for any activity (including crop loans) within the Agri Value Chain. At present, the mandated amount for collateral-free loan is Rs 1.6 lakhs

    - Simultaneously, the long-pending request of the commercial banks for enablement of the Ease of doing of KCC business for both lenders and borrowers, for regulatory changes to allow interest-servicing alone being a sufficient condition for renewal of KCCs (for loans limit up to Rs 3 lakhs at least) must be implemented immediately as small and marginal farmers mostly deal in cash and therefore find it difficult to route all their transactions through the KCC account

Foodgrain output is only 17% of overall output of Agri sector…71% of Agriculture Output is generated through Vegetables, Fruits, Fishing, Forestry and Livestock…Sadly politics of MSP fails us to address the concerns of 71% in a more holistic manner as even after best efforts, Govt is able to procure 6% of overall output at MSP

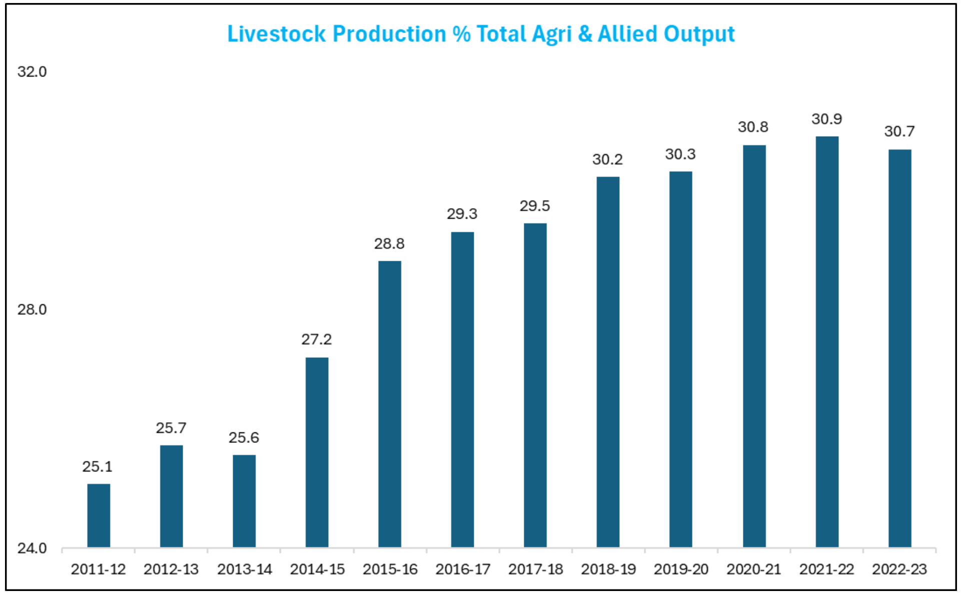
- Credit to Agri & Allied activities has increased to Rs 20.7 lakh crore in FY24 from Rs 6 lakh crore in FY14
- Agriculture and allied sectors is estimated at Rs 56.19 lakh crore at current prices in FY23
- However, if we look the Agri & Allied output numbers, the food grain share in total Agri & Allied output is only 17%, while Livestock 30.7% and Vegetables, fruits at 11.4%. **However, food grains output of Rs 3.4 lakh crore, which Government procures under MSP is at 6% of the total Agri & Allied output of Rs 56.1 lakh crore in FY23**

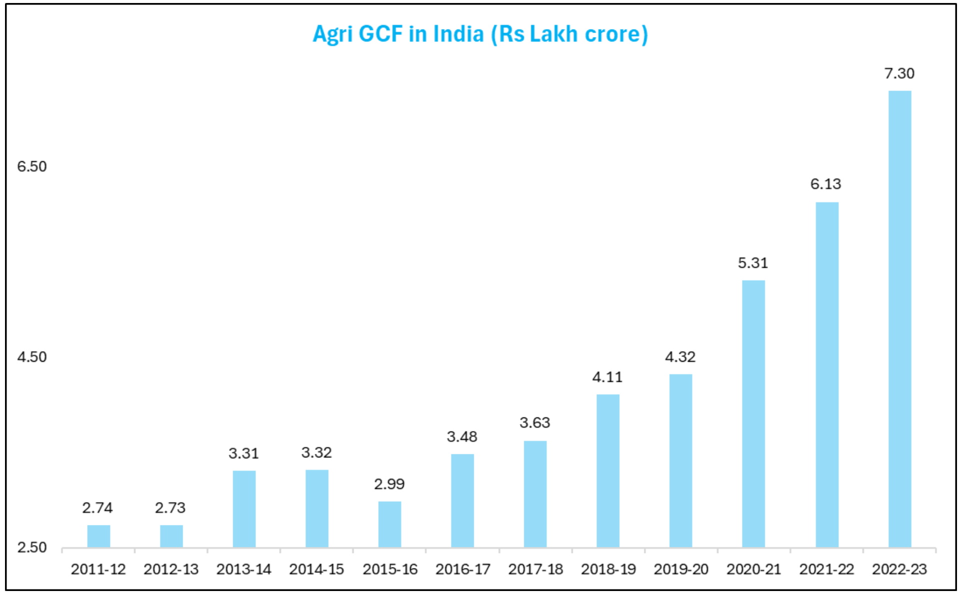




MSP only addresses 17% of Agriculture Output…we need to support the remaining 83% through continued agricultural sector reforms… MSP as a political weapon obfuscates the issues facing the agri sector

- Government declares MSP for 22 crops but procures 6/7 crops like Wheat, Rice, Pulses etc, contributing only 6% of the total Agri & Allied sector output. In other words, there is 94% (like Livestock (31% share), Vegetables & Fruits (26%) and Fishing (7%)) of the total output that remains outside the MSP support
- **Livestock output has increased to Rs 17.25 lakh crore in FY23 from 4.87 lakh crore in FY12. Share of livestock in total Agri & Allied output has increased to 30.7% in FY23 from 25.1% in FY12. In case of Fruits, Vegetables and Spices, the output has increased to Rs 14.43 lakh crore in FY23 from Rs 5.14 lakh crore in FY12**
- **Need to have a direct consumer farmer interface through development of more Mandis across the states. States must take a lead in this**
  - Promote Urban Hata (like weekly village market), which will help farmers to meet consumers directly
  - In India, Maharashtra and Bihar had allowed trade in all farm commodities, including livestock, outside the regulated Agriculture Produce Market Committee (APMC) wholesale markets or mandis. **This could help farmers to sell their produce to the retailers directly at a better price, However, Sate Government should create the infrastructure**





Agri- MSP Legal Guarantee……

- The farmers are demanding legal guarantee of MSP, which implies there will be legal provisions for farmers to get the MSP for all 22 crops when they wish to sell them
  - Fiscal burden for the Government: If the government procures all crops under MSP, total cost of procuring such crops in FY24 comes around Rs 13.5 lakh crore
  - Neglect of non-MSP crops like fruits and Vegetables
  - Disincentivise private investment
  - Reduction in export competitiveness & trade disputes due to domestic support
- Alternatives to legal guarantee of MSP

  Short- term

  - Obligation to private parties for buying crops at MSP or above MSP. If the government procures entire amount, then storage will be an issue
  - Price deficiency payment: **Directly compensate the farmers the difference between selling price and MSP. This way fiscal cost of the Government will be reduced**

  Long-term

  - Encourage crop diversification, promote high-value and climate-resilient crops to increase farmers' income opportunities
  - **Strengthen agricultural marketing infrastructure, increase public investment in agri infrastructure**

…..Currently market prices of Food Crops are higher than MSP prices

- If we compare Mandi prices and MSP for Maize, Arhar, Urad, Paddy, Sesamum, Wheat, Gram & Masur etc, market prices is higher than MSP, indicating a clear evidence of price discovery in agricultural markets in recent times
- While in some crops like Jowar, Bajra, Ragi, Moong, Soyabean and Cotton, market price is lower than MSP

Difference between E-Nam modal price and MSP (Rs/Quintal)

Crops	Mandi Price(MP) Latest FY25	Minimum Support Price(MSP) FY 25	Change (MP-MSPFY25)	% change in (MP-MSP)	e-Nam Price FY25 latest	Change (e-Nam-MSP FY25)	% change in (eNamP-MSP)
Kharif crops							
Jowar	3036	3421	-385	-11	3221	-200	-6
Bajra	2299	2625	-326	-12	2220	-405	-15
Maize	2277	2225	52	2	1957	-268	-12
Ragi	3610	4290	-680	-16	3301	-989	-23
Arhar	10431	7550	2881	38	11081	3531	47
Moong whole	8490	8682	-192	-2	7786	-896	-10
Urad whole	9214	7400	1814	25	7956	556	8
Soyabean	4805	4892	-87	-2	4441	-451	-9
Paddy Common	2424	2320	104	4	3643	1323	57
Cotton	6999	7521	-522	-7	6,751	-770	-10
Sesamum	11436	9267	2169	23	12393	3126	34
Rabi Crops							
Wheat	2524	2275	249	11	2506	231	10
Barley	2277	1850	427	23	1947	97	5
Gram whole	6631	5440	1191	22	6,584	1144	21
Masur/Lentil	8714	6425	2289	36	5,864	-561	-9

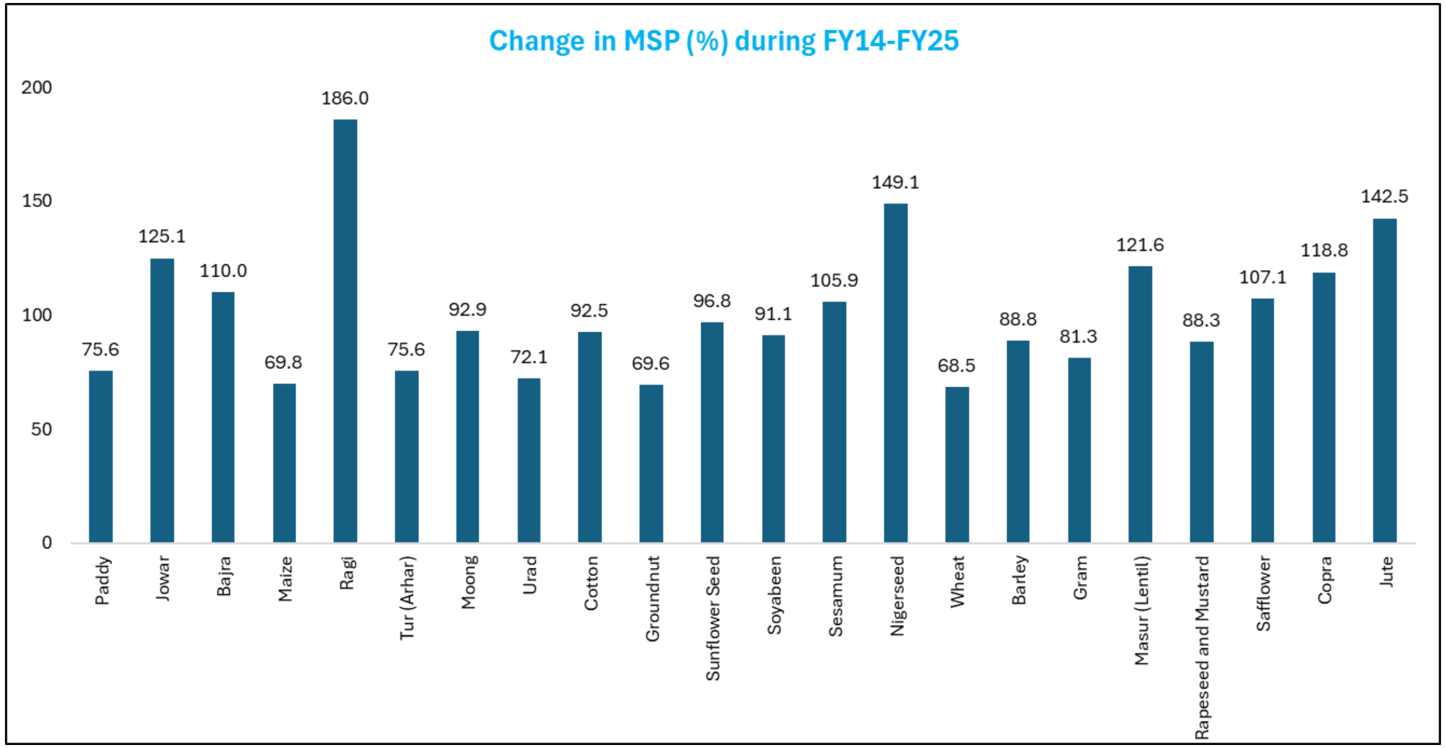
Source: Agrimarknet, E-nam, SBI Research,MP- Mandi Price, MSP-Minimum Support Price, E-Nam-modal price, green colour :MSP < Mandi and e-Nam

Fixation of MSP by Government & Status of *Swaminathan Committee Recommendations*

- Government fixes minimum support prices (MSPs) for 22 Kharif and Rabi crops, on the basis of the recommendations of the Commission for Agricultural Costs & Prices (CACP), after considering the views of State Governments, Central Ministries/ Departments other stakeholders, concerned
- The National Commission on Farmers (NCF) was constituted under the Chairmanship of ***Prof. M.S. Swaminathan, in November 2004***. The Commission submitted its final report in 2006. It also prepared the Draft National Policy for Farmers, which was subsequently approved by Government as National Policy for Farmers (NPF), 2007. However, ***one of the recommendations of NCF relating to Agricultural Price Policy -Minimum Support Price (MSP) should be at least 50% more than the weighted average cost of production- was not included in NPF***
- To give recognition to one of the important recommendations of NCF on Price Policy, Government in ***Union Budget for 2018-19 had made an announcement to keep MSP at a level of one and half times of the cost of production as a pre-determined principle***. ***Accordingly, MSPs for all mandated Kharif, Rabi and other commercial crops have been fixed with a return of at least 50% over all India weighted average cost of production, each year, since 2018-19***

Present Status of MSP

- During the last 10-year, MSP of all the 22 crops has been increased on an average more than 100% but Government procure mostly wheat & paddy through FCI and State Agencies
- Additionally, oilseeds, pulses and copra of Fair Average Quality (FAQ) are procured from registered farmers *<u>under Price Support Scheme under Umbrella Scheme of PM-AASHA</u>*, as per its guidelines at MSP in consultation with the concerned State Governments, when market price of these produce fall below the MSP
- Cotton and Jute are also procured by Government at MSP through Cotton Corporation of India (CCI) and Jute Corporation of India (JCI), respectively

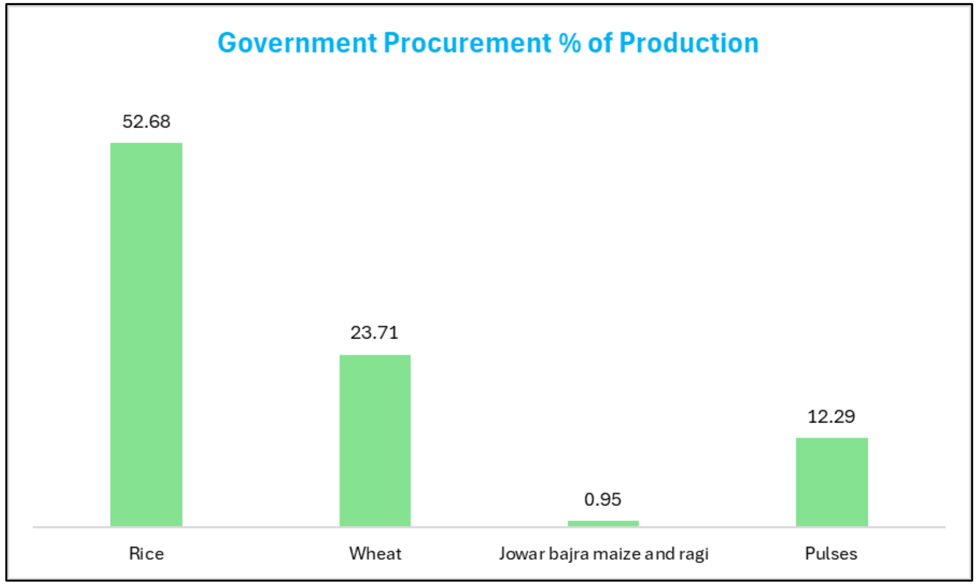


Procurement of Agricultural Produce by Government

- Government has procured foodgrain of 761.40 lakh metric tonnes in 2014-15 increasing to 1062.69 lakh metric tonnes in 2022-23, benefitting more than 1.6 crore farmers. The expenditure incurred (at MSP values) on procurement of foodgrains increased from Rs 1.06 lakh crore to Rs 2.28 lakh crore, during the same period
- Government mostly procure only Wheat (24% of the total production), Paddy (53%), Pulses (12-13%) and Jowar, Bajra Maize & Ragi (1%)
- If we look state-wise procurement, only 4-states constitute 99% of wheat procurement and 6-States constitutes more-than 55% of the total rice procurement by the Government
- **Interestingly, Government procures 92.8% and 73.6% of paddy produced by Punjab and Haryana. While in case of wheat it is procured mainly from Punjab (72% of its production) and Haryana (56.6% of it's Production)**

Procurement of Rice/Wheat: Top States

Rice			Wheat		
States	% Share in Government Total Procurement	Procurement from the State % of Production of the State	States	% Share in Government Total Procurement	Procurement from the State % of Production of the State
Punjab	16.8	92.8	Punjab	51.3	72.9
Telangana	12.2	55.2	Madhya Pradesh	24.5	29.6
Chhatisgarh	8.1	71.2	Haryana	22.3	56.6
Odisha	7.4	56.0	Utter Pradesh	1.8	0.6
Uttar Pradesh	6.0	28.9	-		
Haryana	5.5	73.6			



Farm Loan Waivers are destroying credit culture

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- There was greater tendency in states to announce farm-loan waiver during period 2017-2020
- This tendency has stopped post-pandemic
- However, the recent decision by Telangana Government to waive farm loans (up to Rs 2 lakh each) to the tune of Rs 31,000 crore again started discussion on the utility of loan waivers
- Including the recent move by Telangana, a total Rs 2.8 lakh crore worth of loan-waivers have been announced in the past 11 instances
- We firmly believe that the farm loan waivers essentially and ultimately serve a 'self goal', distorting credit culture

Farm Loan Waiver status

State	Year of Loan Waiver	Amount of Loan Waiver (Rs Cr)	Eligible farmers (# Lakhs)
Uttar Pradesh	2017	36359	44
Maharashtra	2017	34000	67
	2020	45000	44
Andhra Pradesh	2014	24000	42
Karnataka	2018	42165	43
Punjab	2018	10000	8
Madhya Pradesh	2018	35000	38
Chattisgarh	2018	6100	9
Telangana	2014	17000	51
	2024	31000	40
Jharkhand	2020	-	9
Total 11 instances	**-**	**283600**	**368**

Source: SBI Research

We must re-engineer the agri value chain financing, with a nudge towards collectivization….RBI could take a lead in this….it is an irony that agri value chain is not defined in the agri dictionary in India..this is must to provide adequate bank finance

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Bringing financing to input suppliers like fertilizer dealers, seed suppliers, dealers of agri machinery /implements under AVC

Bringing financing for aggregation or procurement of farm produce (FPO/FPC) under AVC

Collateral free KCC loan limit to be revised upwards to Rs 3 lakh to benefit Small & Marginal Farmers most

Enhancing regulatory limit under Warehouse Receipt Financing for FPOs/FPCs upwards from Rs 75 lakh

Removing the frictions in co-lending model of Banks-NBFCs with traction in their engagement with Agritech / Agri-fi ntech entities

Immediate emphasis

Umbrella / Omnibus guarantee scheme in the AVCF space for accelerating the credit flow (~2 cr for agri/allied lending & ~5 cr for FPOs)

Entire gamut of capacity building / handholding / nurturing / advisory support for FPOs/FPCs to be handled by one dedicated knowledge agency

One Nation / One Scale of Finance (SoF) for the 23 commodities covered by the MSP with calibrated flexibility for input costs foming SoF

Ease of doing of KCC business- interest servicing alone to be the qualifying condition for renewal of KCC accounts up to Rs 3 Lakh

Incubating FPOs in the formative years through a light-touch regulatory ecosystem to facilitate transition

Mid-Term focus

Sourcing Linked Incentive (SLI) to Corporates in the Food / Agro processing sector to incentivize sourcing from FPOs

8,000+ FPOs formed, 5000+ onboarded on OCEN…scaling with technology and institutional hand holding needed

Digital platform / systems to digitally capture the entire FPO activities…capturing end-to-end cash flow in the value chain

Designing of crop / activity specific value chain projects for commodities in the agro / food processing sector

In the longer term

*Adapted from report of the Working Group on Agriculture Value-Chain Finance, Dec 2021 submitted to Ministry of Finance

Reforming PLI

With PLI yielding results – time to expand with a Separate PLI for MSMEs

- Production Linked Incentive Scheme (PLI) has witnessed over Rs 1 lakh crore of investment till Nov'23. PLI Schemes lead to production/ sales of Rs 8.61 lakh crore and employment generation of over 6.78 lakh
- PLI Schemes has witnessed exports surpassing Rs 3.20 lakh crore, with significant contributions from Large-Scale Electronics Manufacturing, Pharmaceuticals, Food Processing, and Telecom & Networking products
- As on date (Jan'24), 746 applications have been approved in 14 Sectors with expected investment of over Rs 3 lakh crore
- **Out of 746 applications, around 24% (176) are MSMEs among the PLI beneficiaries in sectors such as Bulk Drugs, Medical Devices, Pharma, Telecom, White Goods, Food Processing, Textiles & Drones**
- Under the PLI Scheme for Food Processing, sourcing of raw materials from India has seen significant increase which has positively impacted income of Indian farmers and MSMEs
- **However, four years after its launch, large-scale manufacturing sector, has emerged as the major beneficiary of the scheme, attracting considerable investments, leading to accelerated production and exports**
- Micro, Small, and Medium Enterprises (MSMEs) play a pivotal role in India's economy, contributing significantly to economic development, growth, innovation, and employment
- **With the fact that MSME contributes around 45% of exports and around 40% in manufacturing GVA, a separate PLI scheme for MSME can boost the sector contribution further and facilitate employment generation**
- **Sectors such as Textile, Garments, Handicraft, Food Processing, Leather, Electronics, Auto Components, Bulk Drugs etc. can be considered for separate PLIs for MSME**

Leveraging PLI can add upto $30 bn in GDP

- The major sectors in which the PLI scheme has been introduced includes automobiles, food products, specialty steel, pharmaceuticals, electronics/technology goods, textiles, aviation. Thus, PLI scheme has benefited many of our commodity exports, especially mobile and electronic goods, drugs and pharma
- India continues to rely on China for imports, we imported $102 billion from China in FY24 compared to $98 billion in FY23. China's share in our total imports has also increased to 15% in FY24 from 13.7% in FY23
- In FY25 imports of around $59 billion is likely to come from commodities and goods where PLI scheme has been announced (textile, agri, electronics goods, pharmaceuticals & chemicals). If we can reduce our dependence on China even to the extent of 20%, then we can add around $12 billion to our GDP and overtime if we reduce our dependence by 50%, we can add $30 billion to GDP

Imports from China in sectors where PLI has been announced ($ mn)	
	FY25 (E)
Agriculture goods	656
Electronics	39358
Textiles	2597
Chemicals	16234
Total imports from China in PLI sectors	58845
If we reduce our dependence by 10%, addition to GDP	5884
If we reduce our dependence by 20%, addition to GDP	11769
If we reduce our dependence by 50%, addition to GDP	29422
Source: SBI Research	

Commodity Exports ($ mn)					
Commodity	FY23	FY24	%Growth	%Share	PLI
Plantation	1,970	2,119	7.55	0.48	
Agri & Allied Products	42,300	38,197	-9.7	8.74	Y
Marine Products	8,078	7,372	-8.74	1.69	
Ores & Minerals	4,869	6,684	37.28	1.53	
Leather & Leather manufactures	4,976	4,468	-10.21	1.02	Y
Gems & Jewellery	37,957	32,707	-13.83	7.48	Y
Sports Goods	374	371	-1.04	0.08	
Chemicals & Related Products	57,427	58,605	2.05	13.41	Y
Plastic & Rubber Articles	9,336	8,944	-4.2	2.05	Y
Articles Of Stone, Plaster, Cement, Asbestos, Mica Or Similar Materials; Ceramic Products; Glass And Glassware	6,358	6,772	6.51	1.55	
Paper & Related Products	4,815	4,555	-5.39	1.04	
Base Metals	36,675	34,399	-6.21	7.87	Y
Optical, Medical & Surgical Instruments	3,732	3,860	3.43	0.88	Y
Electronics Items	22,683	28,221	24.42	6.46	Y
Machinery	39,033	41,783	7.05	9.56	Y
Office Equipments	298	313	5.17	0.07	
Transport Equipments	27,982	29,601	5.79	6.77	Y
Project Goods	2	3	30.45	0	
Textiles & Allied Products	35,359	34,432	-2.62	7.88	Y
Petroleum Crude & Products	97,468	84,157	-13.66	19.25	
Others	9,376	9,550	1.86	2.18	
Total	451,070	437,113	-3.09	100	
Data Source: DGCIS, Kolkata, yellow highlighted sectors have prevalence of MSME					

Reforming IBC

Path for IBC

- In 2016, parliament passed the IBC, which was termed as a much-needed and long-awaited reform for the insolvency process in the country. The code aimed to expedite and simplify bankruptcy proceedings alongside facilitating fair negotiations between borrowers and creditors
- Timely resolution of stressed assets that could ensure maximum recovery was a key element of the code. IBC helped in creating a mechanism to resolve the deadlock between stressed borrowers and lenders, made defaulting companies more conscious about debt, and gave lenders a tool to maximize their recoveries
- However, the resolution process has been slow due to factors such as litigation, dissenting creditors and poor infrastructure
- Recoveries through IBC in FY24 were 32 percent, and financial creditors lost 68 percent of their claims. **The time taken to reach resolution is 863 days instead of the stated 330 days**
- IBC is a crucial pillar for a vibrant secondary market for stressed assets. But for this market to take off, the pool of prospective resolution applicants needs to widen. In this regard, the introduction of the Special Situation Funds (SSFs) by SEBI has been a promising start. Going forward, policymakers need to make the regulatory regime on SSFs more attractive for stressed asset investors
- We expect Government will look into the concerns over IBC that must be improved and expediting of cases under IBC should be a key change

Need for a comprehensive Mineral strategy for employment

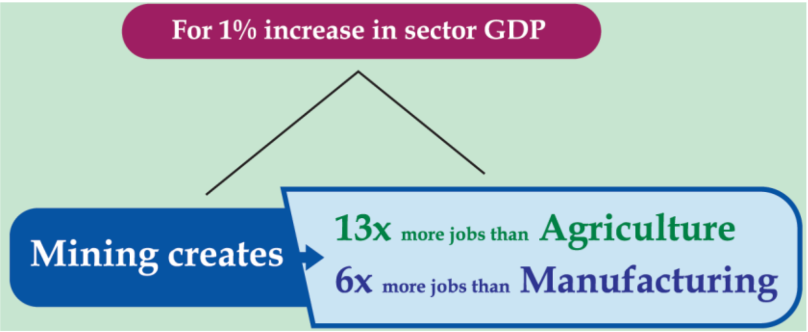
Need for a New Mineral Strategy

- India is endowed with huge resources of many metallic and non-metallic minerals and currently produces as many as 95 minerals, which includes fuel, metallic, non-metallic, atomic and minor minerals (including building and other materials)
- However, the progress of mining of minerals is not so encouraging. The 5-year CAGR (from FY19 to FY24) of most of the major minerals (in quantity terms) is in single digits or declining
- Mining is huge labor-intensive sector (with high employment elasticity) and the average daily employment of labour engaged in Mining sector was 4.8 lakh in FY19. Out of this, 3.8 lakh or 78% were in Public Sector. **As per our preliminary estimate currently 5.8-6.0 lakh are employed on daily basis. We estimate that a 10% increase in production (in value terms) leads to additional 0.5-0.7 lakh daily employment in mining sector**
- We believe India needs to develop mineral strategy for the entire value chain from exploration to recycling. This implies building capacity at each stage of the value chain namely geoscience and exploration, mineral extraction, intermediate processing, advanced manufacturing and recycling
- The objectives that will achieve from this strategy: job creation, competitiveness, innovation, etc.

Mineral Production (5Y CAGR, %)

Mineral	Quantity	Value
Bauxite	0.2	8.5
Chromite	-4.5	5.8
Copper Ore	-1.8	-
Iron Ore	5.9	16.7
Manganese Ore	3.6	2.7
Silver	1.9	15.7
Graphite	34.0	44.0
Magnesite	-2.1	8.4
All Minerals	-	13.6

Source: SBI Research



Source: FIMI

How “Critical Minerals” Shape the Future

- Critical minerals are the foundation on which modern technology is built. From solar panels to semiconductors, wind turbines to advanced batteries for storage and transportation, the world needs critical minerals to build these products
- China dominates the processing and refining of critical minerals, controlling between 65%-100% of the global capacity to make battery grade lithium, cobalt, manganese, and graphite
- To build competitive value chains in India, the discovery of mineral wealth and identifying areas of its potential by use of advanced technologies is essential. Identification of critical minerals will help the country to plan for the acquisition and preservation of such mineral assets taking into account the long-term needs of the country. This will in turn reduce the import dependency as India is 100% import dependent for certain elements
- Various strategies may be devised to make India a global leader in critical minerals space, like:
  - Collaboration with other countries
  - Enhancing of processing capacity
  - Involvement of private sector
  - Introduction of PLI, etc.

Import Dependency of Critical Mineral	
Lithium	100%
Cobalt	100%
Nickel	100%
Vanadium	100%
Niobium	100%
Germanium	100%
Rhenium	100%
Beryllium	100%
Tantalum	100%
Strontium	100%
Zirconium (zircon)	80%
Graphite (natural)	60%
Manganese	50%
Chromium	2.50%
Silicon	<1%

Source: Report of the Committee on Identification of Critical Minerals

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