

INTERPRETING THE BUDGET

The Union Budget 2011-12 has proved to be a fine balancing act between giving a boost to growth and at the same time, fire-fighting inflationary trends. Considering the difficult macro-economic scenario, the Finance Minister (FM) has hit the nail on the head by focusing on the supply side reforms. This will ensure that the country not only fights the temporary devil of inflation, but also races fast on the track to growth. The Budget speech had an optimistic undertone with the Finance Minister claiming that swift and broad based growth in FY 2010-2011 has put the Indian economy back to its pre-crisis growth trajectory. The FM sees GDP growth of between 8.75% to 9.25% for FY12.

- 1. Inflation** – High food inflation continues to be a matter of principal concern. This needs to be managed by improving supply response of agriculture to expanding domestic demand. The budget has addressed this concern by taking the following steps:
 - a. Increase in allocation to Rashtriya Krsihi Vigyan Yojana (RKVY)
 - b. Credit flow for farmers raised to Rs. 475000 crs from Rs 375000 crs.
 - c. Interest subvention to farmers enhanced to 3% from 2% on short term loans.
 - d. Enhanced capital base of NABARD by Rs 3000 crs in phased manner.
 - e. Rs. 10, 000 crs to be contributed to NABARD's Short Term Rural Growth Fund in 2011-12.
 - f. In a major move, the Government has proposed a direct transfer of cash subsidy to people living below poverty line for better delivery of kerosene, LPG and fertilizers.

- 2. Fiscal Deficit** – As prescribed by Fiscal Responsibility and Budget Management (FRBM) Act, 2003, the Union Government is required to achieve a sub 5% fiscal deficit in 2011-12. In line with the target, the Government is committed to bringing down Fiscal deficit to 5.1% for FY11. Further, the Government has targeted a fiscal deficit of 4.6% for FY12, which will be progressively reduced to 3.5% by FY14.
 - a. The Net market borrowing of Government through dated securities would be Rs. 3.43 lakh for FY12.
 - b. The Government has estimated non-tax revenue receipts of Rs. 1.25 lakh crores.
 - c. Rs. 40, 000 crores to be raised through disinvestment in FY12.

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- 3. FII Flows** – The Government, recognizing the need to encourage both FII and FDI flows into the economy has taken the following steps:
- a. Discussions underway to further liberalize FDI policy.
 - b. SEBI registered mutual funds permitted to accept subscription from foreign investors who meet KYC requirements for equity schemes.
 - a. To enhance flow of funds to infrastructure sector, the FII limit for investment in corporate bonds issued in infrastructure sector being raised.
- 4. Direct Taxes** – The Direct Taxes Code (DTC) is proposed to be effective from 1st April, 2012. In addition to this major move, the Finance Minister has taken numerous small steps to ease the tax burden as:
- a. Exemption limit for the general category of individual taxpayers enhanced from Rs. 1, 60,000 to Rs. 1, 80,000 giving uniform tax relief of Rs. 2,000.
 - b. Exemption limit enhanced to Rs. 2, 50,000 and qualifying age reduced for senior citizens to 60 years from 65 years of age.
 - c. Higher exemption limit of Rs. 5, 00,000, for Very Senior Citizens, who are 80 years or above.
 - d. Current surcharge of 7.5% on domestic companies proposed to be reduced to 5%, while MAT enhanced to 18.5% of book profits from 18% earlier.
 - e. Additional deduction of Rs. 20,000 for investment in long-term infrastructure bonds proposed to be extended for one more year.
- 5. Indirect Taxes** – As a step towards transition to GST, the Constitution Amendment Bill to be proposed to be introduced in the current session of parliament. Coming to specific indirect taxes, the rates of service tax, excise duty and peak rate of customs duty to remain unchanged.
- a. Reduction in number of exemptions in Central Excise rate structure and Nominal Central Excise Duty of 1% imposed on 130 items entering in the tax net.
 - b. Basic customs duty reduced on specified agricultural machinery and micro-irrigation equipments.
 - c. Rate of Export Duty for all types of iron ore enhanced and unified at 20% ad valorem. Full exemption from Export Duty to iron ore pellets.
 - d. Basic Custom Duty on two critical raw materials of cement industry viz. petcoke and gypsum is proposed to be reduced to 2.5%.
 - a. New services brought under the net of Service tax including hotel accommodations in excess of Rs. 1000 per day, AC restaurants serving liquor, AC hospitals with more than 25 beds, etc.

6. Impact on Various Sectors

SECTOR	EXPECTATIONS	ACTUAL OUTCOME	ACTUAL IMPACT
Agriculture & Fertilizers	<ol style="list-style-type: none"> Increase in Budgetary allocation for agricultural sector. Urea be brought under Nutrient Based Subsidy Scheme. 	<ol style="list-style-type: none"> Allocation to Krishi Vikas Yojana increased to Rs 7860 crs from Rs 6755 crs. Mulling over Nutrient Based Subsidy Policy for Urea. National Food Security Bill to be tabled this year. Basic Customs Duty reduced on agricultural machinery and micro-irrigation equipments. 	Positive
Automobiles & Auto Components	<ol style="list-style-type: none"> Increase in support to NREGA and other rural employment schemes. Excise Duty intact @ 10% (No hike in Excise Duty) 	<ol style="list-style-type: none"> NREGA wage rate to be indexed with Consumer Price Index. Excise Duty intact @ 10%. Exemption from Customs and Excise extended to batteries imported by manufacturers of electrical vehicles. 	Positive
Banking, Financial Services and Insurance (BFSI)	<ol style="list-style-type: none"> Continuation of 2% interest subvention on short term farm loans. Banks be allowed to issue Tax free Infrastructure Bonds and keep them out of reserve requirements. Raise FDI limit in Insurance to 49% from the existing 26%. 	<ol style="list-style-type: none"> Additional 1% interest rate subvention over and above the existing 2% to farmers repaying loan on time. Bill to enable RBI to grant more banking licenses. allocate Rs 201.57 bn for Tier I and Rs 60 bn for Tier II capital for PSU banks. 	Neutral
Cement	<ol style="list-style-type: none"> Abolition of import duty on Coal and Pet Coke. 	<ol style="list-style-type: none"> Replaced the existing excise duty rates with ad-valorem rates. Basic Customs duty on petcoke and gypsum reduced to 2.5%. 	Positive
Housing/ Construction	<ol style="list-style-type: none"> Interest rate subvention to continue 	<ol style="list-style-type: none"> Interest subvention of 1% on housing loan extended to Rs. 1500000 and loan limit for dwellings under priority sector enhanced to Rs. 2500000. Provision for Rural Housing Fund enhanced to Rs. 3000 crs. 	Positive
Infrastructure	<ol style="list-style-type: none"> Implementation and roll-out of Rs 50,000 crore Infrastructure Fund. 	<ol style="list-style-type: none"> Allocation to Infrastructure increased by 23.3%, amounting to 48.5% of total plan allocation. IIFCL given a disbursement target of RS. 20000 crs for FY11 and Rs 25000 crs for FY12. Tax free bonds of Rs 30000 crs to be issued during FY12. 	Positive
Education	<ol style="list-style-type: none"> Increase in Budgetary allocation to Education Sector to around 5.5-6% of GDP. Encouragement to Public Private Partnerships (PPP) in Education Sector. Grant to FDI in Education Sector. 	<ol style="list-style-type: none"> Allocation for Education increased by 24% over current year clocking an increase of 40%. 	Positive

SECTOR	EXPECTATIONS	ACTUAL OUTCOME	ACTUAL IMPACT
Fast Moving Consumer Goods (FMCG)	<ol style="list-style-type: none"> Increase in support to NREGA and other rural employment schemes. Excise Duty intact @ 10% (No hike in Excise Duty) Hike in Excise Duty on Cigarettes by 8-10%. Increase in MAT to 20% from the existing 18%. 	<ol style="list-style-type: none"> NREGA wage rate to be indexed with Consumer Price Index. Excise Duty unchanged (including duty on tobacco). Nominal Excise Duty of 1% imposed on 130 items entering in the tax net. MAT increased to 18.5% from 18%. 	Neutral
Information Technology (IT)	<ol style="list-style-type: none"> Extension of Tax Holiday Scheme for Software Technology Parks (STP) by another 1 year. Increase in MAT to 20% from the existing 18%. 	<ol style="list-style-type: none"> No extension of Tax Holiday Scheme for Software Technology Park (STP's). Increase in MAT to 18.5% from 18%. 	Negative
Pharmaceuticals	<ol style="list-style-type: none"> Parity in Excise Structure between formulations (Currently, Excise Duty @ 4%) and Active Pharmaceutical Ingredients (API's) (Currently, Excise Duty @ 10%). Weighted Deduction of 200% of expenditure on R&D both in-house and externals. 	<ol style="list-style-type: none"> Weighted Deduction of 200% of expenditure on R&D both in-house and externals. 	Positive
Power Utilities and Capital Goods	<ol style="list-style-type: none"> Higher allocation to RGGVY and Bharat Nirman etc. Increase in import duty on import of power equipments. Increase in Budgetary allocation to power sector. 	<ol style="list-style-type: none"> Allocation to Bharat Nirman increased to Rs. 58000 crs for FY12. Excise Duty exemption for domestic suppliers of capital goods for existing mega and Ultra mega power projects. 	Positive
Telecom	<ol style="list-style-type: none"> Single Unified Tax on revenues to replace multiple taxes like Service Tax, Spectrum charges, license fes, Excise duty, Customs duty etc. Extension of Tax Holiday under Sec. 80 IA to services launched till 31st March, 2011. More clarity on matters related to 3G auction winners. 	<ol style="list-style-type: none"> No clarity on matters related to Telecom sector. 	Negative
Metals	<ol style="list-style-type: none"> No change in duty structure 	<ol style="list-style-type: none"> Rate of export duty for all types of iron ore enhanced and unified at 20% ad valorem. Full exemption from export duty to iron ore pellets. 	Negative
Micro Finance Institutions	-	<ol style="list-style-type: none"> India Micro Finance Equity Fund of Rs. 100 crs to be created with SIDBI. Put in place appropriate regulatory framework to protect interest of small borrowers. Womens Selfhelp Group Development Fund to be created with a corpus of Rs. 500 crs. 	Positive
Aviation/ Hotels	-	<ol style="list-style-type: none"> Service Tax on both domestic and international air travel raised. Hotel accomodations in excess of Rs. 1000 per day and services provided by AC restaurants serving liquor brought under service tax net. 	Negative

Our Verdict on the Union Budget – Growth Oriented with a degree of cautious optimism.

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