India economic news

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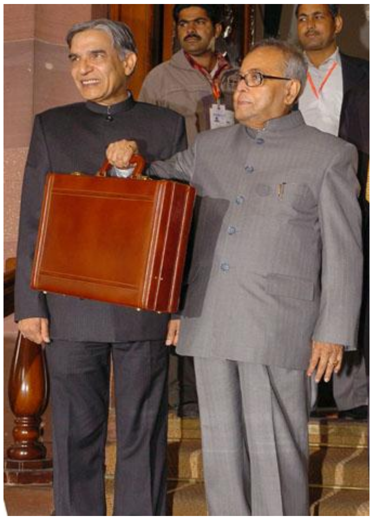
Interim Budget for 2009-10 Announced



The Union Finance & External Affairs Minister, Mr. Pranab Mukherjee at the Parliament House to present the Interim General Budget 2009-10 in New Delhi on February 16, 2009. The Minister of State for Finance and Parliamentary Affairs, Mr. Pawan Kumar Bansal is also seen.

The Finance Minister of India, Mr. Pranab Mukherjee presented the Interim Budget for 2009-10 on 16th February, 2009 in the Parliament at New Delhi. The Budget projects a total expenditure of Rs. 9,53,231 crore (approx $197.32 billion), comprising Rs. 2,85,149 crore (approx $59.02 billion) as Plan expenditure and Rs. 6,68,082 crore (approx $ 138.30 billion) as Non-Plan expenditure. The Gross Budgetary Support for the Plan is 17.16 per cent higher than that in 2008-09. Gross Tax Revenue receipts at the existing rates of taxation are estimated at Rs.6,71,293 crore (approx $138.96 billion) and Centre's net tax revenue at Rs. 5,00,096 crore (approx $103.52 billion). With revenue expenditure estimated at Rs. 8,48,085 crore (approx $ 175.55 billion), the revenue deficit amounts to 4.0 per cent of GDP. Fiscal Deficit is estimated at Rs. 3, 32,835 crore (approx $ 68.90 billion) which amounts to 5.5 per cent of GDP.

Highlights of Budget Speech

- Revenue Deficit for 2009-10 is estimated at 4% of GDP and Fiscal Deficit at 5.5% of GDP.

- The Gross Domestic Product increased by 7.5 per cent, 9.5 per cent, 9.7 per cent and 9 per cent in the fiscal years 2004-05, 2005-06, 2006-07 and 2007-08 respectively. The growth drivers for the period were agriculture, services, manufacturing, trade and construction.

- The tax to GDP ratio has increased from 9.2 per cent in 2003-04 to 12.5 per cent in 2007-08.

- The domestic investment rate as a proportion of GDP has increased from 27.6 per cent in 2003-04 to 39 per cent in 2007-08. Gross Domestic savings rate has also increased from 29.8 per cent to 37.7 per cent during this period.

- India received US$32.4 billion Foreign Direct Investment (FDI) in 2007-08 and notwithstanding financial uncertainty and slowdown, FDI inflows during April-November, 2008 were US$23.3 billion, recording a growth of 45 per cent over the same period in 2007.

- The Government has allocated Rs 1,31,317 crore (approx $27.18 billion) to flagship programmes such as Bharat Nirman, National Rural Employment Guarantee Scheme, National Rural Health Mission, Jawaharlal Nehru National Urban Renewal Mission, Integrated Child Development Scheme and Mid-day Meals.

- The Gross capital formation in Agriculture as a proportion of Agriculture GDP has increased from 11.1 per cent in 2003-04 to 14.2 per cent in 2007-08.

- It is proposed to recapitalise the public sector banks over next two years to enable them to maintain Capital to Risk Weighted Assets Ratio (CRAR) of 12 per cent and to ensure that credit growth continues to sustain economic growth.

Outlook for 2008-09:

- Despite the global financial crisis impacting most emerging market economies, the GDP growth rate of 7.1 per cent in the current year makes India the second fastest growing economy in the world.

- Fallout of global slowdown on Indian economy have been countered with fiscal stimulus packages announced on December 7, 2008 and January 2, 2009 providing tax relief to boost demand and increasing expenditure on public projects.

- The Government has accorded approval to 37 infrastructure projects worth Rs.70,000 crore (approx $14.49 billion) between August, 2008 to January, 2009.

- Under Public Private Partnership (PPP) mode, 54 Central Sector infrastructure projects with a project cost of Rs.67,700 crore (approx $14.01 billion) have been given in-principle or final approval and 23 projects amounting to Rs.27,900 crore (approx $5.78 billion) have been approved for viability gap funding in 2008-09.

- India Infrastructure Finance Company Ltd. will refinance up to 60 per cent of commercial bank loans for PPP projects involving total investment of Rs.1,00,000 crore (approx $20.7 billion) in infrastructure over the next eighteen months.

- In addition to RBI taking number of monetary easing and liquidity enhancing measures such as reduction in cash reserve ratio, statutory liquidity ratio and key policy rates, Government has taken specific measures which include extension of export credit for labour intensive exports, improving pre and post shipment credit availability, additional allocations for refund of Terminal Excise Duty/CST and export incentive schemes besides removal of export duty and export ban on certain items.

Sector Specific Achievements

Agriculture and Rural Development:

- To strengthen short-term cooperative credit structure, revival package in 25 states involving financial assistance of about Rs.13,500 crore (approx $2.79 billion) is being implemented.

- 'Project Arrow' is proposed to provide new technology enabled services through post offices to common man and support effective implementation of social sector schemes like NREGS, while promoting financial inclusion.

Education and Social Sector:

- Major initiatives, including a new Centrally Sponsored Scheme, have been launched to universalize education at secondary stage in the year 2008-09.

- Outlay on Higher Education has been increased nine fold in the Eleventh Five Year Plan.

- Five Indian Institute of Science Education and Research (IISER) announced earlier have become functional. Two new schools of Planning and Architecture at Vijayawada and Bhopal have started functioning. Teaching is expected to commence from academic year 2009-10 in four out of six new Indian Institutes of Management proposed for the Eleventh Plan in Haryana, Rajasthan, Jharkhand and Tamil Nadu.

Reforms in Financial Sector and Taxation:

- Non Performing Assets of Public Sector Banks declined from 7.8 per cent of Gross Advances on March 31, 2004 to 2.3 per cent as on March 31, 2008.

- The Companies Bill, 2008, undertaking comprehensive revision of Companies Act, 1956 to enable adoption of internationally accepted best practices has been introduced in the Parliament.

- A Comprehensive reform of the tax system, both direct and the indirect, have enabled the tax administration to enhance its functional efficiency and provide better tax payer services leading to increased compliance.

- Rates of Union Excise Duties and Service Tax have been rationalized for eventual shift to the Goods and Service Tax on 1st April, 2010.

Interim Railway Budget for 2009-10

Indian Railway Budget was announced in Indian Parliament by the Railway Minister Mr. Lalu Prasad Yadav on February 13, 2009. Key highlights of the budget are:

- The Gross Traffic Receipts for 2009-10 is estimated at Rs 93,159 crore (approx $19.28 billion) and cash surplus before dividend is projected at Rs 19,320 crore (approx $3.99 billion) for 2009-10.

• The Plan Outlay for 2009-10 is kept at Rs 37,905 crores (approx $ 7.85 billion).

• 43 New train services will be started in 2009-10. Extension of 14 trains is envisaged and frequency of 14 trains will be increased.

• Work on Eastern Dedicated Freight Corridor (DFC) has commenced near Dehri-on–Son in Bihar on 10th February, 2009. Work on Western DFC will commence shortly.

• Pre-feasibility study for running high speed bullet trains is being pursued.

Other Policy Developments

• The Government of India has issued guidelines for the calculation of direct and indirect foreign investment in a company. For the purpose of computation of indirect Foreign investment, Foreign Investment in Indian company shall include all types of foreign investments i.e. FDI (foreign direct investment), investment by FIIs (foreign institutional investment), NRIs (Non Resident Indians), ADRs (American Depository Receipts), GDRs (Global Depository Receipts), Foreign Currency Convertible Bonds (FCCB) convertible preference shares and convertible Currency Debentures. All investment directly by a non-resident entity into the Indian company would be counted towards foreign investment. However, the foreign investment through the investing Indian company would not be considered for calculation of the indirect foreign investment in case of Indian companies which are owned and controlled by resident Indian citizens. More

• The Government of India has issued guidelines for transfer of ownership or control in Indian companies in sectors with caps, from resident Indian citizens to nonresident entities. Accordingly, in sectors with caps, including defence production, air transport services, ground handling services, asset reconstruction companies, private sector banking, broadcasting, commodity exchanges, credit information companies, insurance, print media, telecommunications and satellites, Government approval would be required in all cases where an Indian company is being established with foreign investment and is owned/ controlled by a non resident entity. These guidelines will not apply to sectors where 100% foreign investment is allowed under the automatic route. More

• The RBI has taken further measures on review of the current global macroeconomic and domestic situation. The Reserve Bank of India has extended a forex swap facility for tenors up to three months to Indian public and private sector banks having overseas operations in order to provide them flexibility in managing their short term funding requirements at their overseas offices till March 31, 2010, which was earlier available till June, 2009. It has also put in place a framework for information sharing among banks under Multiple Banking Arrangement. Banks are being given more time to accept debt restructuring proposals. The Reserve Bank of India has extended the deadline to commence the process by 60 days to March 31, 2009. RBI has also decided to allow exporters to raise credit abroad at higher interest rates to enable borrowers to borrow at ease in foreign currency. Exporters can now raise credit at 350 basis points above the London Interbank Offer Rate (LIBOR), up from 100 basis points allowed earlier. More

Economic News

• According to the Advance Estimates of GDP for 2008-09 released by the Central Statistical Organization, the growth of GDP at factor cost (at constant 1999-2000 prices) is estimated at 7.1 per cent during the year. The growth of GDP during 2007-08 (Quick estimates) was 9.0 per cent. As per the above estimates, the growth rate for Agriculture, Industry and Services is estimated to be 2.6 per cent, 4.8 per cent and 9.6 per cent respectively in 2008-09. In the quick estimates for 2007-08, the corresponding growth rates for these three sectors were 4.9, 8.1 and 10.9 per cent respectively. More

• The Government of India will launch the eighth round of New Exploration and Licensing Policy (NELP) with 100 blocks being offered for bidding. Under the first six rounds of NELP, a total investment of $8.3 billion in exploration of oil and gas was committed, out of which about $4.5 billion has already been incurred on exploration and $1.4 billion on development of discoveries. A further $1.5 billion exploration spend is budgeted for the seventh round of New Exploration and Licensing Policy. More

• The Reserve Bank of India (RBI) has released the roadmap for banks to graduate from the simpler approach of Basel II framework to the more advanced one. Basel II is the second among Basel Accords, which are primarily recommendations on banking laws and regulations issued by the Basel committee on banking supervision. More

• India has signed agreement with the United States of America to establish a framework of cooperation covering scientific, technical and policy aspects of production, conversion, utilization, distribution and marketing of bio fuels in a sustainable and environmentally friendly manner in accordance with national priorities and socio economic development strategies and goals. More

Corporate News

• India's leading power producer, National Thermal Power Corporation, NTPC and the Nuclear Power Corporation of India Ltd, NPCIL have signed a MoU to set up a Joint Venture to carry out nuclear power production capacity. As per the proposal, NPCIL will hold the majority 51% equity in the venture while NTPC will hold the remaining 49% equity. The JV will set up a 2000 MW nuclear power plant at a location to be finalized later. More

• Tata Capital, the financial services arm of the Tata Group, plans to float a $350 million private fund. The fund would be a general purpose fund and the company has not decided on the specific sectors to invest. More

• UK based private equity firm, Greater Pacific Capital is planning to launch a fund with a corpus of $750 million to invest in India and China. The fund, which is expected to be launched next year, has plans to invest in companies especially based in Tier-II and Tier-III cities in India. More

• Ford India's capacity expansion programmes are progressing as scheduled despite the slowdown in the Indian automotive industry and the recessionary trend in the US according to senior officials of the company. The $500 million expansion project announced in January 2008 is expected to be completed by early 2010. More

• Boeing Co plans to buy aerospace structures and aviation electronics products worth at least $600 million from seven firms in India as part of the offsets against winning a $2.1 billion contract to supply eight P-8I reconnaissance planes to the Indian Navy. More