

Analysis of Union Budget – 2010 -11

Moderators

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Analysis of Union Budget 2010 -11

SIRC of ICAI

India - Snapshot

Population (2010 est)	1,170 Million
Population growth rate	1.39%
Life expectancy (2009 est)	67.46 years for males
	72.61 year for females
Literacy rate	79.9%
GDP at factor cost (at current prices 09-10)	US\$ 1,286 billion
GDP growth rate (at current prices in Re. terms)	10.6%
GDP in PPP (2009 Estimate)	US\$ 3.548 trillion
Per capita income	US\$ 1,099
Export growth (Apr – Dec, 09)	-20.3%
Import growth (Apr – Dec, 09)	-23.6%
Forex reserves (Dec 2009)	US\$ 283.5 billion
Foreign debt (Mar 09)	US\$ 224.6 billion

India is one of the world's fastest growing economies...

Year on Year % change in GDP

	Projections		
	2008	2009	2010
A. World Output #	3.0	-0.8	3.9
Advanced economies	0.5	-3.2	2.1
Other Emerging Market and Developing Countries	6.1	2.1	6.0
Developing Asia	7.9	6.5	8.4
China	9.6	8.7	10.0
India	7.3	5.6	7.7

Growth rates are based on GDP at purchasing power parities

Source : International Monetary Fund (IMF), World Economic Outlook, January 2010

...Services and industry segments continue to grow

Movement in GDP sectoral share at current market prices in select Asian countries

%	Agriculture			Industry			Services		
	1990	2000	2008	1990	2000	2008	1990	2000	2008
China	27.1	15.1	11.3	41.3	45.9	48.6	31.5	39.0	40.1
India #	29.3	23.4	17.6	26.9	26.2	29.0	43.8	50.5	53.4
Indonesia	19.4	15.6	14.4	39.1	45.9	48.1	41.5	38.5	37.5
Korea	8.9	4.6	2.5	41.6	36.1	37.1	49.5	57.3	60.3
Malaysia	15.0	8.3	10.1	41.5	46.8	47.6	43.5	44.9	42.3
Pakistan #	26.0	25.9	20.2	25.2	23.3	26.8	48.8	50.7	53.0
Philippines	21.9	15.8	14.9	34.5	32.3	31.6	43.6	52.0	53.5
Thailand	12.5	9.0	11.6	37.2	42.0	45.1	50.3	49.0	43.3

For India and Pakistan, data are based on GDP at current factor cost

(Source : Asian Development Bank (ADB), Key Indicators 2009)

State of the Economy

(% change over prior year at 2004-2005 prices)

		2005-06	2006-07	2007-08	2008-09	2009-10
I	GDP growth rate	9.5	9.7	9.2	6.7	7.2
II	Agriculture, Forestry & Fishing	5.2	3.7	4.7	1.6	-0.2
III	Manufacturing	9.6	14.9	10.3	3.2	8.9
IV	Financing, Insurance, Real Estate & Business Services	12.8	14.5	13.2	10.1	9.9
V	Exports	23.4	22.6	29.0	13.6	-20.3 [#]
VI	Imports	33.8	24.5	35.5	20.7	-23.6 [#]
VII	Forex Reserves (\$bn)	151.6	199.2	309.7	252.0	283.5 [@]

[#] April – December 2009

[@] As of December 2009

Source : The Economic Survey, 2010

State of the Economy

(as % of GDP)

		2004-05	2005-06	2006-07	2007-08	2008-09P	2009-10RE
I	Fiscal Deficit	3.9	4.0	3.3	2.6	5.9	6.7
II	Gross Tax revenue	9.4	9.9	11.1	12.0	10.9	10.3
	Direct tax	4.1	4.3	5.1	6.0	6.1	6.0
	Personal Income tax	1.5	1.5	1.8	2.1	2.2	2.0
	Corporate tax	2.6	2.7	3.4	3.9	3.8	4.1
	Indirect tax	5.3	5.4	5.6	5.6	4.8	4.4
	Customs	1.8	1.8	2.0	2.1	1.8	1.4
	Excise	3.1	3.0	2.7	2.5	2.0	1.7
	Service tax	0.4	0.6	0.9	1.0	1.1	0.9
III	Major Subsidies	1.4	1.2	1.2	1.4	2.2	1.7 [#]
IV	Interest Payment	3.9	3.6	3.5	3.5	3.4	3.7 [#]

P- Provisional, RE - Revised Estimates,
- Budget Estimates

Source : The Economic Survey, 2010

Video 1

State of the economy

» FM Speech of the current year – Para 1, 3 and 4

- “In 2009, when I presented the interim Budget in February and the regular Budget in July in this august House, the Indian economy was facing grave uncertainties. Growth had started decelerating and the business sentiment was weak. The economy’s capacity to sustain high growth was under serious threat from the widespread economic slowdown in the developed world.”
- “At home, there was added uncertainty on account of the delayed and sub-normal south-west monsoon, which had undermined the kharif crop in the country. There were concerns about production and prices of food items and its possible repercussions on the growth of rural demand.”
- “Today, as I stand before you, I can say with confidence that we have weathered these crises well. Indian economy now is in a far better position than it was a year ago. That is not to say that the challenges today are any less than what they were nine months ago when UPA under the leadership of Mrs. Sonia Gandhi was elected back to power and Prime Minister Dr. Manmohan Singh formed the Government for the second term.”

Bangalore

Feb 27, 2010

State of the economy

» Have we weathered the storm well over the past year?

Bangalore

Feb 27, 2010

Video 2

Inflation

» FM Speech of the current year – Para 18

- “A major concern during the second half of 2009-10 has been the emergence of double digit food inflation. There was a momentum in food prices since the flare-up of global commodity prices preceding the financial crisis in 2008, but it was expected that the agriculture season beginning June 2009 would help in moderating the food inflation. However, the erratic monsoons and drought like conditions in large parts of the country reinforced the supply side bottlenecks in some of the essential commodities. This set in motion inflationary expectations. Since December 2009, there have been indications of these high food prices, together with the gradual hardening of the fuel product prices, getting transmitted to other non-food items as well. The inflation data for January seems to have confirmed this trend.”

Inflation

(% change)

Prices	2005-06	2006-07	2007-08	2008-09	2009-10 [#]
Inflation (WPI) (52 week average)	4.4	5.4	4.7	8.4	1.6
Inflation CPI (IW) (average)	4.4	6.7	6.2	9.1	11.4
Food inflation	4.8	7.8	5.5	8.0	13.31

[#] Average April to December 2009

Source : The Economic Survey, 2010

Inflation

- » Has this budget addressed the challenge of inflation adequately?

Food Grains Production

(million tonnes)

	2003-04	2004-05	2005-06	2006-2007E	2007-2008	2008-2009E
Rice	88.5	83.1	91.8	90.0	96.7	99.2
Wheat	72.2	68.6	69.4	72.5	78.6	80.6
Coarse Cereals	37.6	33.5	34.1	32.0	40.8	39.5
Pulses	14.9	13.1	13.4	14.5	14.8	14.7
Food grains	213.2	198.4	208.6	209.2	230.8	233.9
Agriculture and Allied sectors - Share in GDP		18.9%			16.4%	15.7%

Rice production estimated at 98.83 million tonnes as against the target of 125.55 million tonnes for 2009-10 and total production of 209 million tonnes

E – Advance estimates

Source: The Economic Survey – 2010

Video 3

Agricultural growth

» FM Speech of the current year – Para 44 and 45

- “The agriculture sector occupies centre-stage in our resolve to promote inclusive growth, enhance rural incomes and sustain food security. To spur the growth in this sector, the Government intends to follow a *four-pronged strategy* covering
 - a. agricultural production;
 - b. reduction in wastage of produce;
 - c. credit support to farmers; and
 - d. a thrust to the food processing sector.”
- “The first element of the strategy is to extend the green revolution to the eastern region of the country comprising Bihar, Chattisgarh, Jharkhand, Eastern UP, West Bengal and Orissa, with the active involvement of Gram Sabhas and the farming families. For the year 2010-11, I propose to provide Rs.400 crore for this initiative.”

Bangalore

Feb 27, 2010

Video 3

Agricultural growth

» FM Speech of the current year – Para 48 and 50

“The *second element* of the strategy relates to reduction of significant wastages in storage as well as in the operations of the existing food supply chains in the country. This needs to be addressed. As the Prime Minister has said recently, “*We need greater competition and therefore need to take a firm view on opening up of the retail trade.*” It will help in bringing down the considerable difference between the farm gate prices, wholesale prices and retail prices.”

“The *third element* of the strategy relates to improving the availability of credit to farmers. I am happy to inform the Honourable Members that banks have been consistently meeting the targets set for agriculture credit flow in the past few years. For the year 2010-11, the target has been raised to Rs.3,75,000 crore from Rs.3,25,000 crore in the current year. ”

Bangalore

Feb 27, 2010

Agricultural growth

52% of population depends on 16% of GDP

Indian agriculture is plagued by poor productivity

» Are we doing enough for agriculture?

Budget at a glance

Rs. cr

	2008-2009 Provisional Actuals	2009-2010 Budget Estimates	2009-2010 Revised Estimates	2010-2011 Budget Estimates
Revenue Receipts	5,40,259	6,14,497	5,77,294	6,82,212
Tax Revenue (net to Centre)	4,43,319	4,74,218	4,65,103	5,34,094
Non-tax revenue	96,940	1,40,279	1,12,191	1,48,118
Capital Receipts	3,43,697	4,06,341	4,44,253	4,26,537
Recoveries of Loans	6,139	4,225	4,254	5,129
Other Receipts	566	1,120	25,958	40,000
Borrowings and other Liabilities *	3,36,992	4,00,996	4,14,041	3,81,408
Total Receipts	8,83,956	10,20,838	10,21,547	11,08,749
Fiscal Deficit - % of GDP	6.0	6.8	6.7	5.5

*Includes draw- down of cash balance
Source: Budget2010-11

Budget at a glance

Rs. cr

	2008-2009 Provisional Actuals	2009-2010 Budget Estimates	2009-2010 Revised Estimates	2010-2011 Budget Estimates
Total Receipts	8,83,956	10,20,838	10,21,547	11,08,749
Non-plan Expenditure	6,08,721	6,95,689	7,06,371	7,35,657
Plan Expenditure	2,75,235	3,25,149	3,15,176	3,73,092
Total Expenditure	8,83,956	10,20,838	10,21,547	11,08,749
Revenue Deficit	2,53,539	2,82,735	3,29,061	2,76,512
Fiscal Deficit	3,36,992	4,00,996	4,14,041	3,81,408
Primary Deficit	1,44,788	1,75,485	1,94,541	1,32,744

Source: Budget 2010-11

Video – 4

Consolidating growth

- » FM Speech of the current year – Para 21

“After successfully managing the effects of the global slowdown, we need to strengthen the domestic macroeconomic environment to help consolidate the rebound in growth and sustain it over the medium term. We need to review the stimulus imparted to the economy and move towards the preferred path of fiscal consolidation that facilitated the remarkable growth in the pre-crisis five year period. We need to make growth more broad-based and ensure that supply-demand imbalances are better managed. “

Consolidating growth

- » Was the stimulus provided adequate in managing the effects of the global slowdown?

India's total debt is high . . .

(In Rs. Cr.)

	2004-05	2005-06	2006-07	2007-08	2008-09RE	2009-10BE
Internal debt	19,33,544	21,65,902	24,35,880	27,25,394	30,14,441	33,57,772
External debt	1,91,182	1,94,078	2,01,204	2,10,083	2,64,076	2,80,122
Total debt	21,24,726	23,59,980	26,37,084	29,35,477	32,78,517	36,37,894

(as % of GDP)

	2004-05	2005-06	2006-07	2007-08	2008-09RE	2009-10BE
Internal debt	59.7	58.4	56.9	55.1	54.1	54.5
External debt	5.9	5.2	4.7	4.2	4.7	4.5
Total debt	65.6	63.6	61.6	59.3	58.8	59.0

Source : The Economic Survey, 2010

... But India's foreign debt is low

World debt comparison -2007

Country	Total external debt (US \$ b)	Debt to GNP ratio (%)	Short term debt to total external debt (%)	Foreign exchange reserves to external debt %	Concessional debt to total debt (%)
China	373,635	11.6	54.5	413.9	10.1
Russia	370,172	29.4	21.4	129.1	0.4
Turkey	251,477	38.8	16.6	30.4	2.1
Brazil	237,472	18.7	16.5	75.9	1.0
India	220,956	18.9	19.8	125.2	21.7
Poland	195,374	47.7	30.9	33.6	0.4
Mexico	178,108	17.7	5.1	49.0	0.6
Indonesia	140,783	33.9	24.8	40.4	26.2
Argentina	127,758	49.7	29.8	36.1	1.3
Kazakhstan	96,133	103.7	12.2	18.4	1.0

Source : The Economic Survey, 2010

Savings and Investment

as % of GDP at current market prices

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Gross Domestic Savings	32.2	33.1	34.4	36.4	32.5
a) Public	2.3	2.4	3.6	5.0	1.4
b) Private	29.9	30.7	30.9	31.4	31.1
Household	23.3	23.2	22.9	22.6	22.6
Financial	9.8	11.4	10.9	11.2	10.4
Physical	13.5	11.8	11.9	11.5	12.2
Private corporate	6.6	7.5	8.0	8.7	8.4
Gross Capital information (Investment)	32.7	34.3	35.5	37.7	34.9
Public	7.4	7.9	8.4	8.9	9.4
Private	23.8	25.3	26.4	27.6	24.9
GFCF	28.8	30.4	31.4	33.0	33.0
Change in stocks	2.5	2.8	3.4	3.5	1.3
Saving – Investment Gap@					
Public	(5.1)	(5.5)	(4.8)	(3.9)	(8.0)
Private	6.1	5.4	4.4	3.8	6.2

* adjusted for errors and omissions

@ refers to the differences between the rates of savings and Investment

Source : The Economic Survey, 2010

Video – 5

Fiscal Consolidation

» FM Speech of the current year – Para 23 and 24

“In shaping the fiscal policy for 2010-11, I have acted on the recommendations of the Thirteenth Finance Commission. It has recommended a calibrated exit strategy from the expansionary fiscal stance of last two years. The Commission has recommended a capping of the combined debt of the Centre and the States at 68 per cent of the GDP to be achieved by 2014-15.”

“As a part of the fiscal consolidation process, it would be for the first time that the Government would target an explicit reduction in its domestic public debt-GDP ratio. I intend to bring out, within six months, a status paper giving a detailed analysis of the situation and a road map for curtailing the overall public debt. This would be followed by an annual report on the subject.”

Bangalore

Feb 27, 2010

Public debt

- » Is our debt at an acceptable level?
- » Is our FM doing enough to reduce government debt?

Bangalore

Feb 27, 2010

Video – 6

Infrastructure

» FM Speech of the current year – Para 55

“Accelerated development of high quality physical infrastructure, such as roads, ports, airports and railways is essential to sustain economic growth. While addressing the policy gaps in this sector, I propose to maintain the thrust for upgrading infrastructure in both rural and urban areas. In the Budget for 2010-11, I have provided Rs.1,73,552 crore, which accounts for over 46 per cent of the total plan allocations, for infrastructure development in the country.”

Infrastructure

- » Accelerated development of high quality infrastructure such as roads, ports, airports and railways
- » Allocation of 46% of the total plan allocations for infrastructure development in the country
- » Construction of national highways at the pace of 20 km per day
- » Creation of six industrial investment nodes with eco-friendly world class infrastructure

Infrastructure

A large portion of total plan allocations have been made towards infrastructure development

- » Are we spending adequately on Infrastructure?
- » What more needs to be done?

Video – 7

Industry

- » FM Speech of the current year – Para 17

“This recovery is very encouraging for it has come about despite a negative growth in the agriculture sector. More importantly, it is the result of a renewed momentum in the manufacturing sector and marks the rise of this sector as the growth driver of the economy. The growth rate in manufacturing in December 2009 was 18.5 per cent— the highest in the past two decades. There are also signs of a turnaround in the merchandise exports with a positive growth in November and December 2009 after a decline of about twelve successive months. Export figures for January are also encouraging. Significant private investment can now be expected to provide the engine for sustaining a growth of 9 per cent per annum. With some luck, I hope to breach the 10 per cent mark in not-too-distant a future.”

Industry

- » In the first three quarters of 2009-10, exports from SEZ's recorded a growth of 127% YoY
- » Surcharge on domestic companies reduced from 10% to 7.5%
- » MAT rate increased from the current rate of 15% to 18% of book profits
- » Weighted deduction on in-house R&D enhanced from 150% to 200%
- » Investment linked deduction to new hotels of 2 star category and above anywhere in India
- » Conversion of small companies to LLP's will not be subject to capital gains tax
- » Rationalization of threshold limits of payments below which TDS is not applicable

Industry

- » Is our manufacturing sector finally taking off and becoming more competitive?
- » Has this budget provided adequate measures in this direction?

Financial sector

- » Augmenting Rs.100 crore each for Financial Inclusion Fund and Financial Inclusion Technology Fund in NABARD to reach banking services to the unbanked areas
- » Setting up an apex-level Financial Stability and Development Council to monitor macro prudential supervision of the economy and address inter-regulatory coordination issues
- » To consider giving additional banking licenses to private sector players including NBFCs, if they meet the RBI's eligibility criteria
- » Infusion of Rs 16,500 crore towards Tier-I capital of public sector banks
- » Further capital to strengthen the Regional Rural Banks (RRBs)
- » Simplification of Foreign Direct Investment (FDI) regime

Video – 8

Financial Inclusion

- » FM Speech of the current year – Para 76

“To reach the benefits of banking services to the '*Aam Aadmi*', the Reserve Bank of India had set up a High Level Committee on the Lead Bank Scheme. After careful assessment of the recommendations of this Committee, and in further consultation with the RBI, it has been decided to provide appropriate Banking facilities to habitations having population in excess of 2000 by March, 2012. It is also proposed to extend insurance and other services to the targeted beneficiaries. These services will be provided using the Business Correspondent and other models with appropriate technology back up. By this arrangement, it is proposed to cover 60,000 habitations.

Financial sector

600 million Indians do not have a bank account

- » With a Deposit to GDP ratio of 71% and Credit to GDP ratio of 53% in 2008-09, is our financial sector strong enough to meet our needs?

Tax revenue

	Rs. cr		
REVENUE RECEIPTS	2009-2010 Budget Estimates	2009-2010 Revised Estimates	2010-2011 Budget Estimates
1. Tax Revenue			
Gross Tax Revenue	6,41,079	6,33,095	7,46,651
Corporation tax	2,56,725	2,55,076	3,01,331
Income tax	1,12,850	1,24,989	1,20,566
Customs	98,000	84,477	1,15,000
Union Excise & Duties	1,06,477	1,02,000	1,32,000
Service tax	65,000	58,000	68,000
Taxes of the Union Territories	1,602	1,610	1,651
Direct Tax	3,69,575	3,80,065	4,21,897
Indirect Tax	2,71,079	2,46,087	3,16,651
Tax (Net to centre) to GDP ratio	10.4%	10.27%	

Source: Budget 2010-11

Video – 9

Tax reforms

» FM Speech of the current year – Para 118

“I had stated last year that tax reform is a process and not an event. The process I had outlined in the area of direct taxes was to release a draft Direct Taxes Code along with a Discussion Paper. In the area of indirect taxes, the reform initiative was the introduction of a Goods and Services Tax. I have presented the developments in both reform initiatives in Part 'A' of my Speech.”

Bangalore

Feb 27, 2010

Tax reforms

- » What impact will the DTC and the GST have on the tax to GDP ratio?
- » Will we have a modern and robust tax system after the introduction of DTC and GST?

Bangalore

Feb 27, 2010

Tax Revenue

Revenue Account Receipts

(Rs. In Crore)

	2007-2008 Actuals	2008-2009 Actuals	%	2009-2010 Revised Estimates	%	2010-2011 Budget Estimate	%
Gross tax revenue	5,93,147	6,05,298	2%	6,33,095	5%	7,46,651	18%
Corporation tax	1,92,911	2,13,395	11%	2,55,076	20%	3,01,331	18%
Income tax	1,02,644	1,06,046	3%	1,24,989	18%	1,20,566	-4%
Customs	1,04,119	99,879	-4%	84,477	-15%	1,15,000	36%
Union Excise & Duties	1,23,425	1,08,613	-12%	1,02,000	-6%	1,32,000	29%
Service tax	51,301	60,941	19%	58,000	-5%	68,000	17%

Source: Budget 2010-11

Video – 10

Direct taxes

» FM Speech of the current year – Para 125 and 126

“Last year I provided relief to individual taxpayers by enhancing the exemption limit for all taxpayers and withdrawing the surcharge on personal income tax. Taxpayers have responded positively to these concessions by contributing a higher level of taxes. There is a persuasive case for further relief by broadening the current tax slabs which I propose as follows:

- Income upto Rs.1.6 lakh - Nil
- Income above Rs.1.6 lakh and upto Rs.5 lakh -10 per cent
- Income above Rs.5 lakh and upto Rs.8 lakh - 20 per cent
- Income above Rs.8 lakh - 30 per cent”

“The proposed broadening of tax slabs will provide substantial relief to a large number of taxpayers.”

Direct taxes

» Is this the right strategy?

Video – 11

Indirect taxes

» FM Speech of the current year – Para 142

“Unlike the time I presented the last Budget, symptoms of economic recovery are more widespread and clear-cut now. The three fiscal stimulus packages that the Government introduced in quick succession have helped the process of recovery significantly. The improvement in our economic performance encourages a course of fiscal correction even as the global situation warrants caution. Therefore, I propose to partially roll back the rate reduction in Central Excise duties and enhance the standard rate on all non-petroleum products from 8 per cent to 10 per cent *ad valorem*. The specific rates of duty applicable to portland cement and cement clinker are also being adjusted upwards proportionately. Similarly, the *ad valorem* component of excise duty on large cars, multi-utility vehicles and sports-utility vehicles which was reduced as part of the first stimulus package, is being increased by 2 percentage points to 22 per cent. ”

Indirect taxes

- » Restore the basic duty of
 - a) 5% on crude petroleum
 - b) 7.5% on diesel and petrol
 - c) 10% on other refined products
- » Enhance the central excise duty on petrol and diesel by Re 1 per litre each
- » Partially roll back the rate reduction in central excise duties and enhance the standard rates on all non-petroleum products from 8% to 10%; ad valorem component of excise duty on large cars, multi-utility vehicles and sports-utility vehicles increased by 2%, to 22%

Indirect taxes

- » Are these adequate to stimulate industrial growth?

Video – 12

» FM Speech of the current year – Para 188

“This Budget belongs to '*Aam Aadmi*'. It belongs to the farmer, the agriculturist, the entrepreneur and the investor. The opportunity is great. The time is right. I have placed my faith in the hands of the people who, I know, can be depended upon to rise to any occasion in national interest. I have placed my faith in the collective conscience of the nation that can be touched to scale undreamt of heights in the coming years.”

Bangalore

Feb 27, 2010

Conclusion

» Can we look forward to a stronger India?

Bangalore

Feb 27, 2010

Thank You