



The India Interim Budget 2009

Backdrop

As the term of the present Government is coming to an end in a few months, the acting Hon'ble Finance Minister, Mr. Pranab Mukherjee presented an Interim Budget 2009 today in the Lok Sabha for the purpose of Vote-on-Account.

The Hon'ble Finance Minister discussed the global financial crisis which began in 2007 and took a turn for the worse in September 2008 leading to global credit crunch and stock markets crash. India also felt the impact of global crisis. In order to counter the fallout of the global slowdown on the Indian economy, the Government recently provided two fiscal stimulus packages and liberalised exchange control policies to attract flow of foreign funds aiming to boost demand and increased expenditure on public projects to create employment and public assets.

Key pronouncements

In many respects, the Interim Budget was more a statement by the Government of its performance thus far and did not in any material manner infuse any policy or fiscal changes.

The thrust was clearly on socially relevant sectors such as rural development and agriculture. Infrastructure did find a mention and the Hon'ble Finance Minister did touch upon some of the financing aspects. The key highlights of the Interim Budget are as follows:

- The Fiscal Responsibility and Budget Management targets which were set out in the earlier budget have been relaxed by the Government, recognising the impact of the global economic crisis on India.

- India Infrastructure Finance Company Ltd. ('IIFCL') has been mandated refinance upto 60 per cent of commercial bank loans for Public Private Partnership ('PPP') infrastructure projects involving total investment of INR 1,00,000 crore over the next eighteen months by raising funds from the market.
- Interest subvention of 2 per cent on pre and post shipment credit for certain employment oriented sectors (like Textiles, Gems and Jewellery, SMEs etc.) has been extended .
- Recapitalisation of the public sector banks by the Government over the next two years to enable them to maintain Capital to Risk Weighted Assets Ratio (CRAR) of 12 per cent.

Some additional perspectives

The Hon'ble Finance Minister also provided the following perspectives:

- The continued liberalisation of foreign direct Investment (FDI) policy has resulted in record flow of FDI of US\$ 32.4 billion 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.
- Number of monetary easing and liquidity enhancing measures including reduction in cash reserve ratio, statutory liquidity ratio and key policy rates has been taken by the Government. The objective was to facilitate flow of funds from the financial system to meet the needs of productive sectors. The Government has also announced specific measures to address the impact of global slowdown on India's exports. These include extension of export credit for labour intensive exports, improving the pre and post shipment credit availability, additional allocations for refund of Terminal Excise Duty/CST and export incentive schemes, and removal of export duty and export ban on certain items.
- Outlay on Higher Education has been increased 9 fold in the Eleventh Five Year Plan to consolidate India's comparative advantage in skill and knowledge intensive services and in building knowledge based society.
- Budgeted gross tax collection estimates of INR 687,715 crore for the fiscal year 2008-09 has been revised downwards to INR 627,949 crore. This is due to pro-active fiscal measures initiated to counter the impact of global slowdown on the Indian economy. In order achieve the desired tax collections, there may be greater scrutiny and it may result into increased compliance with the Indian tax regime.
- The following key tax and expenditure policies would need to be formulated by the new Government for the fiscal year 2009-10:
 - Reduce the tax rates to ease the financial stress amidst global crisis;

- Bridge the infrastructure gap by increasing the investment in infrastructure to more than 9 per cent of GDP by 2014;
- Support Indian industry to meet the challenge of global competition and sustain the growth momentum in exports;
- Strengthen and improve the economic regulatory framework in the country; and
- Move towards providing energy security to all by pursuing an Integrated Energy Policy.

Summary

The Interim Budget, true to convention, was minimalist and does not contain any material fiscal and policy changes. There was a feeling amongst a few sections of the economy that the Interim Budget would offer some tax and fiscal incentives such as softening of interest rates, extension of export related incentives, fiscal incentives for mass housing construction projects, etc. which have not been met by the Interim Budget. However, the Government could have used this opportunity to boost domestic demand and improve sentiments.

In particular, it is now expected that the revised fiscal deficit would increase from 2.5% to 6% of GDP and the revenue deficit will go up from 1.5% TO 4.4%, the part of the benefit could have been given generally to corporates (through reduced taxes) whose margins are negatively impacted vis-à-vis increased non-plan spending by the Government.

The take away from the Interim Budget is that even during the global turmoil, the Indian economy is better placed in terms of positive growth rate, as against other developed countries. This in no way should make India complacent as the Hon'ble Finance Minister indicated that the year 2009 is going to be another challenging year for India.

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