Interim budget 2009-10

A low-key affair

Set against the background of a worsening fiscal position, slowing growth and the end of the United Progressive Alliance's term, the interim budget for FY2010 turned out to be a low-key affair. The budget did not spell out any sector-specific tax sops for the industries hit by the global economic slowdown and was also silent on changes in direct or indirect taxes. Despite lowered expectations from the interim budget, the absence of tax sops and sector-specific stimulus package has not gone down well with the street. However, the finance minister has emphasised the need for additional fiscal measures by the new government after the forthcoming general election.

Highlights of the interim budget 2009-10

- **Recapitalisation of banks:** The Government of India (GoI) intends to recapitalise some of the banks having lower capital adequacy comfort by infusing ~$3 billion over the next two years. Currently, there are 11 banks with a capital adequacy ratio of less than 12%. The government, being the majority shareholder in these banks, is negotiating with the World Bank for a financial aid aimed at capital infusion.
- The government has extended interest rate subsidy scheme on exports for some sectors (textiles etc) till September 30, 2009 from March 31, 2009 earlier. The government will provide interest rate subsidy to farmers in FY2010.
- **Higher allocation for social and defence sectors:**
  - The allocation for the defence sector will be raised to Rs141,703 crore for FY2010, indicating a 23.7% increase over the Rs114,600 crore allocated for FY2009 (revised estimate).
  - Spends on the Bharat Nirman programme, aimed at building rural infrastructure (rural roads, telephony, irrigation, drinking water supply, housing and electrification), estimated at Rs40,900 crore for FY2010.
  - An amount of Rs30,100 crore allocated for the National Rural Employment Guarantee Scheme (NREGP), aimed at increasing wage employment, enhancing wage earnings and improving equity with significant benefits for SC/ST and women.
  - A sum of Rs11,842 crore allocated for the Jawaharlal Nehru National Urban Renewal Mission plan, which is aimed at developing and extending a Mass Rapid Transport System in major cities.
  - An allocation of Rs8,000 crore for school meal programme to enhance school participation, reduce class room hunger, and foster social and gender parity.
  - An allocation of Rs13,100 crore for elementary education under "Sarva Shiksha Abhiyan", to improve the quality of elementary education.
  - An allocation of Rs12,100 crore made for the rural health mission that is aimed at bringing uniformity in the quality of preventive and curative healthcare in rural areas across the country.
- The interim budget includes a provision of Rs30,000 crore towards pay arrears, as part of the implementation of the Sixth Pay Commission.
- The interim budget did not spell out any changes in direct/indirect taxes and hence does not entail any impact on sectors.

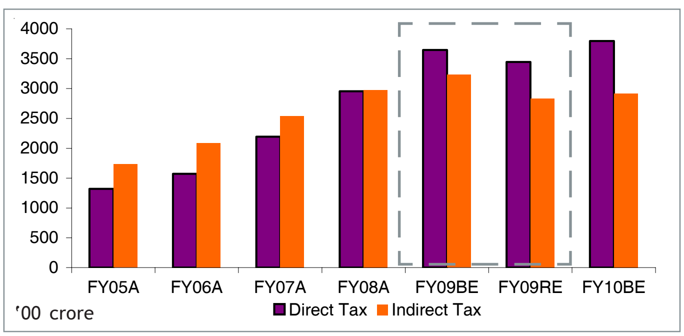
Fiscal performance

The effects of the global financial turmoil led the GoI to announce multiple economic stimulus measures at a time when the slowing economic activity was resulting in lower tax revenues. Consequently, the fiscal deficit for FY2009 is estimated to widen to Rs3,265 crore (6% of the gross domestic product [GDP]). The amount is much higher compared with Rs1,333 crore (2.5% of the GDP) estimated in the previous budget. The jump in the revised estimates over the budgeted amount for FY2009 is primarily due to the efforts of the GoI to address the various concerns related to the slowing economic growth. The GoI plans to finance ~75% of the FY2009 fiscal deficit through debt-market borrowings. Meanwhile, the GoI is in active talks with the Reserve Bank of India for raising ~Rs45,000 crore (not market borrowings) to avoid the "crowding out" effect while trying to finance the deficit.

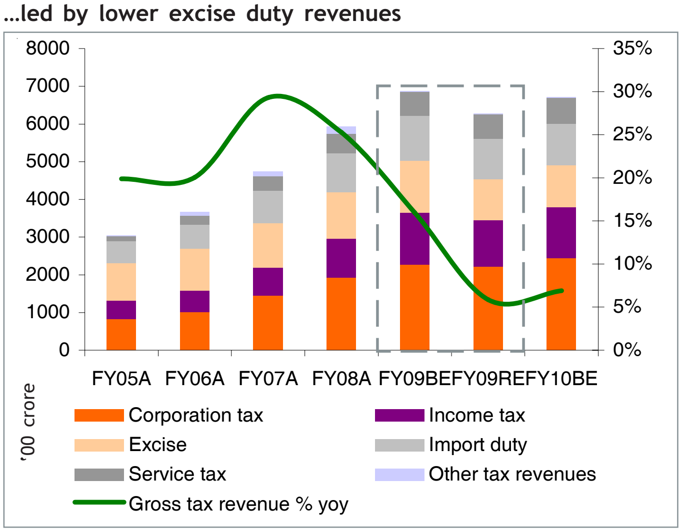
FY2010

- Notably, the GoI anticipates some improvement in the fiscal position during FY2010 and estimates the fiscal deficit at 5.5% of the GDP. In addition, the finance minister sees need to further increase expenditure by 0.5-1.0% of GDP in FY2010 aimed at stimulating economic growth.
- The correction in the commodity prices augurs well for the subsidy burden for FY2010. In specifics, the total subsidy burden as a percentage of the GDP is estimated to come down to 1.7% in FY2010 from 2.4% in FY2009 (revised estimate).
- The GoI expects the direct tax collections to grow by 10.1% year on year (yoy) during FY2010; this target might prove to be optimistic considering the weaker outlook for corporate earnings in the quarter ahead.
- Though the GoI has relaxed the fiscal responsibility and budgetary management targets in view of the unprecedented economic circumstances, it has emphasised the need to revert to the path of fiscal consolidation at the earliest.
- The widened fiscal deficit has necessitated a significant increase in the market borrowing target for FY2009 to Rs261,970 crore. Meanwhile, the FY2010 market borrowings are pegged at Rs308,650 crore, up 17.8% yoy.

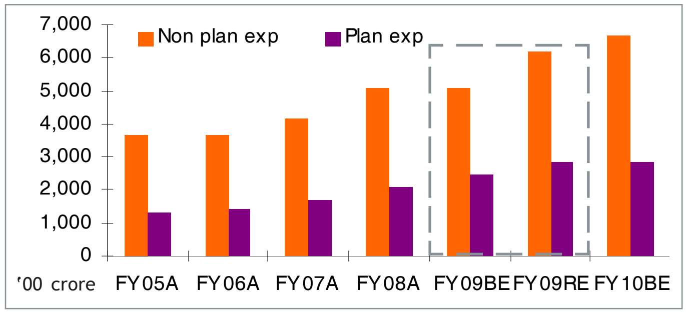
Weaker indirect tax collection...



...led by lower excise duty revenues



Surge in non-plan expenditure...

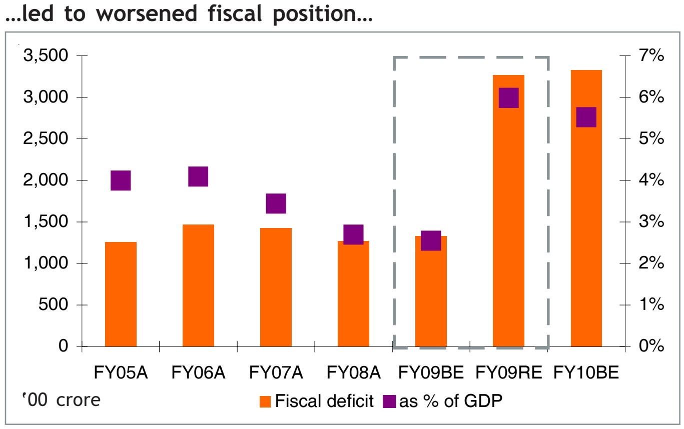


...due to higher subsidies...

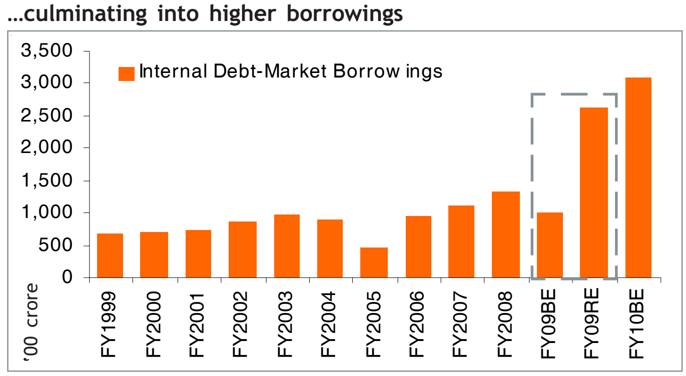
Rs crore	FY2009BE	FY2009RE	Variance
Non-plan expenditure			
Fertiliser subsidy	30,986	75,849	44,863
Social security & welfare*	695	15,769	15,074
Food subsidy	32,667	43,627	10,960
Defence expenditure	105,600	114,600	9,000
Pensions	25,085	32,690	7,605
Police	15,562	20,711	5,149
Non-plan capital outlay	10,567	13,694	3,127
Postal deficit	958	3,825	2,867
Int payments & debt servicing	190,807	192,694	1,887
Education	4,245	5,925	1,680
Non-plan grants to states	42,495	37,255	-5,240
Other non-plan expenditure	47,831	61,357	13,526
Plan expenditure			
Central plan	179,954	204,129	24,175
Central asst to state & UT	63,432	78,828	15,396
Total	**750,884**	**900,953**	**150,069**

*Debt waiver and debt relief scheme for farmers

...led to worsened fiscal position...



...culminating into higher borrowings



GoI finances at a glance

(Rs in '00 crore)	FY2004A	FY2005A	FY2006A	FY2007A	FY2008A	FY2009BE	FY2009RE	FY2010BE
Gross tax revenue	**2,543.5**	**3,049.6**	**3,661.5**	**4,735.1**	**5,931.5**	**6,877.2**	**6,279.5**	**6,712.9**
Corporation tax	635.6	826.8	1,012.8	1,443.2	1,929.1	2,263.6	2,220.0	2,442.0
Income tax	413.9	492.7	559.9	750.9	1,026.4	1,383.1	1,226.0	1,353.8
Customs	486.3	576.1	650.7	863.3	1,041.2	1,189.3	1,080.0	1,101.9
Union excise duties	907.7	991.3	1,112.3	1,176.1	1,236.1	1,378.7	1,083.6	1,106.0
Service tax	78.9	142.0	230.6	376.0	513.0	644.6	650.0	689.0
Other taxes	21.1	20.7	95.4	125.6	185.6	17.8	19.9	20.3
Less: Devolvement to states & UTs	657.7	786.0	943.9	1,203.3	1,518.0	1,787.7	1,601.8	1,712.0
Less: NCCF expenditure	16.0	15.7	28.3	20.0	18.0	18.0	18.0	25.0
Net tax revenues	**1,869.8**	**2,248.0**	**2,689.4**	**3,511.8**	**4,395.5**	**5,071.5**	**4,659.7**	**4,976.0**
Non-tax revenues	768.3	811.9	768.1	832.1	1,023.8	957.9	962.0	1,119.5
Net revenue receipts	**2,638.1**	**3,059.9**	**3,457.5**	**4,343.9**	**5,419.3**	**6,029.4**	**5,621.7**	**6,095.5**
Non-debt capital receipts	841.2	664.7	122.3	64.3	439.0	146.6	122.7	108.5
Recovery of loans	671.7	620.4	106.5	58.9	51.0	45.0	97.0	97.3
Privatisation/Divestments	169.5	44.2	15.8	5.3	388.0	101.7	25.7	11.2
Total revenues	**3,479.3**	**3,724.6**	**3,579.8**	**4,408.1**	**5,858.2**	**6,176.0**	**5,744.4**	**6,204.0**
Revenue expenditure	3,620.7	3,843.3	4,393.8	5,146.1	5,944.9	6,581.2	8,034.5	8,480.9
Interest	1,240.9	1,269.3	1,326.3	1,502.7	1,710.3	1,908.1	1,926.9	2,255.1
Defence	432.0	438.6	482.1	516.8	542.2	1,056.0	736.0	868.8
Subsidies	443.2	459.6	475.2	571.3	709.3	714.3	1,292.4	869.0
Pensions	159.1	183.0	202.6	222.3	243.0	0.0	327.0	350.0
Grants to states and UTs	137.2	147.8	304.8	357.3	357.7	432.9	384.2	466.3
Admin and social services	422.0	470.0	484.3	551.5	646.8	372.2	951.3	1,048.0
Plan expenditure	786.4	874.9	1,118.6	1,424.2	1,735.7	2,097.7	2,416.6	2,483.5
Capital expenditure	**1,091.3**	**1,139.2**	**663.6**	**687.8**	**1,182.4**	**927.7**	**975.1**	**1,051.5**
Defence	168.6	319.9	323.4	338.3	374.6	0.0	410.0	548.2
Loans	486.2	371.3	52.4	75.1	492.7	591.5	152.1	135.2
Plan expenditure	436.4	448.0	287.8	274.4	315.1	336.2	413.0	368.0
Total plan expenditure	1,222.8	1,322.9	1,406.4	1,698.6	2,050.8	2,433.9	2,829.6	2,851.5
Total non-plan expenditure	3,489.2	3,659.6	3,651.0	4,135.3	5,076.5	5,075.0	6,180.0	6,680.8
Total expenditure	**4,712.0**	**4,982.5**	**5,057.4**	**5,833.9**	**7,127.3**	**7,508.8**	**9,009.5**	**9,532.3**
Fiscal deficit	**1,232.7**	**1,257.9**	**1,478.0**	**1,425.7**	**1,269.1**	**1,332.9**	**3,265.2**	**3,328.4**
as % of GDP	*4.5*	*4.0*	*4.1*	*3.5*	*2.7*	*2.5*	*6.0*	*5.5*
Revenue deficit	**982.6**	**783.4**	**936.2**	**802.2**	**525.7**	**551.8**	**2,412.7**	**2,385.4**
as % of GDP	*3.6*	*2.5*	*2.6*	*1.9*	*1.1*	*1.1*	*4.4*	*4.0*
Primary deficit	**-8.2**	**-11.4**	**138.1**	**-77.0**	**-441.2**	**-575.2**	**1,338.2**	**1,073.2**
as % of GDP	*0.0*	*0.0*	*0.4*	*-0.2*	*-0.9*	*-1.1*	*2.4*	*1.8*