PHD CHAMBER

BUDGET 2012-13

Move towards consolidation....

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No 'big bang' reforms, focus on inclusive development inspiring

The Union Budget 2012-13 has no 'big-bang' reforms unlike the much anticipated measures, amidst the current situation of economic volatility in the domestic and international markets. However, the focus of the government on agriculture, infrastructure and social sector development is inspiring. Steps have been taken to address the supply side bottlenecks in the economy by way of bridging gaps in distribution, storage and marketing systems.

Fiscal consolidation is critical for the economy to move towards growth. Hence the projection of 5.1% of fiscal deficit as a percentage of GDP for FY2012-13 is encouraging as it is significantly lower as compared with 5.9% estimates of the current fiscal FY2011-12. However, in the wake of high international crude oil prices with limited scope for pass though coupled with government's focus on food security, the projection of subsidies below 2% of GDP raises anticipation of some drastic measures related to reforms in the subsidies front.

The relief provided in terms of relaxation of personal income tax limit to Rs 2 lakh per annum, would bring cheers as it may enhance the disposable income of the people and boost the consumption and savings level in the economy.

However, the enhancement of excise duty and service tax is disappointing among various industrial segments. The move to raise the standard rate of excise duty and service tax from 10% to 12%, especially in view of the current slowdown in industry segment would escalate the cost of production and may stoke inflation.

The budget's focus on inclusive development is inspiring. Substantial allocations on education, health, employment and skill development, nutrition programmes, food security and rural development have been encouraged.

In order to tackle the malaise of generation and circulation of black money and its illegitimate transfer outside India, several steps have been undertaken by the government which is progressive and forward looking. The proposal of laying down the white paper on black money in the current session of Parliament is encouraging.

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A careful balancing of macro economy

In view of the slowdown in industrial growth and the intensification of international economic crisis, the real GDP growth is estimated at 6.9 per cent for 2011-12. Agriculture reforms have been undertaken to enhance the productivity and achieve higher and sustainable growth rate. Headline inflation is expected to remain in 6-7% trajectory.

Developments in India's external trade, especially with regards to diversification in export and import markets have been encouraging. The policy measures such as the doubling of the allocation for tax free bonds to Rs. 60,000 cr for financing infrastructure projects, ECB to part finance rupee debt in power projects, awarding contracts to build 8,800 km of roads and proposing to remove sector-specific restriction on venture capital fund investments will help to resume the economic growth turn around. However, the economy is being challenged by its twin deficits, viz, current account deficit and fiscal deficits which have been on the uptrend and are continuously facing pressures of widening.

- Real GDP growth is projected to moderate to 6.9% in FY2011-12 and 7.6% in FY 2012-13. However, it is anticipated to scale up to 8.6% in FY2013-14
- Growth in nominal GDP is estimated at 13.8% for FY2012-13 which indicates an inflation estimate of 6.2 %(average). Currently headline inflation is hovering around 7%.
- The projection for fiscal deficit as a percentage of GDP stands at 5.9% during FY2011-12 and of 5.1% for FY2012-13. Hence the government's vision to subside the fiscal pressures in the coming times is evident.
- The subsidies projected for FY2012-13 stand at 1.87% as compared 2.43% in FY2011-12.
- The gross market borrowings estimated for FY2011-12 are Rs 510000 cr and projected to grow to Rs 569616 cr in FY2012-13
- The budget envisages revenue collection of Rs. 30,000 cr through disinvestment.
- The tax/GDP ratio has been estimated at 10.1%during FY2011-12 and has been projected to rise to 10.6% during FY2012-13.
- Current account deficit has been estimated at 3.6% of GDP for FY2011-12 and would be further reduced to in FY2012-13.

SWOT analysis indicates turnaround in growth

Budget 2012 was set against an intense backdrop of structural challenges rising fiscal deficit, inflation, slowing down of investments and political challenges. Several small steps have been taken to drive growth while maintaining consumption, reviving investment, boosting capital markets and widening the tax net. SWOT analysis conducted on the current economic situation and Budget proposals, indicate a turn around in the economic growth and more reforms for achieving fiscal consolidation. The emerging opportunities such as increase in disposable income, reforms in infrastructure, investment incentives for industry and greater allocations for inclusive development should be capitalized by minimizing the impact of structural weakness in supply side economics and reemergence of threats from the international economy and rising crude oil prices.

STRENGTH • 2nd fastest moving large economy • Domestic demand led economy • High savings and investment ratios • Trillion dollar growth opportunities • Investment opportunities in infrastructure and supply chain • Major attractive investment destination for national and international economies • Emerging demographic dividend	WEAKENESS • Agricultural economy dependant on monsoon • Structural supply side bottlenecks • Economy faces twin deficits - Currant account & Fiscal Deficit • Higher dependency on fuel imports • Low level of skill development • Political gridlock in policy reforms • Impasse on land acquisition and other regulatory clearances related to industry
OPPORTUNITIES • Reforms in agriculture will bring about macro -economic stability • Benefits provided through tax relief will boost domestic consumption, savings, investments, pr oduction and growth • Allocations made for social development will enhance rural development and boost urbanization • Reforms in infrastructure will uplift economic activities generating employment • Policy on disinvestment of PSUs will improve market sentiments and build positive wealth effects • Reduction in fiscal deficit will boost international investor's confidence and revive investment cycle • The steps to clean up the black money in the economy will also enhance India's image as a progressive business destination	THREATS • High global integratedness • Re-emergence of Euro zone crisis • Investment and exchange rate vulnerability to external developments • Sustained spiral in international crude oil prices • The allocation of global finan cial capital in the future will be very different from the past, since the demands of the public debt of the advanced economies will be larger. • Also the financial instability issues may not be en tirely behind us, but they could very well reappear anytime vis -à-vis our increased openness with world economy.

Budget snapshot

Components	FY2008	FY2009	FY2010	FY2011	FY11(%YoY)	FY2012RE	FY12(%YoY)	FY2013BE	FY13(%YoY)
Revenue Receipts (Rs cr)	541864	540259	572811	783833	36.84	766989	-2.15	935685	21.99
Revenue Receipts as a % of total Receipts	76.03	61.12	55.91	64.43	36.84	58.16	-2.15	62.76	21.99
Capital Receipts (Rs cr)	170807	343697	451676	432743	-4.19	551730	27.50	555241	0.64
Capital Receipts as a % of total receipts	23.97	38.88	44.09	35.57	-19.32	41.84	17.62	37.24	-10.99
Total Receipts (Rs cr)	712671	883956	1024487	1216576	36.84	1318719	-2.15	1490926	21.99
Non-Plan Expenditure(Rs cr)	507589	608721	721096	821552	13.93	892116	8.59	969900	8.72
Non-Plan Expenditure as a % of total expenditure	71.22	68.86	70.39	67.53	-4.06	67.65	0.18	65.05	-3.84
Plan Expenditure (Rs cr)	205082	275235	303391	395024	30.20	426604	7.99	521025	22.13
Plan Expenditure as a % of total expenditure	28.78	31.14	29.61	32.47	9.64	32.35	-0.37	34.95	8.03
Total Expenditure (Rs cr)	712671	883956	1024487	1216576	18.75	1318720	8.40	1490925	13.06
Total expenditure as a % of GDP	14.29	15.83	15.64	15.20	-2.83	14.80	-2.64	14.67	-0.83
Revenue Expenditure (Rs cr)	594433	793798	911809	1053677	15.56	1161940	10.27	1286109	10.69
Revenue Expenditure as a % of total expenditure	83.41	89.80	89.00	86.61	-2.69	88.11	1.73	86.26	-2.10
Capital Expenditure (Rs cr)	118238	90158	112678	162899	44.57	156780	-3.76	204816	30.64
Capital Expenditure as a % of total expenditure	16.59	10.20	11.00	13.39	21.74	11.89	-11.21	13.74	15.55
Defence Expenditure (Rs cr)	91681	114223	141781	151582	6.91	170937	12.77	193407	13.15
Subsidies (Rs cr)	70926	129708	141351	164153	16.13	216297	31.77	190015	-12.15
Subsidies as a % of GDP	1.42	2.32	2.16	2.2	1.85	2.43	10.45	1.87	-23.04
Revenue Deficit (Rs cr)	52569	253539	338998	269844	-20.40	394951	46.36	350424	-11.27
Revenue Deficit as a % of Fiscal Deficit	41.42	75.24	81.01	67.29	-16.93	75.66	12.44	68.23	-9.82
Fiscal Deficit (Rs cr)	126912	336992	418482	400998	-4.18	521980	30.17	513590	-1.61
Fiscal Deficit as a % of GDP	2.55	6.04	6.39	4.9	-23.32	5.9	20.41	5.1	-13.56

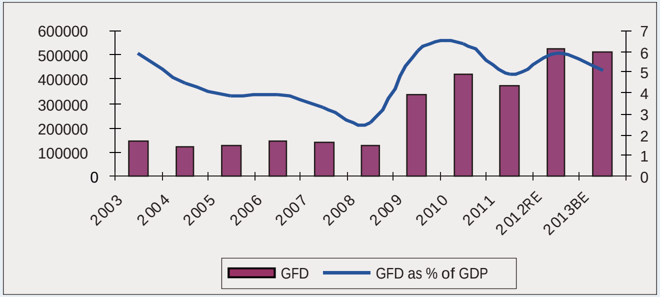
Source: PHD Research Bureau compiled from various budget documents.
Note: YoY growth(%) for FY2013 has been calculated on Budget estimates for FY2013 over revised estimates of Fy2012.

Calibrated fiscal consolidation

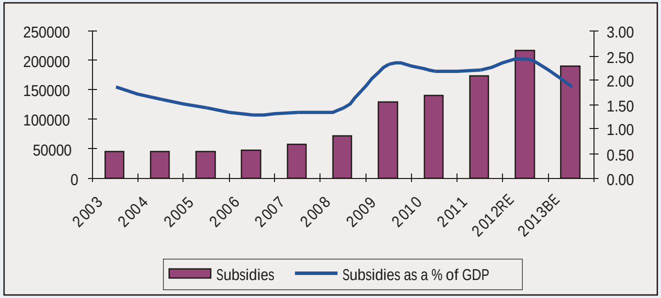
The fiscal policy of FY2013 has been calibrated with two fold objectives first to aid economy in growth revival and second to bring down the deficit from FY2012 level so as to level space for private sector credit as the investment cycle revives. Even with significant increase in plan allocation, fiscal deficit has been reduced from 5.9% of GDP in 2011-12 (RE) to 5.1% of GDP in 2012-13(BE).

With the rationalisation of subsidy regime, the subsidy burden for the FY2012-13 is estimated at Rs. 190015cr (BE) as compared with Rs. 216297cr (RE) for the FY2011-12. The budget targets to reduce fertilizers subsidy by 9% to Rs. 60974cr and petroleum subsidy by 36% to Rs. 43580cr in FY2012-13.

Long term trend in GFD as a % of GDP



Long term trend in subsidies as a % of GDP



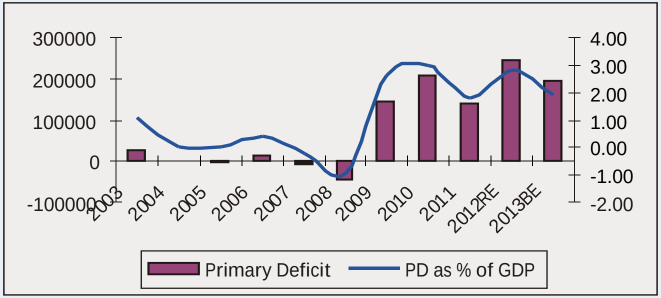
Source: PHD Research Bureau, compiled from budget documents of various years.
Note: Left Y axis indicates absolute value and right Y axis indicates % of GDP

Revenue augmentation focused

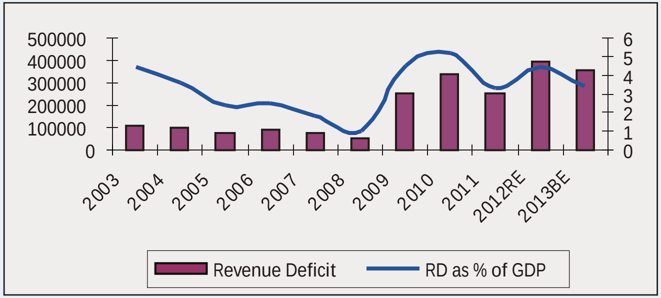
The rationalization of fiscal deficit has been targeted through revenue augmentation. The gross tax revenue as a percentage of GDP declined sharply from a high level of 11.9% of GDP in FY2007-08 to 9.7% in FY2009-10. Gross tax revenue as a percentage of GDP is estimated to increase from 10.1% of the GDP in 2011-12 (RE) to 10.6% of GDP in 2012-13 (BE).

Primary deficit as a % of GDP stood at 2.8% for FY2012; however primary deficit has been estimated at 1.9% of GDP for FY2013. Revenue deficit as a % of GDP stood at 4.4 % for FY2012; however revenue deficit has been estimated at 3.4% of GDP for FY2013.

Long term trend in Primary Deficit as a % of GDP



Long term trend in Primary Deficit as a % of GDP

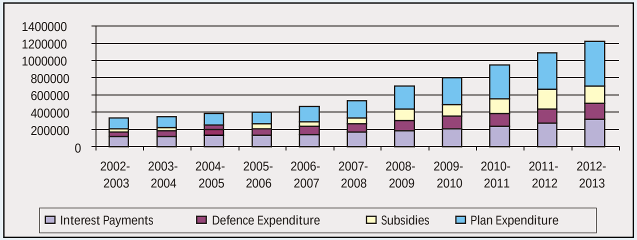


Source: PHD Research Bureau, compiled from budget documents of various years.
Note: Left Y axis indicates absolute value and right Y axis indicates % of GDP

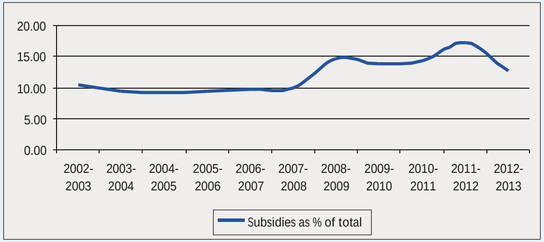
Expenditure synchronized with fiscal position

In order to keep the overall expenditure under the estimated level, the government has taken measures to control the growth in expenditure for subsidies and other related items. Decision of government on the move towards nutrient based subsidy (NBS) regime in fertilizer is expected to reduce the expenditure on this component. With respect to rationalization of petroleum subsidy, government has already decontrolled the price of petrol. However, going ahead, the government will have to adjust the prices of petroleum products to bring down subsidies further. The total expenditure for 2012-13 is budgeted at Rs14,90,925 cr at 14.67% of GDP compared to 14.6% of GDP in 2011-12.

Trend in expenditure of government



Subsidies as a percentage of total expenditure



Source: PHD Research Bureau, compiled from budget documents of various years.

Composition of Subsidies 2012-13

Rs. crore

	Fertilizer subsidy	Food subsidy	Petroleum subsidy	Others	Total
2011-12 RE	67199	72823	68481	7794	216297
Share in total (%)	31.07	33.67	31.66	3.60	100
2012-13 BE	60974	75000	43580	10461	190015
Share in total (%)	32.09	39.47	22.94	5.51	100
% change (Y-o-Y) FY2012-13	-9.26	2.99	-36.36	34.22	-12.15

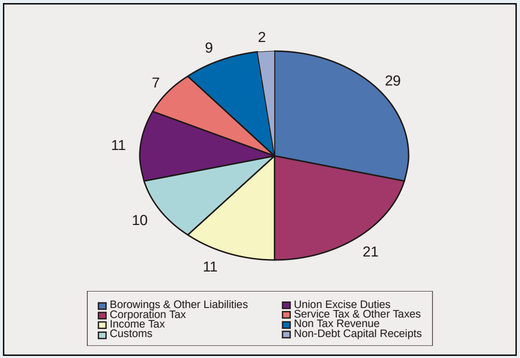
Source: PHD Research Bureau, compiled from budget documents of various years.

Government's source of revenue and expenditure

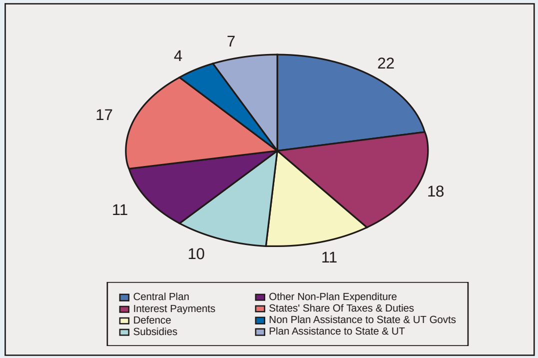
A closer look at government's receipts reveals that 29% of its receipts are generated through borrowings, followed by 21% from corporate tax. Income tax , excise duties and custom duties contribute to 11% , 11% and 10% respectively to governments kitty, while non tax revenue , service tax and non-debt capital receipts contribute to 9%, 7% and 2% respectively.

On other hand, government's expenditure can be bifurcated into several heads which is dominated by central plan attracting 22%, interest payments at 18% and state's share of taxes and duties at 17%. While defense and other non-planned expenditure contribute to 11% respectively to expenditure, expenditure on subsidy stand at 10%. The remaining spends include plan assistance for states and UTs and non-plan grants to states and Uts.

Rupee Comes From (In Paisa)



Rupee Goes To (In Paisa)

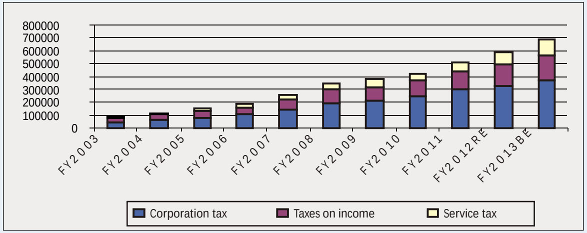


Source: PHD Research Bureau compiled from budget document of various sources

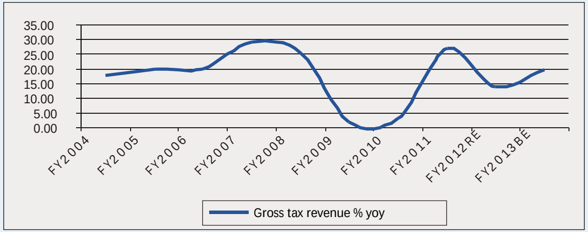
Tax revenue expands

There are several proposals in the Budget to recalibrate tax efforts on indirect taxes so that fiscal consolidation may be achieved in short term. The partial rollback of stimulus measures in indirect taxes will improve tax to GDP ratio to 10.6%. Measures to proposed to contain the CAD such as enhancement in customs duty on standard gold bars and platinum bars from 2% to 4%, may also have a favorable impact on revenue collections in the immediate future.

Trend in tax collection



Growth in Tax revenue



Source: PHD Research Bureau, compiled from budget documents of various years.

Trend in Tax Revenues

Rs. crore

	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012RE	FY2013BE
Corporation tax	46172	63562	82680	101277	144318	192911	213395	244725	298688	327680	373227
Taxes on income	36866	41387	49268	55985	75093	102644	106046	122370	139069	166679	189866
Service tax	4122	7891	14200	23055	37598	51301	60941	58422	71016	95000	124000
Gross tax revenue % yoy		17.61	19.90	20.07	29.32	25.27	2.05	3.18	26.99	13.69	19.51
Gross tax revenue	216266	254348	304958	366151	473512	593147	605299	624528	793072	901664	1077612

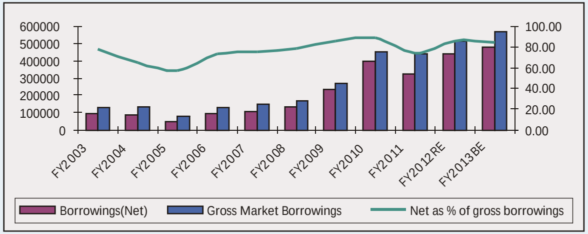
Source: PHD Research Bureau, compiled from budget documents of various years.

Market borrowings stabilizes

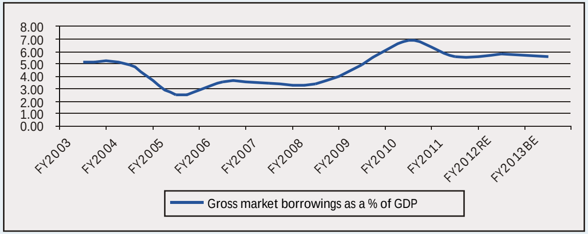
The gross market borrowings for FY2013 are pegged atRs479,000 crore compared with Rs436,000 crore in FY2012. During FY2012 the borrowings were revised upwards due to fiscal slippages, so higher borrowings on an expanded base is likely to keep the bond yields firm. However, if the fiscal deficit expands the borrowings could inch up as had happened in FY2012.

Interest payment burden of market borrowings will reach 16% in FY2012-13 to Rs. 319759cr as compared to growth of around 18% in FY2011-12. However, the debt stock has reduced to 45.5% of GDP which is significantly ahead of 13th Finance Commission target of 50.5% of GDP.

Government market borrowings



Market borrowings as a % of GDP



Source: PHD Research Bureau, compiled from budget documents of various years.

Government market borrowings

Rs. crore

	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012RE	FY2013BE
Borrowings(Net)	97588	88860	46031	95374	110446	131768	233630	398424	325414	436414	479000
Gross Market Borrowings	125000	135934	80350	131000	146000	168101	273000	451000	437000	510000	569616
Net as % of gross borrowings	78.07	65.37	57.29	72.80	75.65	78.39	85.58	88.34	74.47	85.57	84.09

Source: PHD Research Bureau, compiled from budget documents of various years.

Direct tax benefits to boost consumption, savings

Tax proposals mark progress in the direction of movement towards implementation of DTC and GST. However, clear roadmap on the launch of GST is still awaited. Though the government has announced that it will be launched in August 2012. The relief provided in terms of relaxation of personal income tax is welcome as it may enhance the disposable income of the people and boost the consumption and savings level. Efforts have been made to induce savings in the economy and chanellize them into financial assets to generate investments and capital formation in the economy. A net revenue loss of Rs4,500 cr is estimated as a result of Direct Tax proposals.

1. DTC rates proposed to be introduced for personal income tax.
2. Exemption limit for the general category of individual taxpayers proposed to be enhanced from Rs1.8 lack to Rs2 lack
3. Upper limit of 20 per cent tax slab proposed to be raised from Rs8 lakh to Rs10 lakh.
4. Proposal to allow individual tax payers, a deduction of upto Rs10,000 for interest from savings bank accounts.
5. To provide low cost funds to stressed infrastructure sectors, rate of withholding tax on interest payment on ECBs proposed to be reduced from 20 per cent to 5 per cent for 3 years for certain sectors.
6. Proposal to provide weighted deduction at 150 per cent of expenditure incurred on skill development in manufacturing sector.
7. To facilitate and promote investment in research and development, it is proposed to extend the weighted deduction of 200 per cent for R&D expenditure in an in-house facility beyond March 31, 2012 for a further period of five years.
8. Investment linked deduction of capital expenditure incurred in the cold chain facility, Warehouses for storage of food grains , Hospitals , Fertilizers and Affordable housing has been proposed to be provided at the enhanced rate of 150 per cent, as against the current rate of 100 per cent.
9. The extension of the sunset date has been proposed to increase by one year for power sector undertakings, so that they can be set up on or before March 31, 2013 for claiming 100 per cent deduction of profits for 10 years.

Indirect taxes proposals may stoke inflation

Though, the indirect taxes have been enhanced to combat the rising subsidy burden and to maintain a healthy fiscal situation, the move is disappointing for various industry segments especially in view of the current slowdown in industry sector. It would escalate the cost of production and may stoke inflation. Indirect taxes estimated to result in net revenue gain of Rs45,940 cr.

1. Proposal to tax all services except those in the negative list comprising of 17 heads.
2. Proposal to raise service tax rate from 10 per cent to 12 per cent, with corresponding changes in rates for individual services.
3. Given the imperative for fiscal correction, standard rate of excise duty to be raised from 10 per cent to 12 per cent, merit rate from 5 per cent to 6 per cent and the lower merit rate from 1 per cent to 2 per cent with few exemptions.
4. Proposal for full exemption from basic customs duty and a concessional Countervailing Duty of 1 per cent to steam coal till 31st March, 2014 and full exemption from basic duty provided to certain fuels for power generation.
5. Full exemption from import duty on certain categories of specified equipment needed for road construction, tunnel boring machines and parts of their assembly.
6. Relief proposed to be extended to sectors such as steel, textiles, branded readymade garments, low-cost medical devices, labour-intensive sectors producing items of mass consumption and matches produced by semi-mechanised units.
7. Proposals from service tax are expected to yield an additional revenue of Rs.18,660 cr.
8. Imports of equipment for initial setting up or substantial expansion of fertiliser projects are being fully exempted from basic customs duty of 5 per cent for a period of three years up to March 31, 2015.
9. Basic customs duty to 2.5 per cent with concessional CVD of 6 per cent on specified parts, components and raw materials for the manufacturing of some disposables and instruments has been proposed in order to provide impetus to MSMEs.

Sector wise plan outlay

The Union Budget 2012-13 is a pragmatic policy document with doses of good intentions for long-term growth. The budget's continued focus on key sectors such as infrastructure and agriculture is welcome as it will boost economic growth. With extended allocations on rural development and social sector, the budget brings relief to the marginalized and paves the way for inclusive development.

Sector	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012RE	FY2013BE
Agriculture and Allied Activities (Rs. Cr)	7391	8544	10074	11014	14362	14855	17692
Share in total	3.03	2.92	2.68	2.71	2.86	2.66	2.72
Rural Development (Rs. Cr)	18268	21147	23831	47369	55438	48128	50729
Share in total	7.48	7.23	6.35	11.64	11.04	8.62	7.79
Irrigation and Flood Control (Rs. Cr)	462	454	411	423	413	489	1275
Share in total	0.19	0.16	0.11	0.10	0.08	0.09	0.20
Energy (Rs. Cr)	68825	72230	93815	114308	126225	155495	147190
Share in total	28.18	24.71	24.99	28.09	25.13	27.86	22.59
Industry and Minerals (Rs. Cr)	12588	17953	28836	30690	38852	40581	57227
Share in total	5.15	6.14	7.68	7.54	7.74	7.27	8.78
Transport (Rs. Cr)	49819	68930	84177	86454	98727	109205	125357
Share in total	20.40	23.58	22.42	21.25	19.66	19.56	19.24
Communications (Rs. Cr)	17851	16599	21937	14748	12169	11994	15411
Share in total	7.31	5.68	5.84	3.62	2.42	2.15	2.37
Science Technology & Environment (Rs. Cr)	6774	7742	9283	9862	12652	12713	16592
Share in total	2.77	2.65	2.47	2.42	2.52	2.28	2.55
General Economic Services (Rs. Cr)	2566	3043	6052	4007	14878	19420	24777
Share in total	1.05	1.04	1.61	0.98	2.96	3.48	3.80
Social Services (Rs. Cr)	59143	75162	95919	86793	127157	148060	178906
Share in total	24.22	25.71	25.55	21.33	25.32	26.53	27.46
General Services (Rs. Cr)	542	533	1150	1244	1377	5536	8701
Share in total	0.22	0.18	0.31	0.31	0.27	0.99	1.34
GRAND TOTAL	244229	292337	375485	406912	502250	558172	651509

Source: PHD Research Bureau compiled from budget document of various sources

Focus to improve farm productivity

Food grain production is a lead supply side indicator in the Indian economy. However, its share in GDP and productivity have declined over the recent years and empirical evidence reveals that the growth in food grain production is stagnating and has fallen short of population growth during 2000s, raising concerns on food security and high food prices. The budget has laid optimum emphasis on removing the supply side constraints facing the farm economy. The government has focused on the productivity enhancement, supply chain management, credit availability and value addition in food processing.

1. The plan outlay for the department of Agriculture and Co-operation has increased by 18 per cent.
2. The outlay for Rashtriya Krishi Vikas Yojana (RKVY) has increased to Rs9,217 cr for FY2013 and Rs. 300 cr has been allocated to Vidarbha Intensified Irrigation Development Programme under RKVY.
3. Allocation for Bringing Green Revolution to Eastern India (BGREI) scheme has been increased from Rs400 cr in 2011-12 to Rs1,000 cr in 2012-13.
4. Agriculture credit has been proposed to raised by Rs1,00,000 cr to Rs5,75,000 cr in 2012-13.
5. A new centrally sponsored scheme titled “National Mission on Food Processing” to be started in 2012-13 in co-operation with State Governments.
6. National Mission on Sustainable Agriculture including Micro Irrigation is being taken up as a part of the National Action Plan on Climate Change
7. To improve productivity in the dairy sector, amount of Rs.2,242 crore project is being launched with World Bank assistance.
8. The interest subvention scheme to provide short term loans to farmers at 7 per cent interest per annum will be continued in 2012-13.
9. Kisan Credit Card (KCC) is proposed to modified to be a smart card, which could be used at ATMs.

Industry exhibits sign of turn-around

The industrial growth has exhibited a volatile trend over the past many months, performing well in some months and disappointing in others. The industrial growth has decelerated significantly which has been impeded by high borrowing costs and rising input prices. Amidst current worrisome state of industrial sector, the government has proposed to incentivise the industrial sector by providing financial support and credit assistance. In addition to this, it has also laid significance in terms of creating employment opportunities.

1. National Manufacturing Policy had been announced with the objective of raising, the share of manufacturing in GDP to 25 per cent and creating of 10 cr jobs within a decade.
2. Central assistance of Rs18,500 cr spread over 5 years has been approved for Delhi Mumbai Industrial Corridor , along with US $ 4.5 billion as Japanese participation in the project.
3. Financial package of Rs3,884 cr has been provided to waive off the loans of handloom weavers and also to their cooperative societies.
4. Basic customs duty on automatic shuttle-less looms has been fully exempted from existing 5 per cent.
5. Similarly, full exemption from basic duty is being accorded to automatic silk reeling and processing machinery as well as its parts.
6. Any second-hand machinery would now attract basic duty of 7.5 per cent.
7. To facilitate Micro, Small and Medium Enterprises, Rs5,000 cr India Opportunities Venture Fund is proposed to be set up with SIDBI.
8. To enable greater access to finance by Small and Medium Enterprises (SME), two Small Medium Enterprises exchanges launched in Mumbai recently.
9. Full exemption from basic customs duty is being provided to coal mining projects

PPP initiatives to step-up Infra investments

With the view of the immense significance of infrastructure growth for the development of the economy, several incentives and allowances have been provided to give fillip to this sector. All segments like transport, power and construction of houses and roads have been encouraged through policy initiative. PPP investments in infrastructure projects have been invited to help the sector to tide over the current issue of capital shortages and new projects to boost the growth.

1. During Twelfth Plan period, investment in infrastructure is likely to reach Rs50 lakh cr with half of the investments expected from the private sector.
2. More sectors added as eligible sectors for Viability Gap Funding under the scheme "Support to PPP in infrastructure".
3. First Infrastructure Debt Fund with an initial size of Rs8,000 cr launched earlier this month.
4. Tax free bonds of Rs60,000 cr to be allowed for financing infrastructure projects in FY2012-13.
5. More sectors like irrigation, telecom towers, oil & gas storage etc added as eligible sectors for Viability Gap Funding under the scheme "Support to PPP in infrastructure".
6. Proposals have been announced to address the shortage of housing for low income groups in major cities and towns including allowing ECB for low cost housing projects and setting up of a credit guarantee trust fund etc.
7. To provide easy access of credit for infrastructure projects, India Infrastructure Finance Company Limited (IIFCL) has put in place a structure for credit enhancement and take-out finance. A consortium for direct lending and grant of in-principle approval to developers before the submission of bids for PPP projects has also been created.
8. External Commercial Borrowings (ECB) has been proposed to allow to part finance rupee debt of existing power projects.

Financial outreach enhanced

Emphasis has been laid on improving capital availability for the progress of banking sector and enhancing financial outreach. Various steps proposed to be taken for deepening the reforms in the capital markets and to protect the financial health of public sector banks and financial institutions

1. Out of 82 Regional Rural banks in India, 81 have successfully migrated to Core Banking Solutions and have also joined the National Electronic Fund Transfer system.
2. Proposal to extend the scheme of capitalisation of weak RRBs by another 2 years to enable States to contribute their share.
3. To protect the financial health of Public Sector Banks and Financial Institutions Rs. 15,888 cr proposed to be provided for capitalisation. Possibility of creating a financial holding company to raise resources to meet the capital requirements of PSU Banks under examination.
4. Rajiv Gandhi Equity Saving Scheme to allow for income tax deduction of 50 percent to new retail investors, who invest upto Rs. 50,000 directly in equities and whose annual income is below Rs.10 lakh to be introduced. The scheme will have a lock-in period of 3 years.
5. Reduction in securities transaction tax by 20 per cent on cash delivery transactions has been proposed.

Social sector gets fillip

The budget's focus on inclusive development is inspiring. Rural development and livelihood creation has been addressed by the government to reduce poverty and ensure inclusive development, which is the basis of sustaining high growth trajectory of the economy. The key areas focused are nutrition, sanitation, drinking water, primary health care, women education, food security and consumer protection schemes.

1. Budgetary allocation for rural drinking water and sanitation has been increased from Rs11,000 cr to Rs14,000 cr representing an increase of over 27 per cent.
2. Allocation under Rural Infrastructure Development Fund has been enhanced to Rs20,000 crore and Rs5,000 crore has been earmarked exclusively for creating warehousing facilities.
3. Allocation for Prime Minister's Gram Swarojgar Yojana has been increased by 20 per cent to Rs.24,000 crore to improve rural connectivity.
4. Major initiative proposed to strengthen Panchayats through Rajiv Gandhi Panchayat Sashaktikaran Abhiyan.
5. Backward Regions Grant Fund scheme to continue in twelfth plan with enhanced allocation of Rs. 12,040 crore in 2012-13, representing an increase of 22 per cent over the BE of 2011-12.
6. The proposed allocation for Backward Regions Grant Fund scheme has been increased to Rs.12,040 crore in 2012-13, posting a growth of about 22 per cent over BE of 2011-12.
7. An amount of Rs. 15,850cr has been allocated under Integrated Child Development Services (ICDS) scheme as against Rs.10,000 crore in 2011-12 with an increase of more than 58 per cent.

Empowerment through employability

India is challenged by the chronic problem of unemployment amongst both rural and urban segments. Lack of industry academia linkages, slowdown in industrial activity and lack of vocational skills among working age population are among the main reasons for this. Rapid skill development among the youth is critical for sustaining the growth of the economy. The Budget has laid emphasis on creation of employability in order to generate employment opportunities for the people.

1. In Twelfth Plan, 6,000 schools have been proposed to be set up at block level as model schools.
2. The proposed allocation under Rashtriya Madhyamik Shiksha Abhiyan (RMSA) has been increased to Rs3,124 cr and has posted growth of 29 per cent over Budget Estimates in 2011-12.
3. Need to bring about greater synergy between MGNREGA and agriculture and allied rural livelihoods.
4. Allocation of Rs3915 cr made for National Rural Livelihood Mission representing an increase of 34 per cent.
5. Allocation for Prime Minister's Employment Generation Programme increased by 23 per cent to Rs1,276 crore in 2012-13.
6. Projects approved by National Skill Development Corporation are expected to train 6.2 cr persons at the end of 10 years and augment vocational training capacity by 1.25 crore per year in the private sector.
7. An amount of Rs1,000cr has been proposed for National Skill Development Fund allocated in 2012-13.

Health care gets priority

It is an emerging consensus that human development, through optimum achievement in health, plays an indispensable role in sustaining economic growth and prosperity. Health is a basic merit good which is critical in order to improve the quality of life of our populace, create a momentum of local prosperity and make people partners in progress.

It also needs to be recognized that better utilization of allocated funds, through effective delivery mechanisms, should be an essential component of the developmental objectives to fulfill the long term priorities of health care development.

1. Allocation for NRHM proposed to be increased from Rs18,115 cr in 2011-12 to Rs20,822 cr in 2012-13.
2. National Rural Health Mission (NRHM) is being implemented through 'Accredited Social Health Activist'- 'ASHA'.
3. National Urban Health Mission is being launched.
4. Pradhan Mantri Swasthya Suraksha Yojana being expanded to cover up-gradation of 7 more Government medical colleges.
5. Reduced excise duty of 6 per cent on iodine.
6. Basic customs duty on probiotics has been reduced from 10 per cent to 5 per cent.
7. Full exemption from excise duty/CVD to has been proposed on six specified life-saving drugs/ vaccines which are used for the treatment or prevention of ailments such as HIV-AIDS, renal cancer, etc.

Sectoral impact

Sno.	Sector	Impact
1	Agriculture	Agriculture credit target raised by Rs. 1 Lakh crore, 7% farm interest rate to continue
2	Auto Components	Excise duty to be increased from 10%-12%
3	Automobile	Excise duty on various categories of cars and MU Vs increased from 10% to 12%, 22% to 24% and 22% plus Rs. 15000 to 27%.
4	Cement	Excise duty on cement bags has been revised to 12% ad valorem plus Rs 120 per tonne.Excise duty on cement clinckers has been changed to 12% ad valorem.
5	Construction	Excise duty to be increased from 10%-12%
6	FMCG & Consumer durable	Standard excise duty raised to 12% across all manufactured products.
7	Gems & Jewelry	Custom duty increased from 2% to 4% on standard gold bars, coins and silver products.
8	Infrastructure	Double allocation for tax free infrastructure bonds to Rs.60000 crore.
9	Oil & Gas	Cess on imported rude oil raised from Rs.2500/MT to Rs4500/MT.
10	Paper & Paper products	Customs duty on steam coal (2701 19 20) has been reduced from 5% to NIL and CVD h as been reduced from 5% to 1% upto 31.03.2014
11	Pharmaceuticals	Excise duty on drugs formulations has been increased from 5% to 6%, customs duty has been reduced from 10% to 15% on probiotic classified under 3002 90 30.
12	Power	ECBs allowed to part finance rupee debt of existing power projects, tax free bonds worth Rs.100 Bn for power sector.
13	Steel	Customs duty on flat rolled products of non alloy steel sheets whether or not clad,, plated or coated (720812) increased from 5% to 7.5%
14	Sugar	Customs duty on sugarcane planting and harvesting machinery reduced from 7.5% to 2.5%.
15	Tea & Coffee	Increase in excise duty on 130 items that include tea and coffee pre - mixes from 1% to 2%.
16	Telecom	Proposal to make telecom towers and telecom fixed network eligible for Viability Gap Funding
17	Textile	The existing concessional customs duty rate applicable to specified textile machinery has now been restricted to new machinery only.

Corporate Vision

1. The Union Budget for 2012-13 has opened possibilities of remaping up capacity creation and utilization in infrastructure sector. It has been particularly sensitive to needs of power sector.
2. The budget was in line with the industry expectations and no major breakthrough has been noted. However, the move to enhance the excise duty and service tax is disappointing.
3. The delivery mechanism and transparency in the government's flagship social developmental schemes needs to be improved.
4. The doubling of the infrastructure bonds is indeed a bold step, as is the move to take financial services to the doorstep of the farmers.
5. A lot more is required to be done for promoting technology development by enhancing research related activities.
6. The government is actually capable of bringing back black money and has to be proactive in its initiatives on proposing to lay a White Paper on Black Money.
7. The proposal to introduce Rajiv Gandhi Equity Saving Scheme to allow for income tax deduction of 50% to new retail investors would bring some cheers for capital market.
8. The provision for raising Agriculture credit good is a welcome move to address supply chain bottlenecks.
9. A clear cut framework is required in terms of Direct Tax Code, Goods and Service Tax and more simplification is required in preparing the total list of services for preparing negative list of services.
10. Implementation of GST will bring in great efficiencies. It will also attract large investments for the creation of consolidated, technology led infrastructure, warehouses and distribution centres for all industries in the consumption sector.
11. Admittedly, the budget has no big-bang reforms or concerted measures towards reduction of subsidies or a road map on increasing foreign direct investment.
12. Unlike the anticipated measures, the budget has not unveiled bold step to arrest the current macro economic instability in the medium term.

Note: Compiled from view of various corporates and industrial experts of small, medium and large enterprises.

Impressions

Economic turnaround seems possible

External factors like higher oil prices on account of geo-political tensions in West Asia and intensification of Euro-Zone crisis could impact India's economic growth estimates. The Euro-Zone crisis has been temporarily addressed, however, if it intensifies, it will be a dampener to economic growth across the world, including India. If these two risks do not come into picture, achieving desired GDP growth seems realistic.

Fiscal slippage may linger on high crude oil prices

However, budget proposals to reduce the fiscal deficit, while reasonable, will depend entirely on market forces such as the international crude oil prices. In the absence of a tangible deceleration in international crude oil prices, the fiscal slippage will continue in FY2013 too.

Inflation may remain sticky

Though the increase in excise duties and services tax may stoke inflationary expectations as indirect taxes are pass-through in nature, it is inspiring to note that GST will be operational by August 2012. Implementation of GST will simplifying overall tax structure by removing current inefficiencies/ distortions and would facilitate inter-state trade through creation of a single common market.

Gradual reduction in policy rates may not be ruled out

There is a strong case for gradual reduction in RBI policy rates on a significant drop in private investments in the manufacturing sector. Higher cost of projects, made expensive high interest rates and rupee depreciation (in case of imported machinery) have been the key factors behind slowdown in private sector capital expenditure.

Outlook FY2013: A year of consolidation

We look forward to a year of consolidation and stability in macro-economic environment which will help the Indian economy to turnaround in growth, going forward.

We anticipate the real GDP growth to scale up in 7.6-8.0% trajectory in FY2012-2013.

We believe the focus of the government on the agriculture sector will continue and it will emerge as a key growth driver of the economy, helping in meeting the supply side pressures in the economy.

The industry growth is set to pick up in the ensuing months, supported by gradual ease in liquidity conditions, boosting private investments from both domestic and foreign investors, in the sector.

We believe the services sector scenario will remain sunny in the current year too driven by activities in the emerging and developing economies.

We believe WPI inflation will remain sticky in 6-7% trajectory in 2012-13. However, gradual reduction in policy rates may not be ruled out and we expect repo rate to fall around 7% by end March 2013.

With rationalization of subsides, especially in the fuel segment and the augmentation of revenue collection, we expect the fiscal deficit to consolidate around 5-5.5% of GDP in 2012-13.

With the slowing down of global demand and rising international commodity prices, the CAD is expected to hover at around 3% of GDP in FY2012-13.

Inflation in the moderate 6-7% trajectory and gradual reduction in the interest rates and pick up in the economic growth will help attract foreign investors once again and the capital flows are expected to rebound in the coming months.

However, the markets are expected to remain volatile in the wake of global economic uncertainties.

In sum, the prospects of the Indian economy look bright this year with the expectation of more consolidated growth and macro economic stability.

PHD CHAMBER

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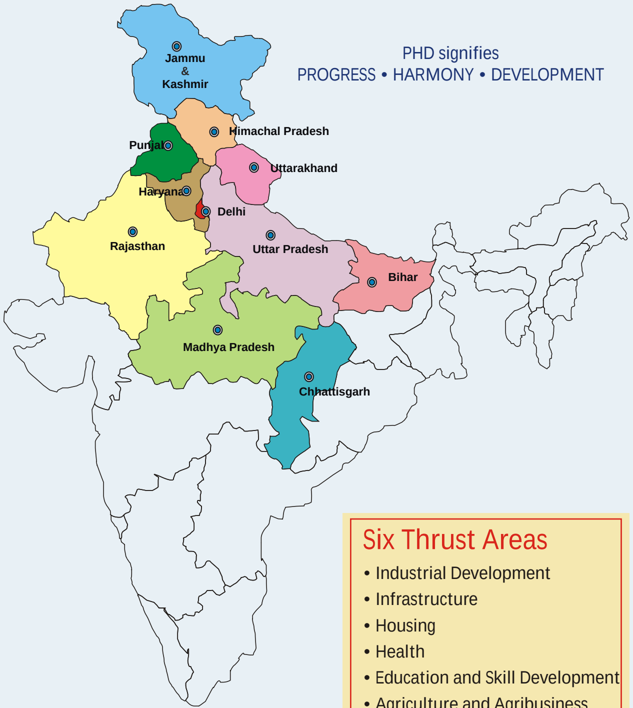

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Note:

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