

Growth with equity

With fiscal consolidation in place, the Union Budget 2007-08 seems to be a balanced bet giving due credit to agriculture, rural and education sectors, apart from lowering import duties for the Indian industry. An **INDIA NOW** report

Finance Minister P Chidambaram could not have asked for a better wicket to bat on while presenting the 2007-08 Budget. He presented it in the best of times against the backdrop of the economy growing by 9.2 per cent last year. The economy is in the pink of health with the finance ministry expecting a revenue growth of 17 per cent this fiscal, after factoring in an expenditure jump of 10 per cent.

The Economic Survey 2006-07, which sums up the economy's performance for the year gone by, was presented on February 27, on the eve of the Budget. It complimented the impressive growth of the industrial sector, propelled by robust growth in the manufacturing sector, which has continued unabated during the current year so far. The survey attributed its optimism on growth to factors like a growing workforce that would increase the savings rate, increasing productivity gains in manufacturing, the availability of labour at reasonable wage rates and the potential for services sector growth, which accounts for 56 per cent of Gross Domestic Product (GDP).

Other highlights of the Survey are:

- The broad-based growth in the services sector, especially the three sub-sectors of services - trade, hotels, transport & communication

services, has continued to boost the sector by growing at double digit rates for the fourth successive year. Impressive progress in Information Technology Enabled Services (ITES) has also given a lift to the sector.

- The expected overall annual growth of industry in the Tenth Plan period (2002-2007) at around 8.7 per cent is short of the targeted growth rate of 10 per cent for the Plan period. Given the recent performance, however, the Eleventh Plan (2007-2012) target of 10 per cent annual industrial growth appears largely achievable.
- The investment scenario looks quite optimistic, particularly with rising

domestic savings rates and Foreign Direct Investment (FDI) inflows. Sustained economic growth, fiscal consolidation and an enabling policy environment will continue to provide incentive to capacity addition in industry and sustaining its high growth.

- Stock markets touched new peaks with Bombay Stock Exchange and National Stock Exchange indices crossing the 14,000 and 4,000 marks respectively in January.
- Primary capital market remained upbeat, aggregate resource mobilisation through Initial Public Offering (IPO) and private placements was much higher in calendar 2006 as

Union Budget (2007-08) at a glance

(INR bn)				Budgeted growth
	FY07 BE	FY07 RE	FY08 BE	over FY07 (%)
Gross tax revenue	4422	4678	5481	17.16
Union excise duty	1190	1173	1302	11.05
Customs	771	818	988	20.75
Corporation tax	1330	1465	1684	14.95
Income tax	774	825	988	19.71
Service tax	345	382	502	31.52
Less states share	1134	1204	1425	18.34
Net tax revenue	3272	3460	4039	16.74
Non tax revenue	763	774	826	6.71
Interest receipts	193	201	193	-4.09
Dividends and profits	275	304	339	11.45
Total Revenue Receipts	4035	4233	4864	14.90
Total Capital Receipts	1605	1474	1941	31.70
Total Receipts	5640	5707	6805	19.24

Source: Union Budget, ICICI Bank Research BE=Budget Estimate; RE=Revised Estimate; \$1=Rs.45



TRANSPARENCY: The Finance Minister on way to Parliament to present Budget

compared to the previous year. Seventy five IPOs were issued during 2006, which translates into an average of 6 IPOs per month.

- Assets under management of mutual funds increased by about \$27.6 billion to reach \$72 billion in 2006, depicting a buoyant mutual funds sector.

Big-bang Budget

Inclusive growth seems to be the underlying theme in the Finance Minister’s mind this fiscal. “The economy is in a stronger position than ever before. It, therefore, behoves us to set higher goals. Revenues were buoyant for the third year in succession. I have put the revenues to good use to promote inclusive growth, equity and social justice,” Chidambaram said while announcing the Budget.

Mukesh Ambani, chairman, Reliance Industries Ltd., puts this message of the Budget in a nutshell saying “It addresses existing sectoral challenges in an inclusive framework. The stress on agrarian and rural economy with the aim to pro-

vide higher purchasing power to the rural population is commendable. The focus on increasing India’s sustained competitiveness through higher investments in education and healthcare sends a strong signal of commitment to building social infrastructure.”

Apart from its focus on agriculture, the Budget reduced industry’s raw material cost substantially by lowering excise and customs duties, moving closer to ASEAN rates. Also, ensuring basic physical infrastructure, health and education services to all were some of the key focus areas. At the same time, the Budget maintained its spotlight on the common man with emphasis on the need to curtail inflation.

A Strong Fiscal Front

Fiscal deficit to GDP ratio for 2006-07 was 3.7 per cent compared to the budgeted estimate of 3.8 per cent. The robust growth in revenue receipts this fiscal has led to the revenue deficit to GDP ratio coming in lower at 2 per cent compared to estimated figures of 2.1 per cent. Strong growth in tax receipts

pushed up the tax revenue to GDP ratio to 11.4 per cent in revised estimates for 2006-07 and is budgeted to increase to 11.8 per cent in fiscal 2008.

The fiscal consolidation process is likely to remain on track throughout the year as well, with the fiscal deficit likely to maintain its downward trend and inch lower to \$33.53 billion taking the fiscal deficit to GDP ratio to 3.3 per cent.

Tax Collections

Revised estimates for 2006-07 indicate that total tax collections have recorded significant growth with corporate tax collections being the star performer. Service tax and customs duty collections also overshot budgeted estimates while excise duty collections fell short of estimated figures because of several

GDP GROWTH IN 2005-06

China	9.8%
India	8.4%
Singapore	6.4%
Malaysia	5.7%
Thailand	4.5%

Source: World Bank

KEY INDICES TREND

		As on		
		19 Feb 07	A month ago	A year ago
STOCK INDICES				
Sensex	Index	14403	14183	9450
Nifty	Index	4165	4090	2871
EXCHANGE RATES RUPEE VS.				
Dollar	One	44.07	44.32	44.42
Pound	One	85.94	87.38	77.31
Euro	One	57.92	57.39	53.02
Yen	100	36.92	36.62	37.64

Source: RBI and the Stock Exchanges

duty cuts effected in the course of the year. Value Added Tax (VAT) revenues increased by 24.3 per cent in the first nine months of 2006-07.

In 2007-08, gross tax revenue collections are budgeted to record an increase of 17 per cent with the pace of increase in taxes likely to be sustained in the customs, services and corporate tax components. Corporate taxes are expected to record a 15 per cent growth in the current year. Moreover, looking at the present trends, this number could comfortably exceed the target.

Tax to GDP ratio was seen at a healthy 11.4 per cent in 2006-07. Direct tax revenue is likely to increase to \$670 million in next fiscal year.

Higher Allocations

For the flagship Bharat Nirman project, the Budget has provided \$5.5 billion this year as against \$4.2 billion in 2006-07, an increase of 31.6 per cent.

The government has hiked the provision for the National Highway Development Programme (NHDP) from \$2.2 billion in 2006-07 to \$2.4 billion this year. The Budget also raised the provision for building tourist infrastructure from \$94 million in 2006-07 to \$116 million in 2007-08. This will give a boost to construction, hotels, building materials, steel and cement industries.

It also enhanced the allocation for education by 34.2 per cent to \$7.2 billion and for health and family welfare by 21.9 per cent to \$3.4 billion. To attain the goal of education for all, Chidambaram raised the allocation for school education by 35 per cent from \$3.8 billion last fiscal to \$5.2 billion in 2007-08. The Budget has also doubled the provi-

sion for secondary education from \$410 million in 2006-07 to \$843 million this year, which is a laudable step.

The allocation for National Rural Health Mission (NRHM) was raised from \$1.8 billion in 2006-07 to \$2.2 billion in 2007-08. This sector is the main beneficiary of the current Budget. Eradication of diseases like TB, Polio, Malaria and HIV/AIDS received special focus and dedicated funds.

Allotment of \$267 million towards National Rural Employment Guarantee Scheme promises to take this project of demand-based legal employment guarantee to more villages and catering to a large number of rural unemployed. The Budget also increased the number of districts covered under the programme to 330 from 200 at present.

The Budget has fixed a target of \$50 billion for farm credit this fiscal, which is much higher than the level of \$42.2 billion likely to be achieved for 2006-07.

Duty Cuts and Exemptions

The Budget has been generous in announcing across-the-board duty cuts. The peak customs duty rates for non-


farm sector have been reduced from 12.5 to 10 per cent. Many others have benefited from sector-specific duty cuts. These include petroleum, steel, medical equipment, diamonds, edible oils, textiles etc.

Among others, the textile sector is a major beneficiary of the Budget. The sector not only received an extension to Technology Upgradation Fund (TUF) scheme but was also bestowed with duty cuts on key inputs.

The Budget has unveiled a lot of goodies for the steel sector. Cut in excise duty on scrap, removal of excise duty on coking coal and levy of protection duty on exports of iron ore and chrome ore and concentrates are all measures that will benefit the industry at large.

Talking about the Budget impact, Nittin Johari, chief financial officer, Bhushan Steel & Strips says: "From an industry perspective, the Budget looks good. The proposed export duty on the export of iron ore and concentrates is definitely a move that is welcomed by the steel industry. The full exemption of duty for coking coal, irrespective of the ash content, is a good move and will be appreciated by many companies."

Pharma and healthcare is yet another industry that has been a big beneficiary this year. Vishal Bali, chief executive officer, Wockhardt Hospitals Group says: "The National AIDS Programme and the Immunisation Programmes are definitely constructive measures towards disease prevention in the country. A 21.9 per cent increase in health expenditure and the increased allotment for the National Health Mission are positive steps and should help in reforming the primary healthcare system in the rural areas. The reduction in peak customs duty to 7.5 per cent will help healthcare providers in importing advanced medical technology into the area."

The Budget has the right focus on agriculture and industry; rural and urban India, and education and health. 

India's Ranking In The World

IN TERMS OF:	
Area	7
Population	2
Arable land	2
Gross National Income	11
Electricity generation	6
PRODUCTION OF:	
Tea	1
Milk	1
Butter & ghee	1
Rice	2
Wheat	2

Source: Tata Services Ltd

For detailed analysis of the Budget, please visit www.ibef.org