FOREWORD

26 November 1947 was the day when India's first Finance Minister, Mr R K Shanmukham Chetty, had presented Independent India's first Budget and that was too an interim Budget!! Between the budgets presented by Mr Chetty and the present Acting Finance Minister Mr Pranab Mukherjee, the Indian parliament has seen the presentation of 11 Interim Budgets. An 'Interim Budget' is not defined in the Constitution of India. However, in practice, quite often, the Government in power has resorted to seek approval of the Parliament to enable the Government to discharge its responsibilities and to meet all essential expenditure during the forthcoming months of the next fiscal year by introducing an interim budget (word now synonym to 'Vote on Account'). The Constitution of India imposes certain restrictions to introduce any new policy initiatives through Vote on Account.

The Government of the United Progressive Alliance (UPA) has presented six successive budgets. The Acting Finance Minister has, in his Budget Speech, given due consideration to the global financial crisis which began in 2007. He also stated that the forecast indicates that the World economy in 2009 may fare worse than in 2008. With the economic downturn beginning to hurt India and pulling down exports and industry output, expectations were high from the interim budget presented in the Parliament.

Government paraded its economic achievements and promised help for the rural sector as it tried to shield the economy from a global credit crunch and stem job losses with elections just weeks away. Mr. Mukherjee announced an extension of interest subsidies to debt-hit farmers, one of the first measures in his budget speech. The spending plans are effectively a political manifesto of the Congress party-led coalition Government since nationwide elections in the world's biggest democracy are scheduled to held by mid-May.

Mr. Mukherjee stated that, the Government has taken steps to encourage private investment in infrastructure, such as telecommunications, power generation, airports, ports, roads and railways, through Public Private Partnership (PPP). To ensure that such projects do not face financing difficulties arising from the current downturn, the Government has taken a new initiative for providing refinance to the banks for long term credit extended to these projects. Accordingly, the Government has decided that India Infrastructure Finance Company Ltd. (IIFCL) will refinance 60 per cent of commercial bank loans for PPP projects in critical sectors over the next eighteen months or so.

Faced with faltering growth, the Government has already announced two stimulus packages, including extra spending of $4 billion, while for its part, the central bank has cut its key lending rate by 350 basis points since October 2008 to 5.50 per cent. The Government has also unveiled plans to borrow 460 billion rupees ($9.45 billion) by the end of the fiscal year in March to fund its stimulus measures and meet extra spending needs. The Government estimates that growth in Asia's third-largest economy will slip this fiscal year to 7.1 per cent from 9 per cent or more in the past three years.

Mr. Mukherjee presented an interim budget for fiscal year 2009-10. The demands for Grants and the Annual Financial Statement presented along with the interim budget are for the full financial year, though, these could be revised, as is normal, at the time of presentation of the regular Budget by the new Government.

The Interim Budget tabled before the Parliament continued the existing rates of Income Tax, Custom duty, Excise duty and Service Tax.

Except for the additional allocation made to many social schemes and export interest subsidy extension for some sectors, the Indian corporate sector and Indian "Aam Adami" have been left to cool their heels for the next four months without getting any breath from the interim budget.

16 February 2009, Mumbai
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ECONOMIC INDICATORS

The Indian economy entered the financial year 2008-09 with a buoyant growth rate. The average growth rate during the recent four years namely 2004-05 to 2007-08 has been at record level close to 9 per cent when compared to the average growth rate of 5.6 per cent recorded during the preceding four years. There has been a moderation in the growth in the current year due to the fallout of the global crisis. The progress made on the fiscal consolidation has been satisfactory in the post-FRBM period till 2007-08. The Budget Estimates for 2008-09 was envisaged keeping fiscal deficits below that set under the FRBM Act, 2003.

Compared to other emerging economies, India has several strengths that can help mitigate the adverse effects of global financial crisis. The Government has taken several measures in this direction and the economy is expected to return to the high growth trajectory.

The major economic indicators brought out in the Interim Budget were as follows:

- The Central Statistical Organisation (CSO) has released the Advance Estimates for 2008-09. The Gross Domestic Product at factor cost is placed at Rs.33.52 lakh crore during 2008-09, indicative of a growth of 7.1 per cent in 2008-09 as compared to the growth of 9 per cent in 2007-08. The moderation in growth for 2008-09 is mainly attributed to sharp slowdown in growth in industry to 4.8 per cent from 8.1 per cent in 2007-08.

- The current fiscal year started with inflation at close to 8 per cent and reached a high of 12.9 per cent in the first week of August and then continued to witness a sharp fall ending at single digit of 4.39 per cent for the week ending January 31, 2009.

- Annual (year-on-year) WPI inflation rate stood at 4.39 per cent on January 31, 2009 compared to 9.1 per cent for primary articles, (-)3.5 per cent in fuel group and 5.5 per cent in Manufactured products.

- The 2008-09 Budget placed gross tax-GDP ratio for the centre at 13.0 per cent of GDP.

- The Reserve Bank of India has intervened in the foreign exchange market to stabilize the currency.

RECENT ANNOUNCEMENTS OF POLICIES AFFECTING INBOUND AND OUTBOUND INVESTMENTS

- The Budget Speech acknowledged that the Foreign Direct Investment (FDI) scheme of the Government is very liberal and transparent. It also stated that except for a small negative list, FDI was allowed mostly under the automatic route. Result of this is that during 2007-08, FDI of US $ 32.4 billion was received, out of which FDI during April – November was US $23.3 billion (i.e. 45% growth as compared to the same period in 2007). The latest figures, however, shows a slowdown.

- To provide an impetus to foreign investment in India, following guidelines have been issued vide Press Note No. 2 & 3 of 2009.

  – Guidelines for calculation of total foreign investment i.e. direct & indirect foreign investment in Indian companies;

  The method for calculating indirect foreign investment in an Indian Co. has been rationalized & simplified for all the sectors.

  To illustrate, if the indirect foreign investment is being calculated for Company A which has investment through an investing Company B having foreign investment, the following would be the method of calculation:

  (i) where Company B has foreign investment less than 50% Company A would not be taken as having any indirect foreign investment through Company B.

  (ii) where Company B has foreign investment of say 75% and:

  a. invests 26% in Company A, the entire 26% investment by Company B would be treated as indirect foreign investment in Company A;

  b. Invests 80% in Company A, the indirect foreign investment in Company A would be taken as 80%

  c. where Company A is a wholly owned subsidiary of Company B (i.e. Company B owns 100% shares of Company A), then only 75% would be treated as indirect foreign equity and the balance 25% would be treated as resident held equity. The indirect foreign equity in Company A would be computed in the ratio of 75: 25 in the total investment of Company B in Company A.

The total foreign investment would be the sum total of direct and indirect foreign investment. The above methodology of calculation would apply at every stage of investment in Indian Companies and thus to each and every Indian Company. Several conditions are also prescribed to ensure adequate compliance of the Regulation by the parties.

The Press Note, amongst other announcements / clarifications, also prescribes a detailed policy for downstream investment by investing companies.

– **Guidelines for transfer of ownership or control of Indian companies by resident entities to non-resident entities in sectors with caps.**

Vide the Press Note, it has been clarified that prior approval of Foreign Investment Promotion Board (FIPB) / Government of India would not be required in all cases of transfer of ownership or control of Indian Companies which are operating in Sectors where FDI upto 100 per cent is allowed under automatic route. As regard to certain specified sectors, prior approval of the FIPB would be required under specified circumstances.

DIRECT TAXES

Income Tax

The Acting Finance Minister while presenting the Interim Budget for 2009-10 stated that tax rates must fall and our ability to pay taxes must rise. However, he disappointed big time (perhaps due to the framework of the Constitution of India) by not announcing any relief in taxes or change in the tax structure to bring relief to the “Aam Aadmi”. So, in effect, the tax structure for the common man remains what it was the last year. There are no changes in Direct tax rates for 2009-10.

INDIRECT TAXES

Customs and Service Tax

There have been no changes in the tax rates applicable on the customs and service tax front. Thus the rates as applicable in the current fiscal year will continue to be applicable for the next fiscal year also.

Excise and VAT

No changes have been proposed on the Excise Duty and VAT front in this interim budget. Hence, the Acting Finance Minister echoed that provisions as were applicable in the current year will continue to apply in the next fiscal year.

OTHER BUDGET PROPOSALS FOR FEW SELECT SECTORS

Agricultural Sector

- Interest subvention to be continued in 2009-10 to ensure that farmers get short term crop loans upto Rs.3 Lakh at 7 per cent per annum.
- To strengthen short-term cooperative credit structure, revival package in 25 states involving financial assistance of about Rs.13,500 crore is being implemented.
- Fertilizer subsidy increased by Rs. 44,863 crore (Rs. 448.63 billion) from about Rs. 14,000 crore (Rs. 140 billion) during 2008-09.

Rural Development

- Panchayat Empowerment and Accountability Scheme (PEAIS) proposed to be expanded.
- ‘Project Arrow’ to provide new technology enabled services through post offices to common man and support effective implementation of social sector schemes like NREGS, while promoting financial inclusion.
- Rs 632 crore (Rs. 6.32 billion) provided for recapitalization of Regional Rural Banks.
- Rural infrastructure development scheme to be expanded through suitable allocations.
- Flagship National Rural Employment Guarantee Scheme (NREGA) gets Rs. 30,100 crore (Rs. 301 billion) in 2009-10.

Infrastructure

- India Infrastructure Finance Company to raise Rs. 10,000 crore (Rs. 100 billion) from market by end of March 2009.
- Fifty infrastructure projects worth Rs. 67,700 crore (Rs. 677 billion) given in-principle or final approval.
- Allocation for JNNURM programme raised to Rs. 11,842 crore (Rs. 118.42 billion). Bharat Nirman programme gets Rs. 40,900 crore (Rs. 409 billion) in 2009- 10.

Education

- Ordinance promulgated for establishing 15 Central Universities.
- IITs in Madhya Pradesh and Rajasthan will start functioning in 2009-10.
- Teaching is expected to commence from academic year 2009-10 in four out of six new Indian Institute of Management proposed for the Eleventh Plan in Haryana, Rajasthan, Jharkhand and Tamil Nadu.

Social Sector

- Authorised capital of National Safai Karamchari Finance and Development Corporation (NSKFDC) is being raised from Rs. 200 crore to Rs. 300 crore.
- Rashtriya Mahila Kosh to be strengthened by enhancing its authorized capital.
- 'Priyadarsini Project' rural women's employment and livelihood programme will be implemented as pilot in the district of Madhubani and Sitamarhi in Bihar and Shravasti, Bahraich, Rai Bareli and Sultanpur in Uttar Pradesh.
- Two new schemes – 'Indira Gandhi National Widow Pension Scheme' to provide pension of Rs.200 to widows between age groups of 40-64 years and 'Indira Gandhi National Disability Pension Scheme' to provide pension for severely disabled persons.
- Widows in the age group of 18-40 years to be given priority in admission to ITIs, Women ITIs and National/Regional ITIs for women. Government to bear cost of their training and provide stipend of Rs.500 per month.
- 22 States and Union Territories initiated process to implement Rashtriya Swasthya Bima Yojana for BPL families in the unorganised sector and 60 lakh thirty two thousand persons covered for death and disability under 'Aam Admni' Bima Yojana (AABY).
- Integrated Child Development Scheme gets Rs. 6,705 crore (Rs. 67.05 billion) in 2009-10.

Defence Sector

- Considering the changed security scenario in view of the Mumbai terror attacks, the government allocated Rs. 1,41,703 crore (Rs. 1417.03 billion) for the defence sector, almost a 35 per cent increase from the previous year's budget provisions.

Drinking Water

- Rajiv Gandhi Rural Drinking Water Mission gets Rs. 7,400 crore (Rs. 74 billion) in 2009-10.

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