FOREWORD

Finance Minister P Chidambaram presented the interim budget for the fiscal year 2014-15 to cover the expenditure until the government term ends in May'14 and expressing concerns confronting the economy today and how his government has navigated so far to address the challenges. This budget was India's 83rd budget and 9th for Finance Minister P. Chidambaram (ranking second in respect of the number of budgets laid at the Parliament). 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. The Union Budget of 2014-15 held a place of importance as it was announced in the backdrop of a recovering macroeconomic environment after the two turbulent years of 2012 and 2013.

Within days of return of the Finance Minister, Mr. P. Chidambaram, to the Ministry of Finance, he had declared that his objectives were fiscal consolidation, price stability, self-sufficiency in food, reviving the growth cycle, enhancing investments, promoting manufacturing, encouraging exports, quickening the pace of implementation of projects, and finding practical solutions to certain stressed sectors such as petroleum, power, coal, highways and textiles.

In the recent past, the Indian economy has had to overcome varied challenges in its resolve to sustain its economic success. The major challenges included: unsupportive external environment, domestic structural constraints, growth slowdown and inflationary pressures. The slowdown manifested in the decline in the growth of Gross Domestic Product from 8.9 per cent in 2010-11 to 6.7 per cent in 2011-12 and 4.5 per cent in 2012-13. With the economy projected to have registered a growth rate of 4.9 per cent in 2013-14, the declining trend in growth seems to have reversed.

The budget states that the fiscal deficit for 2013-14 will be contained at 4.6 percent of GDP, well below the red line that had been drawn last year. Also, the Current Account Deficit, that threatened to exceed last year's CAD of USD 88 billion, will be contained at USD 45 billion, and it is expected to see an addition of about USD 15 billion to the foreign exchange reserves by the end of the financial year. A careful study reveals that the budget is tabled in a manner to push back expenditure to next year while stealing next year's revenue through sizeable interim dividends from public sector undertakings with an expected increase of 7% growth in tax revenues as against a rise of 9.1% in total projected spending next year.

WPI headline inflation stood at 7.3 percent and core inflation at 4.2 percent during the last budget. Through the year, inflation saw its ups and downs.

Exports have recovered sharply, and the recovery must be seen in the context of growth of global trade declining from 6.1 percent in 2011 to 2.7 percent in 2013. Though 2013-14 began on a pessimistic note, the year is expected to end with estimated merchandise exports of USD 326 billion, indicating a growth rate of 6.3 percent. However, imports are down, and this does not augur well for either manufacturing or domestic trade.

The minister announced that he could confidently assert that the economy is more stable today than what it was two years ago since, the fiscal deficit is declining, the current account deficit has been contained, inflation has moderated, the quarterly growth rate is on the rise, the exchange rate is stable, exports have increased, and hundreds of projects have been unblocked.

The speech of the Finance Minister contained report of the UPA Government for last 10 years. The report has been tabled just before ensuing elections in few months, with an aim to highlight the achievements of the present government inspite of challenges, both on domestic and global scenario. The critics have already echoed that the Finance Minister has overlooked various facts which would clearly on the contrary point out to the various lapses on the part of the present government. They have also stated that the present government shall leave behind a tough economic and fiscal situation for the next government to manage. The Finance Minister at this budget also gave an overview of the election manifesto of his political party and allies.

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ECONOMIC INDICATORS

In the recent past, the Indian economy has had to overcome varied challenges in its resolve to sustain its economic success. Major economic indicators highlighted in the Interim Budget were as follows:

- The slowdown manifested in the decline in the growth of Gross Domestic Product (at factor cost at constant 2004-05 prices) from 6.7 per cent in 2011-12 to 4.5 per cent in 2012-13.
- With the economy projected to have registered a growth rate of 4.9 per cent in 2013-14, the declining trend in growth seems to have reversed.
- The growth of real GDP has generally shown a declining trend and is characterized by a moderation in services growth and a protracted slowdown in industry.
- The revival in agriculture on the back of a steady monsoon and robust growth in financial and business services led to a modest uptick in growth in 2013-14.
- The fiscal deficit for 2013-14 contained at 4.6 percent.
- The current account deficit projected to be at USD 45 billion in 2013-14 down from USD 88 billion in 2012-13.
- Foreign exchange reserve to grow by USD 15 billion in this Financial Year
- Fiscal stability at the top of the Agenda.
- Government and RBI have acted in tandem to bring down inflation.

Hence, the sharp downturn in growth owes to the interface of domestic factors with the global economic environment of uncertainties and slow growth in many advanced economies.

RECENT ANNOUNCEMENTS OF POLICIES AFFECTING INBOUND AND OUTBOUND INVESTMENTS

Liberalized FDI policy in tele-communication, pharmaceuticals, civil aviation, power trading exchange, and multi brand retail to attract large investment.

Exchange Rates

- Rupee came under pressure post indications by US Federal Reserve of reduction in asset purchases in May 2013.
- Numerous measures to facilitate the capital inflows and stabilize the foreign exchange markets were undertaken by Government, RBI and SEBI. As a result, rupee was least affected in comparison to other emerging market currencies when actual reduction took place in December 2013.

Financial Markets

Steps envisaged to deepen the Indian Financial Market:

- Revamping ADR/GDR Scheme thereby enlarging the scope of the same.
- Liberalization of rupee denominated corporate bond market.
- Currency Derivatives Market to be deepened and thereby strengthening Companies to fully hedge against foreign currency risk.
- To create one record for all financial assets of every individual
- To enable smoother clearing and settlement for international investments in Indian bonds.

Investment

- Government has set up a Cabinet Committee on investment and the Project Monitoring Group to boost investments. By end of January 2014, Projects numbering 296 with an estimated project cost of Rs. 660,000 crore cleared.

DIRECT TAXES

Income Tax

No changes have been proposed on the tax front in the interim budget. Hence, the Finance Minister echoed that provisions as were applicable in the current year will continue to apply in the next fiscal year. However, surcharge rates continue to be the same as that of previous fiscal year until next announcement.

INDIRECT TAXES

Excise, Customs and Service Tax

The Excise Duty on all goods falling under Chapter 84 & 85 of the Schedule to the Central Excise Tariff Act is reduced from 12 percent to 10 percent for the period up to 30th June 2014.

To give relief to the Automobile Industry, which is registering unprecended negative growth, the excise duty is reduced as follows for the period up to 30th June 2014:

- **Small Cars, Motorcycle, Scooters** - from 12 % to 8%
- **SUVs** - from 30% to 24%
- **Large and Mid-segment Cars** - from 27/24% to 24/20%

Restructuring excise duties in respect to mobile handsets in order to encourage domestic production of the same. The rates will be 6% with CENVAT credit or 1 percent without CENVAT credit.

In order to encourage domestic production of soaps and oleo chemicals, it was proposed to rationalize the customs duty structure on non-edible grade industrial oils and its fractions, fatty acids and fatty alcohols at 7.5 percent.

Proposal to withdraw the exemption from CVD on specified road construction machinery, to boost the domestic production of the same.

The Finance Minister proposed a concessional customs duty of 5 percent on capital goods imported by the Bank Note Paper Mill India Private Limited to encourage indigenous production of security paper for printing currency notes.

Services provided by cord blood banks by way of preservation of stem cells or any other service in relation to such preservation and Services by way of loading, unloading, packing, storage or warehousing of rice has been exempted from Service Tax.

OTHER BUDGET PROPOSALS FOR FEW SELECT SECTORS

Agricultural Sector

- Agricultural sector has performed remarkably well.
- Food grain production estimated for the current year is 263 million tones in comparison to 255.36 million tones in 2012-13.
- Agricultural export likely to cross USD 45 billion mark in fiscal year 2013-14
- Agricultural credit to exceed the target of USD 41 billion in 2012-13.

Manufacturing Sector

The sluggish growth in import and deceleration in investment is a matter of concern for manufacturing and domestic trade sector.

- The National Manufacturing Policy has projected to increase the share of manufacturing industry in GDP to 25 percent and to create 100 million jobs over a decade.
- 8 National Investment and Manufacturing Zones (NIMZ) along Delhi Mumbai Industrial Corridor (DMIC) have been announced. 9 Projects had been approved by the DMIC trust.
- 3 more Industrial Corridors connecting Chennai and Bengaluru, Bengaluru and Mumbai & Amritsar and Kolkata are under different stages of preparatory works.
- Notification of a public procurement policy, establishing technology and common facility centers, and launching the Khadi Mark are steps taken to promote Micro Small and Medium Enterprises.

Infrastructure

- In 2012-13 and in nine months of the current fiscal year; 29,350 MW of power capacity; 3,928 kms. of National Highways; 39,144 kms of Rural Roads; 3,343 kms of New Railway track and 217.5 million tonnes of capacity per annum in our ports have been created to give a boost to infrastructure industries.
- 19 Oil and Gas blocks were given out for exploration and 7 new Air ports are under construction.
- Promotion of Infrastructure debt funds to provide finance for infrastructure projects.

Education

- A moratorium period is proposed for all education loans taken up to 31st March 2009 and outstanding on 31st December 2013. Government will take over the liability for outstanding interest as on 31st December 2013 but the borrower would have to pay interest for the period after 1st January 2014.
- An amount of Rs. 2,600 crore has been provided this year and it will benefit nearly 9 lakh student borrowers.

Social Sector Initiative

- A Venture Capital Fund to provide concessional finance to Scheduled Caste will be set up by IFCI with an initial capital of Rs. 200 crore which can be supplemented every year.
- The restructured ICDS, under implementation in 400 districts, will be rolled out in remaining districts from 1st April 2014.
- Approval of National Agro-Forestry Policy 2014.
- A mechanism for marketing minor Forest produce has been introduced and an allocation of Rs. 445 crore has been made to continue the Scheme in 2014-15.
- A new Plan Scheme with an allocation of Rs. 100 crore has been approved to promote community radio station
- New technologies such as JE vaccine, a diagnostic test for Thalassaemia and Magnivisualizer for detection of cervical cancer have been delivered to people.

Defence

- 10 per cent hike in Defence allocation has been given in comparison to BE 2013-14.
- Government has accepted the principle of one rank one pension for the Defence Forces which will be implemented prospectively from the FY 2014-15. A sum of Rs. 500 crore is proposed to be transferred to the Defence Pension Account in the current Financial Year itself.

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