

HIGHLIGHTS OF THE BUDGET 2007-2008

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Key Features of Budget 2007-2008

A MID-TERM REPORT CARD ON THE ECONOMY

Improvement in GDP growth rate from 7.5% in 2004-05 to 9% (QuickEstimate) in 2005-06 and to 9.2% (Advance Estimate) in 2006-07; average growth rate in the three years of the UPA Government at 8.6%; growth target for the Tenth Plan of 8% will be nearly achieved; during three year period, acceleration in growth rate in manufacturing from 8.7% to 9.1% and further to 11.3%; and in services sector from 9.6% to 9.8% and further to 11.2%. Average growth in agriculture during Tenth Plan estimated at 2.3%.

Income and Savings: Per capita income in 2005-06, in real terms, increased by 7.4%, savings rate estimated at 32.4% and the investment rate at 33.8%.

Inflation: Growth in bank credit, year on year, by 29.6%; expansion in money supply (M3) by 21.3%; foreign exchange reserves at US\$ 180 billion; pressure on domestic prices by global commodity prices; and supply constraints in some essential commodities - consequently, average inflation in 2006-07 estimated at between 5.2 and 5.4% vis-a-vis 4.4% last year.

INVESTMENT

Gross domestic capital formation in 2005-06 grew by 23.7 per cent; in April-January, 2006-07, foreign direct investment amounted to US\$12.5 billion and outpaced portfolio investment of US\$6.8 billion; *Central Public Sector Enterprises* to invest Rs.165,053 crore through internal and extra budgetary resources in 2007-08; Government to provide equity support of Rs.16,361 crore and loans of Rs.2,970 crore.

INFRASTRUCTURE

Power: Seven more Ultra Mega Power Projects under process and at least two to be awarded by July, 2007; other initiatives include facilitating setting up of merchant power plants by private developers and private participation in transmission projects; Accelerated Power Development and Reforms

Project being restructured to cover all district headquarters and towns with a population of more than 50,000; budgetary support for APDRP to increase from Rs.650 crore to Rs.800 crore; *Rajiv Gandhi Grameen Vidyutikaran Yojana*: allocation to increase from Rs.3,000 crore to Rs.3,983 crore.

Coal: 26 coal blocks with reserves of 8,581 million tonnes and four lignite blocks with reserves of 755 million tonnes allotted to Government companies and approved end users; definition of specified end use to be enlarged to include underground coal gasification and coal liquefaction.

National Highways: Provision for National Highway Development Programme to increase from Rs.9,945 crore to Rs.10,667 crore; road-cumrail bridge at Bogibeel, Assam, over Brahmaputra, to be taken up as a national project.

Public Private Partnership and Viability Gap Funding: Revolving fund with a corpus of Rs.100 crore to be set up to quicken project preparation; fund to contribute up to 75% of preparatory expenditure in the form of interest free loan to be recovered from the successful bidder.

INDUSTRY

Petroleum and Natural Gas: 162 production sharing contracts awarded; investment of Rs.97,000 crore made in exploration; 23 coal bed methane blocks awarded for exploration.

Textiles: Provision for Scheme for Integrated Textiles Parks to increase from Rs.189 crore to Rs.425 crore; Technology Upgradation Fund scheme to continue with provision of Rs.911 crore.

Handlooms: Additional 100-150 clusters to be taken up in 2007-08; health insurance scheme to be extended to more weavers and also to be enlarged to include ancillary workers; allocation for the sector to be enhanced from Rs.241 crore to Rs.321 crore.

Small & Medium Enterprises: Increase in outstanding credit from Rs.135,200 crore to Rs.173,460 crore at end December 2006.

Coir Industry: Scheme for modernisation and technology upgradation with special emphasis to major coir producing States announced with a proposed provision of Rs.22.50 crore.

SERVICES SECTOR

Foreign Trade: Merchandise exports expected to cross US\$125 billion by the end of the current fiscal.

Tourism: Provision for tourist infrastructure to increase from Rs.423 crore to Rs.520 crore.

FINANCIAL SECTOR

Banking: Under Differential Rate of Interest scheme providing finance at a rate of 4% to weaker sections of the community engaged in gainful occupations, limit of loan to be raised from Rs.6,500 to Rs.15,000 and limit of housing loan to be raised from Rs.5,000 to Rs.20,000 per beneficiary.

Regional Rural Banks: To open at least one branch in 80 uncovered districts in 2007-08; Securitisation and Reconstruction of Financial Assets and Enforcement of Securitisation of Interest (SARFAESI) Act to be extended to loans advanced by RRBs; to be permitted to accept NRE/FCNR deposits; and those which have a negative net worth to be recapitalized.

Financial Inclusion: A Financial Inclusion Fund to be established with NABARD for meeting cost of developmental and promotional interventions; a Financial Inclusion Technology Fund to be also established to meet costs of technology adoption; each fund to have an overall corpus of Rs.500 crore, with initial funding to be contributed by Government, RBI and NABARD.

Capital Markets: PAN to be made sole identification number for all participants in securities market with an alpha-numeric prefix or suffix to distinguish a particular kind of account; idea of Self Regulating Organisations (SRO) to be taken forward for different market participants under regulations to be made by SEBI; mutual funds to be permitted to launch and operate dedicated infrastructure funds; individuals to be permitted to invest in overseas securities through Indian mutual funds; short selling settled by delivery, and securities lending and borrowing to facilitate delivery, by institutions to be allowed; enabling mechanism to be put in place to permit Indian companies to unlock a part of their holdings in group companies for meeting their financing requirements by issue of Exchangeable Bonds.

Innovative Financing for Infrastructure: Funds from National Small Savings Fund may also now be borrowed by India Infrastructure Finance Company Limited; suggestions of Deepak Parekh Committee to be examined for establishment of two wholly-owned overseas subsidiaries of IIFCL with

objectives to (i) borrow funds from RBI and lend to Indian companies implementing infrastructure projects in India, or to co-finance their ECBs for such projects, solely for capital expenditure outside India; and (ii) borrow funds from the RBI, invest such funds in highly rated collateral securities and provide 'credit wrap' insurance to infrastructure projects in India for raising resources in international markets.

History and Culture: Rs.30 crore to be provided for Sabarmati Ashram, Ahmedabad; Sevagram Ashram, Wardha; Bhandarkar Oriental Research Institute, Pune; and Rajendra Smriti Sanghralaya, Patna; Rs.20 crore to be provided to reposition Nehru Memorial Museum and Library, Delhi, as a major centre of intellectual activity; scholars from Indian and foreign institutions to be engaged to work on specific projects and an initial grant of Rs.5 crore to be made to encourage this effort.

Institutions of Excellence: Special grant of Rs.50 crore each to be made to Govind Ballabh Pant University of Agriculture & Technology, Pantnagar and Tamil Nadu Agricultural University, Coimbatore.

PUBLIC FINANCE

Rs.110,268 crore of States' debt has been consolidated; twenty States have availed of benefit of debt waiver of Rs.8,575 crore; States' share of taxes & duties to increase from Rs.120,377 crore to Rs.142,450 crore; grants & loans to States and UTs to increase from Rs.90,521 crore to Rs.106,987 crore. *VAT, CST and a Roadmap towards GST:* Agreement reached with State Governments to phase out CST; rate to be reduced from 4% to 3% with effect from April 1, 2007; Rs.5,495 crore provided for compensation for losses, if any, on account of VAT and also on account of CST; a roadmap for introducing a national level Goods and Services Tax (GST) with effect from April 1, 2010 to be prepared.

BUDGET ESTIMATES FOR 2007-08

Plan expenditure at Rs.205,100 crore; Non-Plan Expenditure (net of the SBI share acquisition) at Rs.435,421 crore with increase over 2006-07 of only 6.5%; Revenue deficit estimated at Rs.71,478 crore (1.5% of GDP) and fiscal deficit at Rs.150,948 crore (3.3% of GDP).

TAX PROPOSALS

Indirect Taxes:

Customs duties:

Reduction in peak rate for non-agricultural products from 12.5% to 10%. Reduction in duty on most chemicals and plastics from 12.5% to 7.5%; on seconds and defectives of steel from 20% to 10%.

All coking coal irrespective of ash content to be fully exempt. Reduction in duty on polyester fibres and yarns from 10% to 7.5% and on raw-materials such as DMT, PTA and MEG from 10% to 7.5%; on cut and polished diamonds from 5% to 3%; on rough synthetic stones from 12.5% to 5%; and on unworked corals from 30% to 10%. Dredgers to be fully exempt from import duty. To augment irrigation facilities and processing of agricultural products, reduction in duty on drip irrigation systems, agricultural sprinklers and food processing machinery from 7.5% to 5%. Reduction in general rate of import duty on medical equipment to 7.5%. To make edible oils more affordable, crude and refined edible oils to be exempt from additional CV duty of 4%; reduction in duty on sunflower oil, both crude and refined, by 15 percentage points. Reduction in duty on pet foods from 30% to 20%; on watch dials and movements and umbrella parts from 12.5% to 5%; to promote research and

development, concessional rate of 5% duty to be extended to all research institutions registered with the Directorate of Scientific and Industrial Research; reduction in duty from 7.5% to 5% on 15 specified machinery for pharmaceutical and biotechnology sector. Duty of 3% (WTO bound rate) to be levied on all private import of aircraft including helicopters; such import to also attract countervailing duty and additional customs duty.

Excise Duties:

Reduction in ad valorem component of excise duty on petrol and diesel from 8% to 6%.

Relief to deserving cases especially job creating sectors: exemption limit for small scale industry (SSI) to be raised from Rs.1 crore to Rs.1.5 crore; to encourage food processing sector, biscuits whose retail sale price does not exceed Rs.50 per kilogram and all kinds of food mixes including instant mixes to be fully exempt; reduction in duty on umbrellas and parts of footwear from 16% to 8%; on plywood from 16% to 8%; biodiesel to be fully exempt.

Direct Taxes

Threshold limit of exemption in the case of all assesseees to be increased by Rs.10,000 thus giving every assessee a relief of Rs.1,000; in the case of a woman assessee, threshold limit to be increased from Rs.135,000 to Rs.145,000 and in case of a senior citizen from Rs.185,000 to Rs.195,000 giving him or her a relief of Rs.2,000; deduction in respect of medical insurance premium under section 80D to be increased to a maximum of Rs.15,000 and, in case of a senior citizen, a maximum of Rs.20,000. Surcharge on income tax on all firms and companies with a taxable income of Rs.1 crore or less to be removed. Benefit of Section 36(1)(viii) to be available to cooperative banks; to be also allowed deduction in respect of provision for bad and doubtful debts under section 36(1)(viia); amalgamation and de-merger of banking companies is tax neutral - benefit to be extended to cooperative banks. Concessions under section 80IA for infrastructure facilities to be extended to cross country natural gas distribution network, including gas pipeline and storage facilities integrated to the network; and to navigation channel in the sea. To facilitate creation of urban infrastructure, issue of tax-free bonds through State Pooled Finance Entities formed for raising funds for a group of urban local bodies to be allowed.

A benign assessment procedure to be introduced for assesseees engaged in diamond manufacturing and trading who declare profits from such activities at 8% or more of turnover.