



## Highlights of the Union Budget for the year 2009-10

### **Sector-wise highlights**

#### **Taxes**

New direct tax code in the next 45 days  
Surcharge of 10% on personal income tax removed  
No change in Corporate taxes  
Commodity Transaction Tax scrapped  
Increase exemption on personal income tax by Rs 15,000 to Rs 2,40,000 for senior citizens  
Increase exemption on personal income tax by Rs 10,000 to Rs 1,90,000 for women  
Increase in exemption on personal income tax by Rs 10,000 to Rs 1,60,000 for all others  
Proposal to phase out surcharge on Direct Taxes  
To remove Fringe Benefit Tax  
To raise Minimum Alternate Tax (MAT) TO 15 % of book profit  
MAT hiked from 10% to 15%  
Carry Forward Tax credit on MAT to 10 year  
Tax benefit under Section 80dd for medical insurance increased from Rs 75,000 to Rs 100,000  
Indirect Taxes changes to yield RS 2000 cr in 2009/10  
To exempt Pension trust from Securities Transaction Tax  
GST to be a dual regime with Central and state terms  
GST to be implemented from April 01, 2010

#### **Tax reforms**

Tax reform system to be completed in 4 years  
To work on Saral 2 form to make income tax procedure simple  
Balanced approach to financial de-regulation in justified

Finance commission recommendation on Fiscal likely by Oct

#### **Budget aims:**

Total fiscal stimulus in 2008-09 amounts to Rs 1,86,000 cr  
Fiscal deficit up from 2.7% to 6.8% of GDP  
Target of agricultural growth at 4%  
Plan expenditure, for both Centre and States, to go up by Rs 61,000 crore over the interim budget  
To sustain a growth momentum of 9%  
RBI took monetary measures to meet the needs of productive sector

#### **Financial estimates:**

Rs 1020838 cr total budget allocation for 09-10  
Out of this more than Rs 6000 cr is planned expenditure while the rest is non-plan  
Subsidy outlay at Rs 1.11 trillion in FY10  
Increase in non-plan expenditure was due to pay commission and food subsidy  
Interest payment consists of 36% of non-plan expenditure  
Interest payments for FY10 at Rs 2.25 trillion  
Total tax receipts expected at Rs 641079 cr  
Non Tax receipts at seen at Rs 1.4 trillion  
Revenue deficit is estimated at 4.8% and 4.6 as per provisional account for 09-10  
Revenue deficit as percentage of GDP is pegged at 6.8%  
To spend Rs 10.20 lakh crore as total expenditure in 2009-10, crossing the Rs 10 lakh mark for the first time in history  
Increase in plan expenditure 34 %, non-plan at 37 %  
Revenue deficit projected at 4.8% in FY 10  
Fiscal deficit projected at 6.8 % in FY 10  
Plan expenditure, for both Centre and States, to go up by Rs 61,000 crore over

the Interim budget  
Indirect taxes changes to yield Rs 2000 cr in 2009/10  
Tax proposals on direct taxes are revenue-neutral  
To impose service tax on certain legal services  
Fully exempting branded jewellery from excise duty  
To restore exemption of duty on goods manufactured at construction sites  
Basic customs duty on biodiesel cut to 2.5 % from 7.5 %  
Restores 8 % excise duty on manmade fibres

### **Infrastructure**

IFFCL set up to provide financial assistance to infrastructural firms  
Need to improve and strengthen regulatory framework  
To speed up Golden Quadrilateral Project  
Total investment of 100000 CFR in infrastructure  
Need to remove bottlenecks for speedy implementation of infra projects  
Highways allocated 23% more than 08-09  
Rs 15800cr for Railways  
JNURM allocation increased by 80% to Rs 12887 cr  
Basic amenities for urban poor to get more than Rs 3000 cr to make country slum free in 5 yrs  
Provision for housing urban poor at Rs 3973 cr  
Allocation to NHA increased to 23% Y-O-Y  
Focus of NCC, Gammon for highway development  
Fund for the urban mission up 87% to Rs 128.9 bln FY10  
FY10 home basic services amenities, allocation hiked to Rs 39.73 bln

### **Agriculture**

Target credit flow Rs 325000 cr  
Loans upto 3 lakh at 7% per annum  
Loan payment on time leads to reduction in interest rate @ 6%  
Farm debt waiver scheme extended by 6 months to Dec 31

Interest subvention scheme for agriculture loans to continue  
Interest subvention of 1% more for farmers repaying loans  
Task force set up to look into farmer suicides in Maharashtra  
Rajiv Gandhi Krishi Vikas Yojana allocation up by 30%  
Fertilizer subsidy to go to farmers directly  
Target Agricultural credit inflows at Rs 3.25 lakh cr

### **Exports**

Tax holiday to exporters extended to 2011  
Sops given to exporters in Dec '08 extended to March 2010  
Market development assistance schemes allocation up by 180% to 124 cr  
2% Interest subvention for exporters  
Special fund for small industries development bank of Rs 400 cr  
Allocation for market development assistance scheme enhanced by 148 per cent  
Export Credit Guarantee scheme extended till March 2010  
To set up handloom mega clusters in Rajasthan, West Bengal and Tamil Nadu  
To set up mega clusters for carpet in Srinagar, Mirzapur

### **Banking and Insurance**

To hike promoter shareholding in PSUs  
Encourage people participation in disinvestment  
Banks and insurance will remain in public sector and will get all support  
Banking network to be expanded  
One banking centre in every block planned  
Capital infusion in PSU banks to keep them competitive  
160% hike in ADPRP  
Scheduled commercial banks can set up offsite ATMs  
33 mln new bank accounts due to inclusive banking  
Threshold for non public promoter shareholding to be raised  
Rs 1 bln grant to ensure banking in unbanked sectors

### **Social sector schemes**

Bharat Nirman allocation up 45%  
PM Gram Sadak Yojana allocation up to Rs 12000 cr  
Indira Gandhi Awas Yojana allocation up by 63%  
Social spending at Rs 3.75 tn  
Rs 10 bn to rebuild AILA hit areas  
NREGA gave employment to 4.4 cr household  
Reserve wage of RS 100 per day as an entitlement under NREGA  
Rs 39100 cr for 09-10 for NREGA an increase of 140%  
NREGA allocation increase at 144%  
New scheme PMAGY for integrated development of under developed villages  
Interest subsidy to poor families for loans upto Rs 1 lakhs  
BPL entitled by law for Rs 25 kg of rice/ wheat at Rs 3 kilo  
Draft food security bill to be made public for debate  
Rs 20 bln for rural homes from banks priority sector  
Interest subsidy of Rs 100,000 for poor women  
To launch mission for female literacy  
Rural health plan to get Rs 2.5 bln above interim fund  
4.6 mln BPL families to be covered under new insurance scheme  
Rural electrification allocation up 27% to Rs 70 bln

### **Pension**

One Rank One Pension committee recommendations accepted  
Pension benefit extended to war wounded being liberalised

### **Women and child development**

Corpus for Women self help schemes to be raised to Rs 500 cr in this fiscal  
Aim to reduce female literacy by half in 3 years  
New scheme to give interest subsidy to poor students pursue any recognised course

### **Defence and security**

Defence outlay up from Rs 105600 cr in 08-09 to 104703 cr in 09-10  
2284 cr for border security  
1 lakh housing units for central paramilitary forces  
Rs 430 cr for police modernisation

### **Education**

Rs 50 crore for Chandigarh University  
Interest subsidy on loans for higher education  
Rs 2130 crore to set upto more IITs and IIMs  
Spending on higher education raised to Rs 2010 crore  
Rs 8.27 bn for central university in uncovered states  
Rs 500 mn for Punjab University in FY 10

### **Others**

Commonwealth games allocation up at Rs 34.72 bn  
Stimulus package for print media extended to Dec 31  
Total expenditure at Rs 10.21 trillion  
DEPB scheme for print media extended  
Rehabilitation of those effected by cyclone Alia  
More allocated for management of Mumbai floods  
Project for modernisation of employment exchange under PPP, new website  
Sri Lankan Tamils to get Rs 500 cr for the rehabilitation  
**(US \$ 1/- is = Rs. 48/-)**

### **Industrial output rises in April, holds out hope**

Industrial output clawed back into positive territory to rise by a better-than-expected 1.4% in April, its best performance in five months, and providing the clearest signal yet the country may have seen the back of the slowdown that has buffeted its economy since last October. The index for industrial production (IIP) bounced back from a revised negative 0.8% in the preceding month on the back of resilient domestic demand, after slipping into negative terrain in Decem-

ber, February and March. Mr. Pronab Sen, the country's chief statistician, attributed the jump to industries building their inventory levels in anticipation of an increase in demand. He stated that the strength of the recovery would be evident in the ensuing months. A research note by Goldman Sachs stated that a strong show by the intermediate goods segment and an expansion in 11 out of 17 manufacturing sub-sectors showed that the recovery was broad-based and sustainable. Intermediate goods are inputs for production of other goods and growth in this segment suggest that manufacturers were expecting demand for finished goods to rise.

### **PM calls for greater BRIC ties**

Prime Minister Manmohan Singh said that the coming together of BRIC States in the G20 process must be backed by co-operation in the real economy space. Addressing the first summit of BRIC nations (Brazil, Russia, India and China) at Yekatherineburg on 16.6.2009, Mr Singh said that there was unanimous opinion among leaders of these economies that protectionism or restrictions on free flow of trade would be counter-productive and pose a threat to recovery in the developing world. He added that the stark collapse in world trade had heightened the importance of an early completion of the Doha round of talks keeping in mind the development dimension. Mr Singh recognised the continuing need to redefine the role of institutions of global economic and financial governance to reflect contemporary realities. He underlined that the broadening of representation in the Financial Stability Forum and the Basel Committee on Banking Supervision were an important development in this context. BRIC leaders spoke about the need for a substantial hike in World Bank lending, enabling the developing world access much larger limits to support recovery as new ways to further improve the functioning of multilateral institu-

tions.

### **FII's invest Rs 20,000 cr, Sensex shoots up 28%**

As an endorsement of the country's new-found political stability and initiation of the reforms process, Foreign Institutional Investors (FIIs) pumped in Rs 20,117 crore into the equity market in the month of May — the highest in 19 months. After elections results and formation of new Government, the FIIs injected Rs 10,846 crore in 10 days of trading during which Sensex rose 20 per cent. This confidence helped drive up the market by 28.3 per cent in the month—the highest single-month gain by the Sensex since March, 1992 when it rose 55 per cent. The high inflow of funds also strengthened the rupee by 5.8 per cent, ending the month, at Rs 47.3 to a dollar on May 29. It had closed the previous month at Rs 50.2, held on April 29.

### **India's clean energy investment up by 12% to \$3.7 billion**

Sustainable energy investment in India went up to \$3.7 billion in 2008, up 12% since 2007. It included asset finance of \$3.2 billion, up by 36%. Venture capital and private equity saw an increase of 270% to \$493 million. Mergers and acquisition activities totaled \$585 million. Most acquisition activity was centred on biomass, small hydro and wind projects, according to a new report. The wind sector got the biggest chunk of investment, up from \$2.2 billion to \$2.6 billion. While investment in solar, particularly in module and cell manufacturing facilities, went up from \$18 million in 2007 to \$347 million, investment in small hydro quadrupled to \$543 million. Investment in biofuels dropped from 251 million to \$49 million, noted Global Trends in Sustainable Energy Investment 2009. The growth in sustainable energy is expected to continue. To achieve the clean energy targets in its 11th Five Year Plan, the

reports points out, wind would need to grow by 2.5GW in each of the next three years to meet the goal of 17.5GW by 2012. Small hydro has an additional 1.1GW to be commissioned to meet the 3.4GW target. There were no grid-connected solar projects commissioned in 2008, but a pipeline of 222MW of solar projects was announced in 2008. Bio-mass needs to double to reach the 3.5GW target for 2012.

### **India Inc mobilises US \$ 991.4 million during April-May 2009**

India Inc has mobilised US\$ 991.4 million during April-May 2009 due to revival in market sentiments, according to a report by the brokerage firm, SMC Capitals. The report also stated that this capital raising activity was set to gain further momentum. Fund raising through various instruments like rights issues, initial public offers (IPOs) and qualified institutional placements (QIPs) during the first two months of 2009-10 rose by over five-fold to US\$ 991.4 million than the first two months of 2008-09.

### **At 8%, India to grow fastest in '10: World Bank**

The World Bank has projected an 8% growth for India in 2010, which will make it the fastest-growing economy for the first time; overtaking China's expected 7.7% growth. According to its Global Development Finance Report, the multilateral lender has revised upwards the growth rate for the Indian economy this year to 5.1% from an earlier projection of 4%. India has consistently outperformed growth forecasts by the World Bank in the past. This World Bank report compares with a more upbeat assessment by the International Monetary Fund, which said that the decline in global output has moderated and it may raise its 2010 growth forecast for the world economy.

### **Green resources to colour GDP**

India is expected to begin the greening of its national income accounting starting next year, making depletion in natural resources wealth a key component in its measurement of gross domestic product (GDP). The Ministry of Statistics and Programme Implementation is now readying a national database to calculate the cost of depletion of natural resources in the process of economic expansion, a Government official said. China carried out a similar exercise by publishing its Green GDP for 2004, showing economic losses because of environmental damage at about 3% of national income. But the experiment proved to be short-lived: squabbling between government agencies and loss of support for the idea from political establishment forced its abandonment. A Green GDP would definitely be a further step ahead and help the nation monitor the uses and impact of natural resources for the sake of development, consulting firm KPMG's Associate Director Arun Kumar said.

### **OECD upgrades India growth forecast to 5.9% for 2009**

India's growth outlook has been revised upwards by the Organisation for Economic Co-operation and Development (OECD) in the wake of recovery signs in the global economy. Global financial major Citigroup also projected higher growth for the Indian economy due to increased investment inflows expected in 2009-10. In its semi-annual economic outlook, the Paris-based organisation projected a growth of 5.9 per cent in the current financial year ending March 2010 and 7.2 per cent for fiscal 2010-11, an upward revision of 160 basis points and 140 basis points, respectively. Though India is not an OECD member, the report mentioned projections about the economy, as well as other non-member countries like Brazil, Russia and China — collectively known as BRIC. "With the gradual recovery of the global economy and

easier financial conditions, growth is projected to gradually regain momentum," the OECD report said. Before the latest report, OECD's projections for India's growth stood at 4.3 per cent and 5.8 per cent for fiscal 2010 and 2011, respectively. In a separate report, Citigroup forecast a 6.8 per cent rise in the Indian economy during 2009-10, higher than its earlier forecast of 5.5 per cent. However, the financial major warned that delay in the monsoons could adversely impact the growth prospects

### **India's exports to France increase by nearly 23%**

The bilateral trade balance between India and France shifted in favour of India in 2008, as India's exports to France increased by nearly 23 per cent vis-a-vis 1 per cent decline in French exports to India, according to Mr Francis Bouquin, French Trade Commissioner in Kolkata. Addressing an interactive session organised by the Bharat Chamber of Commerce, Mr Bouquin stated that the bilateral trade between the two countries in 2008 clocked €6.8 billion, with India enjoying a trade surplus of around €150 million. The exports of consumer goods, accounting for 34 per cent of the country's exports to France, garment and leather (28 per cent), agro food (10 per cent) and semi-finished goods such as chemical, plastics etc (24 per cent) picked up last year with more Indian items entering the European markets, he said. On the other hand, exports of equipment from France into India declined marginally last year. Equipment for ships, aircraft, railways and motorcycle constitutes 63 per cent, semi-finished goods 25 per cent and consumer goods 7 per cent of its total export to India. In reply to a question, Mr Bouquin said, France was hopeful of reviving the export of transportation equipment, its major item of export to India, this year as the new Union budget gave due focus to the infrastructure sector.

### **Swiss Re, Religare tie up for health insurance**

In order to increase its presence in the insurance segment, financial services provider Religare signed an agreement with global reinsurer Swiss Re to set up a 74:26 joint venture for health insurance. The joint venture now awaits approval from the Insurance Regulatory and Development Authority (IRDA) and plans to roll out operations by the fourth quarter of the current financial year. The joint venture plans to infuse Rs 500 crore. A minimum of Rs 100 crore is needed to set up a non-life insurance company. Insurers are trying to tap the health segment as they consider it underpenetrated. This segment has been logging a growth of over 37 per cent since 2002. Both life and non-life insurers are trying to tap this market. Despite low penetration, the claim ratio in the segment is high (around 140 per cent). Religare entered into the insurance space with Aegon, the Netherland-based insurance company, for a life insurance joint venture. It is also present in asset management, wealth management, equity broking, commodity broking, investment banking, private equity and venture capital. Recently, it entered into the housing finance business by acquiring a 87.5 per cent in Maharishi Housing Finance Corporation. Religare has been promoted by the Singh family, which till recently owned Ranbaxy Laboratories. In 2007-08, the country's health insurance industry had collected Rs 5,100 crore in premium income. This segment has seen a compounded annual growth rate of around 40 per cent in the six years till 2007-08. It is one of the country's fastest-growing non-life insurance segments.

### **Marriott to add 24 new hotels by 2012**

Luxury hotel chain Marriott International will open 24 new properties in India over the next three years. The company,

which largely operates through management contracts, has sealed the deal for the properties with real estate developers. Some of these are regional players, like K Raheja Corporation (Mumbai), Salgaonkar (Goa), Viceroy Hotels (Hyderabad) and Panchshil Realty (Pune). Marriott will launch six properties this year. Of these, the Courtyard Marriott in Pune will be the first to open. Subsequently, four more Courtyard-branded properties would come up in Ahmedabad, Gurgaon, Hyderabad and Mumbai. The sixth would be operated under the Marriott brand. In all, the company intends to have 14 hotels operating under the Courtyard brand. The hospitality major currently has six properties in Mumbai, Goa, Hyderabad and Chennai and operates through five different brands, including Marriott, JW Marriott, Courtyard, Renaissance and Marriott Executive Apartments.

### **FII's, banks can trade in interest rate futures**

The Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI) jointly unveiled norms enabling exchange-traded interest rate futures (IRF). Interest rate futures are derivative contracts which have an interest bearing security as the underlying instrument. The introduction of this instrument will help banks, insurance companies, bond houses and provident funds manage risks arising from interest rate fluctuations in their fixed income portfolios. In a surprise move, foreign portfolio investors have been allowed to trade in IRFs, but limits have been put in place to keep their influence under check. The regulations, which were being developed by a joint committee of SEBI and RBI for over a year, also allow banks to participate in IRFs. The new IRFs are based on the yield-to-maturity (YTM) curve, which is used daily by traders for their calculations. To start with, futures contracts will be based on the 10-year government bond, with a semi-annual coupon of 7%.

There would be quarterly contracts and each contract will be worth Rs 2 lakh crore. Limits have been placed on gross-open positions of clients across all contracts at 6% of the total open interest or Rs 300 crore, whichever is higher.

### **Telecom sector earnings may cross \$30 bn by 2013**

Continuing its growth trajectory, the Indian telecom sector is expected to generate revenues of over \$30 billion by 2013, according to global analyst firm Gartner. The country's telecom subscriber base is expected to cross the 770-million mark by 2013. India has over 450 million telecom users at present. As per Gartner, India's telecom market is unlikely to surpass China as the largest telecom market by 2013 and would retain its position as the second-largest market in the world. The mobile penetration in the country is also expected to reach 63.5% by 2013, up from 38.7% at present, according to Gartner. Growth is largely expected to come from telecom operators increasing their focus on the rural market, local consumer durable and electronic companies entering the domestic mobile handset segment, and decline in handset prices. Gartner highlighted that the increased adoption of value-added services (VAS) would also stimulate growth. It further stated that while the bulk of revenues for Telcos would be generated from voice services, data usage would grow at a faster rate. The number of people with prepaid connections would also increase to contribute about 96% of the total subscriber base by 2013, due to increased adoption in rural circles. Currently, about 93% of the users own a pre-paid connection. The churn rate is also expected to go up in India as more players enter the fray and the government allows mobile number portability (MNP). MNP will allow users to switch their telecom service provider while retaining their mobile number.

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