



# INDIA NEWS

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## **Highlights of Union Budget 2011-12**

The Finance Minister, Mr. Pranab Mukherjee presented the Union Budget for the financial year 2011-12 on 28 February, 2011. The highlights of the Budget are as follow:

- \* Net market borrowing for 2011-12 seen at ` 3.43 trillion.
- \* Revised gross market borrowing for 2010-11 at ` 4.47 trillion

### FISCAL DEFICIT

- \* Fiscal deficit seen at 5.1 percent of GDP in 2010-11
- \* Fiscal deficit seen at 4.6 percent of GDP in 2011-12
- \* Fiscal deficit seen at 3.5 percent of GDP in 2013-14

### SPENDING

- \* Total expenditure in 2011-12 seen at 12.58 trillion rupees
- \* Plan expenditure seen at ` 4.41 trillion in 2011-12, up 18.3 percent

### REVENUE

- \* Gross tax receipts seen at ` 9.32 trillion in 2011-12
- \* Corporate tax receipts seen at ` 3.6 trillion in 2011-12
- \* Tax-to-GDP ratio seen at 10.4 percent in 2011-12; seen at 10.8 percent in 2012-13
- \* Customs revenue seen at ` 1.52 trillion in 2011-12
- \* Factory gate duties seen at ` 1.64 trillion in 2011-12
- \* Non-tax revenue seen at ` 1.25 trillion in 2011-12
- \* Service tax receipts seen at ` 82,000 crore in 2011-12
- \* Telecom fees, auction of broadband spectrum to raise ` 296.5 billion in 2011-12

### SUBSIDIES

- \* Subsidy bill in 2011-12 seen at ` 1.44 trillion
- \* Food subsidy bill in 2011-12 seen at ` 605.7 billion
- \* Revised food subsidy bill for 2010-11 at ` 606 billion
- \* Fertiliser subsidy bill in 2011-12 seen at ` 500 billion
- \* Revised fertiliser subsidy bill for 2010-11 at ` 550 billion
- \* Petroleum subsidy bill in 2011-12 seen at ` 236.4 billion
- \* Revised petroleum subsidy bill in 2010-11 at ` 384 billion
- \* State-run oil retailers to be provided with ` 200 billion cash subsidy in 2011-12

### GROWTH, INFLATION EXPECTATIONS

- \* Inflation seen at 5 percent in 2011-12
- \* Economy expected to grow at 9 percent in 2012, plus or minus 0.25 percent

### TAXES

- \* Standard rate of excise duty held at 10 percent
- \* Service tax rate held at 10 percent
- \* Scope of service tax to be widened

- \* Minimum alternate tax raised to 18.5 percent from 18 percent
- \* Iron ore export duty raised to 20 percent
- \* Personal income tax exemption limit raised to ` 180,000
- \* Surcharge on domestic companies raised to 5 percent

#### DISINVESTMENT

- \* Disinvestment in 2011-12 seen at ` 400 billion

#### POLICY REFORMS

- \* Foreign direct investment policy to be liberalised further in 2011-12
- \* Infrastructure debt funds to be created
- \* Infrastructure growth to be boosted with tax-free bonds of ` 300 billion
- \* Raised foreign institutional investor limit in 5-year corporate bonds for investment in infrastructure by \$20 billion
- \* Food security bill to be introduced this year
- \* To permit Securities and Exchange Board of India (SEBI) registered mutual funds to access subscriptions from foreign investments
- \* Public debt bill to be introduced in parliament soon

#### SECTOR SPENDING

- \* To allocate more than ` 1.64 trillion to defence sector in 2011-12
- \* Corpus of rural infrastructure development fund raised to ` 180 billion in 2011-12
- \* To provide 201.5 billion rupees capital infusion in state-run banks in 2011-12
- \* To allocate 520.5 billion rupees for the education sector \* To raise health sector allocation to 267.6 billion rupees

#### AGRICULTURE

- \* To focus on removal of supply bottlenecks in the food sector in 2011-12
- \* To raise target of credit flow to agriculture sector to ` 4.75 trillion
- \* Gives 3 percent interest subsidy to farmers in 2011-12
- \* Cold storage chains to be given infrastructure status
- \* Capitalisation of National Bank for Agriculture and Rural Development (NABARD) of ` 30 billion in a phased manner
- \* To provide 3 billion rupees for 60,000 hectares under palm oil plantation
- \* Actively considering new fertiliser policy for urea

#### FINANCE MINISTER ON THE STATE OF THE ECONOMY

- \* "Fiscal consolidation has been impressive. This year has also seen significant progress in those critical institutional reforms that will pave the way for double digit growth in the near future."
- \* "At times the biggest reforms are not the ones that make headlines, but the ones concerned with details of governance which affect the everyday life of aam aadmi (common man). In preparing this year's budget, I have been deeply conscious of this fact."
- \* Food inflation remains a concern
- \* Current account deficit situation poses some concern \* Must ensure that private investment is sustained \* "The economy has shown remarkable resilience."

#### FINANCE MINISTER ON GOVERNANCE

- \* "Certain events in the past few months may have created an impression of drift in governance and a gap in public accountability ... such an impression is misplaced."

(To view the full details of the Union Budget, please visit: <http://indiabudget.nic.in/>)

### **India will be 2nd biggest economy in 2050: PwC**

According to a forecast by the consultancy group, PriceWaterhouseCoopers, the Indian economy will register the second fastest growth between now and 2050 and emerge as the second biggest economy in the world by the middle of this century. In terms of GDP at purchasing power parity (PPP), India was said to be on track to overtake Japan this year. The author of the report, PwC's chief economist, John Hawksorth, said that India has the potential to be one of the three great economies of the 21st century, together with China and the US.

### **India to become fourth largest passenger vehicle market in three years**

According to global consulting firm Booz&Co, India was poised to become the world's fourth largest passenger vehicles (PV) market in three years, with an investment requirement of around US\$ 20 billion for the construction of nine new plants to address the growing demand. The Indian PV market was expected to touch 3.5 million units mark in the next three years. Booz&Co Partner, Mr. Vikas Sehgal said that the Indian PV market, currently the seventh largest, was expected to grow at 15-20 per cent every year till 2013. Mr. Sehgal added that India would even cross Japan by selling about five million PVs by 2017-18. He further said that in the next three years, India would need 6 to 9 new car plants with an average annual capacity of 1.5 lakh units, requiring an investment of at least US\$ 15-20 billion. According to Society of Indian Automobile Manufacturers, the PV market stood at about 2 million units in 2009-10 and was expected to reach 2.4 million units in this fiscal. The Indian market had earlier set a target to become a US\$ 145 billion market by 2016, under the Automotive Mission Plan (AMP).

### **Exports at 33 month high, touch US\$ 22.5 billion in December 2010**

India's exports recorded strongest growth in last 33 months. Exports grew by a significant 36.4 per cent on an annual basis – raising prospects that US\$ 215 to US\$ 225 billion worth of merchandise will be exported in 2010-11. Furthermore, in December 2010, the exporting sectors registered higher growth, which includes engineering (112 per

cent), electronics (88 per cent), man-made fibres (30 per cent), yarns (65 per cent) and drugs (810 per cent). The Government had set an export target of US\$ 200 billion for 2010-11.

### **Government approves 19 FDI proposals worth US\$ 958.71 million**

According to a statement by the Finance Ministry, the Government has approved a total of 19 foreign direct investment (FDI) proposals worth US\$ 958.71 million. These approvals include US \$ 242.95 million of Tata Steel to issue warrants as part of fund mobilisation plan and Qualcomm's proposal to invest a total of US \$ 176.03 million for internet and broadband services. Besides, FDI proposal worth US \$ 66.25 million from the Mumbai-based Future Ventures, for induction of foreign equity in investing company by way of issue and allotment of equity shares in the initial public offering (IPO) of the company to foreign institutional investors (FIIs) and non-resident Indians (NRIs) under the Portfolio Investment Scheme, was approved.

### **Eight Indian MFs in World's 25 best funds in a decade**

According to investment research firm Morningstar, eight domestic equity mutual fund schemes, including SBI Magnum Contra, HDFC Equity and Reliance Growth, were among the 25 best-performing open-ended equity funds in the world of the last decade. These funds benefited from the 10-fold growth in total value of India's stock markets, led by a robust performance of one of the fastest growing economies in the world. The eight funds returned 31% to 38% on a compounded basis in the past decade. The Sensex returned 17.8% on a compounded basis during the 10 years. Russia's RTS fetched 28.6% and Indonesia's JSX Composite gave 24.4% returns during the period. Morningstar said in a note that twelve equity mutual fund schemes from India figure among the 25 best-performing open-ended equity funds in the world over 15 years. India's total stock market capitalisation grew to over \$ 1.6 trillion in December, 2010 from \$ 148 billion early last decade.

### **GDP to grow by 8.6 per cent in 2010-11: CRISIL**

The leading credit rating agency, CRISIL Research expects India's gross domestic prod-

uct (GDP) to expand by 8.6 per cent in 2010-11 and was likely to sustain an annual average of 8.4 per cent over 2010-11 to 2015-16. The growth would be driven by domestic demand spurred by a growing young population, rising middle-class consumption and increasing investment and savings.

### **Forex kitty swells, set to cross \$299 billion**

Foreign exchange reserves swelled \$1.98 billion during the week ended January 21. The latest figures released by the Reserve Bank of India show that the total foreign exchange reserves, including gold and special drawing rights (SDRs - reserve currency with the International Monetary Fund), moved up \$1,977 million to hit \$299.40 billion during the week ended January 21. While foreign currency assets soared \$1,685 million, the value of gold in reserves remained unchanged during the week. The value of SDR and the reserve capital with the IMF rose \$25 million and \$267 million, respectively, during the week.

### **FII's maintain buying spree in Dec quarter**

Foreign institutional investors continued to buy into Indian stocks in December quarter even as domestic mutual funds remained on sell mode. Six out of 10 companies in the BSE's top-500 saw an increase in the FII stake during the December quarter over the September quarter. Over 400 companies have disclosed their December shareholding pattern with the stock exchanges. FIIs have

hiked stake in 250 companies and reduced it in 150. On an average, the FII stake has gone up by one percentage point during the quarter. Foreign funds have invested a record \$29 billion in 2010 in equity markets, of which more than a third (about \$10 billion) came in the December quarter. Mutual funds, on the other hand, were net sellers by US \$ 6058 million in 2010 and US \$ 983.47 million in the December quarter. During the three-month period ended December, the BSE Sensex gained 2.3 per cent.

### **Air France-KLM buys 26% stake in Mumbai company**

India's growing aviation market and huge aircraft orders from domestic airlines were proving to be a big attraction for foreign carriers to invest in India. The Air France-KLM combine recently picked up a 26% stake in a Mumbai-based firm, Max Aerospace and will soon launch a maintenance, repair and overhaul (MRO) facility for aircraft components in India. The European giant, which has become one of the first international airlines to invest in a MRO in India, has a simple business model for the MRO: Offer spare parts required by Indian carriers in the country itself without ordering them from abroad. Indian carriers currently send their planes abroad for maintenance checks and also rely on overseas suppliers for their component requirement. This process becomes very time-consuming. So, if there were international players that can at least have a warehouse for spares in the country and offer them fast and at reasonable rates, it can be a win-win situation for them and India.

## **DISCLAIMER**

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**EMBASSY OF INDIA,  
SWITZERLAND**  
KIRCHENFELDSTRASSE 28, CH-3005 BERNE  
TEL : 031-350 11 30 Fax : 031-351 15 57  
E-mail : [india@indembassybern.ch](mailto:india@indembassybern.ch)  
Website : [www.indembassybern.ch](http://www.indembassybern.ch)