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UNION BUDGET 2013-14 : PART I

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SIB STUDENTS' ECONOMIC FORUM

APRIL 2013

The South Indian Bank Ltd., H.O. : 'S.I.B. House', Thrissur, Kerala

Theme No. 257: UNION BUDGET 2013-14 : Part I

A well informed customer will make the policy makers as well as organisations which produce goods and services more responsive to the customer needs. This will also result in healthy competition among organisations and improve the quality of goods and services produced.

The "SIB Students' Economic Forum" is designed to kindle interest in economic affairs in the minds of our younger generation. We highlight one theme in every monthly meeting of the "Forum". This month we discuss the background, basic features and proposals (Part 1) of Budget 2013-14.

What are the major challenges for the economy as described by the Finance Minister?

The global economic growth slowed down from 3.9 percent in 2011 to 3.2 percent in 2012. Even though we are affected by the global recession, our exports and imports amounted to 43 percent of GDP and two-way external sector transactions have risen to 108 percent of GDP. In the current year, CSO has estimated growth at 5 percent, while RBI has estimated growth at 5.5 percent. Whatever may be the final figure, the greatest challenge is to get back to our potential growth rate of 8 percent. According to Finance Minister, among the large countries of the world, only China and Indonesia are growing faster than India. Our goal is "higher growth leading to inclusive and sustainable development". In our country, there are many sections of the people left behind, and the budget is a testimony to the commitment of the government to ensure inclusive development with emphasis on improving human development indicators.

What are the major constraints in achieving the socio economic objectives?

The major constraints in achieving the objectives are 1.High fiscal deficit 2.Reliance on foreign inflows to finance the current account deficit 3.Lower savings and lower investment 4.Tight monetary policy to contain inflation 5.Strong external headwinds. In September 2012, Government accepted the main recommendations of Dr. Vijay Kelkar Committee on a new fiscal consolidation path. The fiscal deficit estimates are 5.3 percent and 4.8 percent of GDP for this year and for 2013-14 respectively. In order to contain the huge fiscal deficit, there is no other choice but to rationalise expenditure. The current account deficit continues to be high on account of excessive dependence on oil imports, the high volume of coal imports , our passion for gold and the slow down in exports. The country needs to find over USD 75 billion to finance the current account deficit this year and perhaps next year too. In order to attract more inflows, we have to encourage foreign investment through FDI (Foreign Direct Investment), FII (Foreign Institutional Investors) or ECB (External Commercial Borrowings) consistent with our economic objectives. The battle against inflation should be fought on all fronts and in the past few months headline WPI(Wholesale Price Index) inflation has been brought down to 7.0 percent and core inflation to about 4.2 percent.

What are the major proposals to rationalise expenditure?

The gross market borrowing is estimated at Rs.6.29 trillion and net market borrowing at Rs.4.84

trillion in 2013-14. The short term borrowing is seen at Rs.198.44 billion, with buy back of bonds worth Rs.500 billion in 2013-14.

What are the plan and budgetary allocations in the budget?

The total expenditure for 2012-13 (12th Five Year Plan, which began in 2012-13), have been revised to Rs.14.3 trillion, which is 96 percent of the budget estimate. In 2013-14, the budget estimate of total expenditure has been set at Rs.16.65 trillion of which plan and non plan expenditure have been estimated at Rs. 5.55 trillion and Rs. 11.10 trillion. The plan expenditure will be 29.4 percent more than the revised estimate of the current year. The budget has set aside Rs.100 billion towards spending on food subsidies in 2013-14. The budget aims to create opportunities for the youth to acquire education and skills to equip them take up decent jobs or self employment. The budget has proposed to allocate Rs.415.61 billion to the scheduled caste sub plan, Rs.245.98 billion to the tribal sub plan, Rs.971.34 billion to women (Gender budget) and Rs.772.36 billion to children(Child budget). The Ministry of Women and Child Development has been provided an additional Rs.2.0 billion to design schemes to enable women live with self-esteem and dignity.

The other allocations include Rs.35.11 billion to minorities, Rs.1.10 billion to disabled persons, Rs.373.30 billion to health and family welfare, Rs.47.27 billion to medical education, training and research, Rs.1.50 billion to national programme for the health care of elderly, Rs.10.69 billion to National Health Mission for Ayurveda, Unani, Siddha and Homoeopathy, Rs.658.67 billion to HRD, Rs.39.83 billion for Rashtriya Madhyamik Shiksha Abhiyan(RMSA), Rs.52.84 billion for scholarships to SC/ST and OBC students, Rs.132.15 billion for Mid-Day Meal Scheme(MDM), Rs.177.00 billion to Integrated Child Development Services (ICDS), Rs.3.00 billion to address the maternal and child malnutrition, Rs.152.60 billion for clean drinking water and sanitation, Rs.801.94 billion to MGNREGS(Mahatma Gandhi National Rural Employment Guarantee Scheme),PMGSY(Pradhan Mantri Gram Sadak Yojana) and IAY (Indira Awaas Yojana) programmes of Ministry of Rural Development, Rs.148.73 billion to the Jawaharlal Nehru National Urban Renewal Mission(JNNURM).

What was the allocation made for Agriculture & allied activities?

The average annual growth rate of Agriculture and allied sector during the 11th plan was 3.6 percent as against 2.5 percent and 2.4 percent, respectively, in the 9^{th} and 10^{th} plans. In 2012-13, total food grain production will be over 250 million tonnes. Agricultural exports during the 9 months, this year, have crossed Rs.1.38 trillion. The budget has proposed to allocate Rs.270.49 billion to the Ministry of Agriculture, with an increase of 22% over the revised estimate of the current year. The target for agricultural credit was fixed at Rs. 7.0 trillion. The interest subvention scheme for short term crop loans will be continued and the farmer who repays the loan on time will be eligible to get credit at 4 percent per annum. The budget has proposed to extend this scheme to crop loans borrowed from private sector scheduled commercial banks in respect of loans given within the service area of the branch concerned. The budget proposes to provide Rs.99.54 billion and Rs.22.50 billion respectively to the Rashtriya Krishi Vikas Yojana and the National Food Security Mission. The Finance Minister, expressed great satisfaction in the remarkable success of bringing the green revolution to eastern India, with increased rice production in Assam, Bihar, Chhattisgarh and West Bengal and allocated Rs.10 billion in 2013-14 to these states. In order to improve productivity of land and water use for the small and marginal farmers especially in drought prone and ecologically-stressed regions, the budget proposed an increased allocation of Rs.53.87 billion. The National Institute of Biotic Stress Management for addressing plant protection issues will be established at Raipur & Chhattisgarh and The Indian Institute of Agricultural Bio-Technology, as a centre of excellence in Agricultural Bio-Technology, will be established at Ranchi & Jharkhand. The pilot scheme to replant and rejuvenate coconut gardens, implemented in some districts of Kerala and The Andaman & Nicobar Islands will be extended to the entire state of Kerala with an additional sum of Rs.75crore in 2013-14. The registered Farmer Producer Organisations and Companies (FPO &FPC) have been provided Rs.50 crore each as grant to enable them to leverage working capital from financial institutions. There is also a proposal to create a Credit Guarantee Fund with an initial corpus of Rs.100 crore. The National Live stock Mission to be launched in 2013-14 to attract investment and to enhance productivity, will be provided Rs.307crore. The Finance Minister hopes that the National Food Security Bill will be passed as early as possible and has set apart Rs.100 billion to meet the incremental cost.

What are the major announcements in the budget to raise the investor sentiments?
The Finance Minister says the Infrastructure sector needs large volumes of investment. The 12th plan projects an investment of USD 1 trillion (almost Rs.55lakh crore) in infrastructure with a share of 47 percent from the private sector. The Government will encourage Infrastructure Debt Funds(IDF) to raise resources to provide long term low cost debt and so far four IDFs have been registered with SEBI. India Infrastructure Finance Corporation Ltd (IIFCL) , in partnership with the Asian Development Bank , will offer credit enhancement to infrastructure companies who access the bond market for long term funds. The budget proposes to allow some more institutions to issue tax free bonds up to a total sum of Rs.500 billion. The budget proposes to raise the corpus of RIDF –XIX of NABARD to Rs.200 billion. A regulatory authority has been proposed for the Roads sector.The Cabinet Committee on Investment (CCI) has already taken up a number of oil & gas, power and coal projects. The budget proposes to introduce an investment allowance of 15%, over and above the current rates of depreciation, for new high value investments (those with investments of Rs.100 crore & above in plant & machinery) during the period from 01.04.2013 to 31.03.2015.

What are the initiatives to boost Savings?
On the savings front, the Rajiv Gandhi Equity Savings scheme will be liberalised with an increase in income limit to Rs.12 lakh from Rs.10lakh. In the housing sector ,a person taking a housing finance up to Rs.25lakh in 2013-14 for his first home from Banks/Housing Finance Corporations will be entitled to an additional deduction of interest up to Rs.1.00lakh from total income. The Finance Minister also proposes to introduce inflation indexed bonds or inflation indexed National Security Certificates, in consultation with RBI, to protect savings from inflation.

What are the other investment proposals?
The budget has also plans to provide funds to the Delhi Mumbai Industrial Corridor (DMIC) and the proposed plans for seven new cities including the Chennai Bengaluru Industrial Corridor. The Leh-Kargil transmission project was allowed Rs.226 crore and the proposed outer harbour at Thoothukudy through PPP and two new major ports in West Bengal and in Andhra Pradesh were announced. The 12th plan has already provided an outlay for the proposed six inland waterways declared as national waterways. Regarding oil and gas exploration, the minister assured to review the natural gas pricing policy and to move from profit sharing to revenue sharing contracts. In the medium to long term the budget plans to reduce dependence on imported coal and to devise a PPP

policy framework, with Coal India Ltd as one of the partners. In the power sector the Government has approved a scheme for financial restructuring of distribution companies (DISCOMS) to restore health. The budget proposes the non tax benefits to a MSME (Micro, small and Medium Enterprises) unit for three years after it graduates to a higher category and provides Rs.100 billion per year to SIDBI to enhance its refinancing capability. The Finance Minister has allowed Rs.100 crore to the India Microfinance Equity fund of SIDBI, Rs.500 crore to Credit Guarantee Fund for factoring of SIDBI and Rs.22 billion to set up Tool Rooms and Technology Development centres under the Ministry of Micro, Small and Medium Enterprises. The Minister made a mention about CSR (Corporate Social Responsibility) and announced that the funds provided to technology incubators located within academic institutions and approved by the Ministry of Science and Technology / Ministry of MSME will qualify as CSR expenditure. The TUFS (Technology Up-gradation Fund Scheme) was provided Rs.24 billion, the SITP (Scheme for Integrated Textile Parks) and the Integrated Processing Development Scheme, Rs.50 crore each. The Ministry of Textiles gets an additional sum of Rs.96crore for interest subvention to the handloom sector for their loans at concessional rate of 6 percent.

What does the budget propose to protect the environment?

- Evolve a scheme to encourage cities and municipalities to take up waste –to –energy projects in PPP mode and help these municipalities to implement these projects through different instruments such as viability gap funding, repayable grant and low cost capital.
- Giving priority to clean and green energy, the Government proposes to provide low cost finance in the form of low interest funds from the NCFE (National Clean Energy Fund) to IREDA (Indian Renewable Energy Development Agency) to on-lend to viable renewable energy projects.
- Reintroduce “generation based incentive” for wind energy projects of the non-conventional wind energy sector, with an allotment of Rs.8.0 billion to the Ministry of Non Renewable Energy.

What are the major proposals on improving revenue?

The Government targets Rs.558.14 billion from stake sales in state-run firms in 2013-14. The revenue from airway surcharges, auction of telecom spectrum, licence fees is around Rs. 408.5 billion in the coming fiscal. The country needs more than $75 billion this year and next year to fund the current account deficit. The most worrying of all is the inflation, especially food inflation, and the budget provides positive signals through augmentation of the supply side.

What are the estimates for various subsidies?

The major subsidies bills have been estimated at Rs.2.48 trillion from Rs 1.82 trillion rupees in 2013-14. The petroleum subsidy for 2013-14 is Rs.650 billion and the revised figure for 2012-13 is Rs.968.8 billion. The food subsidies for 2013-14 are estimated at Rs.900 billion and the revised figure for 2012-13 is Rs.850 billion. The fertiliser subsidy for 2012-13 has been revised at Rs.659.7 billion.

We shall discuss the announcements on financial sector and tax proposals in the next issue.

Budget at a Glance

(In crore of Rupees)

	2011-2012 Actuals	2012-2013 Budget Estimates	2012-2013 Revised Estimates	2013-2014 Budget Estimates
1. Revenue Receipts	**751437**	**935685**	**871828**	**1056331**
2. Tax Revenue(net to centre)	629765	771071	742115	884078
3. Non-Tax Revenue	121672	164614	129713	172252
4. Capital Receipts (5+6+ 7)$	**552928**	**555240**	**558998**	**608967**
5. Recoveries of Loans	18850	11650	14073	10654
6. Other Receipts	18088	30000	24000	55814
7. Borrowings and othe liabilities	* 515990	513590	520925	542499
8. Total Receipts (1+4)$	**1304365**	**1490925**	**1430826**	**1665298**
9. Non-Plan Expenditure	**891990**	**969900**	**1001638**	**1109975**
10. On Revenue Account	812049	865596	919699	992908
of which,				
11. Interest Payments	273150	319759	316674	370684
12. On Capital Account	79941	104304	81939	117067
13. Plan Expenditure	**412375**	**521025**	**429187**	**555322**
14. On Revenue Account	333737	420513	343373	443260
15. On Capital Account	78639	100512	85814	112062
16. Total Expenditure (9+13)	1304365	1490925	1430825	1665297
17. Revenue Expenditure (10+14)	1145785	1286109	1263072	1436169
18. Of Which, Grants for creation of CapitalAssets	132582	164672	124275	174656
19. Capital Expenditure (12+15)	158580	204816	167753	229129
20. Revenue Deficit (17-1)	**394348**	**350424**	**391244**	**379838**
	(4.4)	(3.4)	(3.9)	(3.3)
21. Effective Revenue Deficit (20-18)	**261766**	**185752**	**266970**	**205182**
	(2.9)	(1.8)	(2.7)	(1.8)
22. Fiscal Deficit	**515990**	**513590**	**520925**	**542499**
{(16-(1+5+6)}	(5.7)	(5.1)	(5.2)	(4.8)
23. Primary Deficit (22-11)	**242840**	**193831**	**204251**	**171815**
	(2.7)	(1.9)	2.0)	(1.5)

Actuals for 2011-12 in this document are provisional.

* Excluding receipts under Market Stabilisation Scheme.

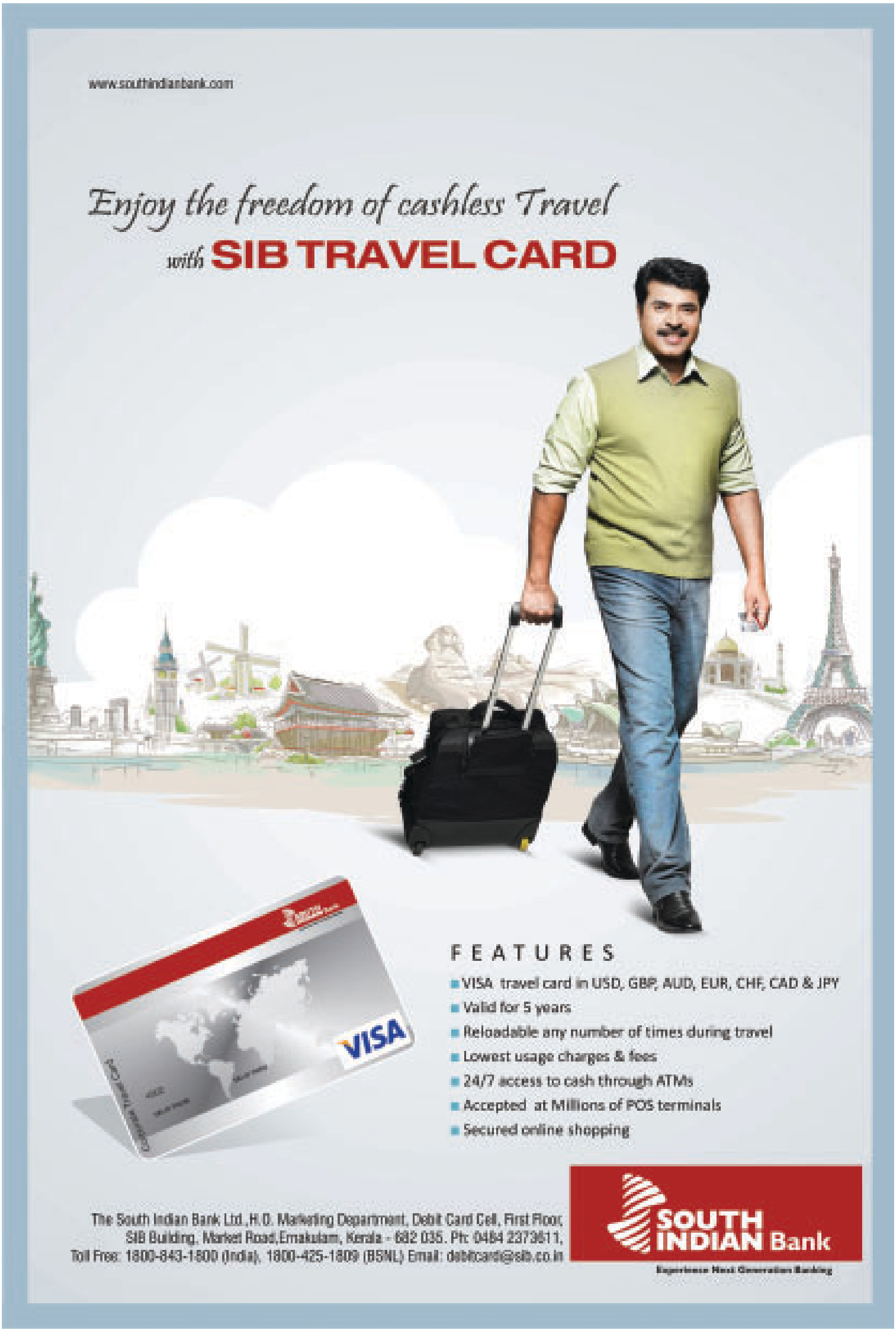
* Includes draw-down of Cash Balance.

Notes: 1. GDP for BE 2013-2014 has been projected at ' 11371886 crore assuming 13.4% growth over the Advance Estimates of 2012-2013 r 10028118 crore) released by CSO.

2. Individual items in this document may not sum up to the totals due to rounding off.

Source: www.cybex.in

Your comments and feedback on this publication may be sent to Staff Training College, The South Indian Bank Ltd., Thrissur 680 001 or by E.mail: ho2099@sib.co.in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