SOUTH INDIAN Bank
Experience Next Generation Banking

STUDENTS' ECONOMIC FORUM

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INTERIM BUDGET 2014-15

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SOUTH INDIAN Bank
Experience Next Generation Banking
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Theme No. 268 : INTERIM BUDGET 2014-15

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 about the Interim Budget 2014-15.

What do you know about an 'Interim Budget'?

The annual Financial Statement or the Statement of the Estimated Receipts and Expenditure for each financial year is known as the Budget. In an election year, the Budgets may be presented twice — first to secure a 'Vote on Account' for a few months and later in full. The government would seek a vote on account because Parliament will not be able to vote on the entire Budget before the commencement of the new financial year, starting April, due to general elections. A fresh budget would be brought before Parliament by the government that comes to power. While a 'Vote on Account' deals only with the expenditure side of the government's budget, an Interim Budget is a complete set of accounts, including both expenditure and receipts. An interim budget gives the complete financial statement, very similar to a full budget. While law does not debar the government of the day to introduce tax changes, normally in an election year, the government avoids making major changes in tax laws in the interim budget.

What is the present state of the Indian economy?

At the end of January 2014, WPI inflation was 5.05 percent and core inflation stood at 3.0 percent. Food inflation is still high but has declined sharply from a high of 13.6 percent to 6.2 percent. The estimate for food grain production for the current year is 263 million tonnes with production of sugarcane, cotton, pulses, oilseeds and quality seeds pointing to new records. In 2013-14, agriculture exports are likely to cross USD 45 billion. Agricultural credit is likely to touch 7.35 lakh cr. In the current year, agricultural GDP growth is estimated at 4.6 percent. The investment rate is estimated at 34.8 percent, indicating there was no steep decline in investment, except in mining and manufacturing. The country's merchandise exports are estimated at USD 326 billion, indicating a growth rate of 6.3 percent. During the last year 2012-2013 and in the nine months of the current financial year 2013-2014, there is an addition of 29,350 megawatts of power capacity, 3,928 kilometers of national highways, 39,144 kilometers of rural roads under PMGSY, 3,343 kilometers of new railway track, and 217.5 million tonnes of capacity per annum in our ports. Besides, 19 oil and gas blocks were given out for exploration and 7 new airports are under construction. The GDP growth in Q2 of 2013-14 has been placed at 4.8 percent and growth for the whole year has been estimated at 4.9 percent. This means that growth in Q3 and Q4 of 2013- 14 will be at least 5.2 percent.

What are the estimates for plan and non plan expenditure?
India's total expenditure is divided into two broad components: plan and non-plan. Plan expenditure is spent on productive asset creation through centrally-sponsored programmes and flagship schemes. On the other hand, 'non-plan' refers to all other expenditure such as defence expenditure, subsidies and interest payments, including expenditure on establishment and maintenance activities such as salaries. In order to sustain the pace of plan expenditure, the interim budget has kept the plan expenditure in 2014-15 at the same level at Rs. 555,322 crores as budgeted in 2013-14. Budgetary support to Railways has been increased from Rs.26,000crores in 2013-14 to Rs.29,000 crores in 2014-15.It is proposed to allocate Rs.48,638crore to the scheduled caste sub-plan and Rs.30,726 crore to the tribal sub-plan. The gender budget and child budget allocations are Rs.97,533 crore and Rs.81,024 crore respectively. The Non-plan expenditure in 2014-15 is estimated at Rs.12,07,892crore. Of this, the expenditure on subsidies for food, fertilizer and fuel will be Rs.246,397crore. This is slightly more than the revised estimate of Rs.245,452crore in 2013-14.

The budget provides Rs.65,000crore as fuel subsidy and Rs.115,000 crore has been allocated for food subsidy. The allocation for defence has been enhanced by 10 percent from Rs.203,672crore in 2013-14 to Rs.224,000crore in 2014-15.The Government has accepted the principle of One Rank One Pension for the defence forces. This decision will be implemented prospectively from the financial year 2014-15 and the requirement for 2014-15 is estimated at Rs.500crore. A modernisation plan at a cost of Rs.11, 009crore has been approved to strengthen the capacity of Central Armed Police Forces to provide them state-of-the-art equipment and technology. Gross market borrowing for 2014-15 is seen at 5.97 trillion rupees and net market borrowing at 4.57 trillion rupees. Government plans to buy back switch bonds of 500 billion rupees in 2014-15. The Ways and Means advances for 2014-15 is estimated at 100 billion rupees and debt repayment in 2014-15 is seen at 1.397 trillion rupees. Interest payment is seen rising to 4.27 trillion rupees in 2014-15 from a revised estimate of 3.8 trillion rupees for the current fiscal year.

What are the major announcements for the financial sector?
The budget proposes to provide Rs.11, 200 crore for capital infusion in public sector banks,Rs.6, 000crore to the Rural Housing Fund and Rs.2,000 crore to the Urban Housing Fund. Banks are asked to set the Agricultural credit target of Rs.800,000 crore for 2014-15. The interest subvention scheme, introduced in 2006-07, for prompt payment, reduces the effective rate of interest on farm loans to 4 percent and the same will be continued in 2014-15. Loans to the minority communities in the whole country stood at Rs.211, 451 crore and to the SHGs at Rs.36, 893 crore at the end of December 2013. The Government will take over the liability for outstanding interest on Education loans as on 31.12.2013, but the borrower would have to pay interest for the period after 1.1.2014. It is estimated that nearly 9 lakh student borrowers will benefit and a sum of Rs.2,600 crore will be transferred to Canara Bank, the designated CSIS (Central Scheme for Interest Subsidy)

banker.

What are the steps envisaged to deepen the Indian financial markets?

1. To comprehensively revamp the ADR/GDR scheme and enlarge the scope of Depository Receipts
2. To liberalise the rupee-denominated corporate bond market
3. To deepen and strengthen the currency derivatives market to enable Indian companies to fully hedge against foreign currency risks
4. To create one record for all financial assets of every individual
5. To enable smoother clearing and settlement for international investors looking to invest in Indian bonds.

The budget proposes to amend the Forward Contracts (Regulation) Act to strengthen the regulatory framework of the commodity derivatives market. The Finance Minister has reiterated the importance of The Insurance Laws (Amendment) Bill and The Securities Laws (Amendment) Bill, which have not yet been passed by Parliament. The budget proposes to establish a non-statutory PDMA (Public Debt Management Agency) from 2014-15.

What is the outline suggested in the budget regarding the vision for the future?

Indian economy, in terms of the size of its GDP, is the 11th largest in the world. The Finance Minister puts forward ten tasks to take the country to the third rank after US & China within three decades.

1. Fiscal Consolidation: The country has to achieve a target of fiscal deficit of 3 percent of GDP by 2016-17 and remain below that level always.
2. Current Account Deficit: The Current Account Deficit is to be financed by foreign investment, both FDI / FII, ECB and such other foreign inflows, without drawing upon Reserves.
3. Price Stability and Growth: In a developing economy, the ultimate aim is high growth with a moderate level of inflation. RBI must strike a balance between price stability and growth while formulating monetary policy.
4. Financial Sector Reforms: The recommendations of the Financial Sector Legislative Reforms Commission have to be implemented immediately.
5. Infrastructure: The country must rebuild the infrastructure and add a huge quantity of new infrastructure. The PPP model must be more widely used. New financing structures must be created for long term funds and pooling of investments.
6. Manufacturing: We must focus on manufacturing for export. The Finance Minister proposes that all taxes, Central and State, that go into an exported product should be waived or rebated. There should be a minimum tariff protection so that there is an incentive to manufacture goods in India rather than import them into India.
7. Subsidies: Given the limited resources, the subsidies must be given only to the absolutely deserving.
8. Urbanisation: Our cities should be cleaned to create more wealth with a new model of governance.
9. Skill Development: Skill development must be given top priority alongside education, sanitation and health care.

10. Sharing responsibility between States and Centre: States have the fiscal space to bear a reasonable proportion of the financial costs of implementing flagship programmes and must willingly do so, so that the Central Government can allocate more resources for subjects such as defence, railways, national highways and telecommunications that are its exclusive responsibility.

What are the other proposals in the budget?

The budget proposes to set up a Research Funding Organisation that will fund research projects selected through a competitive process, contributions to which will be made eligible for tax benefits. The Government has succeeded, through alternative methods and special efforts, in obtaining information in 67 illegal off-shore accounts and action is underway to determine the tax liability as well as impose penalty. Prosecutions for willful tax evasion have been launched in 17 other cases. More enquiries have been initiated into accounts reportedly held by Indian entities in no tax or low tax jurisdictions. As regards privatization, the target from stake sale in state run firms for 2013-14 has been revised to 258.41 billion rupees and the target for 2014-15 has been increased to 569.25 billion rupees.

What are the changes proposed in the Tax Rates?

There are no changes to the tax laws except certain changes in some indirect tax rates:

(i) To stimulate growth in the capital goods and consumer non-durables, it is proposed to reduce the excise duty from 12 percent to 10 percent on all goods falling under chapter 84 and chapter 85 of the Schedule to the Central Excise Tariff Act for the period up to 30.6.2014.

(ii) For the automobile industry, there is a proposal to reduce the excise duty for the period up to 30.6.2014: For Small cars, motor cycles, scooters and commercial vehicles, it is reduced from 12% to 8%. For SUVs it is from 30% to 24% and for large and mid-segment cars, from 27% to 24% and 24% to 20% respectively. It is also proposed to make appropriate reductions in the excise duty on chassis and trailers.

(iii) The budget announces to restructure the excise duties for all categories of mobile handsets. The rates will be 6 percent with CENVAT credit or 1 percent without CENVAT credit.

(iv) It is suggested to rationalise the customs duty structure on non-edible grade industrial oils and its fractions, fatty acids and fatty alcohols at 7.5 percent.

(v) To encourage domestic production of specified road construction machinery, it is decided to withdraw the exemption from CVD on similar imported machinery.

(vi) To encourage indigenous production of security paper for printing currency notes, the budget provides a concessional customs duty of 5 percent on capital goods imported by the Bank Note Paper Mill India Private Limited.

Service Tax: It is proposed to exempt loading, unloading, packing, storage and warehousing of rice from service tax. Blood banks are also considered as healthcare services and have been exempted from service tax.

Interim **Budget** at a Glance

Figures in ₹ '000 crore

	2012-13 Actuals	2013-14 Budget Estimates	2013-14 Revised Estimates	**2014-15 Budget Estimates**
Revenue Receipts	877.6	1056.3	1029.3	**1167.1**
Capital Receipts	532.8	609.0	561.2	**596.1**
Total Receipts	1410.4	1665.3	1590.4	**1763.2**
Non- Plan Expend.	996.7	1110.0	1114.9	**1207.9**
Plan Expenditure	413.6	555.3	475.5	**555.3**
Total Expenditure	1410.4	1665.3	1590.4	**1763.2**
Revenue Deficit	365.9	379.8	370.3	**382.9**
Fiscal Deficit	490.6	542.5	524.5	**528.6**
Primary Deficit	174.4	171.8	144.5	**101.6**

Source: Interim Budget 2014-15 documents

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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