

# INDIA BUDGET

## *A tightrope walk*

June 17, 2009

The government will present the Union Budget in the Parliament for the balance months (August-March) of FY10 on July 6. The budget is set to be presented against a backdrop of the government grappling with conflicting objectives of supporting growth and containing fiscal deficit.

Given the fiscal constraints the government faces at the moment, any significant tax concessions or large direct government stimulus expenditure seem unlikely. However, programmes targetting rural employment generation, low cost housing, weaker sections of the society are likely to continue. The budget's focus is likely to be on inclusive growth, infrastructure, small and medium enterprises (SMEs), and labour-intensive and export-oriented industries (textiles, leather, gems and jewellery, etc). Agriculture will continue to be favoured. The UPA, both in its manifesto and the interim budget, had emphasised on divestment. Hence, one can expect the same to be on for discussion in the current budget.

Apart from the duty and tax cuts on budget wish lists, companies expect the government to promote investment. Construction companies expect an increase in funding for roads, irrigation, and in both rural and urban infra schemes. FMCG companies expect the government to boost the rural economy by increasing allocation for various agriculture-centric and employment generating schemes. In the metals sector, companies expect the government to help PSU steel companies to increase capacity and grant of infrastructure status for steel sector. The 3G auction issue for telecoms is also expected to be touched upon in the budget, as it may generate additional funds of INR 250-400 bn. The wish list of oil & gas companies includes deregulation of auto fuel prices making domestic auto fuel pricing linked to international crude oil prices up a level (e.g, below USD 75/bbl). However, it is uncertain to what extent this proposal will go through, since an alignment to international prices will imply significant fluctuations in gasoline and diesel retail prices.

However, in case of most reforms (including 3G auction and oil price deregulation), only general directions and broad guiding criteria are expected in the upcoming budget. Detailed announcements and quantitative specifications are likely to follow in a staggered manner, in consultation with the specific ministries.

### **Inclusive growth, infrastructure to be key focus areas**

Supporting growth will be the foremost objective of the upcoming budget. The government has repeatedly emphasized that its focus is "the common man" and, hence, it prefers the growth process to be as "inclusive" as possible.

Amidst subdued job scenario across the economy, the government is likely to demonstrate its commitment to generating employment. There are also talks of sector-specific stimulus measures, particularly labour-intensive, export-oriented industries and SMEs. The government has also stated that concerns raised in the interim budget, especially with regard to sectors hit badly by the global financial crisis—textiles, leather, and gems and jewellery—will be addressed in the budget. The measures may include interest rate subsidies and tax subsidies. Representatives of the export sector are also seeking a market development fund to support the sector.

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