HIGHER GDP growth of 9% and lower inflation of 5% projected for 2011-12

TAX REVENUE seen rising 18% while spending growth is just 3.4%, the slowest in recent years

LEGISLATIVE ACTIONS planned for financial reforms, silence on retail FDI

SERVICE TAX net cast far wider to get a whopping 19% higher revenue by next year

UNION BUDGET 2011-2012

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TUESDAY, 1 MARCH 2011

What it Means For...

Investors

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OPPORTUNITY TO invest in public issues of public sector units courtesy ₹40,000-crore disinvestment

FOREIGN RETAIL investors set to enter Indian equity market through mutual funds

TAX TREATMENT of debt and money market funds put on a par with fixed deposits

Consumers

page 10

PRIVATE HOSPITALS and diagnostics to cost 5% more; domestic and international air travel costlier by ₹50 and ₹250

DRESSING-UP to cost 10% more with excise on branded clothes

EATING OUT where liquor is served to get 3% costlier; staying in hotels to get 5% dearer

Taxpayers

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HIGHER TAX exemption limit of ₹1.80 lakh for men and a new category of senior citizens

PROVISION FOR tax-free infrastructure bonds extended by one more year

NEW INCOME-TAX return form called *Sugam* to be introduced for small businesses

Economy

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POOR USERS of kerosene, cooking gas & fertilisers to get subsidies, in cash, by March 2012

OIL DUTY structure to be reviewed in view of West Asia; petrol prices to be revised

BOOST TO infrastructure through a rate hike in public funding, more private funding too

Business

pages 16-19

TAX HOLIDAY for IT companies finally ends, MAT imposed on Special Economic Zones

130 ITEMS brought into excise duty net for the first time with the imposition of 1% duty

CORPORATE TAX surcharge reduced by 2.5% to 5%, MAT raised by 0.5% to 18.5%

BOLD FROM THE BLUE

It's a Tie Between Deficit & Growth

SWAMINATHAN S ANKLESARIA AIYAR

FINANCE MINISTER Pranab Mukherjee's Budget lacks tax pyrotechnics, yet it reveals a remarkably improved fiscal position and a conceptual breakthrough in delivering subsidies through cash transfers for kerosene, fertilisers and cooking gas.

He has also boosted reform prospects, pledging to revive seven financial sector bills, including landmark ones to raise foreign direct investment (FDI) in insurance to 49% and lift voting rights of foreign investors in banks.

Mukherjee says he did not highlight this in his Budget speech because his party lacks majority in both houses of parliament, but is optimistic of securing the cooperation of other parties. On FDI in retail, he is non-committal.

A committee under UIDAI chief Nandan Nilekani will suggest ways to implement the proposed shift from physical subsidies to cash transfers, using smart cards. Come October, UIDAI will issue 10 lakh Aadhar (unique identity) numbers daily, and this should make it feasible to bring in cash transfers sometime in 2012. This reform has the potential to drastically curb leakages and malpractices in subsidies.

India's fiscal position has long worried foreign institutional investors (FIIs), the dominant players in the country's stock markets. The Budget claimed fiscal deficit was down this year to 5.1% of GDP against the targeted 5.5%, and would decline to 4.6% next year against 4.8% mapped out earlier.

In response, the Sensex initially jumped nearly 600 points, but handed back much of the gains after investors realised some of the Budget's projections were based on statistical revisions and future optimism rather than fiscal stringency.

For instance, the oil subsidy is projected to fall to ₹23,640 crore next year from ₹38,386 crore this year, but there is no explanation how this will be managed in an environment of high global crude prices. Mukherjee may want high prices to be passed on to consumers, but several of his cabinet colleagues are dead against this.

The food subsidy will be virtually unchanged next year at around ₹60,000 crore. The reason: the implementation of the Food Security Act has been postponed until 2012-13. The consequent hole in government finances has been postponed, not avoided.

Only a small part of the fiscal improvement in the Budget relates to tax buoyancy, with statistical revisions of GDP data producing much of the apparent improvement. Yet the fact is the central government's debt-to-GDP ratio, which the 13th Finance Commission had projected at 52.5% of GDP, is now only 44.2%. This is remarkable given that economies across the world are weighed down by large increases in this ratio.

Without the spectrum auction bonanza, fiscal deficit this year would have been 6.3% of GDP. Reducing this to 4.6% next year requires a massive effort to check spending. The Budget projects total spending to rise marginally to ₹12.57 lakh crore next year from ₹12.17 lakh crore this year, and such stringency will be politically tough.

Investors will be encouraged by the decision to permit foreign retail investors to invest in Indian mutual funds, and to raise the investment limit for foreign funds in infrastructure debt to $25 billion, raising the overall cap for FII investment in corporate debt to $40 billion.

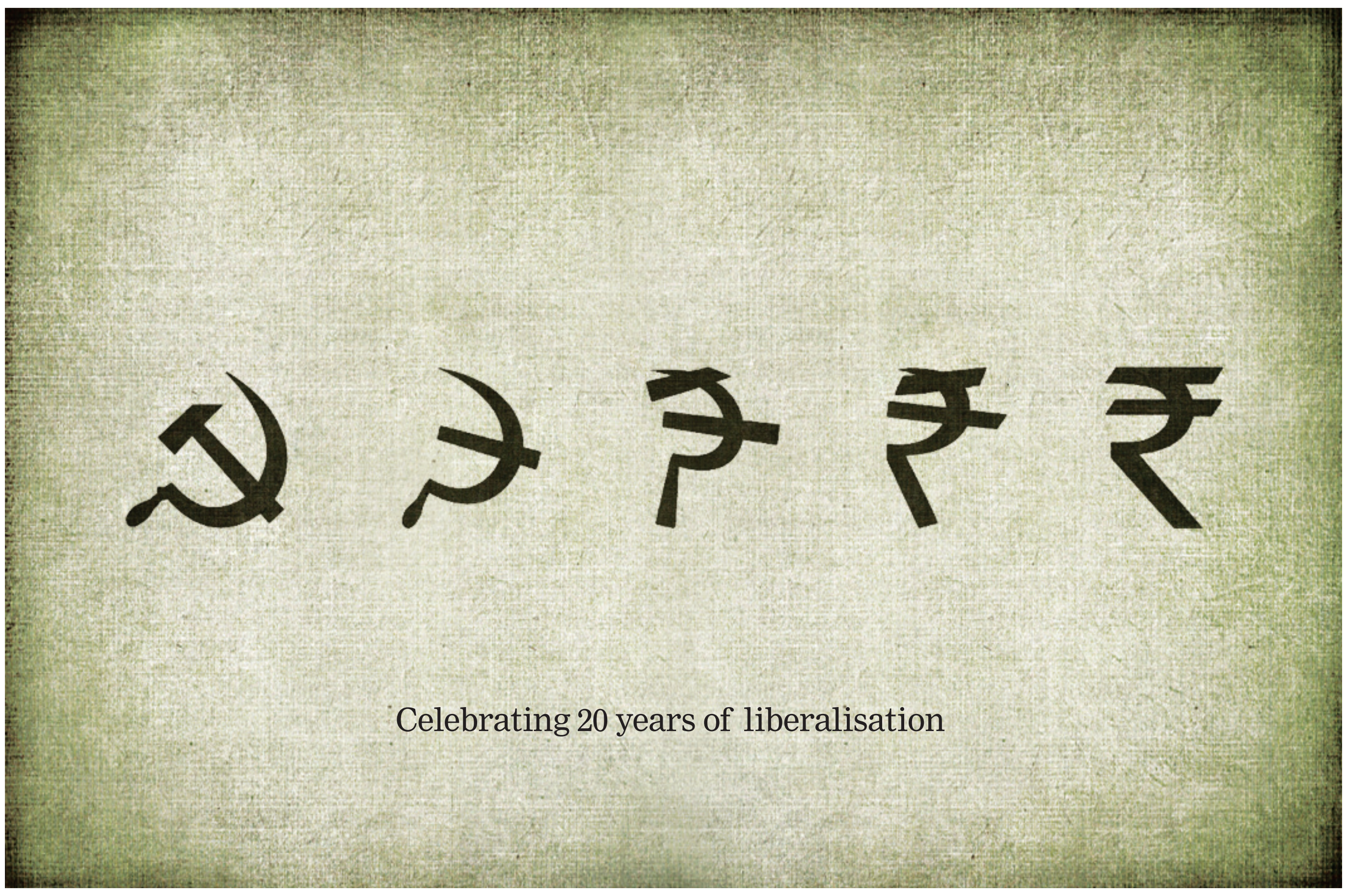
But drafting footloose capital into debt has its risks. Devising clear-sighted policies to attract FDI into infrastructure is far superior to FII flows. The government will allow state-run undertakings to raise up to ₹30,000 crore by way of tax-free infrastructure bonds, a boost for the sector, along with the proposed creation of tax-free debt funds.

The decision to press ahead with the Direct Taxes Code and transition to a countrywide Goods and Services Tax is a welcome reform intent. However, the sheer spread and number of indirect tax rates listed in the Budget gave out a whiff of the 1980s, rather than of futuristic reform.

ET EXCLUSIVE Q&A

Pranab Mukherjee in conversation with Swaminathan S A Aiyar

Impact on Economy ▶▶ 15



OGILVY

The battery ran out of the socialist clock in 1991. Two decades on, it surely is an exciting time for India and its hard-driving and globally expanding entrepreneurs. Gone are the hammer and sickle and even the last vestiges of a system of governance that dulled the Indian spirit and dimmed the hopes of millions. Now, in 2011, the Rupee rules, a strong symbol of a new and muscular India

20 Years of Liberalisation

India completes 20 years of economic freedom this year, and ET 50 years of existence. From 1961, we have always clamoured for change and when it happened, in 1991, celebrated it. The change has been tumultuous and large swathes of India have been magically transformed, lifting millions of Indians out of poverty. For this year's Budget Edition, we commissioned India's top ad agencies to capture the past two decades with a simple and clear brief: to capture the journey of the last 20 years of liberalisation. Across the pages, Piyush Pandey, Prasoon Joshi, R Balki, Santosh Padhi, Abhijit Avasthi, Josy Paul, K S Chakravarthy and Arun Iyer bring you visuals on the Voyage from '91. Dear reader, we hope you will enjoy and preserve this special edition...

122.5 POINTS

Market's Belief in Pranab Dips in a Day

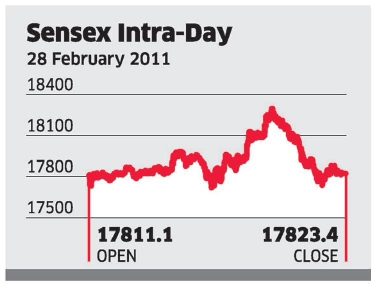
After zooming 595 points, Sensex loses steam as Dalal Street discounts Pranab's optimistic numbers

THE BUDGET SPEECH WAS GREETED by a relief rally that sent bond prices higher and the Sensex soaring, but initial euphoria soon gave way to realism as doubts arose whether some of the assumptions underpinning key numbers were far too rosy.

The BSE's 30-share Sensex rose as much as 595 points on relief the finance minister did not increase excise duties and announced plans to allow foreigners to invest in local mutual funds while bond yields fell after the government's borrowing programme turned out to be lower than the markets had expected.

The Sensex closed 122.49 points up at 17,823 after briefly flirting with the 18,300 mark while the 50-share Nifty ended 29.70 points up at 5,333. Yield on the 8.13% bond maturing in September 2022, the most actively-traded government paper, dropped 5 basis points to 8.09%.

Once the relief rally played itself out, the attention soon turned to the fine print. And reality bit as analysts questioned whether the numbers were over-optimistic. "While we applaud the lower deficit target, we believe the actual deficit will turn out higher than budgeted with revenue forecasts too optimistic and extra-budgetary demands expected to raise expenditure above budget targets," said Leif Lybecker Eskesen, HSBC's chief economist for India & Asean.



Others wondered whether the FM's subsidy numbers had factored in an oil market on the boil. Or whether an 18% tax revenue growth and an expenditure growth of just 3.4% would materialise.

"The Budget exercise hinges a lot on keeping fuel subsidy to a minimum and that could be a challenge in the current oil price environment," said emerging markets guru Mark Mobius of Franklin Templeton Investments.

In sum, the dominant view in the market was the Budget was a positive surprise given extremely low expectations.

"I don't think personally the Budget has done enough to break us out of the short-term challenges," said Akash Prakash, chief executive of Singapore-based fund Amansa Capital.

Who Gains How Much

Senior citizens above 80 save the most. Those between 60 and 65 gain due to lowered age limit for senior citizens

TAXPAYER PROFILE	TAX SAVINGS IN ₹ (2011-12)
Men (below 60 years)	2,060
Women (below 60 years)	NIL
Men (60-65 years)	9,270
Women (60-65 years)	6,180
Senior citizens (65-79 years)	1,030
80 years and above	26,780

Females will continue to pay a lower tax due to the higher exemption. But they don't get any benefit in this budget and the difference in the basic exemption for males and females has narrowed to ₹10,000. Taxpayers between 60 and 65 years gain because the lowering of the age limit for senior citizens pushes up their tax exemption to ₹2.5 lakh a year.

BY INVITE: Top CEOs & policymakers decode the Budget for you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