

Budget 2006

A budget in continuum

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The Premise of this Budget

- Continue Reform process
- Minimise changes
- Increased Social Sector Spending
- Increase Rural spending to sustain agricultural growth
- Expect High Growth

A Glance

Rs in crores

	2006-07 Revised estimates	2005-2006 Budgeted estimates
Revenue receipts (A)	4,03,465	3,51,200
Revenue expenditure (B)	4,88,192	4,46,512
Revenue deficit E= (A-B)	84,727	95,312
Capital receipts (C)	11,840	12,000
Capital expenditure (D)	75,799	67,832
Capital deficit F= (C-D)	63959	55,832
Fiscal Deficit E+F	1,48,686	1,51,144
Less:Interest	1,39,823	1,33,945
Primary deficit	8,863	17,199

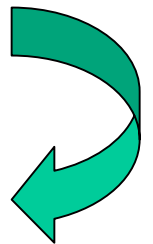
The GDP growth story

Rs. in crores

	2004-05	2005-06	2006-07
GDP	3155050	3529240	3912789

The growth of GDP (at current prices)

Year	1950-51 Rs. Crores
Agriculture forestry & fishing, mining & quarrying	5879 (59%)
Others	4055 (41%)
Total	9934
GDP of 2006-07	3912789 393 times



Composition of GDP (%)

	Agriculture	Manufacture	Services
1950-51	59	13	28
1970-71	48	20	32
1990-91	35	25	40
2003-04	25	24	51

GDP a comparison of China & India

Composition of GDP (percent)

	1980	1990	2000
China			
Agriculture	30.1	27	15.9
Industry	48.5	41.6	50.9
Manufacturing	40.5	32.9	34.5
Services	21.4	31.3	33.2
India			
Agriculture	38.6	31.3	24.9
Industry	24.2	27.6	26.9
Manufacturing	16.3	17.2	15.8
Services	37.2	41.1	48.2

GDP growth at constant prices
in excess of 8% in only five
years of recorded history and
two out of these five are in the
last three years

Where is the growth coming from?

Double Digit growth in the services sector (telecom, Hotels, trade)

Modest growth in the Agriculture sector

The tax- GDP ratio

- The Tax GDP ratio, now at 11%, has improved almost 2 percentage points in the past three years. . And it is still low compared to developed nation standards.

The impressive growth in Revenue Receipts

			Rs.Crores
	04-05	05-06	06-07
Tax Revenue	224798	274139	327205
		+ 49341	+ 53066
Non-Tax Revenue	81215	77734	76260
		(3481)	(1474)

Tax Revenues have increased by 45% in the past 2 years

The Chidambaram theory

- Lower Tax Rates
- Stable Tax Rates
- Wider tax bases
- Aggressive collections
 - Can lead to impressive tax growth.

The composition of Tax Revenue

	2005-06	2006-07	growth
Corporation	103573	133010	28%
Income	66239	77409	17%
Service	23000	34500	50%
Customs	64215	77066	20%
Excise	112000	119000	6.25%

The composition of Tax Revenue

	1997-98	2006-07	Growth (times)
Corporation	20016	133010	6.6
Income	17097	77409	4.5
Service	1586	34500	21.8
Customs	40193	77066	1.9
Excise	47962	119000	2.5

The composition of tax revenue

- Indirect taxes (customs & Excise) were 64% of tax revenue , 10 years ago.
- Indirect taxes are 43% of tax revenue, today.
- An indication of increase in Direct taxes as a share of total tax revenue.

Non- Tax Revenue

1.Dividend on PSEs, RBI and Nationalised banks
estimated at Rs.27500 crores

Total Equity Investment estimated at Rs.250000 crores

Very impressive gains in the past decade

Significant return on investments

2. Interest receipts from States Rs.31000 crores

The expenditure story

1.	Interest Payments	130032	139823	(+) 9791
2.	Defence Services	81700	89000	(+) 7300
3.	Grants to States	29694	34617	(+) 4923
4.	Capital Outlay	3635	7853	(+) 4218
5.	Agriculture & Allied Services	1603	2748	(+) 1145
6.	Police	12593	13682	(+) 1089
7.	Pensions	20232	21312	(+) 1080
8.	Food Subsidy	23200	24200	(+) 1000
9.	Other Non-plan Expenditure	62225	58028	(-) 4197
	Total Non-Plan Expenditure	364914	391263	(+)26349

Central Plan outlay – sector wise

	2005-2006 Budget Estimates	2005-2006 Revised Estimates	2006-2007 Budget Estimates
Agriculture & Allied Activities	6425	5907	7385
Rural Development*	13992	16716	18269
Irrigation & Flood Control	524	418	587
Energy	58191	53720	69593
Industry and Minerals	11998	10063	14533
Transport**	42417	40412	48614
Communications	12140	17525	19884
Science Technology & Environment	7075	6032	8061
General Economic Services	4539	2814	3172
Social Services***	53384	51271	63313
General Services	568	460	630
Grand Total	211253	205338	254041

The major expenditure Sectors of the Central Government

- Energy 27%
- Social Services 25%
- Transport 19%
- Communications 8%

The Manmohan formula

- Additional resources to Rs.crores
 - Sarva Shiksha Abhiyan 11000
 - Mid Day Meal 5400
 - Rural Employment Guarantee. 11300
 - Rural Housing 3000
 - Rural Drinking Water 6000
 - Rajiv Gandhi Vidyutkaran 3000
 - » 39700
- More than 25% of the plan revenue expenditure

The capital expenditure problem

- Total capital expenditure shows a decline of more than 25% in the past 2 years

	04-05	05-06	06-07
• Capital Expenditure	113331	68410	75799

- This is the problem of a long history of Revenue deficits
- Our deficits have “crowded” out our capital expenditure

What does this mean?

- Infrastructure.. Vitally needed to compete will lag behind. China is ahead in infrastructure
- Higher liberalisation in Infrastructure industries to invite foreign capital

The fiscal Deficit

A. FISCAL INDICATORS – ROLLING TARGETS

(As percentage of GDP)

	Revised	Budget	Targets for	
	Estimates	Estimates	2007-08	2008-09
	2005-06	2006-07		
1. Revenue Deficit	2.6	2.1	1.1	0.0
2. Fiscal Deficit	4.1	3.8	3.4	3.0
3. Gross Tax Revenue	10.5	11.2	11.5	11.8

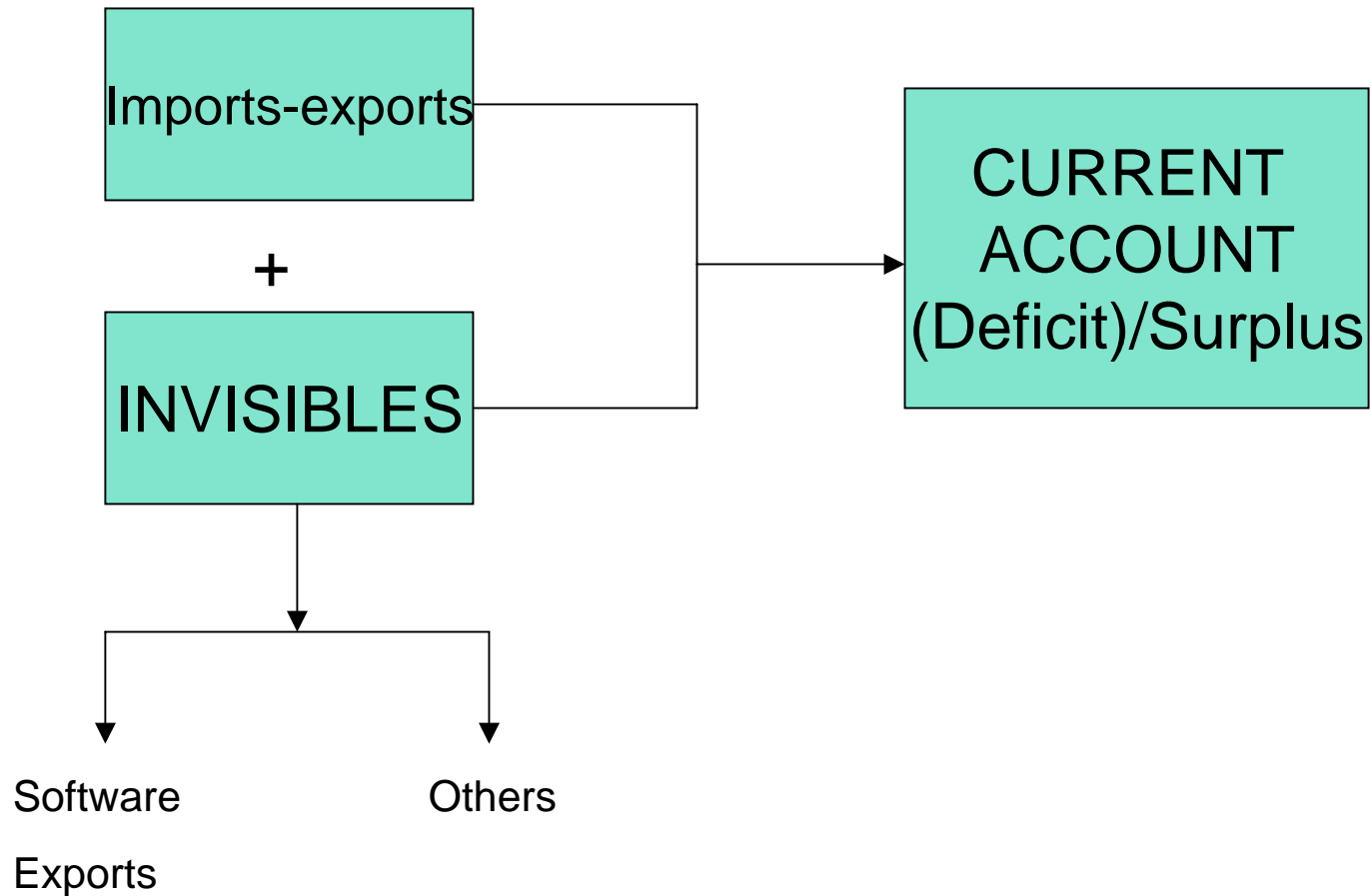
The fiscal deficit story

- Fiscal deficit is lesser this year as compared to earlier years
 - Higher tax collections and
 - Softer interest regimes resulting in lower interest outgo & lower borrowings

The external Sector

- India has reported its record high of Foreign Exchange reserves US\$140bn.. Every rupee circulated is now backed by foreign exchange
- India's external debt is today around US\$110bn.
- Short term Debt / Total external debt < 6%

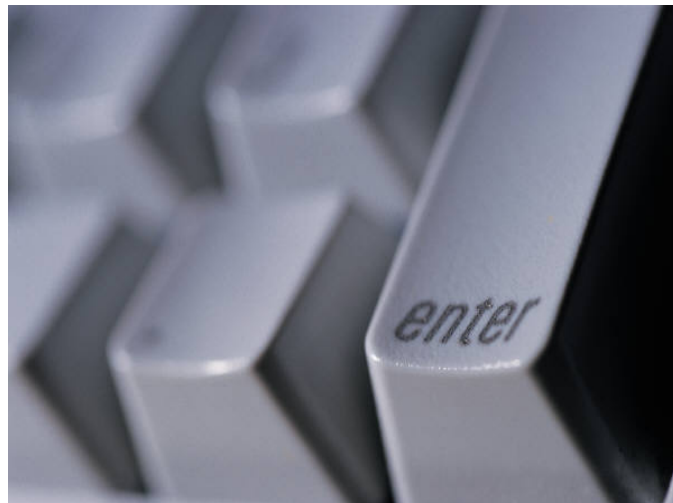
Current Account Balance



Current Account – a cause for worry?

- The country recorded a current account surplus two years ago.
- In the past 24 months , we have been mounting a deficit.
- Today we have a current account deficit of US\$13bn. Thanks to
 - Growing manufacturing imports
 - Increased oil prices

India has a robust “invisible” support from software exports.(US\$18bn). This is helping the Current Account and the balance of payments.



Invisible support

- Invisible support US\$36bn.. High from US\$6 bn 8 years ago
- Current Account deficits are softened by
 - Software exports
 - Increased travel & Tourism receipts
 - Increased remittances from NRIs

How have the current account deficits been made up?

- Improved capital inflows
 - Increased FDI
 - Increased FII
 - Increased ECBs

Internal Liabilities as a % of GDP



Year	Combined liability of Centre and States
1980-81	48.58
1990-91	64.4
1995-96	61.2
2000-01	70.4
2005-06	81.3

The liability profile

- The Internal Debt combined with the debt of the States is now nearly 81% of the GDP...
- Including government guarantees it is 91% of GDP..sustainable??
- The longer maturity pattern suggests that there is a interest rate risk
- Deficits are funded largely, internally and not through external debt



The rolling Targets

- Can Revenue deficit be zero in two years time?
- Can we have fiscal discipline in the states?
- More important, are we spending enough on capital expenditure?

Overall, a good budget , in
continuum with the usual causes
for worry!

Thank You