
A brief summary of the

# India Budget Statement 2008

and recent policy changes. Proposals for Direct and Indirect taxes, Impact and Economic Indicators.

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Opinion by ASHOK V. DESAI (economist)

# A BENIGN BUDGET

The Indian economy is slowing down. The slowdown started in manufacturing in the early months of 2007. Textiles were the first industry to suffer Vehicles - cars, two-wheelers, trucks and buses followed. By the middle of 2007, the contagion was spreading across all industries. GDP estimates show a slowdown in manufacturing growth from 9.3 per cent in the last quarter of 2006 to 7.2 per cent in the third quarter of 2007. Construction, trade and transport show a parallel slowdown. The reasons are pretty clear. The accidental appreciation of the Rupee last March did much damage to exports, and the Reserve Bank's policy of keeping interest rates high against a phantom threat of inflation continues to hurt all economic activity. Although the Reserve Bank is nominally under the finance ministry, Mr P Chidambaram is not able to make it change its mind.

In the circumstances, the finance minister had to use the budget to stimulate the economy. One way of doing so which he did not take was to run a larger fiscal deficit. That would have injected more purchasing power into the economy. But India has such a depressing record of running deficits that Mr Chidambaram decided not to revert to economic drunkenness. His tax proposals are revenue-neutral.

He decided instead to reduce taxes in the most noticeable manner. He reduced central value added tax from 16 to 14 per cent. This will directly put more money in the hands of businesses. He also reduced a handful of excise duties more than this general average. The duty on most vehicles was reduced to 12 per cent. Drugs saw a halving of duty to 8 per cent.

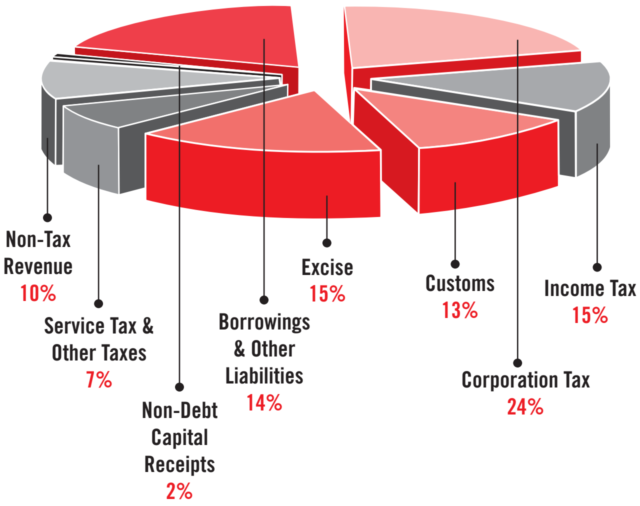
Apart from this, he put more money into the hands of taxpayers. He did not change the income tax rates. He raised the limits of the tax brackets substantially – the upper limit of tax exemption from Rs 110,000 to Rs 150,000, of the 10 per cent bracket from Rs 150,000 to Rs 300,000 and of the 20 per cent bracket from Rs 300,000 to Rs 500,000.

The finance minister also reversed a couple of the mistakes he had made earlier. He removed the double taxation involved in the dividend distribution tax; and he promised to ameliorate the hardships of the fringe benefits tax.

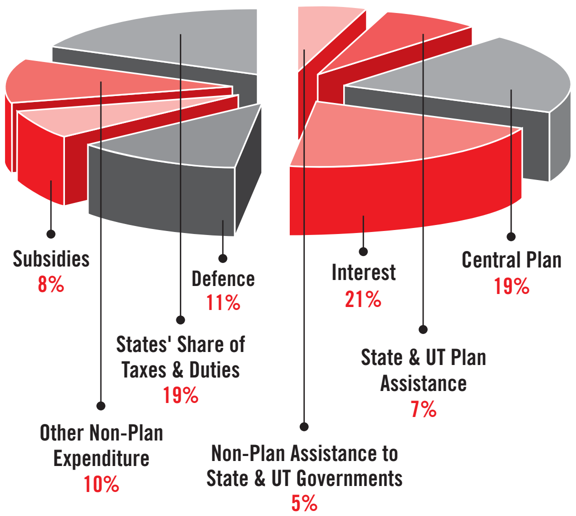
This may well be Mr Chidambaram's last budget, at any rate under the current government; although it could in theory carry on till May 2009, the difficult relations between the ruling Congress and the Communists who support it without being in the government make the alliance fragile. The Communists are determined to sabotage the nuclear safeguards agreement that the government is keen on signing. On that issue if no other, the government may fall. So in a sense, the budget was a farewell budget, and a feel-good budget. Mr Chidambaram has left the taxpayer with a good taste in the mouth.

# AT A GLANCE

## RUPEE COMES FROM




## RUPEE GOES TO



# IN BRIEF

## DIRECT TAXES

- No change in corporate tax rate
- No tax on individuals for income upto Rs 150,000
- Commodities Transaction Tax introduced
- Short term capital gains tax increased to 15 per cent
- Banking Cash Transaction Tax withdrawn

## INDIRECT TAXES

- Peak customs duty remains at 10 per cent
- Project import rate reduced to 5 per cent
- Central Excise Duty (cenvat rate) reduced to 14 per cent
- Service tax exemption limit increased to Rs 1 million, 7 additional services notified
- Central Sales Tax reduced from 3 to 2 per cent

## COMMERCE & TRADE FOCUS

- In focus – power, oil & gas exploration and technology
- Empowered Committee set-up to expand the securities market

## SOCIAL FOCUS

- Rural Infrastructure
- Agriculture
- Education

## ECONOMIC INDICATORS

- GDP growth at 8.8 per cent
- Inflation on an average of 4.1 per cent
- Foreign exchange reserves at USD 290.8 billion
- Fiscal deficit at 3.1 per cent of GDP

# BUDGET PROPOSALS

This section summarises the significant proposals on direct and indirect taxes made by the Finance Minister on February 29, 2008. The direct tax provisions in the Finance Bill would ordinarily apply to the Financial Year commencing on April 1, 2008 (Assessment Year 2009 -2010). The indirect tax provisions would apply with immediate effect unless otherwise specified. Finance Minister may propose other amendments through a separate bill.

The proposals contained in the Finance Bill are subject to ratification by the Parliament.

# DIRECT TAXES

## INCOME TAX

- The basic individual and HUF tax rates changed i.e.

| FROM | | TO | |
|---|---|---|---|
| **Income Range (Rs)** | **Rate (%)** | **Income Range (Rs)** | **Rate (%)** |
| Upto 110,000 | Nil | Upto 150,000[1] | Nil |
| 110,001 – 150,000 | 10 | 150,001 – 300,000 | 10 |
| 150,001 – 250,000 | 20 | 300,001 – 500,000 | 20 |
| 250,001 and above | 30 | 500,001 and above[2] | 30 |

*[1]Exemption limit for women and senior citizens enhanced from Rs 145,000 and Rs 195,000 to Rs 180,000 and Rs 225,000 respectively.*
*[2]Surcharge at 10 per cent on income exceeding Rs 1,000,000.*

- Tax rate on partnership firms unchanged at 30 per cent.
- Tax rates for cooperative societies unchanged.
- Corporate tax rates remain unchanged i.e.

| COMPANY | RATE (%) |
|---|---|
| Domestic | 30[1] |
| Foreign | 40[2] |

*[1]Surcharge at 10 per cent when income exceeds Rs 10,000,000.*
*[2]Surcharge at 2.5 per cent.*

- Education cess at 2 per cent and Secondary and Higher Education cess at 1 per cent remain unchanged.

## SALARY

- No significant changes proposed.

## INCOME FROM BUSINESS AND PROFESSION

- Expenses towards expansion by service companies deductible as preliminary expenses i.e. spread over five consecutive years.
- Weighted deduction at 1.25 times on contributions made to corporate, besides other research bodies, engaged in research and development activities.
- Aggregate cash payments to a vendor, if in excess of Rs 20,000 within the same day, will be disallowed.
- Written down value of assets belonging to units which were earlier exempt from tax, to be arrived at by reducing the accumulated book depreciation (but not on revaluation, if any) from the original cost of the assets.

## CAPITAL GAINS

- Capital assets transferred under reverse mortgage scheme will not attract capital gains tax.
- Conversion of Foreign Currency Exchangeable Bonds ('FCEB') to shares or debentures will not attract capital gains tax.
- Short term capital gains tax on sale of equity and equity oriented funds increased from 10 to 15 per cent.

## INCOME FROM HOUSE PROPERTY

- No significant changes proposed.

## INCOME FROM OTHER SOURCES

- No significant changes proposed.

## EXEMPTIONS

- Income to a Sikkimese individual from sources within Sikkim and any dividend or interest on securities fully exempt from tax.
- Income to a senior citizen under reverse mortgage scheme exempt from tax.

## REBATES AND DEDUCTIONS

- Additional deduction of Rs 15,000 in respect of health insurance premium paid for parents.
- Section 80IB to allow tax holiday during the first five years of operation to hospitals in non-metro cities, provided they commence operations between April 1, 2008 to March 31, 2013.
- Scope of section 80ID extended to hotels located in specified districts having a world heritage site allowing tax holiday during the first five years of operation, provided they commence operations between April 1, 2008 to March 31, 2013.

## TAX WITHHOLDING

- Businesses in the form of consortiums, classified as association of persons or body of individuals, to now withhold tax on contractual payments.
- Tax withholding on payments to non-residents to be reported through a newly introduced system of *e-filing*.
- No tax withholding on interest from listed corporate bonds in dematerialised form.

## RETURN OF INCOME

- Date revised for submitting return of income and fringe benefit tax from October 31st to September 30th.

## ASSESSMENT & APPELLATE PROCEEDINGS

- Procedure simplified wherein tax officer can correct arithmetical errors and adjust incorrect claims at the first stage of verifying the return of income.

- Where an assessee is undergoing block assessment proceedings and the routine assessment are put on hold, these can be revived should the block assessment proceedings get annulled.
- Central agency to be created for issuing computer generated notices in respect of various tax proceedings.
- Incriminating entry through records found during search proceedings will go against the owner of the premises.
- Assessee can no more take plea of any technical flaw in service of notice in respect of proceedings where he voluntarily makes representation on that matter.
- Assessment proceedings can now be initiated within six month from the end of the financial year in which return of income was submitted.
- Central Board of Direct Taxes ('CBDT') empowered to fix monetary limits to regulate filing of appeals. It has been further clarified that non-filing of appeal on a particular matter can not be used as a future plea that revenue had acquiesced on that issue.
- Where a matter is under appeal, only those issues can be re-assessed which are not the subject matter of the appeal.

## SETTLEMENT COMMISSION

- Commissioner of income-tax empowered to grant immunity from penalty and prosecution on matters abated by the settlement commission.

## DIVIDEND DISTRIBUTION TAX

- Domestic parent company, provided it is not a subsidiary of another company, to pay dividend distribution tax on 'net dividend' i.e. dividend declared less dividend received from it's immediate step down subsidiary.

## BANKING CASH TRANSACTION TAX

- Banking cash transaction tax withdrawn.

## SECURITIES TRANSACTION TAX ('STT')

- STT to be a deductible expense against business income.
- STT, where option is not exercised, payable only in respect of 'premium' portion by the seller, whereas when option is exercised, payable on 'settlement price' by the buyer.
- STT rates remain unchanged.

## FRINGE BENEFITS TAX ('FBT')

- Following expenditure on employees not to attract FBT
  - providing crèche facility for their children
  - organising sports events
  - sponsoring sportsmen
  - providing meal facility through pre-paid electronic meal cards
- Expenditure on maintenance of guest house accommodation not to attract FBT.
- Value of fringe benefit in respect of festival celebration reduced from 50 to 20 per cent of expenditure.

## COMMODITY TRANSACTION TAX ('CTT') NEW

- Options in goods or commodity derivatives traded through recognised Indian associations to bear transaction tax between 0.017 to 0.125 per cent of the transaction value.
- CTT to be a deductible expense against business income.

# INDIRECT TAXES

## CUSTOMS DUTY

The peak customs duty and education cess maintained at 10 and 3 per cent respectively.

## HIGHLIGHTS

- Exemptions
  - Air guns of 0.77 calibre
  - Polyester Filament Yarns fully exempted from National Calamity Contingent Duty ('NCCD').

- Amendments
  - Any customs duty collected inspite of any exemption or excess duty assessed must be deposited with the Government.
  - Penalty for contraventions not covered under any specific provision enhanced from Rs 10,000 to 100,000.
  - Interest payable on refunds delayed beyond three months.
  - Guidelines and responsibilities for custom officers to be prescribed for handling goods.
  - Time limit for temporary import of leased machinery, equipments and tools increased from 12 to 18 months.
  - Mobile phones to attract 1 per cent NCCD.
  - Power generation (except mega power projects), transmission, sub-transmission and distribution projects and specific goods for high voltage transmission projects to attract 4 per cent Special Additional Duty.
  - Wireless data modem cards with PCMCIA/USB/PCI express ports exempt from Countervailing Duty.
  - Export duty rate on chromium ores and concentrates of all types increased from Rs 2,000 to 3,000 PMT.
  - Exemption on Naphtha withdrawn.

- Change in Customs Duty rates of certain industries

| INDUSTRY | RATE (%) | | |
|---|---|---|---|
| | FROM | ⇧⇩ | TO |
| FISHERIES | | | |
| ➢ Bait fish for tuna fishing | 30 | ⇩ | 0 |
| GEMS, JEWELERY & PRECIOUS STONES | | | |
| ➢ Unworked corals | 10 | ⇩ | 5 |
| ➢ Rough cubic zirconia | 5 | ⇩ | 0 |
| ➢ Polished cubic zirconia | 10 | ⇩ | 5 |
| CHEMICALS & PETRO-CHEMICAL | | | |
| ➢ Crude and unrefined sulphur | 5 | ⇩ | 2 |
| ➢ Phosphoric acid | 7.5 | ⇩ | 5 |
| TOBACCO PRODUCTS | | | |
| ➢ Cigars, Cheroots and Cigarillos | 30 | ⇧ | 60 |
| METAL | | | |
| ➢ Melting scrap of iron and steel | 5 | ⇩ | 0 |
| ➢ Aluminium scrap | 5 | ⇩ | 0 |
| PHARMACEUTICALS & MEDICAL EQUIPMENT | | | |
| ➢ Specified inputs for elisa kits | 10/7.5 | ⇩ | 5 |
| ➢ Specified life saving drugs and bulk drugs | 10 | ⇩ | 5 |
| RUBBER | | | |
| ➢ Clorobutyl/ Bromobutyl rubber | 10 | ⇩ | 5 |
| TYRE INDUSTRY | | | |
| ➢ Polyester tyre cord fabrics | 10 | ⇩ | 5 |
| SPORTS | | | |
| ➢ Specified machinery for export of sports goods | 7.5 | ⇩ | 5 |
| ➢ Specified inputs for sports goods for export (upto 3 per cent of FOB) | 10 | ⇩ | 0 |
| POULTRY & DAIRY | | | |
| ➢ Feed additives or pre-mixes | 30 | ⇩ | 20 |
| ➢ Bactofuges | 7.5 | ⇩ | 0 |

| ELECTRONICS, IT, TELECOMMUNICATION & CONVERGENCE | | | |
|---|---|---|---|
| ➢ Specified parts of 'set top toxes' | 7.5 | ⇩ | 0 |
| ➢ Specified inputs for electronics/ IT hardwares | 10/7.5 | ⇩ | 0 |
| ➢ Specified convergence products | 10 | ⇩ | 5 |
| AVIATION | | | |
| ➢ Simulators for helicopters | 10 | ⇩ | 0 |
| OTHERS | | | |
| ➢ Project imports | 7.5 | ⇩ | 5 |

## EXCISE DUTY

**CENVAT** rate reduced from 16 to 14 per cent. Education cess maintained at 3 per cent.

- Exemptions
  - ➢ Paws, mudi
  - ➢ Coffee and tea premixes
  - ➢ Milk based edible nuts
  - ➢ Tender coconut water
  - ➢ Menthol and menthol crystals
  - ➢ Wireless data cards with PCMCIA/USB/PCI express ports
  - ➢ Cold storage equipment for agricultural produce

- Amendments
  - ➢ Maximum Retail Price ('MRP') based duty to be under Central Excise (Determination of Retail Sale Price of Excisable Goods) Rules, 2008.
  - ➢ Central Government empowered to charge excise duty based on production capacity for notified goods.
  - ➢ Interest payable on refunds delayed beyond three months.
  - ➢ Lamination or lacquering during metallization considered deemed manufacture.
  - ➢ In case separate books of accounts are not maintained for non dutiable goods, the input credit for these be reversed.

- Domestic Tariff Area clearances of EOU/STP/EHTP units chargeable at 50 per cent of basic customs duty plus countervailing duty.
- Mobile phones to attract 1 per cent NCCD.
- MRP abatement rates revised on all goods where excise duty has been reduced.
- Goods supplied to projects funded by international organisations viz. UN exempt unless withdrawn during the execution period.
- SSI exemption extended to strips of plastics (HDPE/PP tapes) intended for captive manufacture of fabrics/ sacks and bags.
- Polyester filament yarn fully exempt from NCCD.

- Change in Excise Duty rates of certain industries

| INDUSTRY | RATE (%) | | |
|---|---|---|---|
| | FROM | ⇧⇩ | TO |
| TOBACCO PRODUCTS (Rupees per thousand) | | | |
| ➢ Non Filter Cigarettes (length ≤ 60 mm ) | Rs.168 | ⇧ | Rs.819 |
| ➢ Non Filter Cigarettes (length 61 mm to 70 mm) | Rs. 546 | ⇧ | Rs.1,323 |
| PETROL (per litre) | | | |
| ➢ Unbranded Petrol | 6 (plus Rs.13) | ⇧ | Rs.14.35 |
| ➢ Unbranded High Speed Diesel | 6 (plus Rs.3.25) | ⇧ | Rs.4.60 |
| CEMENT (per tonne) | | | |
| ➢ Bulk Cement | Rs.400 | ⇧ | 14 per cent or Rs.400 *(whichever higher)* |
| ➢ Cement Clinkers | Rs.350 | ⇧ | Rs.450 |

| | | | |
|---|---|---|---|
| DRUGS & MEDICINE | | | |
| ➢ Glands & Organs | 16 | ⇩ | 8 |
| ➢ Drugs & Medicaments | 16 | ⇩ | 8 |
| ➢ Wadding, Gauze, Bandages etc. | 16 | ⇩ | 8 |
| ➢ Pharmaceutical goods like surgical catgut, sterile absorbable surgical adhensives etc. | 16 | ⇩ | 8 |
| PAPER INDUSTRY | | | |
| ➢ Ink for writing instruments | 16 | ⇩ | 8 |
| ➢ Aseptic bags | 16 | ⇩ | 8 |
| ➢ Heat resistant rubber tension tape | 16 | ⇩ | 8 |
| ➢ Veneers and flush doors | 16 | ⇩ | 8 |
| ➢ Aseptic packaging paper | 16 | ⇩ | 8 |
| ➢ Paper from non-conventional raw material beyond 3,500 MT in a year | 12 | ⇩ | 8 |
| ➢ Printing writing and packing paper | 12 | ⇩ | 8 |
| OTHERS | | | |
| ➢ Water filtration and purification equipments | 16 | ⇩ | 8 |
| ➢ Shuttle-less looms | 0 | ⇧ | 8 |
| ➢ Packaged software | 8 | ⇧ | 12 |
| ➢ Specified convergence products | 16 | ⇩ | 8 |
| AUTO | | | |
| ➢ Electric cars | 8 | ⇩ | 0 |
| ➢ Specified parts of electric cars based on end use | 16 | ⇩ | 0 |
| ➢ Small cars | 16 | ⇩ | 12 |
| ➢ Hybrid cars | 24 | ⇩ | 14 |
| ➢ Passenger three wheelers | 16 | ⇩ | 12 |
| ➢ Two wheelers | 16 | ⇩ | 12 |
| PAN MASALA | | | |
| ➢ Pan Masala without tobacco with betel nut | 16 | ⇩ | 8 |

## SERVICE TAX

- Tax rate and education cess maintained at 12 per cent and 3 per cent respectively.
- Exemption limit for small service providers raised from Rs 800,000 to 1 million.
- Additional 7 services brought within ambit of service tax namely
  - ➢ Information technology software
  - ➢ Management of investment under Unit Linked Insurance Plan ('ULIP')
  - ➢ Stock exchange
  - ➢ Commodity exchange
  - ➢ Processing and clearing house
  - ➢ Supply of tangible goods for 'right of use'
  - ➢ Internet telecommunication
- Scope of certain existing services extended

<table>
<tr><th>S NO.</th><th>SERVICE</th><th>EXTENDED TO…</th></tr>
<tr><td>1.</td><td>Banking and other financial services</td><td rowspan="2">Foreign currency transactions</td></tr>
<tr><td>2.</td><td>Foreign exchange broker services provided by individual</td></tr>
<tr><td>3.</td><td>Cargo handling</td><td>Packing services when together with transportation</td></tr>
<tr><td>4.</td><td>Tour operators</td><td>Contract carriage</td></tr>
<tr><td>5.</td><td>Renting of immovable property</td><td>Irrespective of possession or control</td></tr>
<tr><td>6.</td><td>Technical testing and analysis</td><td rowspan="3">Software</td></tr>
<tr><td>7.</td><td>Technical inspection and certification</td></tr>
<tr><td>8.</td><td>Management, Maintenance or Repair</td></tr>
</table>

- Exemption
  - ➢ Service provided outside India for booking hotel accommodation in India.

- Amendments

  - In case of dealings with associated enterprise entire value would be taxable.
  - Tax officer can make best judgment assessment when return not filed or tax payable incorrectly assessed.
  - Registration requirement enhanced from Rs 700,000 to 900,000.
  - Excess or advance service tax can be adjusted against future tax liability.
  - Time limit enhanced for filing revised return from 60 to 90 days.
  - In case separate books of accounts are not maintained for exempted services, the input credit for these be reversed or 8 per cent tax be paid.
  - Services under the category 'Management, maintenance or repair', 'Technical testing and analysis' and 'Technical inspection and certification' to be treated as
    (i.) export of service if the goods, material or immovable property is situated outside India.
    (ii.) Import of service if goods, material or immovable property is situated in India.
  - Service tax on composition scheme increased from 2 to to 4 per cent.

## OTHERS

- Central Sales Tax ('CST') reduced from 3 to 2 per cent effective April 1, 2008.

# COMMERCE & TRADE FOCUS

## INDUSTRY AND CAPITAL MARKET

- Technology Upgradation Fund enhanced from Rs 9.11 to 10.9 billion.
- Empowered Committee set up to expand the market base by creating a Pan Indian market for securities and enhance the revenues of the State Governments.
- Government to provide Rs 164.36 billion as equity support and Rs 30.03 billion as loans to Central Public Sector Enterprises.
- Investment of Rs 140 to 320 billion expected under the 7th round of bidding for exploration and development of new oil blocks.
- Allocation for the Department of Information Technology enhanced from Rs 15 to 16.80 billion.

## SMALL SCALE INDUSTRIES (‘SSI’)/SMALL AND MEDIUM SCALE ENTERPRISES (‘SME’)

- A risk capital fund to be created in Small Industries and Development Bank of India (‘SIDBI’). For loans up to Rs 500,000, the guarantee fee to be reduced from 1.5 to 1 per cent and annual service fee from 0.75 to 0.5 per cent.

## INFRASTRUCTURE

- Allocation for National Highway Development Programme enhanced from Rs 108.67 to 129.66 billion.
- Rs 8 billion allocated towards Accelerated Power Development Reforms Project.
- The fourth Ultra Mega Power Project (‘UMPP’) at Tilaiya to be awarded shortly. 5 new UMPPs for Chattisgarh, Karnataka, Maharashtra, Orissa and Tamil Nadu.

## OTHERS

- Rs 7.5 billion allocated for upgradation of 300 Indian Technical Institutes in 25 districts.
- Rs 1 billion allocated to interconnect all knowledge institutions.

- Rural Infrastructure Development Fund raised to Rs 140 billion.
- Target for disbursing agriculture credit set at Rs 2,800 billion.
- Scheme proposed for debt waiver and relief to small and marginal farmers.
- Rs 6.24 billion allocated towards the Commonwealth Games.
- Rs 9.93 billion allocated for National Aids Control Programme.
- Allocation for Defence increased by 10 per cent i.e. from Rs 960 to 1,056 billion.
- **Three new IITs to be set up in Andhra Pradesh, Bihar and Rajasthan.**
- Allocation for education sector enhanced from Rs 287 to 344 billion.

# IMPACT

## CAPITAL MARKET

The Bombay Stock Exchange ('Sensex') opened on weak note amidst weak global cues and plunged nearly 560 points to a low of 17,258. The Sensex ended down 245.76 points or 1.38 per cent at 17,578.72. The market breadth showed 1,645 declines against 1,043 advances. The National Stock Exchange ('Nifty') closed down 61.60 points or 1.17 per cent at 5223.50. It touched a high of 5,290.80 and low of 5,098.35.

## KEY SECTORS

**AUTO COMPONENTS** Proposal to cut excise duty on small cars, 2-wheelers, 3-wheelers, buses and chassis from 16 to 12 per cent, and slashing of excise duty from 24 to 14 per cent on hybrid vehicles, would have a positive impact on sales.

**PHARMACEUTICALS** Increased allocation to the healthcare sector would improve accessibility of quality healthcare. Reduction in excise duty from 16 to 8 per cent would have a positive impact. Weighted deduction at 1.25 times on payments for outsourcing research would benefit R&D companies.

**TELECOM** Additional duty on imported mobile phones would make handsets expensive. Internet telecommunication services would be expensive due to imposition of service tax.

**METALS** Abolition of import duty on scrap metal and increase in export duty on chrome ore would restrict soaring raw material prices. The 5 per cent duty on iron, steel melting scrap and aluminium scrap was removed and the general rate of excise duty was cut from 16 to 14 per cent.

**HOTEL** Incentives for development of hotels in world heritage sites would promote tourism in the country. The funds allocated for Commonwealth Games and measures taken on the infrastructure front will further help improve the prospects of the Indian hospitality sector.

**POWER** National fund created for transmission and distribution reforms. Coal distribution policy and appointment of a coal regulator would bring accountability to the process of coal production and pricing. Removal of additional customs duty exemption on power generation, transmission and distribution projects to increase project cost.

# RECENT POLICY CHANGES

## LEGISLATIVE INITIATIVES

- Delhi-Mumbai Industrial Corridor approved for joint development by India and Japan, which includes a freight segment of 1,483 km with an estimated overall investment of USD 100 billion.
- Japan to provide Rs 13.45 billion soft loan for infrastructure projects.
- Airport Economic Regulatory Authority created to regulate and monitor airports.
- Infrastructure financing norms eased, whereby a grace period of one year will be allowed to projects delayed from the scheduled date.
- Ceiling enhanced for investment in equipments which consequently defines micro (less than Rs 1 million), small (Rs 1 to 20 million) and medium (Rs 20 to 50 million) enterprises.
- Investment of Rs 60 billion approved for National Highways Development Programme.
- Bill to amend provisions of Payment of Gratuity Act, 1972.
- Investment of Rs 25 billion approved for International Thermonuclear Experimental Reactor.
- Captive mining approved for the production of gas through coal gasification and liquefaction.
- Items reserved for Small Scale Industries reduced to 35 only.
- Special Purpose Vehicle formed by steel and mineral public sector undertakings to centralise acquisition of metallurgical and thermal coal assets from overseas.

## COMPANY LAW

- Non-Banking Financial Institutions restricted from granting loans or guarantees to its directors and related parties.
- Validity of name approved for setting-up a company reduced to 60 days from 180 days, with an extension of another 30 days on application.

## TAXATION

- Withdrawal of tax exemption to packing and labelling units set-up in incentive zones of Himachal Pradesh and Uttarakhand.
- Abatement level in respect of service tax increased from 60 to 75 per cent for inbound / domestic tourist packages.
- Removal of countervailing and additional customs duty on portland cement, used in construction industry.
- Mandatory e-payment when excise duty exceeds Rs 5 million.
- Employee Stock Option Plans to attract Fringe Benefit Tax.

## FOREIGN DIRECT INVESTMENT POLICY

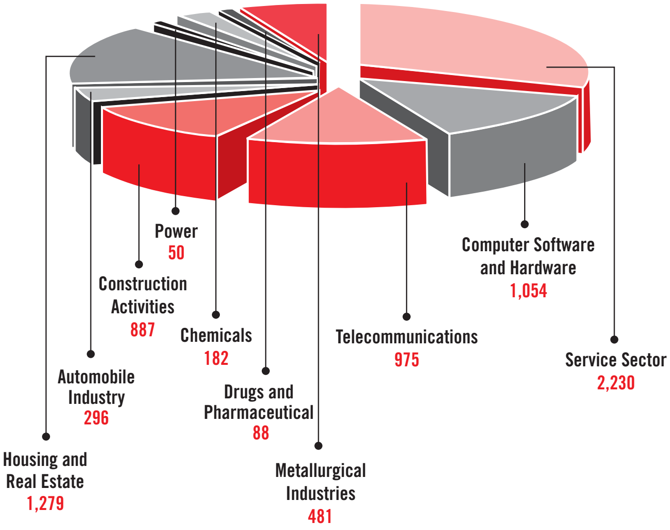
- Borrowers raising External Commercial Borrowings exceeding USD 20 million, allowed to retain proceeds overseas for permissible foreign currency expenditure.
- Listed Indian companies permitted to invest up to 50 per cent of their net worth in listed overseas companies.
- Overseas investments by registered mutual funds enhanced from USD 4 to 5 billion.
- Foreign Direct Investment sectoral cap in telecom enhanced from 49 to 74 per cent.
- Resident individuals permitted to remit up to USD 200,000 to a bank account opened abroad, for acquiring property, etc.
- Foreign companies permitted to open escrow accounts for buying shares in India.
- Indian banks permitted to grant loans to overseas subsidiaries of Indian companies.

## FOREIGN DIRECT INVESTMENT ('FDI')

(USD million)

| FDI INFLOWS (Top ten countries) | | | | | |
|---|---|---|---|---|---|
| **Rank** | **Country** | **2006-07** | **Apr'07 – Nov'07** | **Cumulative Inflows (Apr'00 – Nov'07)** | **%** |
| 1 | Mauritius | 6,363 | 4,766 | 19,306 | 44.24 |
| 2 | USA | 856 | 606 | 4,050 | 9.37 |
| 3 | UK | 1,878 | 245 | 3,432 | 7.98 |
| 4 | Netherlands | 644 | 509 | 2,519 | 5.81 |
| 5 | Singapore | 578 | 981 | 2,265 | 5.06 |
| 6 | Japan | 85 | 624 | 1,935 | 4.46 |
| 7 | Germany | 120 | 282 | 1,312 | 3.02 |
| 8 | France | 117 | 76 | 692 | 1.61 |
| 9 | Switzerland | 56 | 210 | 632 | 1.45 |
| 10 | Cyprus | 58 | 502 | 653 | 1.43 |

### Sectoral Composition of FDI 2007-08 (USD million)



## FOREIGN TRADE

(2006-07)

| MAIN TRADING PARTNERS FOR INDIA | | | | |
|---|---|---|---|---|
| Rank | Main exporters to India | % share | Main importers from India | % share |
| 1 | China | 12.9 | USA | 14.9 |
| 2 | Germany | 9.4 | UAE | 9.5 |
| 3 | USA | 9.2 | China | 6.6 |
| 4 | Switzerland | 6.8 | Singapore | 4.8 |
| 5 | Australia | 5.1 | UK | 4.4 |
| 6 | Japan | 3.4 | Hong Kong | 3.7 |
| 7 | Singapore | 3.3 | Germany | 3.2 |
| 8 | South Korea | 3.2 | Italy | 2.9 |
| 9 | Belgium | 3.1 | Belgium | 2.8 |
| 10 | UK | 3.1 | Japan | 2.2 |

## OTHERS

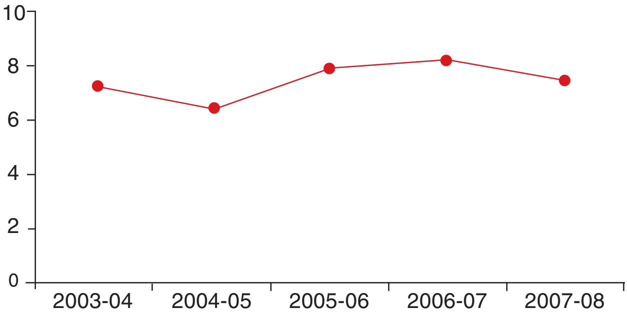
- India approves trade pact with South Africa Customs Union.
- Trade pact between EXIM Bank of India and the Gulf Investment Corporation.
- MoU with the Netherlands for cooperation in shipping and ports.
- MoU with Italy for cooperation in agriculture and food.
- Tax treaty finalised with Mexico.
- MoU with Kuwait on labour, employment and manpower development.
- The Indo-US civil nuclear deal (123 Agreement) approved.
- India and Pakistan agree to open bank branches and increase air links.

# ECONOMIC INDICATORS

## OVERVIEW

### GDP

**overall GDP growth (%)**

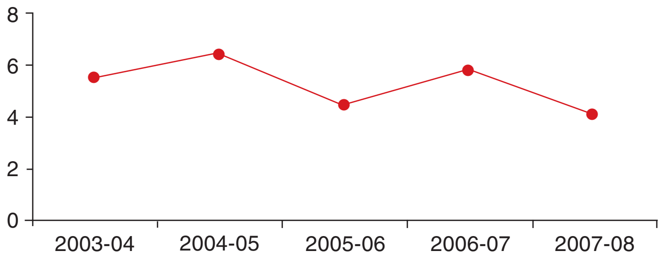



India's GDP at USD 4 trillion in 2006-07 accounted for 6.3 per cent of the global GDP. With current fundamentals in place, India's economy is expected to rank third in the world by 2025. GDP is expected to grow above 8 per cent per annum for the next three years.

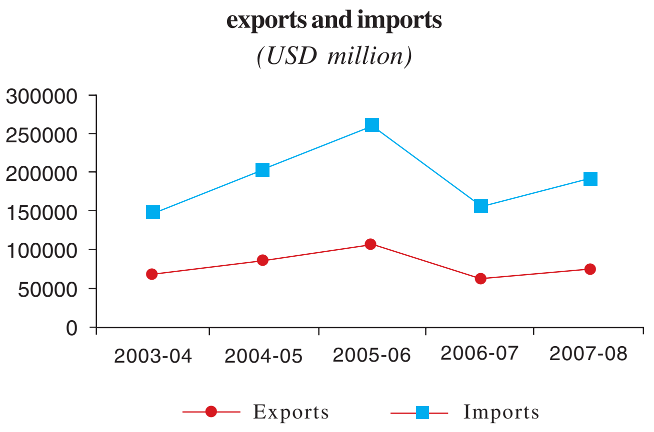
### INFLATION

Rate of inflation has been stable and one of the lowest in the world.

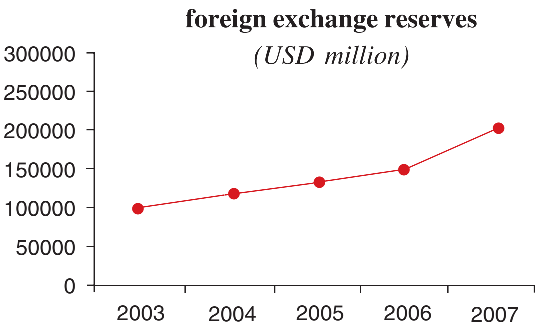
**inflation based on WPI index (%)**



## FOREIGN TRADE




## FOREIGN EXCHANGE RESERVES



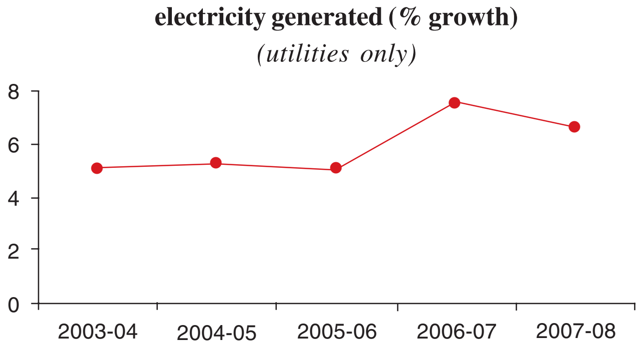

Foreign exchange reserves currently stand at USD 290.8 billion. While USD 47 billion was added by the end of 2006-07, as much as USD 100 billion is expected to be added during 2007-08.

# INFRASTRUCTURE SECTOR

## PORTS

Port development has remained a somewhat neglected area. However, total cargo traffic of all major ports has increased from 423,567 tonnes in 2005-06 to 463,839 tonnes in 2006-07. In 2007-08 (upto Oct' 07), cargo handled by major ports registered a growth of 13.9 per cent as against 9.5 per cent in the corresponding seven months of 2006-07.

## POWER




Electricity generation recorded an upturn with an increase of 7.4 per cent in 2006-07 as compared to 2005-06. It grew at 6.6 per cent during 2007-08.

## ROADS

Road development has been given a high priority and significant investment has gone into the development of national and state highways. The current summary of the network is as follows :

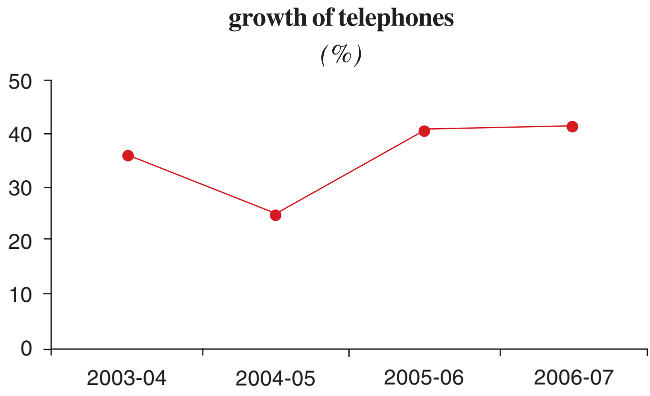
| INDIAN ROAD NETWORK | |
|---|---|
| | Length( Km) |
| Expressways | 200 |
| National Highways | 66,590 |
| State Highways | 131,899 |
| Major District Roads | 467,763 |
| Rural and Other Roads | 2,650,000 |
| Total Length | 3.3 million Kms (approx)* |

**second largest in the world*

## RAILWAYS

Freight load carried in railways increased from 668,000 tonnes in 2005-06 to 726,000 tonnes 2006-07. During April - November 2007, total revenue earning freight grew at 8.2 per cent as compared to 9.19 per cent during the corresponding period of the last year.

## TELECOMMUNICATION




Telecom tariffs have reduced to being amongst the lowest in the world. Tele-density has also increased from 12.7 in March 2006 to 16.8 in December 2006 (per 100 population).

## CIVIL AVIATION

The total cargo traffic at airports has increased from 15.6 per cent in the year 2005-06 to 21.5 per cent in 2006-07, recording a compound annual growth rate of 9.5 per cent for the last six years. During April - October 2007, international and domestic cargo recorded a growth of 13 per cent and 9.8 per cent respectively.

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