Comment

UNION BUDGET 2011-2012

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"This Budget meets the economic challenges... sustained, equitable and inclusive growth, plus a determined effort to cut inflationary expectations"

MANMOHAN SINGH
Prime Minister

"The Budget has not done justice to the common man, woman and youth... it neither mentions unemployment, nor has plans for controlling price rise"

SUSHMA SWARAJ
Leader, Opposition, Lok Sabha

Riding a Fickle Filly Called Growth

The finance minister has been bailed out by growth that cannot be taken for granted, apart from the one-off bounty of 3G spectrum fees. But much more needs to be done to filter growth down to the *aam aadmi*

A Roster of Continuing Failures

By Invite

YASHWANT SINHA
FORMER FINANCE MINISTER & BJP LEADER

EVERY FINANCE MINISTER indulges in some fudging of figures to show a reduced fiscal deficit. But in showing a fiscal deficit of 4.6% of the GDP for 2011-12 compared to 4.8% mandated by the Thirteenth Finance Commission, the FM has indulged in sheer deception — and tried to bury this deception in a lot of verbiage. The fiscal deficit projected in Budget estimates 2010-11 was ₹3,81,408 crore. In revised estimates, it is ₹4,00,998 crore despite the 3G bonanza. The actual deficit for 2009-10 was ₹4,18,482 crore. So, if the fiscal deficit for 2010-11 is 5.1% of GDP instead of 5.5%, the credit doesn't go to expenditure contraction or higher revenues, it goes to the unexpected one-time windfall gain from 3G and the higher growth rate projected for the year. Similarly, the figure for 2011-12 at ₹4,12,817 crore is less than the actuals of 2009-10 and based on completely unsustainable expenditure projections.

The non-Plan expenditure, put at ₹7,35,657 crore in 2010-11, has gone up to a whopping ₹8,21,552 crore. But in BE for 2011-12, it has been pegged at ₹81,61,82 crore, which is entirely unrealistic in absence of major expenditure control measures. Expenditure on subsidies in BE 2010-11 was ₹1,16,224 crore. In RE, it has gone up to ₹1,64,153 crore. In BE 2011-12, it has been put at ₹1,43,570 crore — again an unrealistic figure if one takes into account galloping international crude prices and the increase in fertiliser and food subsidies, specially if the proposed Food Security Bill is implemented. Similarly, the figures on pensions and non-Plan expenditure on social services in BE for 2011-12 are unrealistic and unacceptable. But I do give full credit to Pranab *babu* for having buried the fraudulent budgetary practice started by P Chidambaram to show a lower fiscal deficit by artificially shifting below the line the subsidy expenditure through the issuance of bonds. The GoI's expenditure practices, however, were crying out for other reforms as well. This was a golden opportunity for the FM to rationalise the GoI-run development schemes, radically change their monitoring mechanism and cut out wasteful expenditure. That opportunity has been wasted.

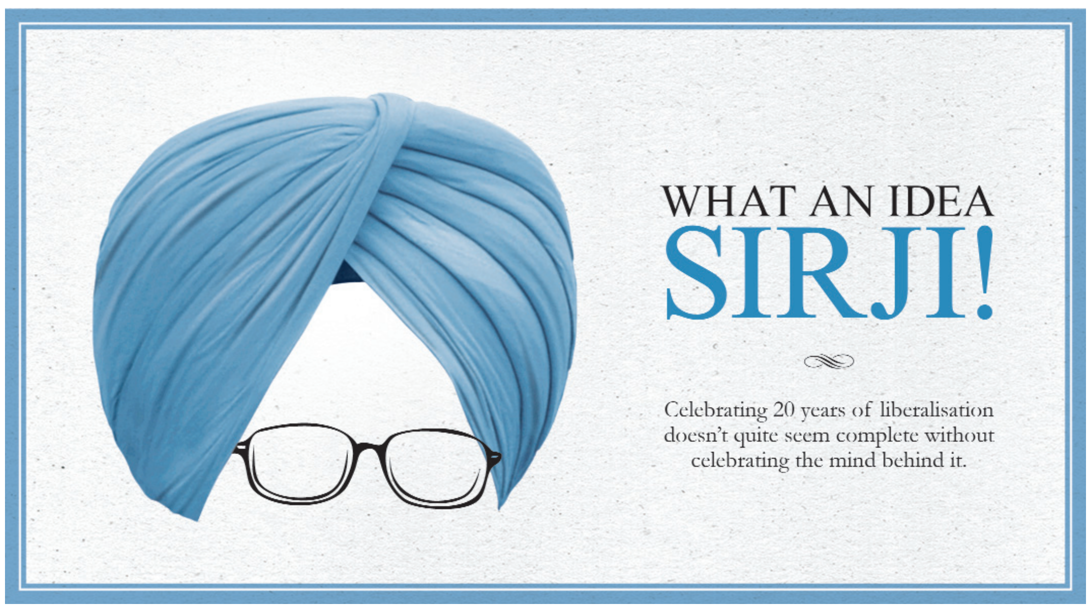
The Budget is highly disappointing on economic reforms. There is nothing new to indicate the FM means business on this front. The proposed legislations are old and already in the pipeline. India ranks a lowly 134 in terms of doing business, according to a recent World Bank report. I'd hoped a mention of this in the Economic Survey would have prompted the FM to deal with this issue more determinedly. Instead, he has brushed it aside. The fact remains that this government is as crippled by coalition *dharma* as far as economic reforms are concerned, as it was in its previous avatar.

On infrastructure, the Budget is a huge disappointment. The FM has not explained why the government is constructing only 4 km of national highways a day, instead of the 20 km announced with fanfare two years ago. Like his predecessor, the FM has only talked about how to finance infrastructure without insisting on physical targets. Everyone knows financing is not the issue in infrastructure; it is implementation. Here, the government has failed miserably.

My biggest disappointment is in the area of rural infrastructure and provision of basic amenities to rural people. An increase of ₹10,000 crore only for Bharat Nirman will be cosmetic. I am not disappointed at the provision of ₹40,000 crore for MGNREGS compared to ₹40,100 crore in the current fiscal year for the simple reason that a huge chunk of this money is wasted. But the FM should have listed the steps he would take to remove the design faults in this scheme and curb corruption. On black money, he has just repeated what is already in the public domain. I wish he had come down more heavily on countries that provide for tax havens and banking secrecy loss.

The FM has been timid on the tax front. On direct taxes, he should have included all the draft provisions dear to his heart in the Direct Taxes Code. On indirect taxes, he should have announced a central GST and put in operation the GST IT network. This would have served as an example for the states. On Customs duties, he has perpetuated the practice of his predecessor of giving concessions for individual items instead of going for systemic improvements.

The biggest problem of the economy, namely inflation, especially food inflation, will not be controlled by the measures in this Budget. Mangaru Manjhi, in Reshaam village of my constituency, will continue to live without road, water, electricity, healthcare and education. All FMs have failed him, including Pranab *babu* and me.



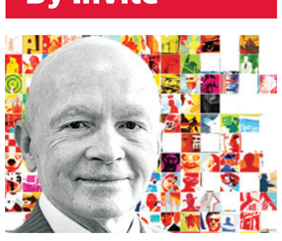
LOWE LINTAS

Manmohan Singh can be called the architect of free market in India. The ad salutes the farsightedness of a man who, in 1991, was mandated to steer India out of a financial crisis. Twenty years on, the Sardar of reforms remains the engine pulling the locomotive of the government

Managing Inflation, Adding Infrastructure Key to Prosperity

The government must expedite tax, labour and education reforms, tackle graft at the institutional level and ensure affordable urban housing

By Invite



MARK MOBIUS
CHAIRMAN, TEMPLETON ASSET MANAGEMENT

IN RECENT YEARS, INDIA HAS been one of the fastest growing economies and navigated the global financial crisis quite well. This was made possible by the inherent strengths of its domestic economy and relatively lower dependence on global demand along with aggressive monetary and fiscal support. However, the backdrop of the Union Budget for the fiscal year ending March 31, 2012, was challenging, faced with headwinds such as high inflation and twin deficits. Also, the series of corruption scandals have raised questions about governance.

India's high growth rate means that consumption in some sectors has risen faster than output, resulting in higher inflation. Inadequate supply has pushed up food inflation as the focus on farm income was not accompanied by increased farm productivity. In response, the government has made removal of bottlenecks in the food sector as a key priority area for 2011-12 and announced new measures such as infrastructure status for cold storage chains to address logistics issues.

Managing inflation without endangering economic growth remains the chief task of the government and the RBI. In the current cycle, the RBI was one of the first central banks to take up monetary tightening, but recently indicated that fiscal stimulus control is required as well to contain inflation.

The fiscal deficit situation had become manageable in the current fiscal year due to the successful 3G spectrum auction, divestment and strong GDP growth leading to buoyant tax revenues. The projection of Centre's fiscal deficit at 4.6% of GDP for the next fiscal year is clearly a positive and the market borrowings estimate for the next year has come in lower than market expectations, despite the hike in social spending. Also, the Budget exercise hinges a lot on keeping fuel subsidy to a minimum and that could be a challenge in the current environment. The introduction of the Food Security Bill may add further pressure on the expenditure side. The implementation of Direct Taxes Code and the goods and services tax could help raise tax revenues over the medium to long term.

Higher global commodity prices pose challenges to India Inc in terms of rising input costs and have an impact on the country's current account deficit, given its dependence on oil imports. In recent months, the trade deficit has moderated due to rising exports, but the current account deficit at close to 3.5% of GDP remains a concern. The government introduced additional measures to ensure that capital flows remain strong, which include allowing foreign individual investors to access equity mutual funds and the $20-billion hike in FII limits for corporate debt exposure to infrastructure.

Managing inflation without endangering growth is the task of the government and the RBI. While the RBI took to monetary tightening, it has indicated that fiscal stimulus control is required as well to contain inflation

Infrastructure creation has been a key focus area for the government and India has announced aggressive plans to push spending to around 9% of GDP over the medium term from the current 5-6%. Some estimates indicate that around $1.7 trillion of financing will be required by 2020 to meet the country's infrastructure needs. On this front, the government has announced measures including financing measures such as creation of infrastructure debt funds and higher FII investment limit in corporate bonds.

As always, the effectiveness of a Budget is in the implementation of policies. The government has realised that spending on information technology would increase effectiveness in tackling leakages. To meet the long-term growth expectations, the government would need to address infrastructural bottlenecks and expedite key reforms in areas such as tax, labour and education. Over the coming years, ability to manage inflation, pushing through institutional reforms for tackling graft and ensuring affordable housing in urban areas will be critical for sustainable growth. If these are addressed, I am confident that we will continue to witness India's incredible economic growth and transformation.

ET COMMENT

MYTHILI BHUSNURMATH

Will the FM Prove Third-Time Lucky?

'HONOURABLE MEMBERS must be wondering why all new projects have been allocated ₹300 crore. It is because number three is lucky for me,' said finance minister Pranab Mukherjee as he presented Budget 2011, his third consecutive Budget in his present stint as the finance minister.

Will what's lucky for the FM prove as lucky for the country? We must fervently hope so because there is little in the Budget to count on for that. There are no big-ticket reform announcements, no attempt to correct the skewed pattern of overseas inflows with portfolio flows dominating foreign direct inflows — on the contrary, the imbalance is set to grow with further liberalisation of portfolio flows — the disinvestment target for the next fiscal year has been kept unchanged at ₹40,000 crore and though there is some move towards fiscal consolidation, the numbers don't add up.

Indeed, as one goes through the fine print of the Budget documents, what is clear is that the finance minister is, once again, betting on growth. How else can one explain the fact that while there is a mention of inflation — 'huge differences between wholesale and retail prices and between markets in different parts of the country are not acceptable' — the focus is on growth? An entire section of the Budget speech devoted to Sustaining Growth with inflation getting only an honourable (?) mention!

What is even clearer is that we will need dollops of luck if that gamble is to pay off and Budget calculations are not to go awry.

The numbers flatter to deceive. Thus, at first glance, the FM appears to have bettered his fiscal deficit/GDP target for the year. But as the Economic Survey presented in Parliament on Friday last points out, the higher nominal gross domestic product (GDP) estimates for the year translate into a fiscal deficit/GDP target for the current fiscal year of 4.8%, not 5.5% as originally estimated in Budget 2010.

Hence, far from besting his fiscal deficit target, the FM has actually fallen short of target. The current fiscal year is expected to end with the fiscal deficit/GDP ratio at 5.1%.

In a year when the exchequer got a huge bonanza from the 3G spectrum auction that raised ₹1,05,000 crore against the Budget estimate of ₹35,000 crore, one would have expected the finance minister to use the opportunity to set government finances in order. Instead, he has opted to underachieve.

He is been more circumspect with the revenue deficit — the excess of revenue expenditure over revenue receipts — the more dangerous of the two deficits as it measures how much government is borrowing to finance its current expenditure. The revenue deficit/GDP ratio is not only well below the Budget estimate of 4.0%, but is also below revised target indicated in the Economic Survey (3.5) after taking into account the higher GDP.

Unfortunately, he does not build on that. On the contrary! Along with inflation, fiscal consolidation seems to have got the back seat. The revenue deficit/GDP ratio for the next fiscal year is projected to remain at 3.4% while fiscal deficit/GDP ratio is projected to come down marginally to 4.6%. Seen in conjunction with the Budget announcement on linking payments under the MGNREGS to inflation and the government's commitment to passage of the Food Security Act, both the deficit numbers seem gross underestimates.

Unless, of course, the FM is third-time lucky and his gamble pays off. But that is a big if! No wonder the market, after shooting up almost 600 points, sobered down to end the day just about 122 points higher!

Sacrificing Equitable Growth for Global Finance Capital

In the name of the *aam aadmi*, the Budget pampers the rich and burdens consumers, and erodes the Indian economy's fundamentals in the process

By Invite

SITARAM YECHURY
MEMBER, POLITBURO, CPM

THIS BUDGET NEITHER ADDRESSES the basic issues confronting the *aam aadmi* like price rise, corruption and black money, nor promotes inclusive growth. The finance minister says inflation is due to 'shortcomings in distribution and marketing systems'. There is no effort to roll back the last Budget's hikes in petroleum duties. There is no reference to prohibiting huge speculative trading in the commodity exchanges. Nor is there is any reference to releasing from central godowns food stocks that are more than double the buffer norm. Any, if not all, of these measures would have eased the pressure on prices.

On the contrary, the burden on the people will increase. Major subsides on fuel, fertiliser and food have been cut by over ₹20,000 crore, compared to the 2010-11 Revised estimates (RE). The budgetary support for the central Plan goes up by only 12%, trailing nominal GDP growth of 14%. This squeeze in real expenditure is reflected in decreased allocations for agriculture and rural development compared to last year's RE. Total non-Plan expenditure is also lower than the RE with major reduction in economic services that include agriculture, industry, power, transport, etc, and social services that include education, health, etc.

There is a relief of ₹11,500 crore in direct taxes, a subsidy to the rich, while there is an additional mobilisation of ₹11,300 crore through indirect taxes, a burden on the consumers. This comes on top of the total tax concessions given last year amounting to over ₹5,11,630 crore. Conceding for a moment the concessions in excise and Customs duties were meant to be a stimulus, the concessions in corporate and personal income tax amounted to ₹1,38,921 crore. This is an additional subsidy to the rich during last year. This Budget, therefore, continues with the philosophy that subsidies to the rich are `incentives for growth while those to the poor are detrimental.

In this background, the proposal to target fuel and fertiliser subsidies through direct cash transfers, apart from excluding large sections of the needy, will adversely impact upon the deepening agrarian crisis.

On tackling corruption, the finance minister typically announced the constitution of a group of ministers! With regard to black money, we are informed that the 'government has put into operation a five-fold strategy that consists of joining the global crusade against black money'! No concrete measures such as reviewing the double taxation avoidance agreement with Mauritius, through which 42% of foreign capital inflows to India are routed. Such channels are the biggest conduits for tax evasion and money laundering.

That such measures are being shirked in order to propitiate international finance capital at the expense of siphoning off huge amounts of our resources becomes apparent with the announcement of moving forward with financial liberalisation, for which seven laws in the financial sector have been announced. It is precisely because the Left prevented UPA-I from undertaking such measures that India could withstand the devastating impact of the global recession. With the now-declared desire to appease international finance capital, India is being rendered vulnerable to global speculative shocks, particularly with India's current account deficit widening.

During the last three years, corporate and personal income tax concessions, according to the budgetary Statement of Revenue Foregone, amounts to a whopping ₹3,61,415 crore. If this revenue were collected and utilised for public investments, we would have been able to build our much-needed infrastructure and generate employment. This, in turn, would have substantially enlarged domestic demand laying the basis for a healthy, sustainable growth trajectory. Instead, the divide between the two Indias is only being widened. Ironically, all in the name of the *aam aadmi*!

In sum, this Budget will only aggravate the widening economic inequalities taking India further away from inclusive growth, while weakening its economic fundamentals.

Budget 2011 continues with the philosophy that subsidies to the rich are 'incentives' for growth while those to the poor are detrimental