

impact on

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UNION BUDGET 2011-2012 WWW.ECONOMICTIMES.COM

Social sector spending boost to ensure aam aadmi associates himself with rising India

India will grow faster at 9% in 2011-12, powered by services & manufacturing sectors

The fiscal deficit will fall to 4.6% in FY12 from 5.1%, the revenue deficit will dip to 1.8%

Kerosene, cooking gas & fertiliser subsidies to be transferred in cash directly by March '12

Overall social sector spending goes up 17%, education & healthcare get 24% & 20% more

VOYAGE FROM '91



Quick rebound to 8% growth a year after the downturn has economists worried if govt is complacent about sustaining this growth without more reforms. But unlike the notorious 4% 'Hindu rate of growth' of the past, 8% is not self-sustaining



...confirming India's rise to the third largest economy in 2050 with a GDP of over...



A recent Citibank study estimates that India could be the second largest economy by 2050

but India also has the largest number of poor People living on less than \$1.25 a day		 and rich are prospering faster than the poor % share in total income Top 20% of population Bottom 40% of population 		
460		60		
450	456	50		
440	5 4	40		53.2
430	4	30 36.7		
420		20 20.2		15.3
410 2 4		10		
400		0		
'81 '87 '93	'99 2005	1993-94	2004-05	2009-10
	urce: World Bank			ource: NCAER
300		3	OUICC. NCAER	

Lower Debt, More Froth

FM needs to be applauded for taking the issue of public debt head-on, and staying the course on tax reforms. But his move allowing more 'fickle' FII investment in infrastructure is a bit of a letdown



MCCANN WORLDGROUP

India lived frugally before 1991. Constraints were many and choices few. The pre-liberalisation era saw serpentine queues for everything - from jobs to two-wheelers. Today, there's a waiting line of a different kind: that of the world looking to come to India. The result: a new India enjoying unprecedented growth and development

what it means for the **economy**

Financial Reforms Get Going

A big push for financial sector reforms, on hold for the last 6 years. Laws to raise overseas investment in insurance to 49% from 26%, hike the share capital of India's largest life insurer, LIC, from ₹5 crore to ₹100 crore are on the anvil. So are two new Bills to create a pension fund regulator and to reform archaic banking laws. Intentions are fine, but will the government have the majority in the Rajya Sabha to push these reforms through?

Divestment to Boost Revenue

The exchequer will end up with ₹22,144 crore after selling stakes in PSUs this fiscal. While stake sales in ONGC and SAIL could happen this year, the proceeds from the SAIL sale could go on the government's books next year. Next year's target is ₹40,000 crore, with stakes of several PSUs including PFC on the block. If successful, these sales could help the FM meet his tight deficit targets.

Big Bucks for Infra Reform

WITH the government's own outlay jumping by more than 23% to ₹214,000 crore, infrastructure is a big gainer. Long term overseas money will also flow in, because the FII market for 5year infrastructure bonds has been quintupled, to \$25 billion per year. Agencies like the Railways and NHAI can issue tax free bonds worth ₹30,000 crore to boost railways, roads, ports and housing. Now, start building.



T K ARUN

Fails to Dazzle but Pushes **Both Growth** and Reform

THE BUDGET LACKS sparkle, but is, on the whole, positive in terms of macroeconomic impact, reform intent and specific sectoral focus. It pushes forward the proposed major tax reforms (the direct taxes code and the goods and services tax), brings down the fiscal deficit and overall public debt to prudent levels and jacks up infrastructure financing. It advances financial reform, with needed laws and separating public debt management from the monetary authority. It also gives specific attention to farm sector investment and marketing. Yet there are two major negatives. One, the Budget opens the door wide to external portfolio investment flows, both into equity and into debt. This is a potential source of major instability. True, the fickleness of foreign institutional investment is hugely exaggerated. Yet it makes little sense to quintuple FII investment into infrastructure debt at a time when a dollar, euro or yen carry trade is the easiest thing to do. The other downside is a raft of export duties on farm produce, which favour domestic industry that uses these products as raw materials, and prevent farmers from benefiting from the global rise in farm commodity prices.



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Towards a Leaner Debt Profile

The government seems to be on track in its mission to reduce public debt as a percentage of GDP. It has set next year's target at 44.2%, much lower that the 52.5% target of the 13th Finance Commission.

A Fine Balance Between Growth and Prudence

By Invite



CRANGARAJAN CHAIRMAN, PM'S ECONOMIC ADVISORY COUNCIL

BUDGET IS WELL THE conceived. It strikes a proper balance between growth and fiscal consolidation. The fiscal deficit for 2011-12 is budgeted to come down to 4.6% of the GDP, from 5.1% this year, which is largely due to strong growth.

Though in absolute terms, the revised estimate of the fiscal deficit is higher than the budget estimate, these figures do indicate that the process of fiscal consolidation is continuing. In fact, it is a slight improvement over the road map suggested by the 13th Finance Commission. However, the revenue deficit remains high. This is so even after allowing for some of the revenue expenditures being treat-

Maintaining Macro Economic Stability

mains a hurdle, though.

In Focus

HE BUDGET seeks to advance macroeconomic stability, by reining in the fiscal deficit to a lower than budgeted level, as a share of GDP for the current fiscal and to 4.6% in 2011-12.

This it manages by cutting overall expenditure as a proportion of GDP: from 15.4% in 2010-11 to 14% in 2011-12. However, capital expenditure by the government is coming down from 13.4% of the total expenditure to 12.7%. So, if growth is to be driven by private sector investment, policy and finance to guide it be-come even more important. The finance bit is being taken care of, particularly for the infrastructure sector through assorted means: raising FII investment in medium term corporate debt for infrastructure five-fold to \$25 billion, enhancement of the foreign in-

vestment cap in insurance, policy, but a positive, from extension of tax sops to some the point of view of removmore sectors by classifying ing or reducing tax exempthem as infrastructure (agri tions and moving closer to storage is straightforward. the ideal of bringing all eco but fertiliser is a stretch), crenomic activity under a uniation of income-tax-exempt form tax regime.

debt funds, tax-free bonds Subsidies are intended to take a hit. While the burden worth `30,000 crore for infrastructure — all this, on top of of major subsidies (oil, fera 23.3 % step-up in the governtiliser and food) went up 42% ment's plan expenditure. from the budgeted level, to nearly `154,000 crore this fis-cal, for the coming year, the Policy on releasing land re-Financial sector reform is government expects this subsidy bill to actually come on, so is major reform of both direct and indirect taxdown 13%. And this cannot es. The minimum alternate be on account of the protax on special economic posed welcome move to cash zones and on units operattransfers in the case of fering in them is unsettling tiliser, kerosene and cooking from the perspective of stagas subsidies, because the bility of announced tax framework for such transregimes and credibility of fers will be ready only by the end of the year. The only way the government can realistically target a lower subsidy outgo is by raising retail petro-fuel prices. This could well happen after the assembly elections of West Bengal,

Kerala and Tamil Nadu. Public sector disinvest ment is on, and at realistic levels. Farm sector reform also gets some well-deserved attention. The potential for volatility of capital flows created by new liberal openness to portfolio flows is the only major drawback from a macropoint of view

Team ET

tiliser subsidies. Some policy ac-tions are implicit in the level of subsidies indicated. The funding requirements of the infrastructure sector are large. We need to find innovative ways of raising resources for implementing infrastruc-

Specialised infrastructure institutions created need to be funded adequately. It is in this context, we must look at the additional scope provided for FII investment. FII inflows into debt instruments are likely to be less volatile. While foreign direct investment is the preferred alternative, we should not shut out other avenues of financing. However, a limit has also been set on the amount of debt. On the whole, I do not feel that these inflows will be disruptive of the economy.

ed as capital expenditures. We

need to give priority to contain-

spect to petroleum prices and fer-

ture projects.

ing the revenue deficit. It is important to focus on some of key expenditures like subsidies, if we have to bring down the fiscal deficit. The total subsidies budgeted for 2011-12 are higher than the Budget estimates of 2010-11 but lower than the revised estimates. It is obvious that the budgeted level of subsidies can be maintained only if some policy actions are taken with re-

Public debt as a share of GDP is eight full percentage points lower than that demanded by the path of fiscal rectitude laid down by the 13th Finance Commission.



₹ 12,16,576 crore TOTAL REVISED GOVT SPEND FOR FY11, UP **18.7% FROM BUDGETED**

₹ 5,11,630 crore REVENUE FORGONE ON EXEMPTIONS IN FY11

Talking Point Public debt as share of GDP below targeted level