

The FM's fine balance: Boosting farm and factory, spending big on the social sector

Farm credit target raised to ₹4.75 lakh crore, interest discount increased to 3%

Manufacturing to grow from 16% of GDP to 25% in 10 years, helped by a new national policy

Discussions started to liberalise FDI policy, no mention of opening up front-end retail

Allocation for flagship NREGA programme flat at ₹40,000 crore, to be hiked if required

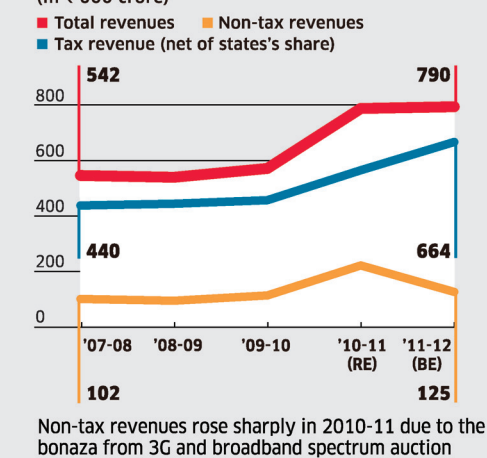
Growth 2.0: Pranab Sings a New Tune

Budget's macro mantra: The route to lower deficits and lower prices is through higher growth, and the new boost to growth will come from a surge in manufacturing

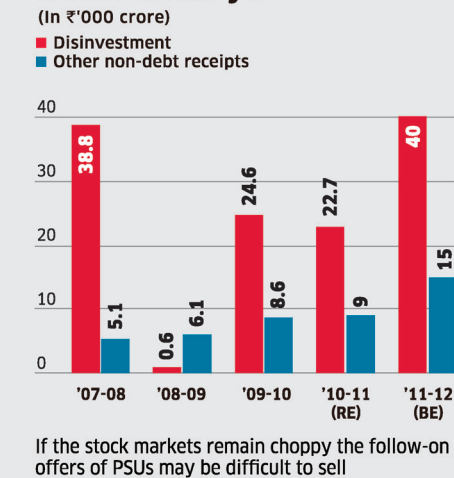
Why Fiscal Adjustment Won't Hurt the Economy

A combination of higher (revised) GDP, high inflation and buoyancy in revenues has helped the finance minister achieve fiscal consolidation without resorting to expenditure cuts. But estimates of expenditure growth are unrealistically low

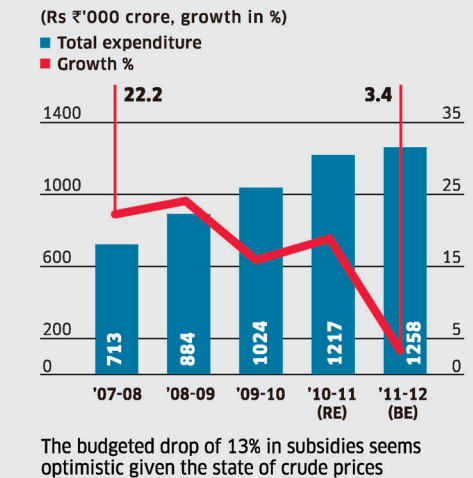
1) Resurgent economy has boosted revenues...



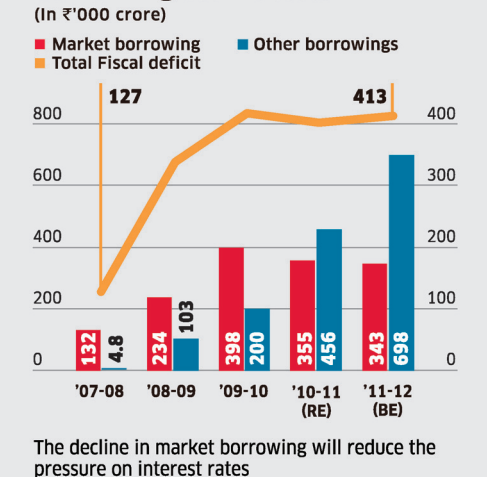
2) ...and disinvestment will also add to the kitty...



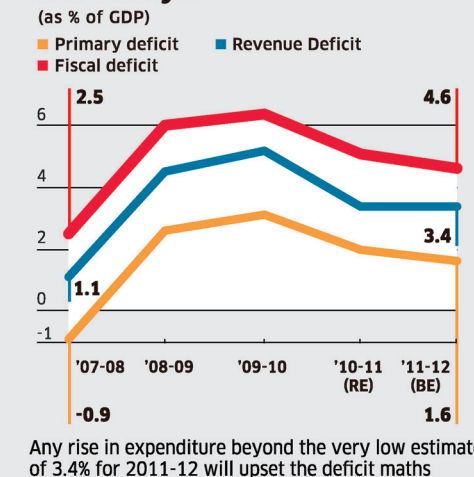
3) ...but spending control targets are ambitious...



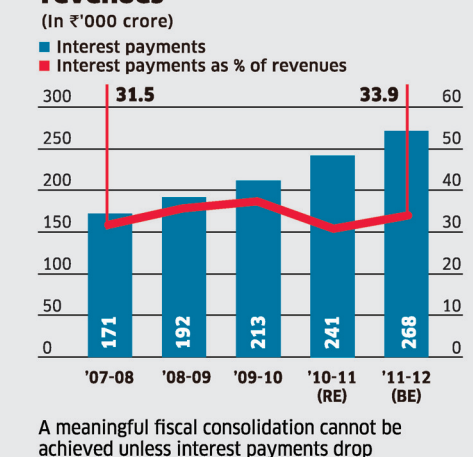
4) ...which have lowered the borrowing estimates...



5) ...and make fiscal consolidation seem easy...



6) ...but interest payments will continue to eat a chunk of revenues



ET EXCLUSIVE Q&A PRANAB MUKHERJEE FINANCE MINISTER

'Amnesty Schemes Cut Both Ways'

Pranab Mukherjee took some definite steps towards fiscal consolidation and reforms in his sixth Budget, but some of his figures represent hope rather than expectation. He avoided issues such as FDI in financial services in his speech but says he would pursue these in a low-key fashion. Edited excerpts from an interview with Swaminathan S Anklesaria Aiyar:

On the fiscal front, there has been a remarkable improvement. You have said fiscal deficit will fall to 4.6% from 5.1%. Without the spectrum bonanza it would actually be 6.3% and you plan to take it to 4.6% next year. But, there is not much change on taxes or spending. How do you propose to do it?

Definitely, it is a very difficult task. The way the Indian economy is growing, there is immense potential. Tax buoyancy estimated at 24% is quite substantial in a growing economy. I have also made some distinctions in different forms of expenditure and clearly spelt what is capital expenditure and what is revenue expenditure. Effective revenue deficit will come down because of this reclassification.



"If I had 272 (MPs) in the Lok Sabha and 124 in the Rajya Sabha, I would not have allowed the bills (on FDI in insurance and pension sectors) to lapse."

Everyone expected you to announce an amnesty scheme for black money... I did not do it for the simple reason that it cuts both ways. Whenever it was done, it created some ripples. In the 70s when I was the revenue minister, a voluntary disclosure scheme was announced. It was one of the most successful schemes. But it was criticised and I was in the dock. There is always an issue with such schemes that you are penalising the honest taxpayer. The measures that we have taken for using the technology and information through international cooperation will enable us to address this problem effectively.

cluding reducing the customs duty and the excise duty when oil prices touched \$140 a barrel. Then it was down to \$50. The high volatility will not allow us to determine the number at this point. That's why I wanted to watch the situation. You have to address this problem. You cannot keep it under cover for long. Policy decision has been taken on diesel deregulation in June itself. In the case of petrol, it has been already done.

Petroleum subsidy is to come down from ₹38,000 crore to ₹23,000 crore. This means either you are hoping an oil glut or you are going to deregulate diesel prices. How exactly are you going to do it?

First of all I did not make any comment on petroleum sector deliberately, except for giving the numbers. I will keep everything transparent. I have not resorted to issuing bonds to keep the subsidy off balance sheet. I have not worked out what would be the ultimate figure. For example, during the crisis of 2008-09, we had to take a series of fiscal measures in-

You have said you will revisit the lapsed bills on FDI in insurance and pension sectors...

As a practical parliamentarian, I will have to go through the process. I cannot do it on my own as I do not have the numbers in Parliament and I will require support of other political parties. If I had 272 (MPs) in the Lok Sabha and 124 in the Rajya Sabha, I would have done it. I would not have allowed the bills to lapse. I have already started talking to political parties.

Factories to Power India's Growth Story in the Coming Decade

In Focus

The New Engine

Share of manufacturing in GDP
16% IN INDIA **40%** IN CHINA

Talking Points
Manufacturing's share has been stagnating between 15% and 16% in last five years

Key Players
At least 70% of the employees in the sector are blue-collar workers

MANUFACTURING WILL contribute a quarter of India's gross domestic product over a decade with the government betting on the sector to power economic expansion and to create jobs for its young population. The commerce and industry ministry will announce a comprehensive manufacturing policy soon to help make Indian industry globally competitive. "We expect to take the share of manufacturing in GDP from about 16% to 25% over a period of 10 years," finance minister Pranab Mukherjee said in his Budget speech. Share of manufacturing in the world's second fastest-growing major economy, after China, stagnated to 15-16% in the last five years. The GDP growth has been led by the services sector that contributed over 50% in the last few years. In China, manufacturing contributes about 40% of the GDP. "The next leap in the growth story has to be led by manufacturing, which will become the growth engine of the economy,"

said Planning Commission member Arun Maira. The Plan panel is working on a white paper that will be published soon for deliberations. "As a thumb rule, we would want manufacturing to grow at a faster pace than the GDP," he said. Unlike services, manufacturing needs a coordinated approach and has to be given an integrated strategy, Maira said. Development of physical infrastructure need to go hand in hand for manufacturing to grow. Just building manufacturing plants making capital goods may not get the desired impact if there are no transport means to get the goods to the market. "The FM has brought the imbalance back into focus and has set a target of 25% for manufacturing," said Amit Mitra, secretary general of industry body Ficci said. "This would require an improvement in the investment climate in the country. Entrepreneurs should have the confidence to invest in plant, equipment and machinery as well as infrastructure," he said. The share of services grew to about 55-60% of the GDP while that of manufacturing stagnated at around 16%, Mitra said.

Auto and power equipment are the areas that are expected to see a significant growth in the coming years. "The nature of employment in the manufacturing sector is different from the services sector. At least 70% of the employees in the manufacturing sector are blue-collar workers whereas in services one needs to be a graduate to get employment," said RC Bhargava, chairman of Maruti Suzuki, India's largest carmaker. India is the second fastest-growing car market in the world after China with sales growing at 30% this year. The push for manufacturing growth is also important from the macro point of view, as it would help boost manufacturing exports that would help curb the soaring current account deficit. A group of ministers has been set up to consider environmental concerns caused by various developmental activities such as infrastructure development and mining, the finance minister said in his speech.

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Direct Payments to Replace Inefficient Fertiliser Subsidy

THE GOVERNMENT HAS SET A March 2012 deadline for kicking off direct payment of fertiliser subsidy to farmers below the poverty line, taking a leap of faith to promote farm sector growth. The cash transfer is likely to be governed by the modalities set by a task force led by Nandan Nilekani that is expected to file its report in June. Currently, the subsidies are paid through fertiliser companies. "As far as we are concerned, this is a dream announcement," said US Awasthi, managing director of fertiliser cooperative Iffco. Direct transfer of subsidy will ease working capital problems faced by the industry

due to delayed subsidy payments by the government. The Budget has set aside ₹49,997.87 crore towards subsidy payments, much lower than last year's revised figure of ₹54,976.68 crore. "The real test will be if the government would extend direct payments in the case of food subsidies. There is no galvanising blueprint for the sector," said Ashok Gulati, Asia head of IFPRI, a think-tank. The Budget has accorded infrastructure status to cold storage and all post-harvest technologies to cut wastage.

Currently, post-harvest losses are estimated at ₹50,000 crore per annum due to poor storage practices. Modern storage infrastructure such as silos have been made eligible for "viability gap" funding. The FM has reduced customs duty on import of all cold storage equipment to 2.5% and exempted cold storage conveyer belts and refrigeration panels from excise duty. "There is an estimated 32 million tonne shortage in storage capacity, requiring investments of over ₹10,000 crore," said Sanjay Kaul, managing director and chief executive of warehousing firm NCMSL.

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Economy Grows 8.2% in Q3 on Good Agri Show

INDIAN ECONOMY EXPENDED 8.2% in the third quarter of the current financial year on the back of robust growth in agriculture and services sectors. The growth number was in line with expectations, but lower than 8.9% growth recorded in the previous two quarters, government data showed. Farm output grew 8.9% over the year-ago period, boosted by strong monsoon rains, while the manufacturing sector experienced a slowdown at 5.6%. The decline in investments, which grew 5.99% in the quarter compared with 17.84% in the previous quarter, remained a concern.

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