Bharat Nirman– A Step Towards Inclusive Growth: Budget 2005

The Indian economy is in a strong resilient mode. The manufacturing sector, industry and service are geared up for a growth momentum. This can only be sustained on a long term basis with a growth of agriculture and rural economy. This article gives a macro view of the economic proposals in the Union Budget – 2005.

—Vinod Jain

In his address to Parliament on the opening of Budget Session 2005, the President of India outlined an overarching vision to build India, called as 'Bharat Nirman'. The *Bharat Nirman* has been conceived as a business plan, to be implemented over a period of four years, the emphasis being Rural India Infrastructure. The concept of *Bharat Nirman* will have six components with following bold targets to be achieved by the year 2009:

- **Irrigation:** Additional one crore hectares under Assured irrigation.
- **Roads:** connect all villages that have a population of 1000 (or 500 in hilly/tribal areas) with a road.
- **Water supply:** Provide drinking water to the remaining 74,000 habitations that are uncovered.
- **Housing**: To construct 60 lakh additional houses for the poor.
- **Rural Electrification**: Reach electricity to the remaining 1,25,000 villages and offer electricity connection to 2.3 crore households; and
- **Rural Telecom:** To give telephone connectivity to the remaining 66,822 villages.

The target will require huge resources and the Government needs to commit itself to garner additional resources on the one hand and to contain wasteful expenditure and overheads on the other. A detailed financial and accounting discipline is necessary to ensure that the resources are channelised in the right direction and are also spent carefully with adequate planning, organizing and control.

The Government should immediately ensure introduction of mandatory double entry modern accounting system to be introduced with the help of Institute of Chartered Accountants of India in all the Government departments at the level of Central Government, State Government, local bodies as well as at the level of Panchayati Raj Institutions which is proposed to be involved in planning and implementation of Bharat Nirman Plan.

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The following economic indicators highlighted by the Economic Survey are to be kept in view while appreciating the backdrop of the Indian economy:

Economic Growth

- The economy registered an overall growth of 6.9% during the year 2004-2005 as compared 8.5% during 2003-04.
- Foreign Exchange Reserves reached to an estimated level of US $ 128.91 billion on February 4, 2005.
- 52-week average inflation rate was 6.4% on February 5, 2005, as compared to 5.5% registered last year.
- Gross domestic savings jumped substantially to the level of 28.1% during 2003-04, with a gross domestic capital formation of 28.7% of GDP.
- The GDP growth was led by growth in manufacturing and service sector while the agriculture sector growth was very nominal. Table 1.1 tracks sectoral real growth rates in GDP during last 8 years.

The author is a Member of the Institute and Convenor of National Economic Forum. He can be reached at vinodjain@inmacsindia.com

Table 1.1 : Sectoral real growth in GDP (at factor cost)

	Item	Percentage change over the previous year							
		1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003 (p)	2003-2004 (Q)	2004-2005 (A)
I.	Agriculture & allied	-2.4	6.2	0.3	-0.1	6.3	-7.0	9.6	1.1
II.	Industry	4.3	3.7	4.8	6.5	3.6	6.6	6.6	7.0
	Mining & quarrying	9.8	2.8	3.3	2.4	2.5	9.0	6.4	5.3
	Manufacturing	1.5	2.7	4.0	7.4	3.6	6.5	6.9	8.9
	Electricity, gas & Water supply	7.5	7.0	5.2	4.3	3.7	3.1	3.7	6.3
	Construction	10.2	6.2	8.0	6.7	4.0	7.8	7.0	6.1
III.	Services	9.8	9.4	10.1	5.6	6.2	7.9	9.1	8.9
	Trade, hotels, transport & communicallor	7.8	7.7	8.5	0.8	9.0	9.8	11.8	11.3
	Financial services	11.6	7.4	10.6	3.5	4.5	8.7	7.1	7.1
	Community, social & personal Services	11.7	10.4	12.2	5.7	5.1	3.9	5.8	6.6
IV.	Total GDP at factor cost	4.8	6.5	6.1	4.4	5.8	4.6	8.5	6.9

P: Provisional *Q: Quick estimates:* *A: Advance estimates:*
Source: Central Statistical Organisation.

International Trade

The buoyancy of merchandise export growth at 25.6% in US dollar terms, after a continuous rise of more than 20% in each of the previous two years reflects a sustained rise in volume of exports. The growth of imports on the other hand @ 33.7% (excluding petroleum and oil products imports) in April–January 2004-05 reflects buoyant domestic demand including for investments, a mildly strengthening rupee in real terms, and greater import liberalisation. The current account balance, after being surplus for three previous years in succession, turned into a deficit in the first half of the current year (April – September, 2004-05).

Even the capital account surplus in April–September 2004 was also down by US $ 1.5 billion as compared to last year. The balance of payment surplus was around US$ 7 billion in the first half of 2004-05, reflecting half what it was in April-September, 2003.

Money Supply

The broad money (M3) grew by 9.5% (net of conversion) in the current year up to January 2005, compared with the high of 16.6% in 2003-04.

Gross Bank Credit

The gross bank credit by Scheduled Commercial Banks increased by 19.9% up to January 2005 compared to 9.3% in the corresponding previous year. Even the non-food credit grew at an impressive 20.1% compared to 11.9% in the same period last year.

Core Industries

The six core industries including electricity, coal, finished steel, cement, crude oil and pharma products, with important forward linkages with the rest of the economy, and having a weight of 26.68 per cent in the Index of Industrial Production (IIP), registered a lower average growth of 5.4% during April–December, 2004. There is a sharp decline in the growth of finished steel. This is a disturbing front, especially in view of buoyant demand for steel in the domestic as well as international markets. Due to poor growth in finished steel production as well as firming up of international steel market an increase in prices of more than 50% was observed during last one year.

The automobile and auto components industry performed well in 2003-04 with an estimated growth of around 20%. The satisfactory trend appears to continue in the current year. For example, the automobile industry increase in the production of total vehicles to 6.2 million in the first 9 months of the current year from 5.2 million in the corresponding period of previous year.

The textile products as well as cotton textile growth rate of 14.8% and 8.3% respectively show an encouraging signal for the first 9 months of the current year. The quota-free world trade regime in textiles from January 1, 2005 is expected to provide further boost to the Indian Textile Sector.

The overall industrial production registered an impressive growth rate of 8.4% in the first 3 quarters of 2004-05, the highest after l995-96. These manufactured goods, capital goods and consumer durables have demonstrated vibrancy by registering double-digit year on year growth rate in each of the first 9 months of the current year except in May 2004 for consumer durables.

The Big Picture

The budgeted revenue and expenditure in the budget can be summarized in table-1.2. The government has proposed the allocation for education in 2005-06 to be Rs.

Table 1.2.

Budget at Glance

(In crore of Rupees)

	2003-2004 Actuals Estimates	2004-2005 Revised Estimates	2005-2006 Budget
1. Revenue Receipts	**263878**	**300904**	**351200**
2. Tax Revenue (net to centre)	*186982*	*225804*	*273466*
3. Non-Tax Revenue	*76896*	*75100*	*77734*
4. Capital Receipts (5+6+7) $	**207490**	**204887**	**163144**
5. Recoveries of Loans	*67265 [1]*	*61565 [1]*	*12000*
6. Other Receipts	*16953*	*4091*	...
7. Borrowings and other liabilities $	*123272*	*139231*	*151144*
8. Total Receipts (1+4) $	**471368**	**505791**	**514344**
9. Non-Plan Expenditure	**349088**	**368404**	**370847**
10. On Revenue Account of which,	*283502*	*296396*	*330530*
11. Interest Payments	*124088*	*125905*	*133945*
12. On Capital Account	*65586 [2]*	*72008 [2]*	*40317*
13. Plan Expenditure	**122280**	**137387**	**143497**
14. On Revenue Account	*78638*	*89673*	*115982*
15. On Capital Account	*43642*	*47714*	*27515*
16. Total Expenditure (9+13)	**471368**	**505791**	**514344**
17. Revenue Expenditure (10+14)	*362140*	*386069*	*446512*
18. Capital Expenditure (12+15)	*109228*	*119722*	*67832*
19. Revenue Deficit (17-1)	**98262**	**85165**	**95312**
	(3.6)	*(2.7)*	*(2.7)*
20. Fiscal Deficit {16-(1+5+6)}	**123272**	**139231**	**151144**
	(4.5)	*(4.5)*	*(4.3)*
21. Primary Deficit (20-11)	**-816**	**13326**	**17199**
	(0.0)	*(0.4)*	*(0.5)*

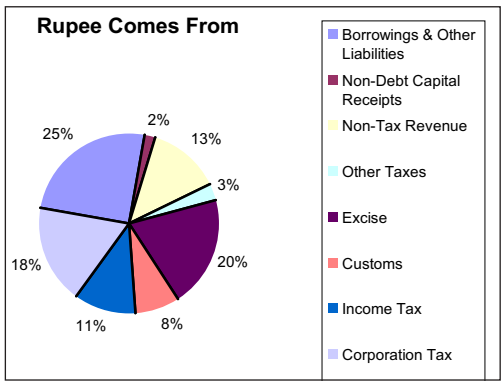
18,337 crores, rural development Rs. 18,334 crores and health and family welfare at Rs. 10,280 crores. (Table1.2)

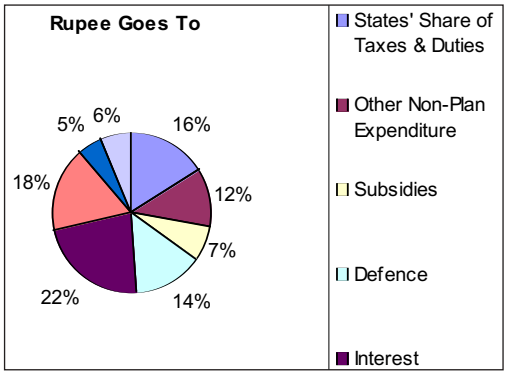
[1]Includes receipts from States on account of Debt Swap Scheme.

[2]Includes repayment to National Small Savings Fund

$ Do not include Rs.60,000 core in BE 2004-05, Rs.65,481 crore in RE 2004-05 and Rs.80,500 crore in BE 2005-06 in respect of Market Stabilization Scheme, which will remain in the cash balance of the Central Government and will not be used for expenditure.

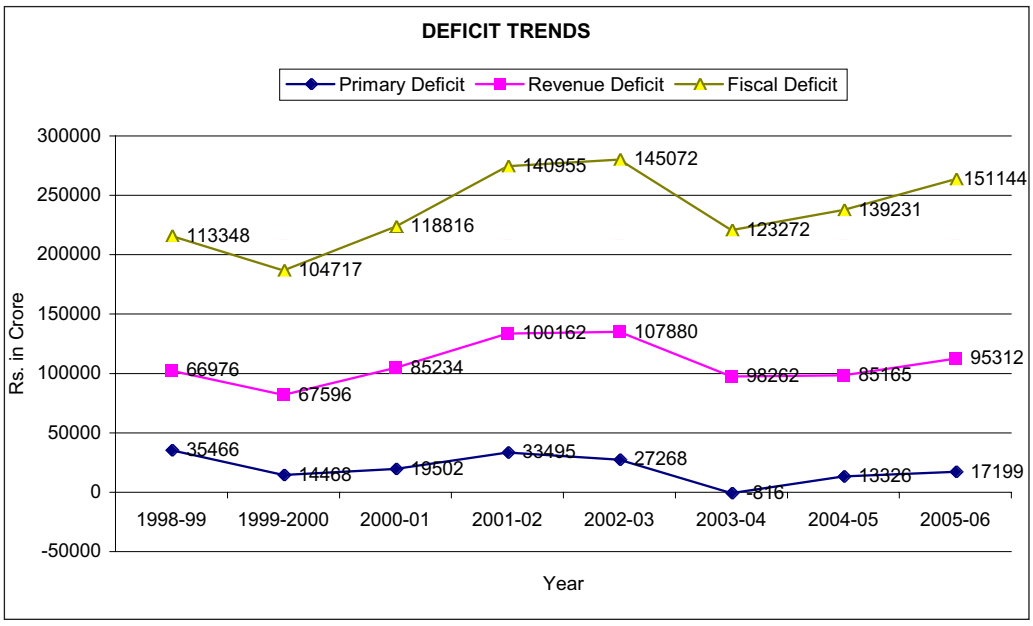
The portion of funding to the States has also changed consequent upon the recommendation of the 12th Finance Commission. Government proposed plan of receipt (graph-1) and expenditure (graph-2) are indicated as the source of rupee and expenditure of rupee by the Government:





Fiscal Consolidation

The Government announced its commitment to wipe out revenue deficit by 2008-09 in compliance of fiscal responsibility and Budget Management Act, 2003. The trend of fiscal deficit, revenue deficit and primary deficit reduction noticed till 2003-04 has been substantially reversed during 2004-05 and it is expected to continue in 2005-06. The following graph in respect of the deficit trends indicate a mammoth and tall agenda for the Government to achieve the target committed by it to the Parliament.



THRUST AREAS

We would now analyse the various important areas outlined by the Budget for the year 2005-06 as thrust areas and proposed steps to achieve the agenda.

PSU Investment: The Government has announced its intention for the growth of public sector along with the private sector and has allocated a sum of Rs. 14,040 crore as equity support and Rs. 3,554 crore as loan to the public sector enterprises during 2005-06. The budgeted disinvestment of the public sector undertakings has been considered as NIL in the Budget, although there has been some announcements in the past about disinvesting minority holding in select PSUs as well as disinvestment of non-profit making PSUs. This appears to be a major change in the policy of the Government over last few years.

Agriculture: The poor growth of 1.1% in the agriculture sector has severely affected the farmers and poor rural population. The finance minister has announced that agriculture being a State subject, the bulk of public investment in agriculture takes place at the State level and the Central Government support to the States act as a catalyst.

The major problem to the agriculture sector has been identified by the Agriculture Research Organizations as the non-availability of adequate and assured irrigation. Although the Government has announced its intention to bring in an additional 1 crore hectare under assured irrigation in next four years. However, the Budget 2005-06 allocation to agriculture sector has been limited to Rs. 100 crore for the pilot project for water bodies, Rs. 4800 crores for the accelerated irrigation program, for completion of truly last mile project and Rs. 400 crores for micro irrigation.

The aforesaid allocation clearly indicates that the Government of India has not allocated any significant resources to any new plans for improving irrigation facilities to the agriculturists and poor farmers. The water linking projects announced by the Government about two years ago has been shelved whereas Water Bodies Development National Project has not taken any shape. Unless adequate investments are brought in to the agriculture sector at the central level the growth of agriculture sector will be very difficult. The announcement for facilitating agriculture diversification and national horticulture mission expenditure of Rs. 630 crores in 2005-06 can only be termed as minor initiative. The initiatives in the area of rural credit, indebtedness and farm finance will not bring any major growth to the agriculture sector in the absence of concrete support of rural infrastructure, assured irrigation and technological development.

Manufacturing: The National Manufacturing Competitiveness Council will design a program for competitiveness of small and medium enterprises. The textile technology upgradation has been allocated a sum of Rs. 435 crores for a 10% capital subsidy scheme coupled with low cost long-term loans.

Sugar industry has been under financial stress since 2001. The moratorium of two years on both principal and interest, re-scheduling of term loan and reduction in the rate of interest to 2% below the bank rate for all existing loans are certain concrete steps taken by the Government.

Small and Medium Enterprises: The Government has identified 108 items for dereservation from the small-scale sector. A SME growth fund with a corpus of Rs. 500 crores

has been established by Small Industries Development Bank of India (SIDBI) for providing equity support to pharma, biotech, IT and other knowledge based industry. The Government has also announced its intention to present a new Small and Medium Enterprises Development Bill during the Budget Session of the Parliament.

The public-private partnership initiative for development of Industrial Training Institutes (ITIs) has been further re-affirmed.

Foreign Direct Investment: The Government has announced its intention to benchmark India with China for promotion of Foreign Direct Investment and has identified particularly mining sector, trade and pension. The Government has further deferred any specific proposals, pending due consultation within the Government.

Infrastructure: Under the National Highway Development Programme 5172 km of National Highway have been 4-laned till January 2005. The Government proposed to launch NHDP-III to four lane 4000 km of National Highway of high density in addition to the Golden quadrilateral or north-south or east-west corridor. In addition to the above Rs. 450 crores will be spent on a special package for highways in the northeastern region. The overall budget for the national highway development has been increased from 6514 crores to Rs. 9320 crores in 2005-06.

It is important to note that the Government is collecting cess on motor spirit (petrol), cess on high-speed diesel oil as well as surcharge on petrol for last 2-3 years for the purpose of National Highway Development and other road projects. The budgeted collection from the aforesaid resources is Rs. 19,684 crores during 2005-06 itself in addition to Rs. 16,189 crores collected during 2004-05 from the cess and surcharge. In comparison to the aforesaid resources specifically collected for the road sector, the budget allocation in 2004-05 of Rs. 6514 crores and during 2005-06 Rs. 9320 crores is too meagre. The Government should not divert resources collected for specific purpose for its non-plan and revenue expenditure.

Special Purpose Vehicle: The Government proposes to establish a Special Purpose Vehicle to finance infrastructure projects in the area of roads, ports, airports, and tourism. This is a novel idea to draw resources from the Foreign Exchange Reserves of the country for the Special Purpose Vehicle. The Special Purpose Vehicle will lend long term funds up to Rs. 10,000 crores to appraised eligible projects during 2005-06 and will also provide a viability support of up to Rs. 1500 crores for funding these infrastructure projects.

This is an important initiative and the Government may consider allocating a part of the resources as equity support to these projects on public – private partnership basis, to promote a number of Joint Venture Infrastructure Projects in the field of roads, ports, airports and tourism. These initiatives can boost the economy substantially. This initiative is a brainchild of the Planning Commission and its success would depend on careful financial planning and accounting discipline.

Financial Sector: The Government has indicated its willingness and legislative support for consolidation and convergence of the banking sector in India so that at least few banks from India are able to emerge among the top 20 in the world. Our largest bank, The State Bank of India, ranks 82 worldwide in terms of business. The competitive strength and technology infusion with large size banks are to be permitted. The Reserve Bank of India is being given wide powers to permit banking companies to issue preference shares to meet BASEL norms, consolidated supervision of banks and its subsidiaries, free movement of SLR and CRR limits and freedom to lend or borrow securities by way of repo, reverse repo or otherwise.

The Pension Fund Regulatory and Development Authority (PFRDA) created by an Ordinance on December 29, 2004 is to be formalised by introduction of a Bill during the Budget Session. This Authority will pave the way for major development in the field of pension for the organized sector as well as unorganized sector.

The Government proposed to offer fairly good flexibility and freedom with a menu of investment choices to the Pension Subscribers. It would require a strong regulatory mechanism to ensure protection of interests of Pension Subscribers.

Capital Market and Derivatives: The Government proposes to legalise over the counter (OTC) derivatives. The trading in derivatives on stock exchanges is proposed to be removed from the definition of speculative business. Also a legal framework for trading in securitised debt including mortgage-backed debt is proposed to be created. The stamp duty on commercial paper is being rationalized. Mumbai is proposed to be developed as a Regional Financial Centre of the World benchmarked to London and Tokyo. Also the

Gold Units are to be introduced by Mutual Fund with Gold as underlined assets. This initiative will move further in the direction of a stronger financial market.

Value Added Tax: The Government has re-affirmed introduction of Value Added Tax in all the States with effect from April 1, 2005. VAT is a modern and transparent tax system proposed to replace existing sales tax and to eliminate the cascading effect of sales tax.

In the medium to long term, the Government has promised that entire production – distribution chain may be covered by a National VAT, or even better, a goods and service tax (GST), encompassing both Centre and States. The VAT implementation is to be done carefully so as to ensure its smooth transition as well as justice to trade and industry.

Conclusion

The Indian economy is in a strong resilient mode. The manufacturing sector, industry and service are geared up for a growth momentum. This can only be sustained on a long-term basis with a growth of agriculture and rural economy. The Government needs to plan larger investments for irrigation and rural infrastructure, besides promoting food and agro industries and concrete initiative in the area of employment generation. The substantial reduction in capital expenditure in the budget from 1.19 lakh crore in 2004-05 to 0.67 lakh crore during 2005-06 indicates an area of great concern. The revenue expenditure has grown on the other hand from 3.86 lakh crore to Rs. 4.46 lakh crore. The reduction in planned capital expenditure by 43% over 2004-05 figure is a matter of serious concern for the whole country.

We cannot achieve growth and sustain it unless the revenue expenditure of the Government is contained and controlled significantly. The increasing burden of tax every year on the economy by bringing in new and new taxes is creating a difficult situation and will hamper the growth and welfare of people. The tax burden cannot be and should not be allowed to go beyond 8% of GDP. The present tax structure would, therefore, require a reduction in the short to medium term, to be coupled with a substantial reduction on the bureaucratic and other revenue expenditure. A Detailed mechanism for double entry accounting, financial and accounting control at Central, State and the local Government levels should be introduced with the help of the profession of the Chartered Accountants so as to achieve the national objective of growth and prosperity by 2020. ■