Union Budget - An Economic Perspective

Finance Minister Shri Pranab Mukherjee presented the Union Budget for 2012-13 recently with an aim to address effectively domestic-demand driven growth recovery, creation of conditions for revival of high growth in private investment, supply bottlenecks in agriculture, energy and transport sectors, malnutrition, improvement of governance and transparency, and black money and corruption in public life. The Budget required addressing those factors in order to accelerate the growth of India, the largest democracy of the world, and to set the direction and pace of its economy. Despite varied opinions, the budget appears to extend a sincere balance between fiscal consolidations and strengthening macroeconomic fundamentals. The author, in the following article, reports on the economic implications of the Budget. Read on…

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The Budget presented by the Finance Minister had to address the top priorities for providing the much required impetus for fuelling the growth of India, the largest democracy and one of the fastest growing economies of the world but he could not full justice to the task as he had the constraints of a coalition government in power. The five objectives identified in the Budget are relating to growth recovery, private investment, supply bottlenecks, malnutrition and governance matters which are quite significant for setting the direction and pace of the Indian economy. While the opposition parties comment that the Finance Minister has missed the bus in not using the opportunity to bring about any major reform, the view that he seems to have made a sincere attempt to strike a balance between fiscal

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consolidation and strengthening macroeconomic fundamentals appears to be an acceptable one.

GDP-Quo Vadis

Although the gross domestic product (GDP) of India grew at the rate of 8.4% during 2009-10 and 2010-11, there is a setback during the current year 2011-12, which is coming to a closure, as the estimated growth is only 6.9%. The Finance Minister is optimistic to project a growth of GDP at 7.6% during the ensuing year 2012-13 and one has to keep one's fingers crossed till it is translated into reality. The twin factors that affected the GDP growth in the current fiscal are attributable to the aftermath of the global crisis and the slowdown due to deceleration in industrial growth in India. The recovery path of Indian economy was punctuated by the intensification of the debt crises in Euro zone, political turmoil in Middle East, rise in crude oil price and earthquake in Japan. Post 2008 global crisis, economies like Brazil and Russia have recorded a not so impressive growth of 3.9% and 1.3% respectively. China, another fast-growing economy and known for achieving two-digit growth rates in GDP in the recent past, is predicting to grow only at 7.5% in the year 2012-13. This mirrors the not-so-favourable climate prevalent in the global environment and, therefore, it makes a lot of sense when the FM is laying focus on domestic demand driven growth recovery.

Fiscal Deficit

The fiscal deficit was 4.7% for 2010-11 and was budgeted at 4.6% for 2011-12. But as per the revised estimates, it is scaling to 5.9% because of a huge jump in subsidies. The fiscal deficit for the year 2012-13 is set at 5.1% of GDP, which is a less ambitious target that appears achievable. The projected estimation of fiscal deficit is at 4.5% for 2013-14 and 3.9% for 2013-14. The road map for the government in this regard is to mop up more revenue by higher indirect taxes, to garner huge amount by spectrum sale and disinvestment and to curb the growth in expenditure.

On account of increased service tax and excise duty from 10% to 12% and a few other measures such as widening the service tax net by prescribing negative list, the increase in indirect-taxes collection will be ₹45,940 crore as against reduction in direct taxes to the tune of ₹4,500 crore leading to a net gain of ₹41,440 crore. It is expected that the gross tax revenue is expected to register a growth of 19.5% in 2012-13. This itself would depend on the economy surging ahead to achieve a GDP growth rate of 7.6%. Further, the expectation is that that the gross tax revenue as a percentage of GDP will be 10.6% in 2012-13 as against the 10.1% in the current fiscal year. The estimation of funds to be mobilised by auctioning of spectrum is ₹40,000 crore and that from disinvestment will be ₹30,000 crore.

While the revenue projections are modest and credible, there are certain uncertainties associated with the auctioning of spectrum in view of the challenges faced by the players in the telecom sector. Similarly, disinvestment will be done subject to the Government retaining its interest and management control at not less than 51% in the PSUs. If both these result in any slippage in realisation of the estimated funds, there would be a phenomenal challenge to make it up by any other source.

Subsidy- Key Factor

As of September 2011, total public debt of India was at 62.43% of GDP, which is significantly larger among emerging economies. Now, the FM has mentioned that the debt-to-GDP ratio will come down to 45.5% in 2012-13 as compared to the Thirteenth Finance Commission target of 50.5%. This is a welcome endeavour to be encouraged and if it is achieved India can boast of a low risk economy, even lower than China where the ratio is abnormally high. But the cause of concern for India lies in the growth of revenue expenditure, particularly, on subsidies.

Out of the total expenditure budgeted at ₹ 14,90,925 crore, the plan expenditure is only ₹5,21,025 crore whereas non-plan expenditure is ₹9,69,900 crore. The growth in the overall expenditure is projected at 13.1% with planned revenue expenditure going up by 21.5% and non-plan revenue expenditure growing by 6.1% thus giving indications that there will be qualitative improvement in spending. This is backed by the move to cap the subsidies at 2% of the GDP in 2012-13 and bring it down to 1.75% in the next 3 years. On the strength of recommendations of the taskforce headed by Shri Nandan Nilekani, a mobile- based Fertilizer Management System has been designed to provide end to end information on movement of fertilisers and subsidies that is expected to be rolled out in 2012. If by this process the leakages can be curtailed and misuse of fertilisers can be prevented. Even other subsidies and welfare payments delivery is experimented through the

Adhaar platform to the intended beneficiaries in limited pilot projects in select districts and the roll out on pan India basis might take longer than expected.

The fuel subsidy assumption of ₹43,600 crore and fertiliser subsidy assumption of ₹61,000 crore appear too low. As against the revised estimate of ₹2.2 lakh crore, the provision of mere ₹1.9 lakh crore for subsidies appears inadequate. Added to this is the promise of the FM that subsidies related to administering the Food Security Act will be fully provided for and all others will be within the overall cap. While the intention is laudable, if there is any derailment in the plan to contain the subsidy, the projections of the fiscal deficit can go haywire.

Infrastructure Development

The importance of infrastructure development has never been felt before as much as it is understood now which is apparent in the Budget announcements. During the 12th plan period, investment in infrastructure will go up to ₹50 lakh crore out of which 50% is expected from the private sector. Tax free bonds of ₹60,000 crore to be allowed for financing infrastructure projects in 2012-13. More sectors have been added as eligible sectors for viability gap funding under the scheme 'Support to PPP in infrastructure". Government has also approved guidelines for establishing joint venture companies by defence PSUs in PPP mode.

There are, no doubt, significant measures for power sector such as tax free fuel imports, easier funding and tax holiday benefits. Fuel starved plants can henceforth import coal and LNG duty free. Similarly, with the ability to access foreign funds which are cheaper than domestic borrowings, they can replace part of the rupee debt by foreign currency loans. The target is that from the present power generation capacity of 1,85,496 MW, the capacity would reach 2,60,496 MW by 2020. The proposed signing of fuel supply agreements between Coal India Limited and power plants having long-term PPAs with DISCOMs and getting commissioned on or before 31st March,2015 is a welcome measure but how far this will resolve the issue of supply bottlenecks needs to be seen.

Then there are problems associated with shortage of domestic coal and natural gas and the inefficiency in state-run distribution companies resulting in non-payment of huge amounts to power producing companies have not been addressed at all. India has enough reserves of coal but it is helplessly turning out to be huge importer of coal thanks to the licence raj in the system and inefficiency of Coal India. Besides, the power producers are handicapped not to renegotiate contracts if there is increase in the fuel costs. All these issues need to be holistically considered and resolved to achieve self sufficiency in power generation and distribution.

On the development of road infrastructure, as against 71,772 km stretch laid so far, the target is to lay roads to reach the extent of 85,000 km length by 2020. To set this in motion, the target for the ensuing year is to cover a length of 8,800 kilometres under the NHDP. Allocation of the Road Transport and Highways Ministry is enhanced by 14% to ₹25,360 crore. But the ground reality is that the problems associated with land acquisition and timely distribution of compensation devoid of litigation result in delay in the execution of the projects which needs to be sorted out and streamlined.

In terms of facilitating the accessing of the global markets, external commercial borrowings (ECBs) are proposed to be allowed for capital expenditure on the maintenance and operations of toll systems for roads and highways, if they are part of the original project. The ECBs will also be permitted for working capital requirement of airline industry for a period of one year, subject to a total ceiling of $1 billion. This measure is bound to benefit Kingfisher Airlines, Air India and Jet Airways which are apparently reeling under cash crunch and liquidity crisis. Coupled with this is the proposal to allow the FDI to participate up to 49% in the equity an

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air transport undertaking. Similarly, as part of various steps to promote housing for low income groups in the major cities and towns, ECBs shall be allowed for low-cost housing projects. While these measures are laudable, the pace at which these could be translated into reality will determine the impact of the fruits flowing into the economy.

Agriculture Sector

India which was once considered to be predominantly an agricultural segment dominated nation has now relegated it to the last position after service sector and manufacturing sector in terms of contribution to GDP. Lack of adequate power supply, absence of water resource due to poor irrigation facility and the non-provision of infrastructure to rural areas cumulatively led to the deterioration of the efficiency and productivity of the agricultural sector. Yet another saddening dimension is the fact that more than 25% of the agricultural produce perishes without consumption due to absence of proper transportation, warehousing and cold chain facility across the country. Farmers are deprived of proper funding, a good price fixation mechanism and are not empowered with modern methods of cultivation thanks to the indifference of the Government for a considerable period of time. The compelling dependence on monsoon crops and when the monsoon fails the consequential inability to repay loans have been leading to inevitable tragic alarming rate of suicides among the farming community.

In this budget, there are many measures to promote agriculture and support the farmers which are quite heartening. The plan outlay for the Department of Agriculture and Co-operation is increased by 18% and outlay for *Rashtriya Krishi Vikas Yojana* (RKVY) has been increased to ₹9,217 crore in 2012-13. The target for agricultural credit has been raised by ₹1,00,000 crore to ₹5,75,000 crore in 2012-13. Interest subvention scheme for providing short term crop loans to farmers at 7% interest p.a. will be continued in 2012-13. Further, additional subvention of 3% will be available for prompt paying farmers. Kisan Credit Card (KCC) scheme will be modified to make KCC a smart card which could be used at ATMs.

Structural changes are being made in Accelerated Irrigation Benefit Program (AIBP) in order to maximise flow of benefit from investments in irrigation projects. The allocation for AIBP for the year 2012-13 has been stepped up by 13% to ₹14,242 crore. Yet another important initiative is the operationalisation of an irrigation and water resource finance company to mobilise large resources to fund irrigation projects. Besides, steps are being taken to create additional food grain storage capacity in the country. A new centrally sponsored scheme titled *National Mission on Food Processing* will be started during the ensuing year in co-operation with the State Governments. Hopefully, all these measures should provide the much required fillip to the agricultural sector and accelerate its growth.

If only the State Governments can also participate in these initiatives and focus on the development of Agricultural Sector within each State it would augur well for the nation. An average Indian farmer is not getting the benefits of large scale farming and modern methods of cultivation. Most of the agricultural lands are turning into real estate land banks and getting converted into non-agricultural lands for commercial purpose and use. This indirectly induces migration of considerable population to urban areas which are already chocking in terms of density of habitations, pollution and lack of infrastructure commensurate with expansion in terms of geographical spread and population explosion. If each State Government can ensure consolidation and preservation of agricultural lands, facilitate combined large scale farming with

modern implements and tools, determine proper price fixation that flows to the kitty of the farmers directly without any intermediaries taking a cut out of it, we can pave way for another green revolution and demonstrate to a section of the population that agriculture is after all a viable and vibrant occupation to be associated with. This would also facilitate the realisation of dream of Dr. A. P. J. Abdul Kalam in implementing PURA (Providing Urban Amenities in Rural Areas) and turn it into a feasible reality.

Industrial Development

The National Manufacturing Policy announced with the objective of raising the share of the manufacturing in GDP to 25% and creating of 10 crore jobs within the next decade is commendable and one hopes that the RBI too, in the next policy announcement announces cut in the interest rates to supplement the upcoming investment climate. But, the constraints of carrying on business in the Indian environment certainly requires deeper introspection in view of supply chain bottlenecks inter-se the States or otherwise, deep rooted corruption in the system all around and unemployable youth emerging out of universities and educational institutions. No doubt there are ongoing measures and announcements in this budget to promote education, skill development and a promise on a white paper on black money. But the perils emanating from these social issues remaining unaddressed for quite some time require immediate attention and need to be tackled on a war footing.

Conclusion

If the keenness of the FM to bring in many reforms through legislative changes or otherwise is apparent, the fact that he is not able to succeed in that endeavour so far in the light of the constraints of electoral democracy

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and federal considerations is self-evident. This is reflected in the budget speech wherein FM mentions that efforts to arrive at a broad based consensus in consultation with the State Governments in respect of decision to allow FDI in multi-brand retail up to 51%. Even the task of bringing in GST into effect, though long overdue, is kept in abeyance due to lack of such consensus.

The hiking of both the service tax and excise duty would augment revenue in the short run but would certainly lead to inflation in the long run and would also affect both consumption ability and savings capacity of the *aam aadmi*. It might prove to be counterproductive in inducing the domestic demand driven growth. There could be then the difficulty in achieving the targeted GDP growth rate which in turn might make the target of fiscal deficit slip like it happened this year. The evolution of the approach to divestment of Central Public Sector Enterprises by allowing them a level playing field *vis-à-vis* the private sector in respect of practices like buy back of shares and listing at stock exchanges should help the Government to mobilise more than targeted amount if methodically attempted.

Frankly speaking, an average Indian is no longer worried about *fiscal deficit* or *revenue deficit*, and not even the newly coined jargons *Effective Revenue Deficit* and *Medium Term Expenditure Framework*. He is truly concerned about the political deficit that is engulfing the nation preventing it from emerging out as a strong economic power in the comity of nations. We have excellent pool of natural resources, enviable human resources and perfect demographic composition to turn out to be human talent hub for the rest of the world but what we continue to crave for visionary leadership at all levels with absolute patriotism. May be India needs to be liberated from politicians and taken over by statesmen to lead the country. Let us hope that this transformation is in the offing in the not so distant future and the people of India including those in public life would ponder about and act swiftly and deftly in the process of building a credible economy in this incredible India. ■