

## Budget FY12: A populist budget that also talked about reforms and fiscal consolidation

The budget presented a few hours back by Finance Minister Pranab Mukherjee was a populist budget focused on rural sector with increased plan capital expenditure. It emphasized on reining expenditure for fiscal consolidation with fiscal deficit for FY12 budgeted at 4.6%, lower than consensus expectation. For FY11, fiscal deficit was lowered to 5.1% vs 5.5% budgeted. Inflation remained a prime concern as it affects 'aam admi' and budget addressed the supply side constraints of agriculture sector. FM also emphasized on reforms (DTC, GST, FDI etc) and initiatives to deal with corruption.

### Highlights of the budget

- According to FM, Budget 2011-12 to serve as a transition towards a more transparent and result oriented economic management system in India. Structural concerns on inflation management to be addressed by improving supply.
- Direct Taxes Code (DTC) to be effective from April 1, 2012. Goods and Services Tax (GST) Bill proposed to be introduced in this session of Parliament.
- Rs 40,000 crore to be raised through disinvestment in 2011-12.
- To tackle the food inflation various initiatives taken that include: green revolution, development of pulses villages, vegetable clusters, promotion of Protein based food production, agriculture credit, improvement in storage capacity etc.
- Share of manufacturing in GDP expected to grow from about 16% to 25% over 10 years. Govt will come out with manufacturing policy. FDI policy to be liberalised. Capital investment in fertiliser production proposed to be included as infrastructure sub-sector.
- Five fold strategy to be put into operation to deal with the problem of generation and circulation of black money.
- Inclusive growth was emphasized. UID mission will help in direct delivery of cash subsidy. From Oct, ten lakh Aadhaar numbers will be generated per day.
- FII allowed to invest in mutual funds. FDI in MFs expected. But 30% tax on income distributed by MFs

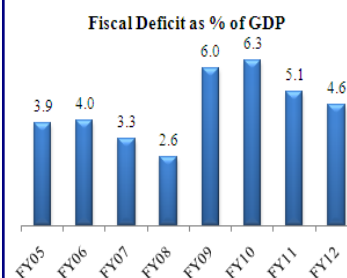
### Tax initiatives

- Exemption limit for individual taxpayers enhanced from Rs 1,60,000 to Rs1,80,000 giving uniform tax relief of Rs 2,000. Additional deduction of Rs 20,000 for infra bonds.
- Current surcharge of 7.5% on domestic companies proposed to be reduced to 5%. MAT increased from 18% to 18.5%.
- Tax incentives extended to attract foreign funds for financing of infrastructure. FII limit on corp bonds increased by Rs 20,000 cr.
- Excise Duty exemption for domestic suppliers producing capital goods needed for expansion of existing mega or ultra mega power projects.
- Several new services under the service tax net.
- Proposals relating to Direct Taxes estimated to result in a revenue loss of Rs 11,500 cr and those to Indirect Taxes estimated to result in net revenue gain of Rs 11,300 cr.

### Bottomline:

- It was a tough job for Pranab Mukherjee to balance increased support for agriculture, education, health, rural sector while reducing deficit to curb inflation.
- Expenditure increased by only 3.4% in FY12 that showed Govt resolve in curbing deficit. Although plan capital expenditure was increased, non-plan capital expenditure sharply declined and thereby overall capital expenditure came lower than FY11. This may not be good for infrastructure deficient country like India.
- Also, without some serious reforms, it will be difficult to lower the subsidy bill as budgeted. High crude oil price will increase oil subsidy unless both Petrol and Diesel prices are deregulated. If Food Bill is introduced, the food subsidy will be much higher.
- Market did immediately cheer the budget on Govt's initiatives on agriculture, tax policies, fiscal consolidation but later on gave up some gain on concern of Govt's ability to meet the expenditure target without overshooting.

### Economy Update



**Fiscal Deficit for FY11 at 5.1% of GDP vs 5.5% budgeted; for FY12, fiscal deficit at 4.6% of GDP**

- Fiscal deficit for FY11 improved on higher auction revenues and increased nominal GDP despite expenditure for FY11 increasing by 19% yoy as against budgeted 8.5%.
- Compared to last fiscal, expenditure for FY12 is budgeted to increase at mere 3.4%, slowest in last several years. Within expenditure, plan expenditure is increased but non-plan expenditure declined due to sharp decline in non-plan capital expenditure. Non-plan revenue expenditure for FY12 remained almost at the same level. The overall capital expenditure for FY12 actually declined by 1.4%.
- Nominal GDP for FY12BE has been projected at 14% yoy.

(करोड़ रुपए) (In crore of Rupees)

	2009-2010 Actuals	2010-2011 Budget Estimates	2010-2011 Revised Estimates	2011-2012 Budget Estimates
<b>1. Revenue Receipts</b>	<b>572811</b>	<b>682212</b>	<b>783833</b>	<b>789892</b>
2. Tax Revenue (net to centre)	456536	534094	563685	664457
3. Non-Tax Revenue	116275	148118	220148	125435
<b>4. Capital Receipts (5+6+7)*</b>	<b>451676</b>	<b>426537</b>	<b>432743</b>	<b>467837</b>
5. Recoveries of Loans	8613	5129	9001	15020
6. Other Receipts	24581	40000	22744	40000
7. Borrowings and other liabilities*	418482	381408	400998	412817
<b>8. Total Receipts (1+4)*</b>	<b>1024487</b>	<b>1108749</b>	<b>1216576</b>	<b>1257729</b>
<b>9. Non-Plan Expenditure</b>	<b>721096</b>	<b>735657</b>	<b>821552</b>	<b>816182</b>
10. On Revenue Account				
of which,	657925	643599	726749	733558
11. Interest Payments	213093	248664	240757	267986
12. On Capital Account	63171	92058	94803	82624
<b>13. Plan Expenditure</b>	<b>303391</b>	<b>373092</b>	<b>395024</b>	<b>441547</b>
14. On Revenue Account	253884	315125	326928	363604
15. On Capital Account	49507	57967	68096	77943
<b>16. Total Expenditure (9+13)</b>	<b>1024487</b>	<b>1108749</b>	<b>1216576</b>	<b>1257729</b>
17. Revenue Expenditure (10+14)	911809	958724	1053677	1097162
18. Of Which, Grants for creation of Capital Assets		31317	90792	146853
19. Capital Expenditure (12+15)	112678	150025	162899	160567
<b>20. Revenue Deficit (17-1)</b>	<b>338998</b>	<b>276512</b>	<b>269844</b>	<b>307270</b>
	(5.2)	(4.0)	(3.4)	(3.4)
<b>21. Effective Revenue Deficit (17-18)#</b>		<b>245195</b>	<b>179052</b>	<b>160417</b>
		(3.5)	(2.3)	(1.8)
<b>22 Fiscal Deficit {16-(1+5+6)}</b>	<b>418482</b>	<b>381408</b>	<b>400998</b>	<b>412817</b>
	(6.4)	(5.5)	(5.1)	(4.6)
<b>23. Primary Deficit (20-11)</b>	<b>205389</b>	<b>132744</b>	<b>160241</b>	<b>144831</b>
	(3.1)	(1.9)	(2.0)	(1.6)

**Net and gross market borrowings are less than market consensus**

As seen in the table below, the net borrowing for FY 11 was budgeted at Rs 3.43 lakh cr and gross market borrowing would be Rs 4.17 cr. There are no off-budget items for FY11.

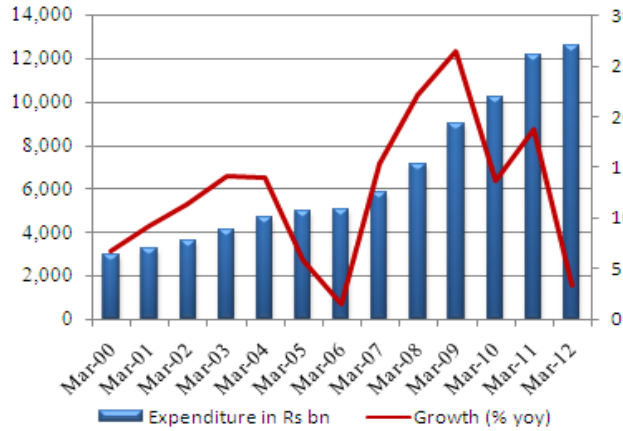
(In crores of Rupees)

	Actual 2002-2003	Actuals 2003-2004	Actuals 2004-2005	Actuals 2005-2006	Actuals 2006-2007	Actuals 2007-2008	Actuals 2008-2009	Actual 2009-2010	Revised 2010-2011	Budget 2011-2012
<b>1. Internal Debt-Market Borrowings(Net)</b>	<b>97588</b>	<b>88860</b>	<b>46031</b>	<b>95374</b>	<b>110446</b>	<b>131768</b>	<b>233630</b>	<b>398424</b>	<b>355414</b>	<b>343000</b>
1.01 Gross Market Borrowings	125000	135934	80350	131000	146000	168101	273000	451000	447000	417128
1.02 Less - Repayments	27412	47074	34319	35626	35554	36333	39370	52576	111586	74128

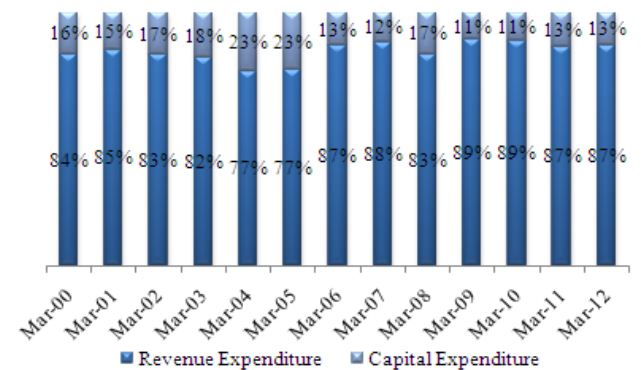
**Budget – in Charts**

**Total Expenditure growth at 3.4% yoy is much lower than last 10 yr average of 14%**

**Total Expenditure budgeted to grow at a low 3.4%**



**Share of Capital expenditure remained almost flat but growth declined - negative for infrastructure deficient economy like India**

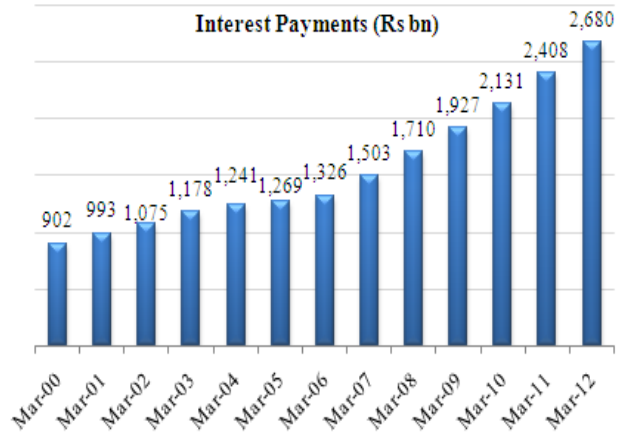


**Interest payment, subsidy and defense are big-ticket items of Non-plan expenditure**

**Non-plan expenditure accounts for 65% of total; Share of Plan expenditure increased**

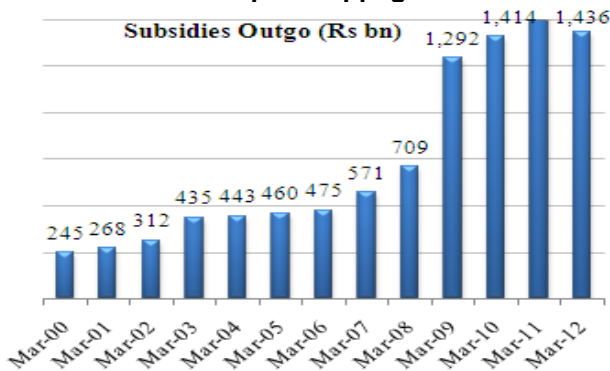


**Int payment is 37% of Non-plan Rev expenditure**



**Subsidy bill in FY11 increased by Rs 480 bn (41% yoy) from the budgeted estimate**

**Subsidies budgeted lower in FY12; without reforms expect slippage**



**High oil price and introduction of food bill increases possibility of higher Oil-Food subsidy**

