

## Budget FY11: 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 capital expenditure. It emphasized on sustaining growth with calibrated exit strategy from fiscal stimulus. *Most important, it laid out the road map for fiscal consolidation with fiscal deficit for FY11 budgeted at 5.5% vs 6.7% in FY10.* The combined deficit at 8.1% of GDP in FY11 compared with 9.8% of GDP in FY10.

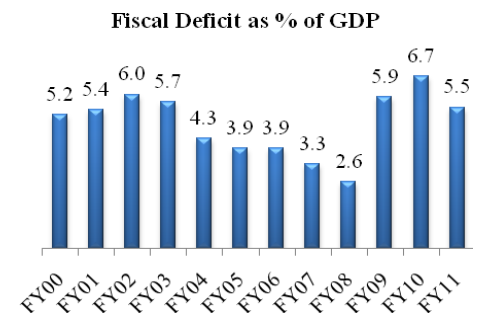
### Highlights of the budget

- Budget focused on Rural and Infra sectors. Planned allocation for infrastructure increased by 46% to 1.74 trillion. The budget talked about implementation of various reforms like GST, Direct tax.
- Net tax revenue collection expected to increase to 7.7% of GDP in F2011 from 7.5% in F2010 on account of recovery in growth, partial roll back of indirect tax stimulus (by 2%). Increase in indirect taxes will result in revenue gain of about Rs 400 bn and there will be revenue loss of Rs 200 bn from Direct taxes.
- Total expenditure increased by 8.6% yoy. Compared to last fiscal, the govt will cut expenditure to GDP by 0.5 ppt in F2011. No off-balance sheet items (like oil bonds) announced.
- The shortfall in revenues is being met by divestment and 3G license. The budget is targeting about Rs 400 bn (0.6% of GDP) in divestments compared with Rs 250 bn (0.4% of GDP) in FY10. Moreover the government should be able to collect potentially about Rs 350 bn (0.5% of GDP) from 3G license fees.
- The government has also accepted several recommendations by the 13<sup>th</sup> Finance Commission which presented a fiscal roadmap for fiscal and revenue deficit for the period FY2010-F2015. The govt has committed to cut the fiscal deficit to 4.8% of GDP in FY2012 and further to 4.1% of GDP in FY2013.
- In FY2011, the government's gross market borrowing will be Rs 4,571 bn compared with Rs 4,510 bn and net market borrowing program will be reduced 13.4% to Rs 3,450 bn.

### Bottomline:

- The finance minister failed to take some of the painful reforms needed at this junction and focused more on inclusive growth. But it is still a step in the right direction.
- Increased spending in rural and infra are highly plausible. But FM missed the opportunity to take some structural steps to lower deficit.
- The revenue target seems reasonable but there may be some pressure on expenditure.
- Budget also gives considerable boost to consumption as individual get more disposable income in their hand. This will result in higher demand.
- Higher input costs and higher demand is feared to keep inflation high for longer duration. This might cause RBI to respond more aggressively resulting in interest rate to move up.

### Economy Update



### Fiscal Deficit for FY11 at 5.5% of GDP compared to 6.7% in FY10

Fiscal deficit decreased due to increased revenues and also higher GDP.

- Compared to last fiscal, expenditure increased by 8.5%. The good news is that capital expenditure increased by 30%. Both Rural and Infra sectors got more focus. Tax buoyancy due to higher growth, partial roll back of indirect tax helped increase revenues.
- Interest payments increased and now account for 39% of Non-plan revenue expenditure vs 36% in FY10.
- Nominal GDP for FY11BE has been projected at 12.5% yoy.

Rs Cr	2008-2009 Actuals@	2009-2010 Budget Estimates	2009-2010 Revised Estimates	2010-2011 Budget Estimates	% yoy Growth FY11 over FY10
<b>1. Revenue Receipts</b>	<b>540259</b>	<b>614497</b>	<b>577294</b>	<b>682212</b>	18.2
2. Tax Revenue (net to Centre)	443319	474218	465103	534094	14.8
3. Non-tax Revenue	96940	140279	112191	148118	32.0
<b>4. Capital Receipts (5+6+7)</b>	<b>343697</b>	<b>406341</b>	<b>444253</b>	<b>426537</b>	-4.0
5. Recoveries of Loans	6139	4225	4254	5129	20.6
6. Other Receipts	566	1120	25958	40000	54.1
7. Borrowings and other Liabilities	336992	400996	414041	381408	-7.9
<b>8. Total Receipts (1+4)</b>	<b>883956</b>	<b>1020838</b>	<b>1021547</b>	<b>1108749</b>	8.5
<b>9. Non-plan Expenditure</b>	<b>608721</b>	<b>695689</b>	<b>706371</b>	<b>735657</b>	4.1
10. On Revenue Account of	559024	618834	641944	643599	0.3
11. Interest Payments	192204	225511	219500	248664	13.3
12. On Capital Account	49697	76855	64427	92508	43.6
<b>13. Plan Expenditure</b>	<b>275235</b>	<b>325149</b>	<b>315176</b>	<b>373092</b>	18.4
14. On Revenue Account	234774	278398	264411	315125	19.2
15. On Capital Account	40461	46751	50765	57967	14.2
<b>16. Total Expenditure (9+13)</b>	<b>883956</b>	<b>1020838</b>	<b>1021547</b>	<b>1108749</b>	8.5
17. Revenue Expenditure (10+14)	793798	897232	906355	958724	5.8
18. Capital Expenditure (12+15)	90158	123606	115192	150025	30.2
<b>19. Revenue Deficit (17-1)</b>	<b>253539</b>	<b>282735</b>	<b>329061</b>	<b>276512</b>	-16.0
% of GDP	-4.5	-4.8	-5.3	-4	-1.3
<b>20. Fiscal Deficit {16-(1+5+6)}</b>	<b>336992</b>	<b>400996</b>	<b>414041</b>	<b>381408</b>	-7.9
% of GDP	-6	-6.8	-6.7	-5.5	-1.2
<b>21. Primary Deficit (20-11)</b>	<b>144788</b>	<b>175485</b>	<b>194541</b>	<b>132744</b>	-31.8
% of GDP	-2.6	-3	-3.2	-1.9	-1.3

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

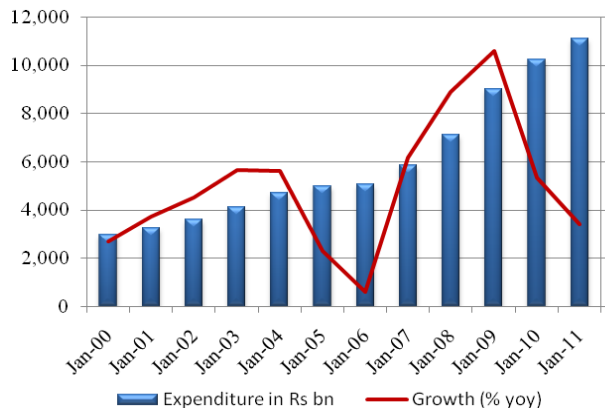
- As seen in the table below, the net borrowing decreased to Rs 3.45 tn from Rs 3.98 tn but gross market borrowing increased due to higher repayment. There are no off-budget items for FY11.

Rs Cr	Actuals 2007-2008	Actual 2008-2009	Revised 2009-2010	Budget 2010-2011
<b>CAPITAL RECEIPTS</b>	197,978	299,863	449,833	426,537
<b>1. Internal Debt-Market Borrowings(Net)</b>	<b>131,768</b>	<b>233,630</b>	<b>398,411</b>	<b>345,010</b>
1.01 Gross Market Borrowings	168,101	273,000	451,000	457,143
1.02 Less - Repayments	36,333	39,370	52,589	112,133
<b>2. External Assistance(Net)</b>	9,315	11,015	16,535	22,464
2.01 Gross External Borrowings	16,808	21,022	27,766	34,735
2.02 Less Repayments	7,493	10,007	11,230	12,271
<b>3. Recovery of Loans</b>	5,100	6,139	4,254	5,129
<b>4. Small Savings(Net)</b>	-11,302	-1,302	13,256	13,256
<b>5. State Provident Funds(Net)</b>	3,897	8,041	8,500	7,000
<b>7. Disinvestment of equity</b>	38,795	566	25,958	40,000
<b>8. Other items of Capital receipts(Net)</b>	20,405	41,774	-17,081	-6,321
<b>TOTAL- RECEIPTS</b>	<b>739,842</b>	<b>839,935</b>	<b>1,027,127</b>	<b>1,108,749</b>

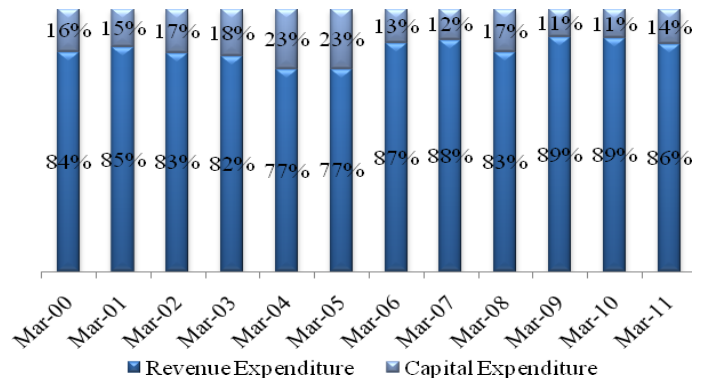
**Budget Expenditure at a Glance**

**Total Expenditure went up at lower rate compared to long term average**

**Total Expenditure grew at a lower rate**

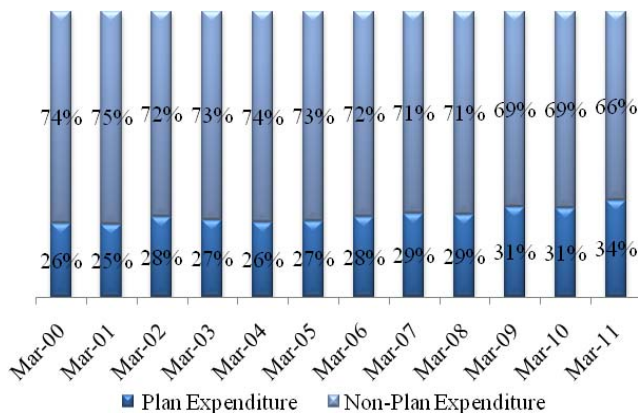


**Capital expenditure increased- positive for infrastructure deficient economy like India**

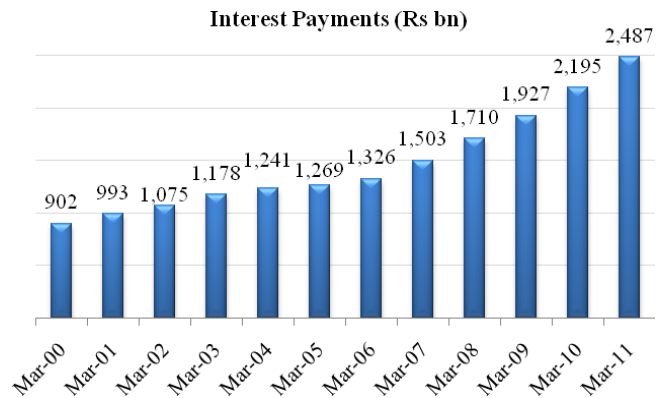


**Interest payment, subsidy and defense are big-ticket items of Non-plan expenditure**

**Non-plan expenditure accounts for 66% of total**

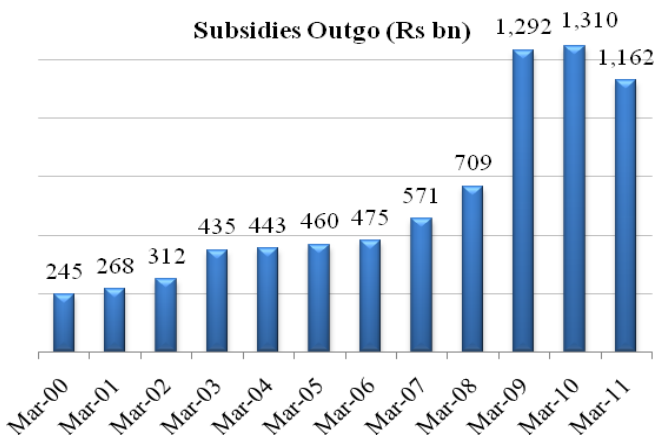


**Int payment is 39% of Non-plan Rev expenditure**



**Subsidy payment went up before Lehman collapse as oil prices skyrocketed**

**Subsidies down a little; a step in right direction**



**Subsidies in FY11 budgeted lower**

