

# Union Budget 2010-2011

## NO SURPRISES

The Union Finance Minister Mr. Pranab Mukherjee presented UPA Government's 2nd budget for 2010-11 in Lok-Sabha on 26th February 2010. Following are the key highlights of the budget

### Introduction

#### Challenges:

The key challenges facing the policy makers for this Budget have been:

- How to unwind the fiscal stimulus without hurting economic growth
- How to sustain and broaden the agenda of inclusive growth
- How to bring the fiscal deficit down and lay down a medium term road map for fiscal correction
- How to develop and finance the acute infrastructure deficit that country is facing
- How to move forward on the pending economic reforms agenda including disinvestment
- How to contain food prices which is showing no signs of abatement

The Finance Minister in his second Budget of the new UPA government chose to focus on the same old agenda – inclusive growth and infrastructure. Therefore the outlays of the National Rural Employment Guarantee Scheme (NREGS), health and family welfare, rural and urban development, power sector, road transport etc have been increased substantially. For FY 2010-11, the allocation for NREGS has been stepped up to Rs. 40,100 crore from Rs.39100 crore in FY 2009-10. Allocation to power sector has more than doubled to Rs 5,130 crore in 2010-11. Similarly, the plan allocation for health and family welfare has been increased from Rs 19,534 crore in FY 2009-10 to Rs 22,300 crore in FY 2010-11.

FM plans to raise Rs 25,000 crore from disinvestment of its stake in state-owned companies during FY 2010-11. A sum of Rs 16,500 crore has been allocated in the budget 2010-11 for public sector banks to maintain tier-I capital. A

A sum of Rs 120 crore that was allocated to Unique Identification Authority of India (UIDAI) in the last budget. This has been raised to Rs.1900 crore in the budget 2010-11.

### Macroeconomics: Some key points

- The GDP growth for the year 2009-10 is estimated at 7.2 per cent, as compared to an average of 8.5 per cent during the previous five years.
- Progress on the fiscal consolidation front remained satisfactory till FY 2007-08. However, high global oil prices, additional commitments to health, education, employment generation coupled with the fiscal stimulus provided to overcome the adverse impact of global financial crisis on the economy derailed the fiscal consolidation effort since FY 2008-09. Thus fiscal deficit reached 7.8 and 6.9 per cent of GDP in 2008-09 and 2009-10 respectively. Although the large deficit of 2008-09 and 2009-10 has a counter cyclical component, it is obvious that this level of deficit is unsustainable. Thus the fiscal deficit for 2010-11 has been budgeted at 5.5 per cent of GDP. Finance Minister in his budget speech last year had stated that he would wait for the recommendation of the 13th Finance Commission to lay out the medium term fiscal consolidation road map. Keeping to his word, he has put forward a new fiscal consolidation path under which the fiscal deficit will be brought down to 4.8 per cent of GDP in 2011-12 and to 4.1 per cent of GDP by 2012-13.
- The average WPI based inflation during 2008-09 was 8.4 per cent and is likely to be 3.5 per cent in 2009-10. However, average CPI based inflation which was 9.1 per cent in 2008-09 is likely to be around 12 per cent in 2009-10.
- The gross domestic savings and investment as a percentage of GDP was 32.5 and 34.9 per cent respectively in 2008-09. The same is expected to be 34.0 and 36.2 per cent of GDP in 2009-10.
- Foreign exchange which was at USD 252 billion at the end of March 2009 increased by USD 31.5 billion and reached USD 283.5 billion by the end of December 2009.
- Total food grain production in 2008-09 was 233.8 million tones. The target for 2009-10 is 239.1 million tones, which is unlikely to be met due to the delayed and sub-normal monsoon

### Budget Highlights

- Income up to Rs 1.6 lakh – nil, above Rs 1.6 lakh and up to Rs 5 lakh - 10 per cent, Income above Rs 5 lakh and up to Rs 8 lakh - 20 per cent and Income above Rs 8 lakh - 30 per cent.
- Additional deduction of Rs 20,000 allowed on long term infrastructure bonds for income tax payers; this is above Rs one lakh on saving instruments allowed already.
- Government's net borrowing to be Rs 3,45,010 crore for 2010-11.
- Total expenditure pegged at Rs 11.8 lakh crore, an increase of 8.6 per cent.
- Gross tax receipts pegged at Rs 7,46,656 crore for 2010-11, non-tax revenues at Rs 1,48,118 crore.
- Defence allocation pegged at Rs 1,47,344 crore in 2010-11 against Rs 1,41,703 crore in the previous year. Of this, capital expenditure would account for Rs 60,000 crore.
- Non-plan expenditure pegged at Rs 37,392 crore and Plan expenditure at Rs 7,35,657 crore in budget estimates. 15 per cent increase in plan expenditure and six per cent in non-plan expenditure
- Rs 1,73,552 crore provided for infrastructure.
- One-time grant of Rs 200 crore provided to Tirupur textile cluster in Tamil Nadu.
- Government proposes to set Coal Development Regulatory Authority.
- Interest subvention for timely repayment of crop loans raised from one per cent to two per cent, bringing the effective rate of interest to five per cent.
- Rs 200 crore provided for climate resilient agriculture initiative.
- Allocation for women and child development hiked by 80 per cent.
- Fund with initial allocation of Rs 1000 crore to provide social security to workers in unorganised sector.
- Rs 1,270 crore provided for slum development programme, marking an increase of 700 per cent.
- Allocation for development of micro and small scale sector raised from Rs 1,794 crore to Rs 2,400 crore.
- One per cent interest subvention loan for houses costing up to Rs 20 lakh extended to March 31, 2011; Rs 700 crore provided.
- Road transport allocation raised by 13 per cent to Rs 19,894 crore in 2010-11
- Allocation for urban development increased by 75 per cent to Rs 5,400 crore in 2010-11.
- Indira Awas Yojana scheme's unit cost raised to Rs 45,000 in plain area and Rs 48,500 in hilly areas.
- For rural development, Rs 66,100 crore have been allocated. .
- Plan allocation for school education raised from Rs 26,800 crore in 2009-10 to Rs 31,036 crore in 2010-11.
- Deficit in foodgrains storage capacity to be met by private sector participation.
- Exclusive skill development programme to be launched for textile and garment sector employees.
- Plan allocation for Ministry of Minority Affairs raised from Rs 1,740 crore to Rs 2,600 crore.
- Plan outlay for Ministry of Social Justice raised by 80 per cent to Rs 4,500 crore.
- Finance Minister says Government hopes to implement direct tax code from April 2011.
- Government has decided to set up apex-level Financial Stability and Development Council. .
- Nutrient based fertiliser subsidy scheme to come into force from April 1, 2010.
- Earnest endeavor to implement General Sales Tax in April 2011.
- Government to provide Rs 300 crore to organise 60,000 pulse and oilseed villages and provide integrated intervention of watershed and related programme.
- Government to continue interest subvention of 2 per cent for one more year for exports covering handicrafts, carpets, handlooms and small and medium enterprises.
- RBI to consider some additional banking licenses to private companies