

Union Budget 2010-2011

Economic Analysis

Budget at a Glance

The worst of Financial Tsunami is not yet over. The myth of decoupling theory of the today's globalised world is over and we should be ready to face the volcanic recurrence of the financial crisis which has been overly repressed under the financial stimulus all around the world. However, the remedies of financial stimulus as suggested by Lord Keynes were for investment driven pull and not for the consumption driven push which Govt. of India is emulating from the US model. The high magnitude of Fiscal deficit and high Debt-GDP ratio (Table 1) may lead to hyper inflation, higher interest rates and currency collapse in many countries unless rationalisation takes place in very near future.

The Finance Minister has admittedly presented the first budget of the second decade of the 21st century under the three major challenges- (i) to cross the double right growth barrier (ii) to harness the objectives of inclusive Growth and (iii) to improve the governments system and thereby to curtail the bottlenecks of the public delivery mechanism.

(I) Growth Perspective and Financial Consolidation

The GDP growth has come down from the average of 9 percent in preceding three years ending 2007-08 to a low of 6.7% in 2008-09 and marginally recovered to 7.2 percent in 2009-10 and is targeted at above 8-8.5 percent in 2010-11 on a nominal value of GDP at Rs. 69,34,700 crore assuming 12.5% nominal growth over the present estimated GDP of Rs. 61,64,178 crores on the assumption of an inflation of 4 to 4.5 percent. Thus if the inflation is more than the estimates of 4 to 4.5 percent, the GDP growth rate at factor cost will be lower to that extent or below 8 percent.

The fiscal deficit which had come

(In Crore of Rupees)

| | 2008-2009 Actuals | 2009-10 Revised Estimates | 2010-11 Budget Estimates |
|--|----------------------|---------------------------------|--------------------------------|
| 1. Revenue Receipts | 540259 | 577294 | 682212 |
| 2. Tax Revenue (net to Centre) | 443319 | 465103 | 534094 |
| 3. Non-tax Revenue | 96940 | 112191 | 148118 |
| 4. Capital Receipts (5+6+7)\$ | 343697 | 444253 | 426537 |
| 5. Recoveries of Loans | 6139 | 4254 | 5129 |
| 6. Other Receipts | 566 | 25958 | 40000 |
| 7. Borrowings and other Liabilities* | 336992 | 414041 | 381408 |
| 8. Total Receipts (1+4)\$ | 883956 | 1021547 | 1108749 |
| 9. Non-plan Expenditure | 608721 | 706371 | 735657 |
| 10. On Revenue Account of which, | 559024 | 641944 | 643599 |
| 11. Interest Payments | 192204 | 219500 | 248664 |
| 12. On Capital Account | 49697 | 64427 | 92508 |
| 13. Plan Expenditure | 275235 | 315176 | 373092 |
| 14. On Revenue Account | 234774 | 264411 | 315125 |
| 15. On Capital Account | 40461 | 50765 | 57967 |
| 16. Total Expenditure (9+13) | 883956 | 1021547 | 1108749 |
| 17. Revenue Expenditure (10+14) | 793798 | 906355 | 958724 |
| 18. Capital Expenditure (12+15) | 90158 | 115192 | 150025 |
| 19. Revenue Deficit (17-1) | 253539 | 329061 | 276512 |
| | -4.5 | -5.3 | -4 |
| 20. Fiscal Deficit (In Percentage) {16-(1+5+6)} | 336992 | 414041 | 381408 |
| | -6 | -6.7 | -5.5 |

Note : GDP for BE 2010-2011 has been projected at Rs.6934700 crore assuming 12.5% growth over the advance estimates of 2009-2010 (Rs.6164178 crore) released by CSO.

Source : <http://indiabudget.nic.in>

down to a low of 2.6 percent in 2007-08 has gone up to 5.9 percent in 2008-09 and estimated at 6.7 percent in 2009-10 is targeted at a marginally lower level of 5.5 percent in the present budget proposal for 2010-11 and to be gradually lowered at around 3 percent by 2014-15 as per the road-map laid down by the Thirteenth Finance Commissions. The most worrisome picture is for a very precarious condition of the national debt. The combined Debt-GDP ratio (Central and State) has gone to as high as 82 percent in the terminal year of 2009-10 as against the target of 75 percent as suggested by the Twelfth Finance Commission (FC). The FC XIII has suggested to bring it down to 68 percent by 2014-15 with the centre's Debt-GDP ratio declining to 45 percent. The above situation is further aggravated with continuous rise in the revenue deficit of in the Central Government which has gone up to 5.3 percent in 2009-10 and is estimated at 4 percent in 2010-11 as against the zero target mandate of the FRBM Act. The present road-map to achieve this goal is by 2014-15 as recommended by FC-XIII. It is a matter of coincidence that the FC-XIII Report and Economic Survey were laid down together in Parliament on 25/02/10 by the Finance Minister.

The interest liability for 2010-11 is Rs. 2,48,664 as against the fresh borrowing. of Rs. 3,81,408 crore or 65.20 percent of the borrowing. Although the aggregate budget expenditure is targeted at Rs. 11,08,749 crore, the total capital expenditure is Rs. 150025 only including Rs 60000 crores for defence or say only 13.53 percent of the total budget expenditure.

(II) Agriculture and Inclusive Growth

Though the GDP growth is estimated at 7.2 percent in 2009-10, there is a decline by 0.2 percent in agriculture and it has been pleaded that it is due to bad monsoon and the Finance Minister has prayed to lord Indra for a better MONSOON to achieve the GDP growth of 9 percent assuming agriculture to grow by 4 percent. If the GDP in manufacturing and services sector has declined due to external factors of Global financial crisis, it should have no adverse impact on agriculture which is largely dependent on domestic market. However the Agriculture output has declined from a low growth of 1.6 percent in 2008-09 to a negative growth of 0.2 percent in 2009-10. The real cause of decline in agriculture is the ignorance by the UPA Government by not making any investment in this sector. The Government is trying to compensate the decline in the income of the farmers by giving doles under NREGA but the farmers need remunerative price for their produce and control of inflation. It is very surprising to note that the cost of input to farmers is going up but the food

prices by way of Minimum Support Price is not commencement with their cost of input and increasing cost of their living. Although the food prices have gone up in the market due to speculative factors and mismanagement of the supplies, the benefit of increase has not reached to the farmers. The Government needs to stop forward trading in agriculture commodities in order to control the manipulated food inflation.

It is unfortunate that the aggregate share of agriculture in national income (GDP) is shrinking and has come down to about 17 percent in 2010 from about 35 percent in 1991, although the population depending for their livelihood support on agriculture has remained quite high at about 65 percent with marginal diversion to other sectors.

The Finance Minister has undertaken a four pronged initiative to improve the health of agricultural sector and for inclusive greater namely (i) increase the agricultural production (ii) reduce the wastage through proper warehousing and cold storage system. (iii) increasing the farm credit and (iv) by giving a thrust to the food processing sector.

It is hoped that the above initiative will result into due growth and improve the fortune of the rural poor along with the scheme for food security and employment guarantee scheme and will not mean a mere lip service as has happened in the past.

(III) Improvement in Governance and Delivery Mechanism

The third challenge which the Finance Minister has proposed to restore is through administrative reforms (AR) on the recommendation of the A. R. Commission which inter-alia includes:-

(I) Unique Identification Authority of India (UIDAI)

(II) Technology Advisory group for Unique Projects (TAGUP) and

(III) Independent Evaluation Office (IEO)

Mr. Nandan Nilekani who is the Chairman of UIDAI is also proposed to head the TAGUP. Good governance by bringing transparency and accountability in the government functioning and to improve the delivery mechanism of various government policies and programmes at the village level to achieve the overall objective of equitable and inclusive growth will be the real acid test.

(IV) Swadeshi Views

After going through the Economic Survey, the recommendation of the Thirteenth Finance Commission and the Budget Proposals 2010-2011, our institute desires the answers to the following questions:-

(I) While we are celebrating 60th Year of our 'Republic-day' are we sincerely doing the introspection for removal of the perennial poverty which is still around 30 per cent of our population.

(ii) While looking at vision 2020 document for India emerging as an economic power, are we really sensitive and serious about the development of our rural and poor people living in 2,38,000 villages.

(iii) While looking forward for creating a new symbol of "Indian Rupee" similar to other hot currencies, are we sincerely looking for revaluing our currency to restore its glory it had even in 1947 mitigating the assaults of devaluations, it has suffered over the last sixty year since its first devaluation in 1949.

(iv) Do we want to create an India where the inequality between the rich and the poor, between the Urban and rural would be minimized and the dignity of human life would be restored to our people who often fall victim to anti social and anti-national elements.

(v) Do we look for an India which will have the current account surplus and have the foreign exchange reserve built of its own capital and not from the external borrowings and the foreign funds.

(vi) Can we create an India where the corruption would be least and no capital flight to tax heavens and Swiss Banks and our capital to the tune of more than US\$ 1 trillion is brought back and employed for development of our villages.

(vii) Do we really believe in Panchayati Raj System and decentralization of our economic system with a bottom up approach for collection of our taxes and devolution of resources direct from the Central Government to the Panchayats without intermediaries for the real "GRAM RAYJA".

It should be borne in mind that the World is looking for a change and a transformation. The wind of change is blowing with transfer of economic power from West to East, from North to South, from Atlantic to Pacific, from the so called developed world to the developing world and from US and Europe to Asia and particularly to India and China. The question is, are we ready to accept the challenge. If yes, we need to take a determination and a pledge for our economic sovereignty and to emerge as an economic power which will bring equity and justice not only to India but to the whole humanity based on the principles of "SARVE BHAVANTU SUKHAHA" and "BASUDEVA KUTUMBKAM".

JAI HIND.

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Comparative Analysis of debt GDP Ratio and Fiscal Deficit (Table 1)

| Fiscal Deficit 2009 | |
|---------------------|---------------------------|
| US- | 12.3% (USD 1.75 trillion) |
| UK - | 6% (GBP 90 billion) |
| China - | 3% (USD 139 billion) |
| India - | 5.5% (3.8 lakh crore) |

| Debt GDP Ratio | |
|----------------|----------------------------|
| US - | 83.4% (USD 13.67 trillion) |
| UK - | 68.5% |
| India - | 60.10% |
| China - | 18.20% |

Source: Central Intelligence Agency, 2009

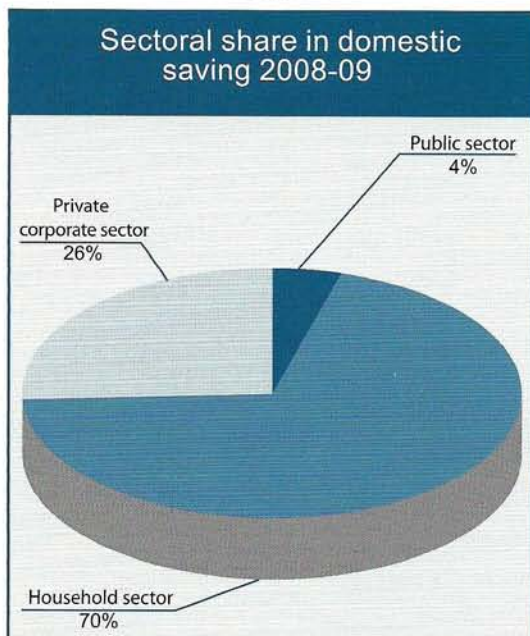
Table 2

| Rate of growth at factor cost at 1999-2000 prices (per cent) | | | | | |
|--|---------|---------|---------|---------|---------|
| | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 |
| Agriculture, Forestry & Fishing | 5.2 | 3.7 | 4.7 | 1.6 | -0.2 |
| Mining & Quarrying | 1.3 | 8.7 | 3.9 | 1.6 | 8.7 |
| Manufacturing | 9.6 | 14.9 | 10.3 | 3.2 | 8.9 |
| Electricity, Gas & Water Supply | 6.6 | 10.0 | 8.5 | 3.9 | 8.2 |
| Construction | 12.4 | 10.6 | 10.0 | 5.9 | 6.5 |
| Trade, Hotels & Restaurants | 12.4 | 11.2 | 9.5 | 5.3 | 8.3* |
| Transport, Storage & Communication | 11.5 | 12.6 | 13.0 | 11.6 | |
| Financing, Insurance, Real Estate & Business Services | 12.8 | 14.5 | 13.2 | 10.1 | 9.9 |
| Community, Social & Personal Services | 7.6 | 2.6 | 6.7 | 13.9 | 8.2 |
| GDP at Factor Cost | 9.5 | 9.7 | 9.2 | 6.7 | 7.2 |

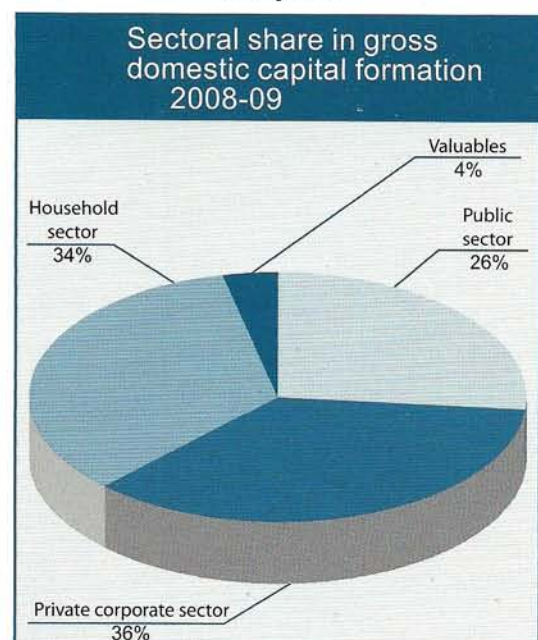
Source : CSO.

* Transport & communication included for 2009-10 in trade, hotels and restaurants.

Graph 1



Graph 2





Shri Yashwant Sinha, Member of Parliament and former Union Finance Minister, Govt. of India, as Chief Speaker in our Seminar on "Union Budget 2009-2010" on 11th July 2009 along with Patron and Fellow Members of Swadeshi Research Institute.



Shri Murlidhar Rao, Chief speaker on "Swadeshi Agenda for the 7th Ministerial Conference on WTO" along with the patron and fellow members of Swadeshi Research Institute on 31st October, 2009.

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