

Union Budget 2011-2012

Budget at a Glance

Economic Analysis

The Hon'ble Finance Minister Shri Pranab Mukherjee has presented his Sixth Union Budget in Parliament on 28.02.2011 after completion of two decades of economic reforms started on 24th July 1991. Therefore there is a need to look back and have a snapshot analysis of the economic achievements and failures of the new economic policies enshrined in several Union Budgets presented thereafter by different Finance Ministers involving almost all political parties of the country including the left and BJP. The major challenges facing the nation today are the problems of inflation, corruption, black money, poverty and unemployment.

The objectives of the Union Budget proposals are to improve economic development in the country and thereby create employment, reduce poverty and control the price rise/inflation. However it is observed that all successive governments have failed to provide adequate answer to the burning problem of unemployment, poverty and price rise. Although the economic growth rate has increased from an average of 3.5% during the first three decades of 1950-1980 to an average rate of 6% - 7% in the subsequent three decades of 1980-2010 and about 8 percent in the immediate past decade but the benefit of growth has not trickled down to the rural poors of our country. There remains a clear divide in the standard of living and the infrastructure facilities in Rural India and the Urban India.

Having a brief outlook on the above scenario when we look at the economic growth of 8.6 percent achieved in the Financial Year 2010-2011 in the

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

@ Actuals for 2009-10 are provisional

\$ Does not include receipts in respect of Market Stabilization Scheme.

* Includes draw-down of Cash Balance.

Note: GDP for BE 2011-2012 has been projected at Rs.8980860 crore assuming 14% growth over the advance estimates of 2010-2011 (Rs. 7877947 crore) released by CSO.

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

aftermath of the global economic crisis, and on growth target of about 9% in the coming fiscal year 2011-2012 with a projected fiscal deficit of 4.6 percent as against 5.1 percent in 2010-2011, we find that the debt burden of the Central Government is continuously increasing. The present level of public debt is Rs.33,06,626 crores carrying an additional proposed borrowing of Rs.4,12,986 crores in the Financial Year 2011-2012 with an annual interest burden of Rs.2,67,986 crores on the national exchequer leaves very limited scope for spending money in the development of social sector.

The Finance Minister has proposed to cut down the subsidies on account of food, fertilizer and oil in the current financial year from Rs.1,64,153 crores to Rs.143,570 crores and has also proposed for a direct cash transfer via Adhar cards on account of fertilizer, LPG and Kerosene on the basis of the recommendation to be submitted by the Chairman of the Task force, Mr. Nandan Nilkani within June 2011. The pilot project is likely to be launched from 01.01.2011, once UIDAI start generating the Adhar Smart Card numbering 10 lakhs per day from 01.10.2011. It is expected that the direct cash transfer to people Below Property Line (BPL) will curtail the diversion and the corruption prevalent in the system. However the Finance Minister has refrained from introducing the same system in the distribution of food subsidies to the people under BPL category and over 5 lakh Ration shop owners will continue to benefit from the present loophole in the system. The Finance Minister has also deferred to implement the Food Security Act which provide Social Security to poor people against the menace and vagaries of higher food inflation. The Finance Minister himself has mentioned in his Budget Speech that the food inflation had reached 20.2% in February 2010 and according to the published Government data, the food inflation was at 17.05% on the week ending 22.01.2011, although the Finance Minister has claimed that it has declined to 9.3% in January 2011 which does not seem to be convincing.

There is a huge drainage of national resources on account of corruption and the recent 2G Scam involving several thousand crores of rupees along with other major scams in Common Wealth Games and Adarsh Co-Operative Society are the matter of great national shame and there has been erosion to our national pride in the international arena. The Constitution of the Joint Parliamentary Committee (JPC) by the Lok Sabha

has ultimately assured some respite for unearthing the exact amount involved in the scam and to finally find out the persons involved in the whole process apart from the former Telecom Minister Mr. D. Raja who is already under arrest. The Finance Minister should have taken some concrete steps to ensure return of the huge amount of black money lying in the Swiss Bank Accounts despite there being an active demand and the availability of few names of the economic offenders. According to the data provided by the Swiss Bank, India has more black money than the rest of the world combined, with an estimated amount of US \$1500bn followed by Russia US \$ 470bn, UK \$390bn, Ukraine \$100bn and China \$96bn. Swiss Government has officially written to Indian Government that they are willing to inform the details of holders of Rs.70 lakhs crores in their banks if Indian Government officially asks them.

The Finance Minister has shown some favourable attention to the worsening situation of the Agricultural Sector but his sincerity is desired for due implementation of the schemes announced by him for rural micro credit facility and on building rural infrastructure. It is worth noting that the share of agriculture in the GDP has been continuously shrinking since the introduction of reforms in 1991 from 35% to about 15% now and there are about 55% poor people in our country as per the recent Report of UNDP. It is quite absurd to claim that India is the 5th largest economic power in the World after US, China, Japan and Germany when we have such a high percentage of poverty coupled with unemployment

and high level of inflation and weak public finance system.

The present composition of GDP consists of Agriculture 15%, Industry 25% and Service sector about 60% and the growth in the respective sector has been 5.4; 8.1 and 9.6 percentage respectively in the fiscal year 2010-2011. However if we take into consideration the

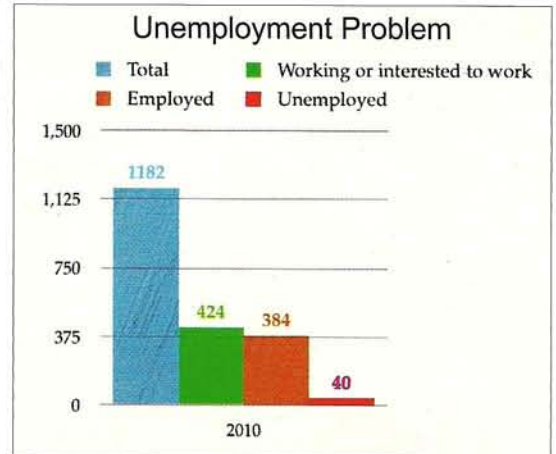


Table 3.6 : Interest on Outstanding Internal Liabilities of Central Government

	Out-standing Internal Liabilities	Interest on Internal Liabilities	Average Cost of Borrowings (per cent per annum)
	₹ crore		
2004-05	1603785	105176	7.2
2005-06	1752403	111476	7.0
2006-07	1967870	128299	7.3
2007-08	2247104	149801	7.6
2008-09*	2565991	170388	7.6
2009-10(RE)	2902990	198797	7.7
2010-11(BE)	3306626	227942	7.9

Source: Union Budget documents.

Tax Rates Around the World - 2010

Country	Corporate (Income Tax)	Individual (Income Tax)	VAT/ GST/ Sales	Tax-GDP Ratio
China	25%	5-45%	17%	17%
Japan	41%	5-50%	5%	27%
Brazil	34%	0-27.5%	17-25%	39%
India	33.2%	0-30%	2-12.5%	18%
US	0-35%	0-35%	0-10.25%	28%
UK	21-28%	0-50%	0-20%	39%

dependency of population in each segment of economy. We find that Agricultural sector provide the maximum number of employment followed by industry and finally by the services sector although the reverse is the case with the adverse share of income of these sectors as said above. Therefore there is a need to give more legitimate attention to Public investments in the Agriculture Sector and to provide support to the social sector in the form of primary education, health, drinking water and other facilities so that the balance regional and sustainable growth with social justice can be achieved in the society.

The other major area of concern in the post reform period is the continuous rise in the trade account and current account deficit with imported goods dumping in the country and thereby adversely affecting the domestic industry on the one hand and increasing dependence on volatile capital inflow from Foreign Institutional Investors on the other hand. The present current account deficit of 3% of the GDP is an area of concern similar to Pre 1991 BOP crisis level. The Finance Minister has proposed for a comparatively more stable debt inflow in the form of Infrastructure Corporate Bonds by increasing the limit from

the present level of US \$5 bn to US \$25bn by FIIs but it is very unlikely that we shall get debt inflow of this magnitude and therefore we must look into alternative solution to this major problem with some stable capital account inflow in the form of Foreign Direct Investment.

In Conclusion it may be said that the two decades of economic reforms have brought India as an important destination at global level but more needs to be done at local level. •

Economic Survey 2010-11

Key indicators							
Data categories and components	Units	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
1 GDP and Related Indicators							
GDP (current market prices)	Rs crore	3692485	4293672	4986426	5582623 ^{PE}	6550271 ^{QE}	7877947 ^{AE}
Growth Rate	%	13.9	16.3	16.1	12.0	17.3	20.3
GDP (factor cost 2004-05 prices)	Rs crore	3254216	3566011	3898958	4162509 ^{PE}	4493743 ^{QE}	4879232 ^{AE}
Growth Rate	%	9.5	9.6	9.3	6.8	8.0	8.6
Savings Rate	% of GDP	33.5	34.6	36.9	32.2	33.7	na
Capital Formation (rate)	% of GDP	34.7	35.7	38.1	34.5	36.5	na
Per Cap. Net National Income (factor cost at current prices)	Rs	27123	31198	35820	40605	46492	54527
2 Production							
Foodgrains	Mn tonnes	208.6	217.3	230.8	234.5	218.1 ^a	232.1 ^b
Index of Industrial Production (growth)	Per cent	8.0	11.9	8.7	3.2	10.5	na
Electricity Generation (growth)	Per cent	5.2	7.2	6.4	2.8	6.0	na
3 Prices							
Inflation (WPI) (52-week average)	%change	4.3	6.5	4.8	8.0	3.6	9.4 ^d
Inflation CPI (IW) (average)	%change	4.4	6.7	6.2	9.1	12.4	11.0 ^d
4 External Sector							
Export Growth (US\$)	%change	23.4	22.6	29.0	13.6	-3.5	29.5 ^e
Import Growth (US\$)	%change	33.8	24.5	35.5	20.7	-5.0	19.0 ^e
Current Account Balance (CAB)/GDP	Per cent	-1.2	-1.0	-1.3	-2.3	-2.8	na
Foreign Exchange Reserves	US\$ Bn.	151.6	199.2	309.7	252.0	279.1	297.3 ^f
Average Exchange Rate	Rs/ US\$	44.27	45.25	40.26	45.99	47.42	45.68 ^g

AE GDP figures for 2010-11 are advance estimates; not yet available/released for 2009-10

na Final estimates

a Second advance estimates

c The annual growth rates have been recomputed from 2005-06 onwards since the indices have been recomputed from April 04 onwards using new series of WPI for the IIP items reported in value terms.

d Average Apr.-Dec. 2010

e Apr.-Dec. 2010

f as of December 31, 2010

g average exchange rate for 2010-11 (Apr.-Dec. 2010)

PE Provisional Estimates QE quick estimates

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

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Friday, 5th March 2010, Kolkata from 3.00 p.m. to 6.00 p.m.



Shri Yashwant Sinha, Member of Parliament and former Union Finance Minister, Govt. of India, as Chief Speaker in our Seminar on "Union Budget 2010-2011" on 5th March 2010 along with Sri R. K. Vyas, Sri H. M. Bangur, Dr. D. R. Agarwal, Fr. Dr. Felix Raj and Sri Kamal Somani (left to right).



Shri Rahul Sinha, Chief speaker on "Swadeshi Agenda for the burning problem of the Potato farmers of West Bengal" along with the participants including potato farmers of Hoogly, Burdwan and Midnapore district of West Bengal representing "ALU CHASI KALYAN MANCH".

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