

# First Impressions of the Union Budget 2010-11

- *A Tough Balancing Act, Neatly Performed...!*

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## Preamble:

Let's not deceive ourselves by thinking that a Single Budget, especially in the not-so-normal times, can **simultaneously and successfully** resolve the (**conflicting**) objectives of "*fiscal consolidation*", "*growth facilitation*" and "*inflation control*"...and also, continue on the path of "*inclusive development*". For any policy-maker anywhere in the world, it's a very tall order...

There were **Four** Principal Macro-Economic challenges before the Finance Minister:

1. Continuation of the Momentum of Economic and Industrial Growth
2. Treating Inflation-Control with High-Priority.
3. Re-introducing Credible Fiscal Consolidation and
4. Continuation of Inclusive-Growth Agenda.

Given the economic scenario, characterized by - Economy and Industry steadily recovering from Global Slowdown; Inflation in Primary Articles – *Stubbornly High* and Growing Fiscal Imbalance; the Finance Minister, today had to:

- A. Not sacrifice any growth-momentum;
- B. Demonstrate that Inflationary Expectations get squashed and

C. Resume the path of Fiscal Prudence by attacking the Expenditure-side, especially the ballooning (and ‘non-merit’) subsidies...

As regards, maintaining the **Growth Momentum**, the Finance Minister has –

- a. Withdrawn stimulus only marginally;
- b. Not disturbed Corporate Tax-rates on balance;
- c. Continue with increased allocation on Infra Spending Across Sectors;
- d. Put more money into many more hands, through Tax Relief / Exemption to Salaried Employees;
- e. Improvement in FDI-Regime;
- f. Interest-concessions to Exporters;
- g. Strategy for Agriculture Growth &
- h. **Retaining** Service-Tax at present level.

As regards **Inflation Control**, there is no direct and immediate measure, except for putting more money into the hands of buyers / consumers... Only the assurance of steps taken in consultation with State Governments...(Finance Minister has perhaps sent the ball in the count of State Governments)...

There is some purposive Action on the subject of **Fiscal Consolidation** – although the delicate areas of freeing petroleum prices deferred, the excise duty on petro products increased, which will lend to some reduction in off-budget oil burden, Fertilizer subsidy also get be reduced as a result of the introduction of NBS policy. Tax Rationalization and stimulus rollback – a few measures towards improvement in revenues. Overall, significant reduction envisaged in Fiscal Deficit Ratio (FDR), & Revenue Deficit Ratio (RDR) for 2010-11 (BE). Disinvestments to continue expected to garner additional revenue for 2010-11, though explicit target **not** set.

The fourth Challenge of Continuation of Strategies / Programs for “**Inclusive Growth**”, for ensuring socio-economic stability: this is sought to be maintained, not so much by any significant or innovative thinking or better qualitative targeting of beneficiaries – *but simply by enhanced allocations to Business, Education, Health, Financial Institution, capitalization of RRBs and also, specific sets of measures towards: MSMEs and Unorganized Sectors.*

**Assessment :**

- A. On maintaining the growth-recovery, the Finance Minister has performed fairly well, with investment environment **consciously** kept conducive.
- B. There is a feeling that **Inflation-Control**, may not **exclusively** the prerogative of Central Government – PDS and other issues to be addressed mainly by the State Government.
- C. Some definite attempt towards “**balancing the budget**” – in evidence, although lot depends on estimated revenue generation (through higher growth) in 2010-11. But, non-plan expenditure including subsidies reduced.
- D. Expectedly, the political economy of the Government’s thrust on Inclusive Development has continued – under the circumstances, **a rational decision**, in our view, in the intent of socio-economic stability.

**In Conclusion:**

The Budget 2010-11 is thus a **Tough Balancing Act, performed fairly neatly...** especially under the given situation at home and abroad...

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