Union Budget 2012-13: An Analysis

-*Dr U.Subrahmanyam

The Indian Finance Minister, Mr. Pranab Mukherjee presented the Union Budget 2012-13, in a scenario of world countries most of them in a serious crisis. The global economic slow down has also affected the emerging economies including India. India's GDP growth rate which was 8.4 per cent consecutively for the last two years, is placed at 6.9 per cent in 2011-12 and it is estimated to recover to 7.6 per cent for 2012-13 and 8.6 percent in 2013-14. The other internal factors like continuous high inflation, consequent rise of interest rates brought down current year's GDP of 6.9 per cent very close to the growth rate of 6.7 per cent experienced during the recession year 2008-09. The growth rate of 6.9 percent in the current fiscal is very close to the growth rate experienced in 2008-09, being an year of recession faced by most of the global economies. Even though the current Indian Budget does not provide for any major reforms now but seeks to provide some certainty towards strong economic stability.

The year 2012-13 gains its importance being the starting year of XII five year plan and government had earlier assured its priority to implement GST and DTC by 2012, being the most important reforms to be brought out in taxation policy. But with the fast occurrence of recent political and economic developments in the country, and the Parliamentary Panel on Direct Taxes Code having submitted its report it looks certain that the Bill will be cleared in the next fiscal. Mean while the FM has given limited concessions under DTC in the 2012-13 budget, suggesting a loss of around Rs. 4,500/- crores on the concessions given in direct taxes, but unveiled a range of new taxation measures to mop up net additional revenue of Rs. 41,440 crore, through indirect taxes. However as far as DTC is concerned, it is expected that since the Parliamentary Panel under Sri Yeshwant Sinha finalized the Report, it is likely that essential part of the code may be implemented shortly.

Sector wise performance of 2011-12 reveals that there is clear cut slow down of the manufacturing and mining sectors in the first 3 quarters of 2011-12, as evident from the table below:

Table: Quarterly Estimate of GDP Year –on-year in per cent

Item	**2010-11**				**2011-12**		
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**
1. Agriculture	**2.4**	**5.4**	**9.9**	**7.5**	**3.9**	**3.2**	**2.7**
2.Industry	**9.1**	**7.1**	**7.1**	**6.1**	**5.1**	**3.2**	**2.6**
a) Manufacturing	10.6	7.8	6.0	5.5	7.2	2.7	0.4
b)Mining& quarrying	7.4	8.0	6.9	1.7	1.8	-2.9	-3.1
c) Electricity	5.5	2.8	6.4	7.8	7.9	9.8	9.0
d) construction	7.7	6.7	9.7	8.2	1.2	4.3	7.2
3. Services	**10.4**	**9.6**	**8.4**	**8.7**	**10.0**	**9.3**	**8.9**

GDP at factor cost	**8.8**	**8.4**	**8.3**	**7.8**	**7.7**	**6.9**	**6.1**

(Source: Ministry of Finance, Govt. of India)

Budget 2012-13:

The budget of 2012-13 was presented at Rs. 14,90,925 lakh crores with 18.54% increase over 2011-12 Budget Estimates. In the revised estimates of current year the revenue receipts were reduced by Rs. 22,903 crore, but over all budget increased to 13,18,720 crores, owing to additional amounts in the capital receipts to the tune of Rs. 83,893 crore. The Plan Outlay was also increased to Rs. 5,21,025 crores (17.9% increase) over the 2011-12 B.E.. Non Tax revenue of Rs. 1,64,614 crores (32% increase) projected would be a major contribution to Budget 2012-13, as additional funds would be available from sanction of spectrum, freed by the Supreme Court by cancellation of 122, 2G licenses.

Union Budget at a Glance (2012-13)

(In ₹ crore)

			2010-11 Actuals	2011-12 B.E	2011-12 R.E	2012-13 B.E
1	**Revenue Receipts**		788,471	789,892	766,989	935,685
	2	*Tax Revenue (net to centre)*	*569,869*	*664,457*	*642,252*	*771,071*
	3	*Non-Tax Revenue*	*218,602*	*125,435*	*124,737*	*164,614*
4	**Capital Receipts**		408,857	467,837	551,730	555,241
8	**Total Receipts**		1,197,328	1,257,729	1,31a8,720	1,490,925
9	**Non-Plan Expenditure**		818,299	816,182	892,116	969,900
13	**Plan Expenditure**		379,029	441,547	426,604	521,025
	14	*On Revenue Account*	314,232	363,604	346,201	420,513
	15	*On Capital Account*	64,797	77,943	80,404	100,512
16	**Total Expenditure**		1,197,328	1,257,729	1,318,720	1,490,925
20	**Revenue Deficit**		252,252	307,270	394,951	350,424
			(3.3)	(3.4)	(4.4)	(3.4)
21	**Effective Revenue Deficit**		164,765	160,417	257,446	185,752
			(2.1)	(1.8)	(2.9)	(1.8)
22	**Fiscal Deficit**		373,591	412,817	521,980	513,590
			(4.9)	(4.6)	(5.9)	5.1)
23	**Primary Deficit**		139,569	144,831	246,362	193,831
			(1.8)	(1.6)	2.8)	(1.9)

(Source:Union Budget 2012-13, Min of Finance, GOI)

Fiscal Consolidation:

The fiscal deficit target for 2011-12 of 4.6 per cent set by the government is meant to attract global investors. But Fiscal deficit has increased to 5.9 percent of GDP in 2011-12, in the R.E. as compared to 5.1 per cent in the previous year. The rolling target for fiscal deficits is placed at 5.1 per cent for 2012-13. U.N. Report 2012 raised a red flag on India's fiscal deficit target, saying the Indian Government is unlikely to achieve its deficit target of 4.7 per cent of GDP for 2011-12 as lower growth has brought down tax revenues and disinvestment in state run companies has been put on hold. The budget 2012-13 pledges to cut fiscal deficit from 5.9 percent this year to 5.1 percent next year.

The Finance Minister has also said that the Central debt-GDP ratio would fall to 45 percent by 2012-13 against the target of 50.5% fixed by the Finance Commission. The budget on subsidies at 1.6 percent of GDP has been increased to 2.4 percent in the revised estimates.

Agriculture:

Soaring food prices and high food inflation reaching above 9 per cent of WPI in 2011 and, is a major concern for the government. The prices of pulses, oil, milk, poultry, vegetables and fruits are higher compared to cereals. By the end of December 2011, food inflation was tamed to a good extent and the WPI dropped to 6.95 per cent by February 2012.

As per the advance estimates released by the Ministry, Production of food grains is estimated at 450 million tonnes in 2011-12 compared to 445 million tonnes in the previous year. Even though agricultural growth rate is just 2.5 per cent this year compared to above 7 per cent during the previous year resulted in two record food grain production in India with 445 and 450 million tonnes of food grains during 2010-11 and 2011-12.Indian agriculture requires rise in productivity per hectare on par with East Asian countries to make agriculture more viable by reducing the input costs to the farmer. The fertilizer subsidy and other subsidies like cooking gas will now move directly to the bank accounts of beneficiaries by cash transfer Because of decontrol of fertilizer prices, market forces will determine the fertilizer prices as well as the subsidies given by the government, depending on the fluctuation of international market prices. Though in the new system the government could slash the subsidy bill, if timely cash transfers are not done owing to budgetary constraints the marginal and small farmers fail to utilize the fertilizer to optimum level, thus there is likelihood in the decrease in farm output as well as productivity.

Industry:

The Growth of Industry was 7.9 per cent with 27.4 per cent of industrial share to the total GDP of the country, with 8.3 per cent growth rate in the previous year. However the performance of the Mining (-7.2%), manufacturing (3.9%) sectors came to a nadir first time recording a negative growth rate during the year.

In order to raise GDP growth to 7.6 percent along with fiscal consolidation the budget proposed to raise an additional revenues by raising the Excise and Service Tax by 2 per cent, which is in fact a roll bock of stimulus package of 4 per cent cut of taxes from 12 per cent during the recession year 2008-09. The revival of the indirect taxes has been done in two phases, by 2 percent in 2001-12 followed by another 2 percent in the Budget proposed for 2012-13..

As a result of this the prices of all consumer goods of manufacturing sector, will be hiked except 17 exempted items. This is likely to enhance the inflation and government will have tough time in taming it. Even though the Finance Minister admitted that the increase in Standard Excise duty proposed in the budget may enhance inflation, but only a “little bit”, but in such a case there is a need for reducing the interest rates.

The Finance Minister reduced basic customs duty to 2.5 percent to MSME sector for certain items. Turnover limit for compulsory tax audit for SMEs rose from Rs. 60 lakh to Rs. 1 crore in the Budget proposed while giving some relief to the MSME sector.

Infrastructure:

The Budget has kept infrastructure development as a main focus Investments in 12th Plan is infrastructure are expected to go up to Rs. 50 lakh crores, with about 50 percent of it being the private sector’s contribution as announced in the budget proposal. Infrastructure needs of the country are the foremost priority , as the country needs more than $1 trillion for its infrastructure development in XII plan. An important initiative in the sector has been tax free infrastructure bonds whose limit was raised from Rs 30,000 crore to Rs. 60,000 crores.

One of the areas of concern has been the Power Sector, in view of inadequate availability of domestic supply of coal and the reduced production of gas from KG basin, the availability of imports lower costs is very essential. The budget proposed abolishing customs duty on imported coal and on LNG imports. However with a budget allocation of mere Rs. 2.14 lakh crores for infrastructure in 2011-12, it is yet to take up such a massive programme under PPP. Thermal Power Projects exempted from custom duty for a period of two years.

Social Sector:

Social sector has been one of the focus areas in the budget, while hiking the allocation to Rs.1,60,887 crores by an increase of 17 per cent during 2012-13. Government's flagship programme of **Bharat Nirman** was increased by an addition of Rs10,000 crores. Besides, the Plan allocations for health and education have also been stepped up by 20 per cent and 24 per cent respectively. Allocation of budget to health and education sectors should be in tune with the long term demand of 3 per cent and 6 per cent of GDP for providing effective delivery of health services and quality education to the poor. The allocations under **NREGS** were reduced in the revised estimates of the current year as well as in 2012-13 B.E. strongly indicating the need for review and refashioning of the scheme to make it more useful in creation of assets in rural areas and in raising the land productivity in the rain fed areas.

Issues require Focus:

- There is slow down in the economy with high inflation during the current year, but the Indian economy is characterized by strong macro fundamentals and there is good performance over the Eleventh Plan Period. There are some challenges to the stronger economic growth like poverty reduction and the irregular urban growth, which require to be tackled with multiple interventions and long term vision. The pro-growth initiatives need to be sustained by ensuring adequate industrial infrastructure combined with skills development to increase the employment opportunities to the youth.

- Allocation of 3 per cent of GDP for health sector by increasing the outlays for the current year is necessary, while focusing on implementation of effective **NRHM**. Focus should be to improve the primary health care services by providing clean drinking water to cover 100 per cent villages in the XII plan, combined with effective sanitation.

- The allocation to NRHM has been increased from Rs. 18,115 crore (2011-12) to Rs. 20,822 crore in 2012-13. Further National Urban Health Mission (NUHM) would be launched soon to address the primary health care needs of the urban poor living in the slum areas. Overall an allocation of Rs. 30,477 crore was made to health Sector out of Plan for 2012-13.

- Total allocation to education sector should be 6 per cent of the GDP and the per capita expenditure on school children needs to be enhanced from the existing Rs.953 per annum to at least three times for providing quality education to poor children.

- The XI Five Year Plan aimed at achieving faster and more inclusive growth targeting at 9 percent GDP growth per annum. In spite of achieving above 8 percent growth in XI plan(2007-11), the reduction of poverty could not be achieved to the desired levels. Poverty reduction varied from state to state and within the state from district to district. The programmes meant for reduction of poverty also covered a large number of ineligible people who are not really poor thus limiting the availability of resources to the deserving poor, which slowed down the pace of inclusive growth.
- Focus on raising the land productivity and water efficiency. Approximate warehousing infrastructure needs to be created. States to modify essential commodities act and APMC Act(Exclude horticulture and perishables)
- **MNREGS** should do much more to increase the land productivity in the rain fed areas and provision of rural infrastructure like construction of godowns for storage of food items, etc could be taken up.
- Strengthen manufacturing sector –create extra jobs by spreading industrial growth widely by creating infrastructure and industrial friendly environment. MSME sector must be made technologically and financially sound.
- Under Infrastructure development, improve rural connectivity and strengthen agro processing . Establishing National Mission for Food Processing is a welcome feature, that may help establishing a link between agricultural/horticultural produce and the industry which has the potential to generate more rural employment. The infrastructure needs of the industry like power , water & road network, drainage and sewer treatment for the next 25-50 years shall be assessed and a plan of action may be worked out to promote healthier industrial growth.
- The present allocations of or skills development is totally inadequate .The gap between the actual demand for skilled workforce by the Industries, their employability and the inadequacy of available skilled workforce should be bridged by allocating adequate budgets and expansion of skilled development infrastructure in a big way to match the current and future needs.
- The present 147 odd Centrally Sponsored Schemes need to be cut down to a smaller number and the states should have the flexibility to modify the programmes according to the local needs

- ‘Gram sambas’ which presently play a passive role need to be strengthened defining the roles and responsibilities in planning, implementation and monitoring of most of the local level interventions by all tiers of the government. There is a need to strengthen the village level planning and development with participatory approach while strengthening community development wing of local bodies and also taking the help of reputed NGOs.

Need For a Balanced Approach:

The budget allocation should be commensurate with the growth promoting parameters by balancing allocations among Primary, Secondary and Tertiary sectors along with a long term vision to improve human development indices and with focus on achieving self sufficiency to tame inflation. Norms should be evolved for allocation of budgets under priority sectors so that pace of the nation's development is not slowed down.

---

* Director, Indian Institute of Economics, Hyderabad