

UNION BUDGET 2010-11

Infrastructure, agriculture and social sector have been the focus areas of Union Budget 2010-11. The Budget has sought to promote growth within an inclusive agenda. Consequently substantial plan outlay has been devoted to social and rural development flagship schemes. In order to sustain progress on the human development front, continued focus on the various development schemes will be crucial. The key highlights of this approach are:

- a) Infrastructure:** A strong emphasis on infrastructure is clearly discernible in the budget. Allocation for infrastructure stands at about 46% of total plan allocation in the budget. The focus has been two pronged especially increasing refinancing through Indian Infrastructure Financial Corporation (IIFCL) while focussing on current national level infrastructure projects. The increment in allocation to National Highway Authority of India (NHAI) has been at 13% to Rs 19,894 crore in FY11. The Power sector has seen a near doubling in its allocation to Rs 5,130 crore in FY11.
- b) Social Sector:** With the key focus on inclusive growth GoI extended its commitments towards the social sector by allocating a sum of Rs. 1,37,674 crore which forms around 37% of the total plan outlay in 2010-11. Focus areas continue to remain financial inclusion, the national employment guarantee scheme and rural development schemes under the flagship Bharat Nirman package. Urban development allocation has increased by more than 75% to Rs. 5,400 crore as against Rs. 3,060 crore in the previous year. Low cost rural and urban housing have also been in focus. Unit cost has been raised for the Indira Awas Yojana for rural areas. For urban low-cost housing, policy direction has been through interest subvention on loans and a nearly 700% jump in allocation to Rajiv Awas Yojana to Rs 1,270 crore. Compliance to the right to education act has meant higher allocation for elementary education from Rs. 26,800 crore to Rs. 31,036 crore. Plan allocation for the Ministry of Health and Family Welfare has increased from Rs.19,534 crore to Rs.22,300 crore for 2010-11.

- c) **Agriculture:** The agriculture sector has been affected by the less than normal monsoon in the Kharif season. Consequently agricultural growth is estimated to have fallen by 0.2% in FY10. The budget focus on agriculture is hence a key positive. The launch of integrated missions in expanding the green revolution and in oilseeds and pulses would give a much needed impetus to these segments. The formulation of a four pronged strategy focussing on production, wastage reduction, credit support and focus on the food processing sector should improve the linkages between agriculture and industry.
- d) **Policy intent:** There are some clear policy intent stands visible. Firstly, the budget proposes a target in excess of Rs 25,000 crore for stake divestment in Public sector enterprises, hence making the divestment process irreversible. Secondly, budget strongly commits to rationalization of key subsidies including the transition to a nutrient based fertilizer subsidy system and movement on the Parekh committee recommendations on petroleum subsidies. Thirdly, the deadline for the implementation of the Goods and Service Tax (GST) has been further pushed to April, 2011, indicating that differences between the states and the Centre are yet to be ironed out. The Direct Tax Code has been proposed to be implemented from April 2011. The implementation of these two path breaking schemes should result in a more rational and simplified taxation system. No major announcement on the foreign investment front has been made and the government appears to be following a gradualist and cautious approach to the same.
- e) **Fiscal stance:** On the issue of the roll back of the fiscal stimulus, the budget takes a gradualist approach. The revision of the excise standard rate upwards to 10% and the retention of the service tax rate at 10% would bring about an alignment in the taxes on goods and services, a much needed pre-condition for the implementation of GST. The budget has extended the interest subvention on pre-shipment credit for key export-oriented sectors till March 2011, thus indicating that the fiscal stimulus would continue to sensitive sectors affected by the global slowdown. The expansion of direct personal tax slabs in line with the implementation of DTC would stabilize the nascent demand recovery that has been witnessed.

Concluding Observations:

Overall the Union budget presents a growth oriented face with an effort to establish a timeline to return to the path of fiscal prudence. However, especially given the various expenditure pressures facing the government, maintaining the fiscal timeline of reverting to a 3 % fiscal deficit by FY14 would be a challenging task and the actual implementation of subsidy rationalization, disinvestment/divestment and better targeting of development expenditure would remain crucial elements in the policy outlook.