



Budget 2009-10: A Detailed Overview

It has to be admitted that the timing of the Union Budget 2009-10 is unique! This budget has been presented in the midst of a global slowdown, at a time when India is positioned in the midst of a recovery process. The growth rate of India's Gross Domestic Product (GDP), which prevailed at an average rate of 9% plus for three continuous years preceding this, dropped to less than 7% during the year 2008-09. This has created widespread concern especially because India has been targeting 9% plus growth in the short to medium term, over the next decade or so. The government was thus largely expected to address this issue in the budget in order to ensure that the economy veers back to a path of aggressive growth.

Another major concern has been volatile inflation in the economy; inflation based on the wholesale price index increased to a level over 12% during the middle of 2008, but fell to a negative 1% during the early parts of the current year 2009. Disparity in income between the rich and the population 'below poverty line' has been increasing, creating a major concern for quite some time now. Another issue that the government wanted to address in this budget was the anomaly in the overall composition of the nation's GDP—currently, the services sector contributes more than 50% to GDP, while contributions from manufacturing and agriculture stand at less than 50%. A vibrant services sector, predominantly driven by the Information Technology sector has helped India in the last decade by strengthening its exports and foreign currency position, but the lack of a robust manufacturing sector and a suffering agricultural sector mean that growth does not percolate too deep into the rural areas, contributing to inequitable development within the country. Of course, agriculture is a vital component of the Indian economy and an agricultural sector that contributes less than 20% to the overall GDP is totally unacceptable. The government was keen to address this issue in the budget 2009-10. Every year, the government initiates new schemes and development programmes, allocating funds and resources to tackle many of the above issues, but when it comes to implementation of these schemes, the failure has been complete! Implementation and delivery mechanisms therefore deserved the urgent attention of the government.

In the context of this backdrop, the finance minister put forth Budget 2009 with three primary objectives:

- ❖ Drive the economy at 9% plus growth rate for the short to medium term.
- ❖ Bring about a framework of initiatives that would address the issue of inclusive development, i.e., elevate the economic status of the people below poverty line and reduce the economic gap.
- ❖ Strengthen the delivery mechanisms of the government and create a robust implementation mechanism.
- ❖ Whether the government has been successful in meeting the above objectives through the budget statement is what we shall explore here.

Initiatives to jump start the economy

Ever since the recession in the West was confirmed during the latter part of 2008, the government of India together with the Reserve Bank of India (RBI) has been responding through various stimulus packages directed towards increasing public expenditure, offering tax relief and easing liquidity in the economy. It can be reasonably stated that these initiatives have been largely successful because even as countries around the world were slipping into negative GDP growth, India managed to restrict the impact of the slowdown to a fall in its GDP growth from 9% to around 6.7%; that by itself could be seen as an achievement. But for the three stimulus packages announced and implemented by the government together with the RBI, the fall in the GDP growth rate could have been much higher. However, such large scale public spending and stimulus package comes at a cost! The fiscal deficit of the country has increased from comfortable levels of less than 3% of GDP to more than 6% of GDP, primarily due to these stimulus packages and other schemes announced by the government.

Initiatives to develop infrastructure

More than Rs. 25000 crore has been allocated towards infrastructure spending in addition to other support measures that have been announced. Infrastructure development certainly was a fundamental agenda of the current budget since it would be conducive towards both short term revival and long term growth of the Indian economy. The following were the key initiatives that were focused on increasing infrastructure development in the economy.

There was minimal financing available for infrastructure projects in the country. In order to clear this bottleneck, the current budget has directed the Infrastructure Finance Company Limited (IIFCL) to evolve a 'Takeout financing' scheme in consultation with banks to facilitate incremental lending to the infrastructure sector. IIFCL will refinance 60% of commercial bank loans for Public Private Partnership (PPP) projects in critical sectors over the

next fifteen to eighteen months. IIFCL and Banks are now in a position to support projects involving a total investment of Rs.100000 crore.

One of the major programs that received higher Budget allocation was the National Highways Development Programme (NHDP), in which budgetary support to National Highways Authority of India (NHAI) was increased by 23% to Rs 8578.45 crore over Rs 6972.47 crore in 2008-09. Towards improved road infrastructure in the country, allocations under Pradhan Mantri Gram Sadak Yojana (PMGSY) were increased by 59% to Rs.12000 crore. The allocation for railways was increased from Rs 10800 crore in the Interim Budget presented earlier this year to Rs 15800 crore for this fiscal. (46.29% increase). Allocation for the Jawaharlal Nehru National Urban Renewal Mission has been increased by 87 per cent to Rs.12887 crore.

A new scheme, Rajiv Awas Yojana will be introduced with an aim to make the country slum- free in the next five years. Allocation for housing and provision of basic amenities to urban poor enhanced to Rs.3973 crore in 2009-10. This includes the provision for Rajiv Awas Yojana (RAY).

In order to develop oil and gas infrastructure in the country, the Government proposes to develop a blueprint for long distance gas highway leading to a National Gas Grid. This would facilitate transportation of gas across the length and breadth of the country. Allocations for the Brihan Mumbai Storm Water Drainage Project (BRIMSTOWA), initiated in 2007 and funded through Central Assistance to address the problem of flooding in Mumbai, has been enhanced from Rs.200 crore (as per the interim budget estimates) to Rs.500 crore.

It is a well-known fact that the power situation in the country is worsening day by day. Allocation under Accelerated Power Development and Reform Programme (APDRP) got a major boost with the finance minister proposing a 160% increment, taking the allocation for this scheme to Rs 2080 crore this fiscal. Under Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY), allocation increased by 27% to Rs.7000 crore. It is to be noted that RGGVY aims to provide electricity access to all villages and habitations as per new definition, to all rural households and to Below Poverty Line (BPL) families, free of charge.

Moving the country towards an inclusive growth path, allocation under Indira Awas Yojana (IAY) increased by 63% to Rs.8800 crore and allocation of Rs.2000 crore was made for Rural Housing Fund (RHF) in National Housing Bank (NHB) to boost the resource base of NHB for refinance operations in the rural housing sector.

To facilitate flow of credit at reasonable rates, Rs.4000 crore has been provided as special funds out of Rural Infrastructure Development Fund (RIDF) to Small Industries Development Bank of India (SIDBI). This will incentivise Banks and State Finance Corporations (SFCs) to lend to Micro and Small Enterprises (MSEs) by refinancing 50% of incremental lending to MSEs during the current financial year.

Allocations were also directed towards various organizations under the ministry of civil aviation including Airport Authority of India (AAI) and Director General of Civil Aviation (DGCA) to develop small and medium sized airports and promote aviation security in the country.

Other policy initiatives for the shipping industry were also mooted as part of which a separate ministry for shipping has been contemplated that will spearhead the government's initiatives for this vital industry. The government expects more public private partnership projects in building ports and facilitation of speedier acquisition of ships and equipments in its 100-days action plan. A large investment of around Rs.45000 crore has been made towards shipping and inland water transportation projects.

Export Growth and other schemes

A series of initiatives has been announced which will go to boost exports in the economy, ranging from enhanced assistance towards Export Credit and Guarantee, allocations for market development assistance to flow of interest relief to exporters for facilitation of export growth. Initiatives also include enhancing allocations for Rural Infrastructure Development Fund (RIDF) and incentivizing Banks and State Finance Corporations (SFCs) to lend to Micro and Small Enterprises (MSEs) by refinancing at least 50% of incremental lending to MSEs during the current financial year.

Medium to long term sustainability

Initiatives have been taken and allocations made to ensure wider availability of a broad range of fertilizers to farmers at affordable prices. This will be achieved through direct transfer of subsidy to the farmers that will encourage them to generously use fertilizers and improve yield. With an objective to rationalize the petroleum and diesel pricing policy, the government has set up an expert group to advise the government on a viable and sustainable system of pricing petroleum products that would best suit our economy.

A large thrust has been provided towards privatization of public sector units in this budget. Easing of regulations in the banking sector has also been

announced. Scheduled commercial banks are now allowed to set up off-site ATMs without prior approval, subject to reporting. A sub-committee of State Level Bankers Committee (SLBC) has been set up to identify and formulate an action plan for providing banking facilities in under-banked areas, over the next three years.

Agricultural Development

The government has set a target of Rs.325,000 crore for the year 2009-10, which is more than 7% above last years' allocations. Programmes have been directed towards debt relief to farmers by extending the time limit for repayment by six months to December 2009. A special task force has also been set up to examine the issue of debt taken by a large number of farmers in some regions of Maharashtra from private money lenders and assess possibilities of government intervention. Allocation under Accelerated Irrigation Benefit Programme (AIBP) has been increased by 75%.

Inclusive Growth

The Swarna Jayanti Gram Swarozgar Yojana (SGSY) restructured as National Rural Livelihood Mission is focused towards time bound poverty eradication by 2014-15. In addition to capital subsidy at enhanced rates, interest subsidy to poor households has been provided for loans upto Rs.1 lakh from banks.

The corpus of Rashtriya Mahila Kosh is proposed to be increased from Rs.100 crore to Rs.500 crore over the next few years. A National Mission for Female Literacy has been proposed to be launched with focus on minorities, SC, ST and other marginalized groups with the aim of reducing the level of female illiteracy to half in three years' time.

To enable students from economically weaker sections to access higher education, a scheme to provide full interest subsidy during the period of moratorium has been introduced. This will cover loans taken from scheduled banks to pursue any of the approved courses of study in technical and professional streams from recognized institutions in India.

Initiatives towards welfare of workers in the unorganized sector have also been taken; action has been initiated to ensure implementation of social security schemes for those occupied as weavers, fishermen and women, toddy tappers, leather and handicraft workers, plantation labour, construction labour, mine workers, bidi workers and rickshaw pullers.

Allocation under National Rural Health Mission (NRHM) has been increased by Rs.2057 crore. All BPL families are to be covered under the Rashtriya

Swasthya Bima Yojana (RSBY), allocation for which has been increased by 40%.

Significant efforts are also being directed towards environment and climate change. In continuation of the National Action Plan on Climate Change, eight national missions representing a multi-pronged, long-term and integrated approach will be launched. Budgetary allocation under National River and Lake Conservation Plans has increased from Rs.335 crore to Rs.562 crore in the current budget allocations. A special one-time grant of Rs.100 crore has been given to the Indian Council of Forestry Research and Education, Dehradun.

Institutional Development

The Unique Identification Authority of India (UIDAI) has been constituted to set up an online database with identity and biometric details of Indian residents and provide enrolment and verification services across the country. A provision of Rs.120 crore has been made for this in the Budget. The first set of unique identity numbers is expected to be rolled out in 12 to 18 months. Additionally, an amount of Rs.430 crore has been provided to modernize police machinery in the States and to enhance national security. Rs. 2284 crore has also been proposed for construction of fences, roads and floodlights on the international borders.

Tax Proposals

A number of tax proposals have also been introduced as a part of this budget. Share of direct taxes in the Centre's tax revenues has increased to 56 percent in 2008-09 from 41 percent in 2003-04. This shows that structural changes in direct taxes have been taking place. Further, the government will propose additional changes by releasing the new Direct Taxes Code within the next 45 days. The structure of indirect taxes is also expected to be rationalized by accelerating the process for smooth introduction of the Goods and Services Tax (GST) with effect from 1st April, 2010.

The Budget Financials

Budget 2009-10 has a total expenditure outlay of Rs.1, 020,838 crore; this is more than 35% higher than the budget allocations made last year. A large part of the increase can be attributed directly to the implementation of the Sixth Central Pay Commission recommendations, increased food subsidy and higher interest payment arising out of larger fiscal deficit in 2008-09. On the revenue side, the gross receipts from the tax is budgeted at Rs.641,079

crore for the year 2009-10 as against Rs.687,715 crore for the last year. This increases the fiscal deficit from around 2.5% of GDP during the last year to close to 7% of the GDP for the year 2009-10.

Conclusion

Overall, the budget reflects the commitment of the current government to pull the economy out of the slowdown and chart a clear roadmap for a sustained long term 'high growth' plan. To that end, there has been a significant increase in spending, which has resulted in the ballooning of the fiscal deficit as a percentage of GDP. This increase in fiscal deficit was perceived negatively by the Indian corporate sector causing the Sensex to drop by close to 900 points on a single day, which led many to discount the budget as being unfavourable for industry! However, the finance minister has clarified that he has consciously incorporated high spending with a clear objective to boost spend and pull the economy out of the slow down; this will inevitably increase fiscal deficit in the short term, which has to be managed as the economy picks up momentum.

The allocations to infrastructure and agriculture are considered reasonable, but the extent to which these would actually be spent is something that only time shall reveal. The primary shortcoming comes from the lack of an efficient administrative mechanism that would call for tenders, shortlist and bid-out the jobs so that the funds allocated would actually be spent!

One can only hope that the implementation mechanism of the various schemes introduced is streamlined and the actual budget allocations are spent during the year for the intended purpose. This is where the track record of the government needs to be enhanced and will be under scrutiny.