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The Budget does make the govt's balance sheet look stronger, but there's a long way to go

DR DOGRA,
MD & CEO, Credit Analysis and Research Ltd (CARE Ratings)

The finance minister had multiple trade-offs when formulating the Union Budget. He could have rolled back on the fiscal stimulus. This would have meant raising tax rates and cutting expenditure. At the same time, there was the objective of growth, which was hinted at by the Economic Survey. Then there was inflation that had to be tackled through the fiscal route. Amidst all this, was the fiscal deficit number which could have been the target.

The FM has quite rightly chosen the fiscal deficit as his starting point and worked the Budget around this number. The fiscal deficit came out to be lower than what was expected in FY11 due to fortuitous circumstances as well as a buoyant economy. Growth was good, which increased tax collections. But, the 3G auctions brought in the money for the government while the revision in the GDP (gross domestic product) numbers made the ratio more acceptable at 5.1%. The direction for the journey this year has clearly been to lower this ratio further. The rest of the numbers have been centred on this ratio of 4.6%. Does the balance sheet look stronger?

Lets us look on the positive side. Total expenditure has sort of been frozen at last year's level. Within this number he has tried to make the funds work better through focus on core infrastructure and agriculture. Last year we had the food inflation problem mainly due to the failure of physical infrastructure in agriculture, which has been sought to be addressed this year. Admittedly, this cannot be a one-year effort and the momentum has to be built around this area. Infrastructure continues to be a major challenge and here the focus should be on the use of funds in an effective manner and hence we need to look beyond just the numbers that are presented in the Budget.

The revenue deficit too has been kept under control by the FM at the same level as last year, which was unavoidable since he was not willing to raise tax rates, which on a higher growth base, would have helped to lower this ratio. In this effort the FM has put the subsidies number at less that that of fiscal year 2010-11, though there is a question mark over how the high oil prices would be addressed in this situation. Clearly, this can be the joker in the pack that can upset the calculations.

Interest payments continue to be high at ₹2,67,986 crore, and while the gross borrowing programme is lower this year relative to last year, the fact that the debt level is increasing is cause for concern. While slowing down the amount of borrowings is a right step, the pedal has to be relaxed gradually to ensure that there is more leeway in future. As long as our public debt keeps increasing, this problem will persist. Quite clearly, the government has to work in this direction more effectively.

On the positive side again, the fiscal deficit has been lowered, but this has to be hastened. This amount was around ₹1.27 lakh crore prior to the financial crisis when the government embarked on the rollback programme. We now have to move faster towards this mark or otherwise, it will be a constant battle to match resources for enhanced government expenditure.

On the whole it may be stated that the Budget does make the government's balance sheet look stronger relative to last year, but there is a long way to go as we need to go back to the pre-crisis levels in terms of absolute numbers. As this year could be one for consolidation, the government should roll back the deficit in absolute terms at a faster pace in fiscal year 2012-13 and fiscal year 2013-14 and look hence, beyond ratios.