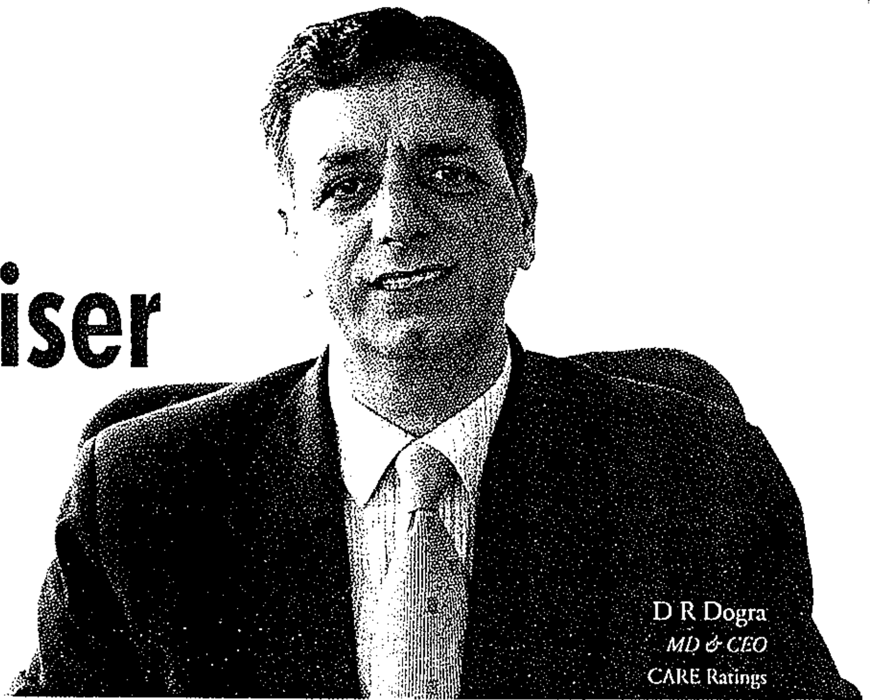
Budget 2011-12
A Curtain-Raiser



With the inflation level becoming a priority issue for the government, the focus in this year's budget may well be on maintaining fiscal discipline than on introducing fresh tax regimes

The Union Budget to be presented later this month will be an important one for more than one reason. The Direct Tax Code is already in place and will not be implemented this year, but later. We also know that the GST will not be implemented this year. Therefore, while the roadmap on taxes is clear, we also know that nothing significant can happen this year. Any change relating to specific sectors or industry would be need-based, i.e. to address broader issues like inflation or growth. The focus will hence be more on fiscal discipline and streamlining of expenditure, because these have been the two outcomes this year that have to be taken forward.

Fiscal discipline and reverting to FRBM would be the top priority and efforts will be on to lower the fiscal deficit ratio further. Since the expenditure pattern in FY11 has been under control and tax collections buoyant, one could expect a much lower revised fiscal deficit for FY11 which will be between 4.5-5.0 per cent. The budget for FY12 will obviously work backwards on this number and scale it down by 50-75 bps. This done, two constraints would have to be kept in mind. The first is that the bonanza that was procured on account of the 3G auctions, which was a surplus of ₹60-70,000 crore, will not be there this year and hence one comfort point would be missing.

Second, while the disinvestment programme of the government started off on a bright note, there has been a slowdown since November and given that the stock market will be in state of flux for the next few months as the global economic situation has become fluid, budget targets will have to be less ambitious and probably scaled down for FY12. On the expenditure side, the government has to focus on two areas, which cannot be avoided given the state of the economy. The first relates to development expenditure wherein the emphasis has to be in two areas. The first is agriculture and the second, general improvement of the poor.

While agricultural performance this year has been satisfactory, it is still sub-optimal in the sense that it is lower than the previous peaks achieved. Quite clearly, the government has to work towards enhancing productivity and making this sector more resilient. More specifically, commodities like oilseeds and pulses should be focused on while the recent crisis in fruits and vegetables is a wake-up call for improving the logistics structures in agriculture, particularly, cold storage. This will be the main focus activity for the year in this budget. The other area is of course the spending on the poor. Here the NREGS will continue to play an important role and the budget should definitely not be reduced and be increased to ensure that inclusive growth takes place.

This has been a successful story for the government so far and should be persevered with. Also the government should try and make this scheme more effective by using labour employed under this scheme in more productive activity. Here the link between agricultural development and employment can be strengthened by remodeling the NREGS. The other major challenge for the government within expenditure is tackling subsidies. Presently the food subsidy bill is high and while there is a need to improve the delivery aspect, the concept cannot be debated as it is targeted for the poor. Here, the government will have to continue with the scheme until such time that the UID scheme is in place.

But, the more critical decision that

Points To Note

- **Efforts will be on to lower the fiscal deficit ratio further.**
- **Commodities like oilseeds and pulses should be focused on while the recent crisis in fruits and vegetables is a wake-up call for improving the logistics structures in agriculture.**
- **The link between agricultural development and employment can be strengthened by remodeling the NREGS.**

Dalal Street Feb. 27, 2011

has to be taken pertains to fuel subsidy. While the government earlier this year did go in for partial decontrol and also increased the price of diesel, it had to back-track recently on account of higher inflation. Given that the world oil prices will remain high for most of 2011, and that inflation in India will at best decline only very gradually, this provision may be a necessary evil to live with for one more year. This, along with higher interest payments, will pose challenges as high inflation will also keep interest rates in the upper zone. While these expenditures would be necessary either out of compulsion or design, there could be only minor tinkering on the tax side as the basic rules have already been set by the tax codes.

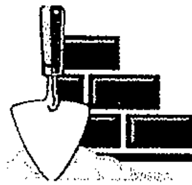
The government will have to hope for steady growth to ensure that tax collections would be steady and able to meet these expenditures. Therefore, all in all, the formulation is going to be a challenge given the necessity of spending more while not having too much flexibility except at the margin or temporary measures to change tax rates in a minor way. Other extraneous sources of funds also may not be easily coming like 3G auctions or disinvestment. At the same time, there is opportunity as well as fiscal pressure to lower the deficit. The fact that the deficit will be lower in FY10 will by itself set higher standards and challenges for the coming year.

My views on the budget expectations for different industries are placed below:

Oil & Gas

The oil & gas industry is expecting a duty re-jig in a manner to reduce the subsidy burden in the current scenario of rising crude oil prices. However, given the concerns over the fiscal deficit, CARE Research does not expect any major changes in the duty structure. The industry also expects some autonomy in fixing diesel prices. We believe that the probability of the same is also low, as diesel is used in the transportation sector and any rise in the diesel prices would push up the inflation level.

Cement



Even though cement is an essential input for infrastructure development, it is one of the highly taxed commodities. To keep the growth momentum, the cement industry is seeking a uniform excise duty structure (change from combination of fixed and ad-valorem to uniform rate) as also an abatement on the excise duty (currently charged on a MRP basis) so that the benefit of reduction in excise duty can be passed on to the consumers. The cement industry is also wishing for the abolition of the 5 per cent import duty on coal, pet coke, and gypsum and a reduction in value added tax (VAT) from 12.5 to 4 per cent. The industry desires that the government promote low-cost housing and infrastructure development which will boost the cement demand in the country.

Fiscal discipline and reverting to FRBM would be the top priority and efforts will be on to lower the fiscal deficit ratio further. Since the expenditure pattern in FY11 has been under control and tax collections buoyant, one could expect a much lower revised fiscal deficit for FY11 which will be between 4.5-5.0 per cent. The budget for FY12 will obviously work backwards on this number and scale it down by 50-75 bps.

Steel Industry

Both the public and private sector steel companies are currently into an expansion phase to meet the ambitious target of the Ministry of Steel to double its domestic steel capacity within the next few years. In the upcoming budget, in order to secure their raw material requirements, the players in the industry expect an imposition of a uniform export duty of 20 per cent on iron ore. The industry players are also expecting withdrawal of clean energy cess of ₹50 per tonne on all domestically produced and imported coal.

Gems & Jewellery

The industry expects it to be allowed to import gold under the open general license (OGL) and also zero duty on gold imports. Gold imports under OGL will allow jewellers and jewellery manufacturers to import directly at lower costs. Also, introducing zero duty regimes on gold imports will enable jewellers to shift the world trade to India. ID cards in the form of smart cards should be allowed for making the transit of jewellery easy and safe across the country.

Sugar

The sugar industry is completely regulated in India. The industry expects deregulation to a certain extent to reduce the cyclicality in the industry. Sugarcane prices can be linked to the prices of sugar and its by-products. This will benefit both the farmers and the companies. With the country already facing a power shortage, the sugar industry is hoping to get extension for income tax exemption for cogeneration projects by another five years i.e. up to March 31, 2015.

(Wish to comment on this article? Send your feedback to comment@dsij.in)