Asia Pacific Journal of Research in Business Management
Vol. 12, Issue 3, March 2021 Impact Factor: 6.737,ISSN: (2229-4104)
www.skirec.org Email Id: skirec.org@gmail.com

GROWING OPTIMISM ON GLOBAL GROWTH PROSPECTIVES. INDIAN ECONOMY UPBEAT BUT WITH CAVEATS

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Economic crisis: warning signals ignored

The IMF's role before the crisis has come under critical scrutiny in a new report from the Fund's independent evaluation office. The response blames the Fund's dogmatic belief in the apparent invincibility of the financial system of the West as it existed then, as the principal cause for failure to spot the warning signals leading to the crisis

The IMF's internal report blames the Fund for its failure to think independently on economic surveillance Instead in the pre-crisis period it found the US line by focusing on exchange rate misalignment and current account imbalances, thereby, directly pointing a finger at China and a few other leading emerging economies

It is true that these have been among the causes of the global imbalance but by ignoring the housing and the facial bubble building up in the US and other advanced economies, the IMF was doing itself a great disservice

Global growth may not be sustained

The global economy presents a mixed picture at the end of the year On the positive side, economic growth has been better than what most forecasters had expected a year ago Indications are that the world output would increase by 5 per cent in 2010, well above its recent tread rate Economic recovery is colobrated by the renewal of investor confidence in many parts of the world.

The developing economies have been in the forefront of the recovery but their future growth depends to a large extent on the developed economies. The point is relevant for India too Though India's exports as a proportion of GDP are small, any contraction in demand in the principal markets the US and Europe will have major negative impact. Besides, as seem so well during the financial crisis, external shocks arising from the western world can have systemic implications even for banks in the developing countries

Upbeat but with caveats

The IMF expects India's growth prospects to remain strong over the medium text. Rapid growth is expected to be supported by high investment and productivity gains Most of the downside risks relate to the global economySurging capital inflows could spur further investment, but could also complicate macroeconomic management Sustaining rapid growth over the medium term will depend among others, on efforts to facilitate infrastructure investment such as deepening the corporate food market and lowering the cost of doing business. It is equally important to improve social indicators, even while carrying out fiscal consolidation Few will disagree with the IMP's view that improving social outcomes and strengthening infrastructure are the two key pillars of a strategy to achieve rapid and inclusive growth in India India's banking system is resilient and well capitalized However, there is a need to constantly monitor asset quality especially when prudential norms for infrastructure are eased.

Growing optimize

As the recovery gathers pace, the reports of the IMF and the World Bank have tended to strikea progressively cheerful note. There are caveats, to be sure. The industrial nations as well as the emerging economies continue to face significant, if very different, downside risks. Also, there has been no marked improvement in the uneven growth pattern noticed acrose regions. The emerging economies outstripped the developed cons by 4:2 percentage points in 2010, and this the IMF describes as the continuation of a "two speed" growth process

The IMF, in its latest report, projects a 4.5 per cent rise in global output in 2011 the figure in 0.25 percentage point above its October forecast. The mark-up is attributed to the stronger-than-expected economic activity during the latter half of 2010 The rise of China

It is official Measured in terms of nominal GDP crarverted to dollars at official exchange rates, China has, in 2010, overtaken Japan as the world's second largest economy Figures from Japan released this week showed that Japan's nominal gross domestic product was worth $5,474 billion in 2010 compared with China's $5,879 billion. This is indeed a significant milestone For many years before that China had been ahead of Japan only when GDP was acasured in purchasing power parity terme FPP is an indicator that takes into account relative prices and therefore

With regard to the much-acclaimed Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), the Survey suggested further improvement such as shifting to permanent asset building and infrastructure development activities, reduction in transaction costs, better monitoring and extension of the scheme to urban areas Survey projects 9% growth next fiscal

Barring inflation which continues to remain the government's "priority" concern, dhe Economic Survey 2010-11 on Friday painted quite a rosy macroccotonic scenario projecting a robust CDP (gross domestic product) expansion of nine per cent (0.25%) next fiscal reverting to the pre-global crisis growth levels even in the wake of downside risks emerging from the current spike in oil prices owing to turmoil in the Arab world.

Tabled in Parliament by Finance Minister Pranab Mukherjee, the pro-budget Economic Survey, like the PMEAC, also favoured a gradual rollback of the stimulus measures which were extended to industry to combat the slowdown that had set in following the global financial crisis in 2008-09.

Stating that the economy would grow by 8.6 per cent during the current fiscal, up from eight per cent a year ago, the Survey said "It is expected that the growth will breach the 9 per cent mark in 2011-12"

However, for this to happen, it suggested a slew of reforms which include streamlining of land acquisition and environmental clearance norms so as to speed up planning and implementation of infrastructure projects these being a crucial driver of overall economic growth Cautiously optimistic

Despite this, the economy is poised to grow at rates soen during the pre-crisis period. On top of an estimated 8.6 per cent growth during the current year, the economy is projected to grow at 9 per cent during 2011-12.

The services sector, for long "the power house of the economy" with a more than 57 per cent share of the GDP in 2009-10, has started gaining momentum The Survey notes that once the economy operates around full capacity, it is not the savings and investment rates that will drive growth but skills development and innovation.

The major downside risks to growth are weather, a disproportionate spike in petroleum prices, and a slowdown in the advanced economies Inflation and a large current account deficit are major concerns The Survey cautions that higher growth and a faster monetisation of the economy, through financial inclusion may mean increased money supply and hence more inflationary pressures. It has recommended a phased entry of foreign direct investment in multi brand retail, apparently in response to the concerns of farmers and

consumers That should also add to stable capital flows Given its upbeat tone on growth, the Fmance Minister is expected to meet the fiscal targets As part of its reform agenda, the Survey calls for a streamlining of land acquisition and environment clearance procedures, using start cards to target subsidy payments and issuance of basic banking franchees There should be an umelenting thrust on infrastructure development. None of these is new or visionary but the Survey has stressed the doable and underlined the priorities in a way that demonstrates pragmatism

Under-estimated outlays

lo what is secure as the sharpest ever fiscal correction attempted by any government in two decades, the fiscal deficit, which is estimated at 5.1 per cent of the GDP this year, is proposed to be brought down further to 4.6 per cent next year. Since successive governments have, as a rule, under- performed on fiscal consolidation, the planned reduction in deficit appears to be nothing short of the spectacular The 2010-11 target of 5.1 per cent could be achieved because of the large collections from the auction of spectrum for third generation telecom services (36) and broad band services These two have contributed almost 13 per cent of the GDP which means that without them the deficit would have been ar high as 6-4 per cent Frame policies to sustain consumer demand: industry

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With the threat of a double dip recession looming large and fears of another slowdown in western countries India Inc's progression is based on Pranab Mukherjee's ability to sustain consumer demand and provide a stable interest rate environment

Apart from effective supply side measures to plug loopholes, the focus must be on enhancing agriculture production and productivity The call is for a 150 per cent tax exemption ou expense incurred on new technology and inputs in agriculture sector and 100 per cent depreciation on all investments in physical assets

To boost infrastructure, industry bodies have demanded that the levy of MAT on infrastructure companies be done away with particularly because it was diluting the incentives received under section 80-1A of the income tax Act

The Construction Federation of India (CFD) has pleaded capital gains tax exemption for special purpose velucie (SPV) companies on the lines of exemptions provided to listed companies under Sec. 10038) of Income Tax Act In addition, it has sought that the construction industry should be entitled for the benefit of additional depreciation which is now extended to the manufacturing industry under Sec 32(a) of the Act.To attract large scale private investment in the healthcare sector, a tax holiday benefit should be for ten years, especially to boost medical facilities in Tier 2 and Tier citie cent in the current fiscal ending March 2011 This is higher than 8 per cent growth recorded in fiscal 2009-10 The country's population is expected to increase to 118.6 crore at the end of March 2011 from 117 crore in fiscal 2009-10

Striving for a balanced growth

The growth in GDP will be higher at 86 per cent in 2010 11 against 8 per cent and 675 per cent in the two previous years. The brisk recovery in the agricultural sector took place following the satisfactory behavior of the monsoon Agricultural production is estimated to be higher by 54 per cent in the 2010-11 season against 0.4 per cent previously Industrial output will be rising by 8.6 per cent while the services sector will post a 9.6 per cent increase. It is assumed that the performance of the agricultural sector will again be creditable in the 2011-12 season and the industrial and services sectors will be improving on the performance of 2010-11 The growth in GDP in the next financial year is expected to be higher at 9 per cent, thus enabling the economy to be placed in the earlier growth path

On the basis of the revised estimate, the targets under various beads will be comfortably exceeded there being an increase of Rs 40,237crore in gross tax revenue over the budget estimate or 35 43 per cent of the easiest visualized growth. This measure of growth in tax receipts over the budget estimate has not been witnessed in recent memory As there was also a bonanza in nontax revenues, the Finance Minister could easily incur revenue expenditure on a big scale and yet reduce the revenue deficit to Rs 2.70 lakh crore from Rs 2.77 lakh crore.

The reaction to the budget proposals in the bourses has of course bean favourable as it is felt in knowledgeable

GDP growth for 2009-10 revised up to 8%

Gram Domart Profect

Income

The country's GDP at factor cost at constant (2004-05) prices in 2009-10 is estimated at Rs 44.94 lakh crore as against Rs 41,63 lakh crore in 2008-09, which works out to an overall economic growth of 8 per cent during the year At current prices, however, it is estimated much higher at Rs 61.31 al herore as against Rs.52.82 lakh crore in 2008 09 to show an increase of 16 1 per cent for the year

Although the higher GDP growths in 2009-10 signats a faster economic recovery from the slowdown in the wake af the global financial crisis, it also goes on to provide un adverse statistical impact by way of a high base effect to pull down the anticipated growth during the current fiscal (2010 11) to the low or end of the 8 5:9.0 per cent range
The CSO data showed that the per capita income (per capita net national income at factor cost) in real terms (at 2004-05 prices), is estimated at Rs 33.731 for 2009-10 an against Ra 31.801 in 2008-09 to mark an increase of 6.1 per cent during the year, the CSO data showed

At current prices, however it is estimated at Rs 46,492 during the year as against Rs.40,605 for the previous year to post a growth of 14.5 per cent

However, in respect of the household sector, the rate of saving stands decreased from 23.8 per cent to 23 5 per cent In absolute terms, the saving of the household sector has increased from Rs 1331 lakh crore in 2008-09 to Rs 15:36 lakh crore in 2009 10

Policy Imperatives for growth

The World Economic Situation and Prospect 2011 in its global outlook points out that, although the weaknesses of the developed world were offset by the growth in the emerging economies, neo main challenges remain. These include the dangers posed by premature fiscal consolidation in the developing world and the valid concerns over the ability of the emerging world to sustain its performance, particularly given its dependence on developed markets For the developed economies, which could risk sliding into a possible double-dip if they continue with their present monetary and fiscal policies, the answm lies in coordinated fiscal stimuli in the short run, rather than early fiscal consolidation

Surveyoutlines reform agenda for accelerated growth

The Economic Survey 2010-11 has advised the government to carry out nearly a dozen reforms pertaining to various sectors of the economy and stressed that action in this regard would be necessary to achieve the 9 per cent GDP (gross domestic product) expansion projected for 2011-12 and further acceleration in economic growth in the years to come

Other major reform initiatives suggested include streamlining of environment clearance for infrastructure projects, the need for an early introduction of GST for "efficient taxation" of goods and services and the dire necessity of a second Green Revolution' with technological break through in the farm sector.

Expressing concern over delays in execution of projects owing to tussles between ministries such as coal and power in cases where the Ministry of Environmens and Forest has raised certain policy issues, the Survey suggested an urgent need to streamline land acquisition and environment clearance for infrastructure projects In this regard, it also called for creation of a National Forest Land Bank with clear paper work and title to reduce the approval unsecure for forest clearance

the much-acclaimed Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), the Survey suggested further improvement such as shifting to permanent asset building and infrastructure development activities, reduction in transaction costs, better monitoring and extension of the scheme to urban areas.

Survey projects 9% growth next fiscal Barring inflation which continues to remain the

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Tabled in Parliament by Finance Minister Pranab Mukherjee, the pre-budget Economic Survey, like the PMEAC, also favoured a gradual rollback of the stimulus measures which were extended to industry to combat the slowdown that had set in following the global financial crisis in 2008-09

Stating that the economy would grow by 6 per cent during the current fiscal, up frem eight per cent a year ago, the Survey said: "It is expected that the growth will breach the 9 per cent mark in 2011-12"

However, for this to happen, it suggested a slew of reforms which include streamlining of land acquisition and environmental clearance norms so as to speed up planning and implementation of infrastructure projects, these being a crucial driver of overall economic growth Cautiously optimistic

Despite this, the economy is poised to grow at roles seen during the pre-crisis period. On top of an estimated 8.6 per cent growth during the current year, the economy is projected to grow at 9 per cent during 2011-12

The services sector, for long "the power house of the economy", with a more than 57 per cent share of the GDP in 2009 10, has started gaining momentum. The Survey notes that once the economy operates around full capacity, it is not the savings and investment rates that will drive growth but skills development and innovation

The major downside risks to growth are weather, a disproportionate spike in petroleum prices, and a slowdown in the advanced economies Inflation and a large current account deficit are major concerns The Survey cautions that higher growth and a faster monetisation of the economy, through financial inclusion, may mean increased money supply and hence more inflationary pressures. It has recommended a phased entry of foreign direct investment in multi-brand retail, apparently in response to the concerns of farmers and

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In what is seen as the sharpest ever fiscal correction attempted by any government in two decades, the fiscal deficit, which is estimated at 5.1 per cent of the GDP this year, is proposed to be brought down further to 4.6 per cent next year. Since successive governments have, as a rule, under- performed on fiscal consolidation, the planned reduction in deficit appears to be nothing short of the spectacular. The 2010-11 target of 51 per cent could be achieved because of the large collections from the auction of spectrum for third generation telecom services (3G) and broad band services. These two have contributed almost 13 per cent of the GDP. which means that without them the deficit would have been as high as 6.4 per cent Frame policies to sustain consumer demand: industry

With the threat of a double dip recession looming large and fears of another slowdown in western countries, India Inc's progression is based on Pranab Mukherjee's ability to sustain consumer demand and provide a stable interest rate environment.

Apart from effective supply side measures to plug loopholes, the focus must be on enhancing agriculture production and productivity The call is for a 150 per cent tax exemption on expense incurred on new technology and inputs in agriculture sector and 100 per cent depreciation on all investments in physical assets

To boost infrastructure, industry bodies have demanded that the levy of MAT on infrastructure companies be done away with particularly because it was diluting the incentives received under section 80-1A of the Income tax Act

The Construction Federation of India (CFT) has pleaded capital gains tax exemption for special purpose vehicle (SPV) companies on the lines of exemptions provided to listed companies under Sec 10(38) of Income Tax Act.

In addition, it has sought that the construction industry should be entitled for the benefit of additional depreciation which is now extended to the manufacturing industry under Sec. 32(a) of the Act.

To attract large scale private investment in the healthcare sector, a tax holiday benefit should be for ten years, especially to boost medical facilities in Tier 2 and Tier-3 cities

Industry also favours encouragement to FDI particularly in the retail sector as entry of foreign players will open up greater competition. Their entry should be done with the stipulation that these chains would work closely with farmers to improve their productivity Industrial growth planges to 1.6%

For agriculture and allied activities to achieve a growth The industrial production plunged to a 20-month low rate of four per cent per year, the sectos must grow at 8.5 per 1.6 per cent in December against 181 per cent growth cent during 2011-12

ouring the same period last year, notwithstanding the 8.6

per cent GDP growth being projected by the government. The Index of Industrial Production (ILP) had grown by 18 per cent during the same period last year, making it a daunting challenge to maintain the expansion momentum this fiscal due to the high base

The manufacturing segment, which has a weight of about 80 per cent on the IIP, managed to grow barely by one per cent in December against 19.6 per cent growth a year ago. The capital goods sector, reflecting investment. contracted to (-) 13.7 per cent in the said month against an impressive 42.9 per cent expansion a year ago

Mining growth fell to 3.8 per cent in December from 111 per cent in the same period of the previous year. Electricity generation grew by 6 per cent compared to 54 per cent. In terms of industries, 12 out of 17 industry groups achieved positive growth in December Phased opening of FDI in multi-brand retail favoured

The Economic Survey 2010-11 has favoured phased opening of foreign direct investment (FDI) in multi-brand retail to address the concerns of consumers, farmers and declining FDI inflows

At present India allows 100 per cent FDI in cash and carry wholesale trading, while it is prohibited in multi brand retail Up to 51 per cent FDI has been allowed in single brand retail since 2006

Global retail giants such as Walmart, Carrefour and Tesco have been pitching for opening FDI in multi-brand retail to that they can tap the immense potential this country offers Globally, FDI in retail is permitted in countries such as Brazil, Argentina, Singapore, Indonesia, China and Thailand without any limit on equity participation, while Malaysia has equity caps Survey silent on Food Security Bill

The chapter on Agriculture and Food Management talks of supply-side constraints, the need to feed a growing population, the procurement and off take of foodgrains, buffer stocks of foodgrains, food subsidy, the targeted public distribution system (TPDS), and the central issue price (CIP) of foodgrains, but makes no mention of the proposed bill or any projections of foodgrain availability and requirements for food security

"Increasing agriculture production and productivity is a necessary condition not only for ensuring national food security, livelihood security and nutrition security but also to sustain the high levels of growth envisaged in the curren Plan"

Highlights of Railway Budget 2011-12

No hike in passenger fare and freight rates Ra9,583crore for new lines.

1300 km new lines, 867 km doubling of lines & 1017

km gauge conversion targeted in 2011-12 A new portal for e-ticketing to be launched shortly. Booking charges will be cheaper with a charge of only .

Rs 10 for AC classes and Re5 for others 236 more stations to be upgraded as Adarsh Stations

Two new passenger terminals in Kerala and one each in

UP and West Bengal proposed. Feasibility study to raise speed of passenger trains to

160-200 kmph to be undertaken Anti-Collision Device sanctioned to cover ciglit zonal railways

• GPS-based "FogSafe Device to be deployed The eligibility criteria for manning level crossings have been lowered from 6,000 train vehicle units to 3,000 TVUs

• All-India Security Helpline on a single number set up A bridge Factory in J&K and a stateof-the-art Institution for Tunnel and Bridge Engineering in proposed at Jammu

Adiesel Locomotive Centre will be set-up in Manipur A scheme for socially desirable projects, Pradhan Mantri Rail Vikas Yojana' with non lapsable fund, proposed

10,000 shelter units proposed for track side dwellers in Mumbai, Sealdah, Siliguri, Tiruchirapalli on pilot basis. Concession to physically handicapped persons to be

extended on Rajdhani and Shatabdi traina • Concession of 50% to press correspondents with family increased to twice a year

• Medical facilities extended to dependent parents of the Railway employees.

Scholarship for girl child of Group-D railway employees increased to Rs 1200 a month.

20 additional hostels for children milway employees to be set up

2011-12 declared Year of Green Energy for

Railways

Central budget: need for effective medium-term fiscal policy

It is generally accepted that a mild inflation in the interest of growth is necessary in inflation targeting But policy makers have to find a night balance between boosting demand and growth without over stimulating the economy. To achieve this, monetary and fiscal policies have to be worked out in tandem Monetary policy works effectively in controlling inflation when the fiscal situation is under control. The latest Third Quarter Review of the RBI has pointed out that the combined risks from inflation, current account deficit and fiscal situation contribute to an increase in uncertainty, which the consumers and investors will have to deal with. It is relevant to note that the expectations also play a key role in determining inflation

Economic implications of the Union budget

The fiscal deficit is higher at Rs. 4 lakh crore in the Revised Budget 2010-11 against 3.81 lakh core in 2010-11 Budget Estimate. Also in 2011-12 Budget it is even placed. higher at Rs 4.12 lakh crore

The total expenditure in RE 2010-11 is Rs 12 16 lakh crore and in BE 2011-12 at 12 57 lakh crore as against Rs 11.09 lakh crore in BE 2010-11

According to the projections for 2013-14 given in the latest budget, revenue deficit will still be there and fiscal deficit at 3.5 per cent of GDP even after ten years of implementing the FRBM Act. What is more worrying is the approach in dealing with the causes for fiscal imbalance

In the latest budget there is a revision in the base year for calculation of the GDP by the CSO Historical estimates of the GDP have undergone a change with effect from 2004-05 Revised data show annual growth of GDP in 2009-10- increased to 8 per cent at factor cost compared with 6.8 per cent in 2008-09 Latest data puts the rate at 8.6 per cent in 2010-11 The obsession with quantitative targets has relegated the basic underlying issues on revenue and expenditure side to the backburner

The latest railway budget has imposed a heavy burden on the general budget. Also heavy borrowing from market is projected which is quasi fiscal deficit

Budget 2011-12 at a Glance

BUDGET 2011-12 AT A GLANCE

2010-11

2009-10 Actuals

2011-12 Budget

(Figure In crore)

2010-11 Revised

Budget Estimates

Estimates

Estimates

Revenue Receipts

5,72,811

6,82,212

7,83,833

7,89,892

Capital Receipts

451,676

4,26,537

4.32,743

4,67,837

Total Receipts

10,24,487

11.08,749

12.16,576

12,57,729

721.096

7,35,657

21,552

8,16,182

Non-PlanExpenditure

Plan Expenditure

Total Expenditure

3,03,391

3,73,092

3,95,024

4,41,547

10,24,487

11,08,749

12.16576

12,57,729

Revenue Deficit

338,998

2,76,512

2,69,844

3,07,270

Fiscal Deficit

4,18,482

3,81,408

4,00,998

4,12,817

Primary Deficit

2,05,389

1,32,744

1,60,241

1,44,831

Source: Budget 2011-12 document

Highlights of Central Budget 2011-12 Direct tax

Exemption limit for individual taxpayers raised from Rs.1.6 lakh to Rs 1.8 lakh, giving uniform tax relief of Rs.2,000

Exemption limit raised for senior citizens from Rs.2.4

lakh to 2.5 lakh, the qualifying age for the rebate

reduced from 65 to 60 Higher exemption limit for Very Senior Citizens (80 years and above) at Rs 5 lakh. .

Current surcharge of 7.5% on domestic companies to be reduced to 5%

Rate of Minimum Alternate Tax to be increased from

18% to 18.5% of book profits

Tax incentives extended to attract foreign funds for

financing on infrastructure

Investment-linked deduction to businesses

developing affordable housing. Net revenue loss of Rs 11.500crore estimated as a result of these proposals.

Additional deduction of Rs 20,000 for investment in long-term infrastructure bonds to be extended for one more year Indirect tax

To stay on course for transition to goods and Services Tax

Central Excise Duty to be maintained at standard rate of 10%

Nominal Central Excise Duty of 1% imposed on 130

Items entering the tax net Lower rate of Central Excise Duty enhanced from 4% to 5%

Optional levy on branded garments of made-ups proposed to be converted into mandatory levy at a unified rate of 10%

Peak rate of Customs Duty held at its current level Basic Customs Duty reduced for specified agricultural machinery from 5% to 2.5%

Basic Customs Duty on micro imigation equipment reduced from 7.5% to 5%

Rate of Export Duty for all types of iron ore raised and unified at 20% ad valorem. Full exemption from Export Duty to iron ore pellets

Basic Customs Duty on two critical raw materials of cement industry, namely 1 etcoke and gypsum, to be reduced to 25%

Full exemption from basic Customs Duty and concessional rate of Central Excise Duty extended to batteries imported by manufactures of electric vehicles.

4 Concessional Excise Duty of 10% to vehicles based on fuel cell technology

For LED lights, Excise Duty reduced to 5% and special Counter Vailing Duty being fully exempted

Basic Customs Duty on solar lanterns reduced form 10% to 5%

Relief measures for raw pistachio, bamboo for agarbati, lactose for the manufacture of homoeopathic medicines, sanitary napkins, baby and

adult diapers Service tax

Standard rate of Service Tax retained at 10%, while seeking a closer fit between present regime and its GST successor

Hotel accommodation above Rs 1,000 a day and service provided by air-conditioned restaurants that have licence to serve liquor included for levying Service Tax

Tax on all services provided by hospitals with 25 or

more beds with central air-conditioning facility Service Tax on air travel raised by Rs.50 for domestic sector and Rs.250 for international sector in economy class. In higher classes, it will be 10% flat Services provided by life insurance companies in the area of investment, and some more legal services

proposed to be brought into tax net Proposals relating to Service Tax estimated to result

in net revenue gain of Rs 4,000crore Proposals

Direct Taxes Code to be finalised for enactment during 2011-12; to be effective from April 1, 2012 Areas of divergence between Centre and States on

proposed GST narrowed. Government to move towards direct transfer of cash subsidy for people in BPL. category in a phased manner for better delivery of kerosene, LPG and fertilizers Task force set up to work out modalities for the proposed system

Rs 40,000 crore to be raised through disinvestment of Public Sector Undertakings,

76
Government committed to retaining at least 51% ownership and management control of Central Public Sector Undertakings

Women's SHGs (Self-Help Groups) Development

Fund to be created with a corpus of Rs.500 crore. Housing loan limit under priority sector lending raised

to Rs.25 lakh

Approval being given to set up 15 more Mega Food Parks To boost infrastructure development, tax-free bonds of

Rs 30,000crore proposed to be issued by government

undertakings National Food Security Bill to be introduced in Parliament this year

Allocation for Bharat Nurman Programme up by

Rs. 10,000 crore from Rs 58,000 crore Plan to provide Rural Broadband Connectivity to all 2.5 lakh panchayat in three years .

From April 1, 2011, remuneration for Angawadi workers increased from Rs. 1,500 to Rs 3,000 a month and for Anganwadi helpers from Rs.750 to Rs 1,500 a month.

Financial help for Metro projects in Delhi, Mumbai, Bangalore, Kolkata and Chennai

Illusory tax concessions

The exemption limit for the general category of taxpayers has been raised from Rs. 1,60,000 to Rs 1,80,000. providing a relief of a little over Rs.2,000

With the exemption limit raised to Rs.2,50,000 from Rs.2,40,000, this new segment of senior citizens will get over Rs 9,200 as relief. The Finance Minister has also created a new category of "Very Senior Citizens', 80 years and above, who will qualify for a higher exemption limit of Rs.5,00,000. This category can save on taxes up to Rs 26,780,

The tax saving for senior citizens may look significant. For many, however, it will be illusory Maintaining growth while checking inflation

The Government plans to step up measures to help lower-income households, particularly in rural areas, to deal with the recent sharp increase in food prices.

Mr. Mukherjee has sought to cap the increase in total budget expenditure at 3.4 per cent (over revised estimate for 2010-11) to Rs.12 60 lakh crore. The govemment has also targeted fiscal deficit for 2011-12 at 4.6 per cent of GDP, slightly less than 4.8 per cent recommended by the 13th Finance Commission in December 2009, and the revised estimate of 5.1 per cent for 2010-11 The Finance Minister has also

announced that amendments to the Fiscal Responsibility and Budget Management Bill will be introduced in 2011-12 to maintain fiscal prudence in the medium term

Strong infrastructure from farm-to-fork needed Although the Indian economy is poised to grow at a healthy 8.6 per cent this fiscal, the continued sharp decline in foreign direct investment (FDI) inflows, rising cost of exports and high prices of essential commodities, food items and their wastage during transportation from the farm to the markets need to be seriously addressed.

Farm-to-fork refers to, in the food safety field, the stages of production of food harvesting storage, processing packaging, sales, and consumption

Official data is not very encouraging with FDI inflows declming by 23 per cent to $16.03 billion in April- December 2010 from $20.87 billion in the same period in the previous year The Prime Minister's Economic Advisory Council has stated that inbound FDI could decline by 22 47 per cent to $27.6 billion in 2010-11 from $35.6 billion in 2009-10. India received FDI worth $21 billion during April- December 2010, a decline of 22 per cent over the year-ago period. The country had attracted FDI valued at $27 billion in 2009

On the other hand, Indian exports are back on the path of robust growth and the country has projected a $450 billion export turnover by 2014

The nation is all set to breach the $200 billion target and post a record $225 billion for 2010-11 However, exporters are still plagued with high transaction costs and certain other disadvantages compared to their competitors, including the neighboring countries

Top priority for infra projects

The Economic Survey said timely completion of infrastructure projects remained the top priority for sustaining growth momentum and called for streamlining land acquisition and environment clearance for the core sector projects

"The foremost challenge is to make huge capacity addition in a time-bound manner while ensuring that projects embody value for money and investments result in world class infrastructure"

Major push to infrastructure

Central Plan Outlay by Sectors

Government committed to retaining at least 51% ownership and management control of Central Public Sector Undertakings

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Rs. 10,000 crore from Rs 58,000 crore Plan to provide Rural Broadband Connectivity to all 2.5 lakh panchayat in three years .

From April 1, 2011, remuneration for Angawadi workers increased from Rs. 1,500 to Rs 3,000 a month and for Anganwadi helpers from Rs.750 to Rs 1,500 a month.

Financial help for Metro projects in Delhi, Mumbai, Bangalore, Kolkata and Chennai

Illusory tax concessions

The exemption limit for the general category of taxpayers has been raised from Rs. 1,60,000 to Rs 1,80,000. providing a relief of a little over Rs.2,000

With the exemption limit raised to Rs.2,50,000 from Rs.2,40,000, this new segment of senior citizens will get over Rs 9,200 as relief. The Finance Minister has also created a new category of "Very Senior Citizens', 80 years and above, who will qualify for a higher exemption limit of Rs.5,00,000. This category can save on taxes up to Rs 26,780,

The tax saving for senior citizens may look significant. For many, however, it will be illusory Maintaining growth while checking inflation

The Government plans to step up measures to help lower-income households, particularly in rural areas, to deal with the recent sharp increase in food prices.

Mr. Mukherjee has sought to cap the increase in total budget expenditure at 3.4 per cent (over revised estimate for 2010-11) to Rs.12 60 lakh crore. The govemment has also targeted fiscal deficit for 2011-12 at 4.6 per cent of GDP, slightly less than 4.8 per cent recommended by the 13th Finance Commission in December 2009, and the revised estimate of 5.1 per cent for 2010-11 The Finance Minister has also

announced that amendments to the Fiscal Responsibility and Budget Management Bill will be introduced in 2011-12 to maintain fiscal prudence in the medium term

Strong infrastructure from farm-to-fork needed Although the Indian economy is poised to grow at a healthy 8.6 per cent this fiscal, the continued sharp decline in foreign direct investment (FDI) inflows, rising cost of exports and high prices of essential commodities, food items and their wastage during transportation from the farm to the markets need to be seriously addressed.

Farm-to-fork refers to, in the food safety field, the stages of production of food harvesting storage, processing packaging, sales, and consumption

Official data is not very encouraging with FDI inflows declming by 23 per cent to $16.03 billion in April- December 2010 from $20.87 billion in the same period in the previous year The Prime Minister's Economic Advisory Council has stated that inbound FDI could decline by 22 47 per cent to $27.6 billion in 2010-11 from $35.6 billion in 2009-10. India received FDI worth $21 billion during April- December 2010, a decline of 22 per cent over the year-ago period. The country had attracted FDI valued at $27 billion in 2009

On the other hand, Indian exports are back on the path of robust growth and the country has projected a $450 billion export turnover by 2014

The nation is all set to breach the $200 billion target and post a record $225 billion for 2010-11 However, exporters are still plagued with high transaction costs and certain other disadvantages compared to their competitors, including the neighboring countries

Top priority for infra projects

The Economic Survey said timely completion of infrastructure projects remained the top priority for sustaining growth momentum and called for streamlining land acquisition and environment clearance for the core sector projects

"The foremost challenge is to make huge capacity addition in a time-bound manner while ensuring that projects embody value for money and investments result in world class infrastructure"

Major push to infrastructure

Central Plan Outlay by Sectors
Stimulus roll back not to impact exports The Economic Survey said that roll back of the stimulus

measures for the export sector will not have much of an pact on the growth of overseas shipment but it cautioned against disturbances in the Middle East and the Euro zone financial crisis

"Current indications are that Indis will not only achieve the target of $200 billion but surpass it in 2010 11. The gradual withdrawal of stimulus measures by India and other countries is not likely to adversely affect India's rising exports The deceleration in the net surplus of services trade is a cause of worry on the current account deficit It warned that rising inflation could erode agricultural exports

Hit hard by the global stump in demand in 2008, the government had provided several stimulus measures to boost the country's exports, including a 2 per cent interest subsidy, tax benefits and many market and product linked incentives. After exports start reviving, the govemment in the last Budget had withdrawo some benefits
Ambitious targets for exports India's Foreign Trade 118-11

Exports breached the $200-billion mark to truch $208 billion in April-February. The target for the whole year (April March 2010-11) was $200 billion and was achieved in the first 11 months itself. The strong recent performance lus been possible because of the robust demand from the US. To the extent these developed economies maintain their recovery Indian exporters are assured of a stable market for theis merchandise exports.

The Economic Advisory Council (EAC) to the Prime Minister headed by C. Rangarajan has estimated the merchandise trade deficit for the current and next year to be at the same level of 7.7 per cent of gross domestic product (GDP)

The current account deficit (CAD) for 2011-12 is projected at about 556 billion or 2.8 per cent of GDP. The position on net invisibles is also expected to remain at the same level of 4.8

per cent Improvement in service sector exports is likely to be offset by an expansion in the outflow of investment income. On the capital side, flows of a similar

magnitude amounting to 576 billion (3.8 per cent of GDP) is projected for 2011-12 which will leave a modest surplus of $20 billion to be added in the foreign exchange reserves

The EAC has admitted that the large absolute values of current account deficits that have been in evidence from 2009-10 onwards are likely to persist in 2011-12 As a percentage of GDP the current account deficit has been 7 per cent during the first-half of 2010-11 and even touched-4 per cent during the second quarter Even if CAD were in stabilise at a lower level of around 2-2.5 per cent, it is clear that large capital inflows will have to come in Domestic conditions need to be favourable to attract the right type of inflows, foreign direct investment and those that do not create debt. Recent thinking calls for a continued vigil on the levels of CAD even if the deficit can be attributed to bright economic prospects in the country leading to racess of investments over savings

Baffling inflationary prenures

The monetary authorities and executives in the Finance Ministry have been at their wits end when endeavoring to check effectively inflationary pressures particularly those relating to food. The reliance has been mainly on the initiation of monetary measures as it was fich that they would be more efficacious than other ben monetary policies It was not, however been fully recognized that supply constraints have been mainly responsible for the persisting food inflation. foinally, the problem pertained to the availability of fine cervals and pulses. As there were no other major disturbing factors, the food index declined from the peak of 20.56 per cent in the third week of January last year to 10.15 per cent in the week ended November 13, 2010

The growth in cumulative industrial output in April- November however can be considered satisfactory at 9.5 per cent (7.4 per cent). As the uptrend will be sustained in the next four months, the growth for the whole year may be easily 10 per cent. If the GDP has to rise to over 10 per cent in the XII Plan, the industrial sector will have to play an even more important role along with the services sector At the same time agriculture and allied industries should function creditably for ensuring balanced growth.

Exports in these nine months have risen by 29.5 per cent to $164.70 billion from $127, 18 billion and imports by only 19.01 per cent to $246.72 billion from $207.32 billion The increase in imports is on account of crude and petro products to the extent of 177 per cent to $72.55 billion ($61.66 billion) and in respect of non-oil imports by 19:58 per cent to $174.17 billion ($145.65 billion) Had it not been for the dearer oil import bill, the increase in aggregate imports could have been easily financed by incremental exports Nevertheless, the trade deficit for the period under reference has risen only marginally to $82.02 billion from

$80.13 billion.

The uptrend in exports has been sustained in December with a rise of 364 per cent. It is emphasized that the sustained rise in exports is due to larger shipments of textiles, engineering goods and the like. The rise in industrial output has thus to be even more pronounced in 2011-12 as it is postulated that the growth in GDP will be higher at 9 per cent against 8.75 per cent and 8 per cent in the two previous years. It will also be necessary to step up outlays on ongoing and new schemes in the core and infrastructure sectors if the economy is not to become overheated and the raised target for the XII Plan have to be realized In a changing dynamic situation, the main emphasis will have to be on augmenting substantially the pool of resources with the grant of necessary incentives for stimulating savings There will also have to be a copious inflow of FII (foreign institutional investor) funds, foreign direct investments and even debt receipts.

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