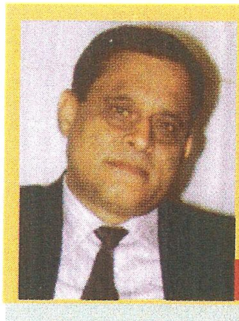

A well-balanced budget

Lalit Dangi

Economists and financial journals had hoped Mr. Pranab Mukherjee would present a tough budget, making full use of the window he had by virtue of the fact that Congress did not have to contend with repercussions of any harsh measure on its electoral prospects. The only election scheduled this year is in Bihar. Hence Congress does not have a big stake in it. The middle-of-the-road budget reflects the assessment that economic recovery, while quick and impressive, could be prone to shocks elsewhere. It also shows the mood in Congress to tread cautiously even in an electorally safe year. The play-it-safe instinct was validated by the sharp reaction to the hike in petroleum prices.

But it is clear that overall Mr. Mukherjee has prèsented a well balanced budget.

It is evident that Indian growth story is accepted in each and every corner of the world and there is no doubt that India is going to become the second largest economy in a very short span of time leaving behind even USA. This budget has given a substantial relief to the salaried people and given boost to the exporters and manufacturers. Finance Minister has indicated that the GDP will rise at the rate of 9 per cent and in a very short period he wants the GDP growth to be in double digits. The fiscal deficit at 5.5 per cent of the GDP is not a big number. The very important part of the budget is to implement GST and DTC from April 2011. It will not only remove the anomalies in the system but will generate more business among the states. The business houses will have less administrative hurdles while doing business after implementation of GST and DTC. He gave a thrust to growth in agriculture,

Continued on page 57

Budget 2010-11

Continued from page 56

infrastructure and financial sectors. Over a period of time, the Indian banking sector has shown a steady and sustained growth and that is the reason FM is keen in expanding the role of private sector in financial services by allowing banking licences to qualified NBFCs and other private sector players.

Consumption in India is going to have a robust growth since 65 per cent of population of India is less than 28 years with very good income. Hence a little rise in excise and custom duty will hardly have any impact on the consumption demand. No doubt the Service tax on construction will have a negative impact among the home purchasers but still it is not a big pinch. Due to good governance, in spite of recession, the FDI inflow in India during April-December 2009 was $20.9 billion compared to $21.1 billion during the same period of 2008. This is the right time to pick up stocks of banks, automobiles, FMCG and housing companies.

Mr. Mukherjee has allocated a substantial amount for agriculture, transport and energy infrastructures, which gives a signal for growth and development of India's infrastructure. It is evident from the budget that Rs.1,73,552 crore is allocated for infrastructure development in both rural and urban areas which accounts for over 46 percent of the plan expenditure.

FM has said two very important things. First, the combined debts of the Centre and the States be capped at 68 percent of the GDP by 2014-15 and secondly, he wants to formalize a symbol for the Indian rupee, which will enable it to join the club of currencies such as dollar, pound, euro and yen.

The budget has balanced both direct tax and indirect tax front. Readjustment in tax slabs, reduction in surcharge on corporate tax, increase in tax mandatory audit limit etc. are positive factors. The small increases in custom and excise duties will not affect the growth story materially.

Moreover, fiscal deficit pegged at 4.8 percent and 4.1 percent in subsequent years is again a positive note.

Overall the FM has tried to restore balance in the budget and showed that India is definitely on the growth track and will move faster than expected.

(Mr. Lalit Dangi is chairman and managing director of the Libord Group.)