SOUTH INDIAN Bank

# STUDENTS' ECONOMIC FORUM

*To kindle interest in economic affairs...*
*To empower the student community...*

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Theme 246

## UNION BUDGET 2012 -13: PART I

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# Theme No. 246 : Union Budget – 2012-13: PART -1

A well informed customer will make the policy makers as well as organisations which produce goods and services more responsive to the customer needs. This will also result in healthy competition among organisations and improve the quality of goods and services produced.

The "SIB Students' Economic Forum" is designed to kindle interest in economic affairs in the minds of our younger generation. We highlight one theme in every monthly meeting of the "Forum". This month we discuss the background, basic features and proposals of Budget 2012-13.

**What was the approach of the Union Government in presenting the Budget for 2012-13?**

The Indian economy was facing setbacks in development during 2011-12 due to intensification of Euro Zone Sovereign Debt crisis. The recovery efforts were further interrupted by the political turmoil in the Middle East, spiralling international prices of crude oil, earthquake in Japan and the slowdown in economic growth in the US. The budget for 2012-13 has to be viewed taking into account the failure to reach the last year projections, in curtailing the fiscal deficit, taming inflation, slow growth rates with setbacks in collections by way of tax revenues. The earlier promises on Direct Taxes Code, Goods and Service Tax and FDI in retail were not fulfilled. In spite of all these, the country remains a front runner in economic growth showing signs of recovery in core sectors and manufacturing. The Government has launched the twelfth Five Year Plan with the aim of "faster , sustainable and more inclusive growth". At this point, it was necessary to take firm decisions to improve macroeconomic environment and strengthen domestic growth.

**Give an overview of the economy?**

The GDP growth was estimated at 6.9% in real terms against 7.6% projected for 2011-12. The slow growth was primarily due to the deceleration in industrial growth. The fiscal deficit was 5.9% against the target of 4.6% for 2011-12. But the Government is confident of bringing down the fiscal deficit to 5.1% during 2012-13. The headline inflation is expected to moderate further and remain stable thereafter with more effective steps to bridge the gaps in distribution, storage and marketing systems. In the external trade, even though there are signs of growth, the exchange rates remain adverse due to reduced capital inflow and higher current account deficit during the latter part of the year. The major reasons for deterioration of fiscal balance were short collection in direct tax and increased subsidies. With all such challenges, the economy is vibrant enough to register a GDP growth at 7.6% in 2012-13.

**What are the amendments in FRBM Act to be introduced through Finance Bill 2012?**
The two important features of amendments to FRBM act are “Effective Revenue Deficit” and “Medium Term Expenditure Framework” with a view to undertake expenditure reforms. Effective Revenue Deficit is the difference between revenue deficit and grants for creation of capital assets. The statement points out to reduce consumptive component of revenue deficit and create space for increased capital spending. Medium Term Expenditure Framework sets forth a three - year rolling target for expenditure indicators. In addition, the recommendations of the expert committee on stream lining the centrally sponsored schemes and to address plan and non plan classification finds a major space while implementing the Twelfth Plan. The amendments take care of Central Plan Scheme Monitoring System to be expanded for better tracking and utilisation of funds.

**What is the stand taken by the Government on “subsidies”?**
The Government does not want to continue the subsidies which are undesirable if they compromise on the macroeconomic fundamentals of economy. The Government is firm on making provisions for subsidies related to administering the Food Security Act. The major feature of the budget is the decision to keep subsidies at 2% of GDP as against the present level of 2.4% and to bring down the same to 1.75% in the coming three years. The task force headed by Sri. Nandan Nilekani, recommends a mobile based “Fertilizer Management System” to provide end to end information on movement of fertilizers and subsidies. The three major public sector Oil Marketing companies have launched the LPG transparency portals to improve customer service and reduce leakage. The Government also proposes to scale up and roll out “Aadhar” enabled payments for various government schemes in atleast 50 districts within next 6 months.

**What are the tax reforms proposed?**
The major proposals on tax reforms are

- DTC (Direct Taxes Code) Bill will be enacted at the earliest after expeditious examination of the report of the Parliamentary Standing Committee.
- A model legislation will be enacted for the centre and state GST (Goods& Service Tax) in consultation with the State Governments.
- The GST Network is to be set up as a National Information Utility and made operational by August 2012.

**What does the budget disclose on the disinvestment policy of the Government?**
The Government has evolved a broad disinvestment approach to divest its stake in Central Public Sector Enterprises by allowing them a level playing field vis-à-vis the private sector in respect of buy backs and listing at stock exchanges. The Government proposes to raise Rs.30,000 crore through disinvestment and expects at least 51% of ownership and management control to remain with the Government.

According to an estimate by RBI, the Indian Banking sector will require an additional of INR 5,68,744 crore in the next few years to maintain the capital adequacy ratio at 12%.

Public sector banks require INR 3,69,115 crore. As majority of PSU banks maintain 51% government stake, unless matching capital is provided, the government has to think of diluting its equity. In this context, there is a general feeling that the time is ripe to consider dilution of Government equity in public sector banks.

**What are the measures taken to strengthen the investment environment?**

1. Foreign Direct Investment: The Government will arrive at a consensus soon in consultation with state governments to allow FDI in multi- brand retail upto 51%.
2. Financial Sector: The Government has launched a Rajiv Gandhi Equity Savings Scheme to allow income tax deduction of 50% to new retail investors, making direct investments in equity upto Rs.50,000, with a lock-in-period of 3 years, whose annual income is below Rs.10 lakhs.
3. Capital Market: The budget proposes reforms in capital market, by way of simplifying process of IPOs and allowing QFIs to access Indian bond market.
4. Advance Pricing Agreement: The budget makes provisions for implementation of Advance Pricing Agreement to be introduced in Finance Bill, 2012.
5. Capitalisation of Banks: The budget provides Rs.15,888 crore for capitalisation to protect the financial health of banks.
6. Financial Holding Companies: There is a proposal to float a FHC to raise resources to meet the future capital requirements of PSU banks.

**What are the recommendations on legislative reforms?**

The Government proposes to introduce official amendments to The Pension Fund Regulatory and Development Authority Bill 2011,The Banking Laws (Amendment) Bill 2011,The Insurance Law (Amendment) Bill 2008.

**What are the announcements for RRBs?**

There are 82 RRBs in the country, of which 81 have successfully migrated to the CBS (Core Banking Solution) platform and have also joined the NEFT (National Electronic Fund Transfer) system. It has been proposed to extend the scheme of capitalisation of weak RRBs by another 2 years to enable states to contribute their share.

**What are the policies for infrastructure and industrial development?**

The major recommendations are

- During the Twelfth Plan period, investment in infrastructure to go upto Rs.50 lakh crore with 50% expected from private sector.
- The Scheme “Support to PPP (Public Private Participation) in infrastructure” has been extended to more eligible sectors for viability gap funding.
- The establishment of Joint Venture companies by defence PSUs in PPP mode has been approved.
- An Infrastructure Debt Fund with an initial size of Rs.8,000 crore has already been launched.
- Introduction of tax free bonds of Rs.60,000 crore for financing infrastructure projects.
- The Government has approved a harmonised list of infrastructure.

- IIFCL has formed a structure for credit enhancement and take-out finance for easing access of credit to infrastructure projects.

**What is the objective of a National Manufacturing Policy?**

The budget has announced a National Manufacturing Policy. The major objective of the policy is to raise the share of manufacturing sector, within a decade, to 25% of GDP and to create 10 crore job opportunities in the sector.

**What are the proposals on transport, road and civil aviation?**

The major proposals are

- Target of covering a length of 8,800 km under NHDP (National Highway Development Project) next year.
- More fund allocation to Ministry of Road Transport and Highways
- ECB (External Commercial Borrowings) to be allowed to part finance the rupee debt of existing power projects.
- ECB proposed to be allowed for capital expenditure on the maintenance and operations of toll systems for roads and highways, if they are part of original project.
- ECB to be permitted for working capital requirements of airline industry for a period of one year, with a ceiling of USD 1 billion.
- Direct import of aviation turbine fuel permitted for Indian carriers as actual users.
- Allowing foreign airlines to participate upto 49% in equity of an air transport undertaking is under consideration.
- The central assistance of Rs.18500 crore, over the next 5 years, to Delhi Mumbai Industrial Corridor approved. Japanese participation up to USD 4.5 billion allowed.

**What are the other highlights of the budget?**

1. Housing sector: ECB for low cost housing projects and setting up of a credit guarantee trust fund. Extension of the existing 1% interest subvention on Housing Loans upto Rs.15 lakh.
2. Fertilisers: Steps to finalise the pricing and investment policies for urea to reduce imports.
3. Textiles: The Government has announced a financial package of Rs.3,884 crore for waiver of loans to handloom weavers and their cooperative societies. Two more handloom clusters to be set up in Andhra Pradesh and Jharkhand. It is proposed to set up three weavers' service centres in Mizoram, Nagaland and Jharkhand. A power loom mega cluster is to be designed in Maharashtra and a pilot scheme announced for promotion of Geo textiles in the North East.
4. MSME (Micro, Small and Medium Enterprises): Setting up of a 5000 crore India Opportunities Venture Fund in association with SIDBI is planned. Two SME exchanges launched in Mumbai to ensure greater access to finance by SMEs. A policy has been devised to make a 20% purchase by ministries and CPSEs from approved MSEs, of which 4% from MSEs are owned by SC/ST enterprises.

# बजट का सार Budget at a Glance

(करोड़ रुपए) (In crore of Rupees)

| | 2010-2011 वास्तविक Actuals | 2011-2012 बजट अनुमान Budget Estimates | 2011-2012 संशोधित अनुमान Revised Estimates | 2012-2013 बजट अनुमान Budget Estimates |
|---|---|---|---|---|
| **1. Revenue Receipts** | **788471** | **789892** | **766989** | **935685** |
| *2. Tax Revenue (net to centre)* | *569869* | *664457* | *642252* | *771071* |
| *3. Non-Tax Revenue* | *218602* | *125435* | *124737* | *164614* |
| **4. Capital Receipts (5+6+7)$** | **408857** | **467837** | **551730** | **555241** |
| *5. Recoveries of Loans* | *12420* | *15020* | *14258* | *11650* |
| *6. Other Receipts* | *22846* | *40000* | *15493* | *30000* |
| *7. Borrowings and other liabilities ** | *373591* | *412817* | *521980* | *513590* |
| **8. Total Receipts (1+4)$** | **1197328** | **1257729** | **1318720** | **1490925** |
| **9. Non-Plan Expenditure** | **818299** | **816182** | **892116** | **969900** |
| *10. On Revenue Account of which,* | *726491* | *733558* | *815740* | *865596* |
| *11. Interest Payments* | *234022* | *267986* | *275618* | *319759* |
| *12. On Capital Account* | *91808* | *82624* | *76376* | *104304* |
| **13. Plan Expenditure** | **379029** | **441547** | **426604** | **521025** |
| *14. On Revenue Account* | *314232* | *363604* | *346201* | *420513* |
| *15. On Capital Account* | *64797* | *77943* | *80404* | *100512* |
| **16. Total Expenditure (9+13)** | **1197328** | **1257729** | **1318720** | **1490925** |
| *17. Revenue Expenditure (10+14)* | *1040723* | *1097162* | *1161940* | *1286109* |
| *18. Of Which, Grants for creation of Capital Assets* | *87487* | *146853* | *137505* | *164672* |
| *19. Capital Expenditure (12+15)* | *156605* | *160567* | *156780* | *204816* |
| **20. Revenue Deficit (17-1)** | **252252** *(3.3)* | **307270** *(3.4)* | **394951** *(4.4)* | **350424** *(3.4)* |
| **21. Effective Revenue Deficit (20-18)** | **164765** *(2.1)* | **160417** *(1.8)* | **257446** *(2.9)* | **185752** *(1.8)* |
| **22. Fiscal Deficit {16-(1+5+6)}** | **373591** *(4.9)* | **412817** *(4.6)* | **521980** *(5.9)* | **513590** *(5.1)* |
| **23. Primary Deficit (22-11)** | **139569** *(1.8)* | **144831** *(1.6)* | **246362** *(2.8)* | **193831** *(1.9)* |

*Your comments and feedback on this publication may be sent to Staff Training College, The South Indian Bank Ltd., Thrissur 680 001 or by E.mail: ho2099@sib.co.in*