

India's new budget projects higher growth, taming inflation and hiking 'social spending'

In the context of the socio-economic situation and circumstances now prevailing in Bangladesh it will not be out of place for us to have some knowledge and ideas about Indian new budget projections to plan and cope with some of our uneasy problems and predicaments that we are beset with.

India's government recently unveiled a budget focused on helping the poor and rural masses with pledges to hike social spending by 17 per cent and fight food inflation.

Lifting the lid on government plans for the financial year from April 01, Finance Minister Pranab Mukherjee, scaled up spending for farmers, fertiliser subsidies, food programmes, education and rural employment.

He also pledged measures to help bring down food inflation, which at nearly 11.5 per cent is causing huge hardship to the hundreds of millions of poor who are the Congress party's core supporters.

"It (inflation) clearly remains a concern," he said. "But I expect the policy taken by RBI (the central Reserve Bank of India) to further moderate inflation in coming months... and average inflation to be lower next year."

The government, which faces five state elections this year and is labouring under multiple corruption scandals, is mindful that spiralling living costs can be a lightning rod for political discontent in India.

Some 40 per cent of the 1.2 billion population in India, Asia's third-largest economy live on less than 2 dollar a day.

"The country has carried for long enough the burden of hunger and malnutrition," the Indian finance minister told parliament, saying the money earmarked for social spending would amount to 36 per cent of the total budget.

Banking on bumper tax income from strong economic growth, he announced a 24 per cent rise in education spending to 520 billion rupees (11.5 billion dollar) and a 20 per cent rise in funds for health to 267 billion rupees.

The increase in social spending will be funded by a 25 per cent rise in tax revenues, provided by India's

In his budget speech before parliament, the finance minister revealed no major policy shifts, but said the much-watched fiscal deficit would fall from an estimated 5.1 per cent of gross domestic product (GDP) in the year ending March 31 to 4.6 per cent next fiscal year.

High food inflation and a spate of embarrassing corruption scandals have put pressure on India's ruling Congress Party in recent months, spooking foreign investors and sparking street protests in advance of crucial state elections.

India's government said the economy is expected to grow at 9.0 per cent in fiscal 2012.

Finance Minister Mukherjee said the growth rate for the current fiscal year was projected at 8.5 per cent.

He said inflation would decrease over the next fiscal year - the current rate is 8.4 per cent. But food price inflation, at 17 per cent, "remains a concern".

The finance minister said a food security bill, which will guarantee cheap food to the poor, would be introduced into parliament soon.

Mr Mukherjee also announced a 22 million dollar fund to help the struggling micro-finance industry which is facing a liquidity crisis after borrowers in parts of India stopped repaying loans.

He said the government's performance in handling the economy was mixed.

"While we succeeded in making good progress in addressing many areas of our concern, we could have done better in some others," Mr Mukherjee said.

"Fiscal consolidation has been impressive. This year has also seen significant progress in those critical institutional reforms that will pave the way for double digit growth in the near future."

Mr Mukherjee said the economy had shown "remarkable resilience", despite the food inflation and a current account deficit.

With the government under fire from the opposition

over corruption scandals and inflation, he steered clear of sensitive economic reforms, focusing instead on easing India's infamous red tape and streamlining taxation and customs tariffs.

"At times, the biggest reforms are not the ones that make headlines but the ones concerned with the details of governance which affect the everyday life of the aam aadmi (common man)," Mukherjee told parliament.

At the same time, he announced another hike in military spending, raising it 11.6 per cent to 1.65 trillion rupees.

"Further requirements for the country's defence would be met," he declared.

Mukherjee's buoyant prediction came despite figures showing growth in the final three months of 2010 slipped to 8.2 per cent year-on-year from 8.9 per cent in the previous quarter, a larger decline than forecast by analysts.

Revenues of 400 billion rupees from part-privatisation of state firms would also swell government coffers, the minister said.

"India stands at the threshold of a decade which presents immense possibilities," he said.

He also announced measures to draw more foreign investment to upgrade India's dilapidated ports, roads, power plants and other infrastructure.

The budget also includes incentives to invest in agriculture, but stopped short of opening India's retail sector to more foreign investment - a contentious step some analysts believe is the only way to attract the necessary funds to expand the nation's food supply chain.

When the Congress Party swept to power in 2009, investor sentiment soared on hopes of fast-track economic liberalization that the government has so far failed to deliver. Recent corruption scandals and regulatory uncertainty have also helped drive much-needed foreign investment out of the country.

Mukherjee pledged to clamp down on corruption and stem the flow of so-called black money to overseas tax havens.

"Corruption is a problem that we have to fight collectively," he said.

The budget loosens some restrictions on foreign investment in Indian mutual funds and infrastructure.

The Indian finance minister vowed to raise 400 billion rupees (8.8 billion dollar) from selling stakes in state run companies next year - despite missing this year's asset sales goal - and to introduce some much-delayed reforms, like raising the cap on foreign investment in insurance.

"I think the signals are all there that this is a government which is reform oriented," Prime Minister Manmohan Singh told state-run Doordarshan TV. "In totality if these promises are converted into solid acts of parliament, they will provide a boost to capital market and corporate sentiments all round."

Mukherjee "has done a fine balancing act to sustain economic growth, curb inflation, promote inclusive growth and maintain fiscal consolidation," said Chandrajit Banerjee, director general of the Confederation of Indian Industry.

G20 can't control commodities, but rates would: Ian Campbell

Nicolas Sarkozy thinks he has radical ideas for the G20 to address volatile commodity prices, stopping just short of guillotining traders. A world burdened by inflation in oil, other commodities and food may share his frustration. The president hopes the French and other Europeans will, too. But dividing the world's commodity trades between the "commercial" and the "speculative" ones isn't easy. This means G20 finance ministers may realise little in their discussion on the matter - even though Sarkozy is right that speculation in commodities is part of the price problem.

The speculation reflects loose global money and the perhaps exaggerated appeal of the commodities story. The amount of assets under management in commodity funds has exploded in the past decade, rising 60-fold, according to Barclays Capital. For investors the happy story is based on fast growth in developing countries, rising demand and potential constraints to supply. Throw in global warming, too. Paul Krugman, the Nobel Prize-winning economist, has, calling soaring food prices the first sign of "the disruption we'll face in a warming world."

But the inconvenient facts argue against that. Despite extreme weather this year the International Grains Council still expects global grain production to be 8.7 percent higher than it was four years ago. All the more affluent but hungry new mouths in the world economy have indeed caused demand to rise but by a similar 9.7 percent over the same period. Global grain stocks are up by 43 percent in the past four years. Production has easily kept up with demand. It is probably the huge amount of fresh money invested in commodity funds that has tended to drive prices up.

Guido Mantega, Brazil's finance minister, appears to think so. Although Brazil is largely a beneficiary of high commodity prices, he is "totally" against any Sarkozian trading curbs. Mantega argues that commodity prices will correct when developed economies pick up and tighten their monetary policy.

The tightening is more necessary first, however, in fast growing emerging economies. China's broad money supply rose by a fifth in 2010 but came down to an annual growth of 17 percent in January. As developing countries tighten, commodity prices may begin to ease. There may already be some tentative signs of that. The G20 might see anti-speculative merits in conventional monetary medicine rather than in Sarkozy's mooted punishments.

The author is a Reuters Breakingviews columnist. The opinions expressed are his own.