THE HINDU Business Line

Budget has big promises to keep

Rajesh Chadha

Business Line Faster merchandise export growth can help offset the likely drop in export of invisibles.

The widening current account deficit and the fall in the inflow of foreign direct ir has skirted.

The Budget lays out opportunities and challenges that the economy is current revival of economic growth now and in future based on fiscal consolidation, ir rural economy.

The challenges include further fiscal consolidation, improving supply respons programmes, improving regulatory standards and administrative practices an managing the economy.

Continuation of fiscal consolidation is imperative for growth of the economy. I and subsidy reforms, agricultural procurement and public distribution, boosti as well as the share of manufacturing in GDP, strengthening agricultural supp competitiveness of the economy.

Does the Budget provide indicative potential solutions to myriad challenges ar currently facing? Among the positive aspects of the budget are the soon-to-be- strengthening MGNREGA, Bharat Nirman and increased expenditure on soci

strengthening financial inclusion and extending benefits to unorganised secto
APMC-regulated agricultural markets, the real action is yet to be seen.

Serious Action Points

The National Manufacturing Policy needs serious action plans on the ground.
manufacturing in GDP from the current 16 per cent to 25 per cent by 2021 sou

The share has remained stagnant around 17 per cent for more than three deca
20 years could not improve it further.

The issue of deteriorating balance of merchandise trade is, in fact, more seriou
deficit to GDP (CAD-to-GDP) ratio has been increasing since 2007-08. It was
2008-09 and 3 per cent 2009-10. It is not likely to cross the 3 per cent mark d

The worry is on account of the fact that it may move up during the years to co
enough to counter the weakening surplus on invisibles.

Exports of services (Mode-1) may not be expected to keep growing at the rates
have hit a plateau, at least for the time being.

There is marginal surplus on 'trade in travel' services (Mode-2) which is betw
trade in services.

However, there are no reliable data available on trade in services on Modes-3
(movement of natural persons)

Thus, there is all the more reason for manufacturing sector to grow faster and
deficit on merchandise trade. This would require serious reforms of labour la
infrastructure.

Labour-intensive manufacturing units, particularly in primary food processin
unemployed as well as give more returns to the farmers through minimising l

Capital inflows

Another major concern refers to quality of capital inflows. Despite fragile glob
direct investment (FDI) flows have been brightening up since mid-2009. (Wo

It is expected that FDI flows would cross $1.2 trillion in 2010 and rise up to a
push FDI flows somewhere in the range of $1.5 -2.0 trillion though not yet to
subject to various risks and uncertainties

Further, the 2010 A.T. Kearney FDI Confidence Index Report cheers up the d
emerging markets remain attractive to foreign investors. The Index tracks the
executives based on likely political, economic and regulatory changes.

China, India and Brazil are among the top five countries based on FDI Confid
is ranked third.

FDI flows into India have declined during H1 2010. Gross FDI inflows, at $16.
inflows in H1 2009.

While it may not be easy to mentor FII inflows and outflows, the reasons for d
before the policymakers.

(The author is a Senior Fellow, NCAER.)

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