ILLUSTRATION BY RAJAT BARAN

When I'm sixty-four

Give me your answer, fill in a form Mine for evermore
Will you still need me
Will you still feed me
When I'm sixty-four?

Average life expectancy at birth for Indians in 2010 was 64.4 years, which means the Beatles song could be an elegy. We fared more poorly than our neighbours Bangladesh (66.9), Sri Lanka (74.4) and Pakistan (67.2).

Independent India is going to be 64 this year, and the census-takers are filling their forms and seeking answers from more than 1.2 billion of us, a seething subcontinent of noise, tumult, hard work and yes, corruption too.

Somehow the government's annual budget is seen as the multivitamin that will put the bounce back in our steps. Pranab Mukherjee's third budget for UPA-II was workmanlike and plodding, with only an occasional spring in its step. Elixir it was not. It seemed as if the Finance Minister was sinking back in the cushions of an economy growing at the "Hindu rate of reform", about 9 per cent. He protested that his budget was not populist, and blamed the absence of dramatic reform with the same lament: crucial financial-sector legislation would move forward "if I had 272 (MPs) in the Lok Sabha and 124 in the Rajya Sabha".

So there is quite a bit of sleight of hand in the 13,800-word budget speech that eclipsed cricket and sent the stock markets into a brief tizzy. The individual tax-payer will get a smidgen more of spending money, but it will be quickly snatched away by service tax on more items, and the ominous inevitability of high inflation — something that Mukherjee's Chief Financial Adviser Kaushik Basu does not think is too alarming. In a strange new global economy, Basu says, we have a new form of stagflation — stagnation in some parts of the world, inflation in others. Money flows to the magnets, and India is a magnet, like it or not.

But Mukherjee can see the ghosts. "The huge differences between wholesale and retail prices and between markets in different parts of the country are just not acceptable," he said in his budget speech. "These are at the expense of remunerative prices for farmers and competitive prices for consumers."

The budget is therefore a *khichdi* of cold chains, mega food parks, "pulses villages", "vegetable clusters", more pigs, goats and fish on the dining table, and cheaper pistachios and diapers. The Finance Minister has some fun too. Many of the steps he lists to attack food-price inflation all involve paltry outlays of ₹300 crore each and will glance off that monster's tough hide. "Hon'ble Members may be curious as to why all these new initiatives are being launched with an allocation of ₹300 crore. Well, the number 3 happens to be my lucky number!"

> *Pranab Mukherjee's third budget for UPA-II was workmanlike and plodding, with only an occasional spring in its step. It seemed as if Mukherjee was sinking back in the cushions of an economy growing at the "Hindu rate of reform"*

Mukherjee said. Nobody laughed.

As we predicted (BT, *February 20 2011, http://bit.ly/electionstupid*) quite a bit of spending will take place in states going to the elections this year. This, plus a 17 per cent increase in social sector spending to ₹160,887 crore — 36.4 per cent of total plan allocation — is proof enough of the safe furrow Mukherjee is ploughing.

Is the harvest going to be bountiful? The signs are not propitious. Corporate profit margins are getting squeezed. Industrial production has dropped. Manufacturing is not growing fast enough.

Mukherjee wants to see manufacturing rise to 25 per cent of India's GDP, from the current 16 per cent. The Economic Survey for 2010-11 notes that Indian manufacturing is less than 1.4 per cent of world manufacturing.

There is a fair bit of philosophising, too, in the Survey: "Many a noble plan to reach out to the poor and increase the welfare of our citizens has fallen on hard times because of the policymakers' propensity to assume that the policies are delivered by flawlessly moral agents or perfectly-programmed robots."

The budget fiddles around the edges of corruption and poor governance. Yes, there is definite movement towards direct transfers of subsidies to the poor for kerosene, cooking gas and fertiliser, but much is left to committees and panels.

What are the main concerns? The fragile global recovery could cause a "reversal of capital flows and slowdown in exports". The current account deficit is too high — it rose to 3.7 per cent of GDP in the first half of 2010-11 from 2.2 per cent a year earlier. Mukherjee admits he would have preferred a level around 2.5 per cent. The Survey says periodic surges in capital flows need to be absorbed more efficiently. It also warns that the bulk of capital inflows consisted of foreign institutional investor, or FII, funds. The World Bank separately cautions that renewed shocks to the global financial system could trigger a "flight to safety" by investors. The Economic Survey notes that FDI in

April-November 2010 totalled \$19 billion, nearly the same level as a year earlier, while portfolio investment including FII inflows rose sharply to \$32.8 billion in the eight-month period from \$22.2 billion a year earlier.

budgeted ₹1.16 trillion in 2010-11 (the actual subsidies bill will total ₹1.64 trillion). Mukherjee did not take any bold steps to slash subsidies. The fiscal deficit in 2011-12 is projected at 4.6 per cent of GDP, down from 5.1 per cent in 2010-11.

SHEKHAR GHOSH

A report says children in India got only 4.4 mean years of schooling in 2010, lower than in Bangladesh, Sri Lanka and Pakistan

Mukherjee announced sops designed to attract more investment inflows. Foreigners can now invest directly in Indian mutual funds. FIIs can buy a total of up to \$40 billion in corporate bonds, and invest in unlisted bonds with a minimum three-year lock-in.

Subsidies of every hue will total ₹1.44 trillion in 2011-12, up from a

Disinvestment may bring in the targeted ₹40,000 crore (the same as 2010-11, when only ₹22,144 crore was raised), but there is no windfall on the cards like this fiscal year's 3G auctions, and Mukherjee does not explain where the extra money is going to come from.

At bottom, this government will enter its third year in power without a BHAG (big, hairy, audacious goal) beyond the rather weary "sustainable and inclusive growth". Will populism lift India into a high-income, skilled-labour bracket? We will need all the enterprise, innovation and success we can marshal. Noting that 70 per cent of Indians will be of working age by 2025, Mukherjee announced a sharp 24 per cent rise in outlays on education to ₹52,057 crore, and a 40 per cent rise in expenditure on the Sarva Shiksha Abhiyan programme, which seeks to universalise primary education, to ₹21,000 crore. The UNDP's Human Development Report says Indians enjoyed only 4.4 mean years of schooling in 2010, lower again than our three immediate neighbours. The 2010 Annual Status of Education Report, or ASER, by Pratham, an NGO, makes for depressing reading. Although 96.5 per cent of children in the 6-14 age group were enrolled in school, it says, only 53.4 per cent of fifth-grade children could read a second-grade level text. The Economic Survey quotes ASER 2010 as saying that the proportion of first-grade children who could recognize numbers from 1 to 9 declined from 69.3 per cent in 2009 to 65.8 per cent in 2010. The proportion of third-grade children who could solve two-digit subtraction problems dropped from 39 per cent in 2009 to 36.5 per cent in 2010.

Do not be in any doubt — the mountain is high, and the climb is steep. Our ascent is perilous. It has not got easier. ◆

More commentary at http://bit.ly/pranabthree and http://bit.ly/indiabudget2.

Tumult on D-Street

The markets cheer the budget, but macroeconomic concerns could still affect sentiment. BY RAJIV BHUVA

It took just under three hours of trading on budget day for the Sensex to vault almost 600 points. The bulls, on the run this year, took heart from Finance Minister Pranab Mukherjee's Budget and stocks across the board initially rallied.

Mukherjee's stated commitment to fiscal discipline cheered the markets. There were lingering concerns on the Street that the government might struggle to rein in the fiscal deficit, given its commitment to various social sector schemes. In the next financial year, traders fretted, the government did not have the cushion of additional non-tax revenues like the 3G spectrum auction of the past year. But Mukherjee took the credit for trimming the fiscal deficit to 5.1 per cent of the GDP for 2010-11 and setting a lower fiscal deficit target of 4.6 per cent for 2011-12, which was the biggest reason for the optimism on Dalal Street.

Mukherjee had more surprises in store for the bulls. SEBI-registered mutual funds were given the nod to accept subscriptions from foreign investors who met the Know Your Client requirements for equity schemes. Currently, only FIIs and sub-accounts registered with the SEBI are allowed to invest in mutual fund schemes. "This will lead to an increase in capital inflows," asserts Motilal Oswal, Chairman and Managing Director, Motilal Oswal Financial Services. The government also enhanced the FII limit for investment in corporate bonds. Says Navneet Munot, Chief Investment Officer, SBI Mutual Fund: "It's a step towards liberalising the capital account."

The government's decision to raise the income tax exemption limits and persist with the stimulus measures saw the FMCG and auto stocks surging in the initial hours of trading. The emphasis on disinvestment also enthused the markets. Mukherjee has set a target of ₹40,000 crore for 2011-12, the same as in this financial year. "This is a bold move," says Ashvin Parekh, National Leader, Global Financial Services, Ernst & Young.

However, the early cheer on the Street dissipated somewhat as the markets read the fine print. The Sensex shed all its initial gains to end flat on budget day. On fiscal deficit, analysts are not convinced the government can walk the talk. While the revenue side Budget estimates for 2011-12 seem to be in place, subsidy and expenditure estimates appear to have been somewhat understated, believes Amar Ambani, Head of Research (India Private Clients), India Infoline. "It will be tough to achieve a 4.6 per cent fiscal deficit figure unless non-tax revenues like disinvestment surpass budgeted figures and an amnesty scheme to bring black money back is introduced."

On subsidies, the government has budgeted for a lower fuel subsidy of ₹23,000 crore, compared to ₹38,400 crore in 2010-11, which again seems unrealistic, according to traders. "This seems to be too optimistic given current high oil prices," says Ramanathan K., CIO (Single Manager Investments), ING Investment Management India."

The budget, say brokers, is unlikely to have a big impact on market sentiment in the medium term given the macroeconomic headwinds. Inflation remains a bugbear. Historically, too, the budget has had a limited impact on the markets. ◆