

What does the Budget Communicate?

The finance minister has secured the honour of presenting the Full Union budget for the country for 7 times, second highest to that of Mr.Morarji desai's score[8].As usual, he had presented an Unusual Budget Speech with the finishing touch on the great saint Tiruvalluvar's kural

“ Kodai Ali Sengol Kudi ombal Nangum

Udaiyanam Vendharkku Oli “

[Generous grants, Compassion, righteous rule and succour to the downtrodden are the hallmarks of good governance]

Though the budget has received an average rating of 7[on a 10 point scale] from the corporate honchos, a through insight into the feedback and opinion offered by the stakeholders of the nation reveals the following:

Euphoric tunes

The Budget has encouraged the life tune of the country by setting the right pitch through the following proposals

- Hike in Income Tax slab:

The budget has received the best feedback for its proposal to hike the income tax slab to Rs.150000 for the general assesses and Rs. 180000 in case of women assesses and Rs.225000 to those assesses who fall under the senior citizen category. This move in income tax brings a minimum saving of Rs.4000 for the tax assesses whose annual income is Rs.150000 and above.

The savings in income tax payment may increase the disposable income of the taxable population, which in turn will increase the demand for the FMCGs, durables and investment products including alternative investment products. Further the increase in disposable income is expected to increase the Domestic savings rate and if a part of such savings is deposited/ invested in commercial banks and capital markets, then it may lead to better capital formation.

- Reduction in excise duty and Central sales tax:

The budget proposes to reduce the CENVAT from 16% to 14%. Similarly, the Central sales tax is reduced from 3% to 2%. These changes in indirect taxes may contain the Inflation to an extent: companies in the automobile sector have started passing on the benefits of excise duty cuts to their customer which indicate the positive outcomes of the FM's tune on excise duty and CST. Further the Service tax rate is kept unchanged at the present rate[12 %].This makes it clear that the central government is set to introduce the much awaited and debated GST [Goods and Services Tax] in the next Budget.

The reduction in excise duty offers a bonanza to the players in two-wheeler, small car and pharma industry.

- Farm loan waiver:

The single most proposal which has occupied a lot of space in the reading room is the FM's announcement to waive farm loans for the small and marginal farmers which is expected to cost Rs.50000 crores. In addition, he proposes the banks to offer a discount of 25% on One time settlement [OTS] of the farm loans for those farmers who own more than 2 hectares.

This proposal costing Rs.60000 crores is expected to reduce the NPAs of banks thereby strengthening their Balance sheets. The affordable beneficiaries's additional disposable income may increase the rural consumption to a considerable level. Further farmers who had cultivated sugarcane are joyous on the loan waiver as it increases their net income by 4- 5 times compared to their average net income of 10%.

- Focus on social infrastructure:

The total allocation for the education sector is increased by 20% from Rs. 28674 crore in 2007-08 to Rs. 34400 crore in 2008-09. The FM has proposed to increase the budget allocation for

- Sarva Shiksha Abhiyan
- Mid Day Meal scheme and
- Secondary education schemes

The budget also proposes to establish 6000 high quality Model schools besides setting up Jawahar Navodaya Vidyalaya in 20 districts. 16 Central universities, 3 IITs and 2 IISERs are to be set up in 2008-09.

The FM is generous in his allocation to the following schemes of the UPA government aiming at improving the health conditions of the Have not population:

- National Rural Health Mission
- National programme for the elderly
- Jawaharlal Nehru urban Renewal Mission and
- Rajiv Gandhi Drinking Water Mission

All these schemes are expected to improve the standard of living of the neglected population. Such a huge allocation of funds is justifiable provided the government sets up a monitoring mechanism to trace out the progress made in the implementation of these schemes and assessing their deliverables.

- Increase in Short term Capital Gains Tax:

The FM's plan to increase the Short term Capital Gains Tax from the present 10% to 15% though perceived as a negative news by the participants in the capital market, it is required in order to discourage the speculative investment behaviour which acts as a hurdle in keeping the market away from erratic movements.

- Reduction in Fiscal and Revenue Deficits:

The budget foresees the Fiscal and Revenue deficit at 2.5% and 1 % respectively. This is on line with the the FRBM target of 0.5% reduction per year. Further the FM aims at achieving 0% revenue deficit at the earliest. This means the country's fiscal policy is in the right direction, i.e.. 0% revenue deficit means that the entire chunk of Government expenditure is expended only on the Capital Expenditure items which is considered as the rationale decision in Public Policy making, because revenue expenditure items do not create long term benefits for the economy.

Budget Blues

The following are the negative aspects of Budget08:

- Opportunity Cost of Farm loan Waiver:

The Non Performing Assets of the Banks in the Farm Loan Category was estimated at Rs.9800 crore by the RBI. This indicates that Rs.10000 crore is just enough to write off the NPAs in Farm loans. In this context, the Opportunity cost of Rs.50000 crore is any one's guess. Such a huge amount can be invested in any one or more of the following requirements

- Investment in Irrigation and Rainfed Area Development programmes
- Management and augmentation of water resources for Agriculture
- Investment required to repair, renovate and restore water bodies
- Investment in pursuing research on matters concerning agriculture
- Improving the infrastructure and operating mechanism of Agricultural Marketing Committees
- Reviving the Short Term Co operative credit structure
- Investment in roads, ports, power sector etc...
- Investment in Education and other areas of concern

Further, experts are of the opinion that the farm loan waiver is not desirable on account of the following reasons:

1. It creates a feeling of being cheated by those farmers who have paid their loan dues in time and

2. It encourages the farmers not to repay the loans as the future government will be expected to announce more number of Farm loan waivers

- No change in Corporate Tax

Industry chambers CII, Ficci and Assocham have long been demanding a cut in corporate tax rate to 25% to enable companies compete more effectively in the global marketplace. But the budget has disappointed the corporate sector by not reducing the corporate tax rate which is considered to be on the higher side compared to that of our competitive nations.

India's closest competitors – the Asean countries have tax rates ranging between 25% and 30%. In China, while the tax is levied at 33%, tax waivers to attract overseas capital bring it down significantly. So, foreign companies pay only 15% and domestic companies about 24%.

In the European Union (EU) too, corporate tax rates vary between 10% in Cyprus and 38.34% in Germany. Most EU countries levy corporate tax at about 25%. Various studies also show that the average corporate tax rate in 159 countries and regions stood at 28.6% last fiscal. Indian companies are taxed at 30%. In addition, they attract a 10% surcharge and a 2% education cess. The tax liability thus totals 33.6%. Foreign companies in India pay a higher 40%. With a 2.5% surcharge and a 2% education cess, the effective tax rate turns out to be 41.82%.

The Budget has not reduced the FBT and the surcharge in corporate tax which added the blues in the boardrooms.

- Much higher Fiscal Deficit

The off budget expenses such as the funds required to implement the recommendations of the sixth pay commission, Farm loan waiver and other expenditure heads are expected to produce a 7-8% fiscal deficit which is far away from the FRBM target.

- No Sops for the Rupee hit sector:

The Textiles, IT&ITES and the other export oriented sectors have been suffering for the past 3 quarters on account of the raising rupee. The FM would have done something to compensate at least partially the losses borne by this segment.

Conclusion:

The FM has made an attempt to have a balance between Politics and Economics through his mixture of well articulated ideas and populist schemes. The need of the hour is not in increasing the outlays on sectors and schemes but to set up an effective and transparent monitoring mechanism which will systematically review and assess the progress and outcomes of the budget proposals. Of course, *“It is not possible to satisfy everyone.”*