

A Budget for all seasons

Finance Minister P. Chidambaram unveiled another dream budget on February 28. It had something for everybody, and it left more money in everyone's pockets. Even the Opposition had little to criticise.

Sailesh Kottary reports on Budget 2005

The presentation of the government's budget in India is quite an exciting event, unlike in many other countries. There, it is usually a prosaic occasion; to most people it is as exciting as poring over a balance sheet. Which is quite understandable, as the budget is the government's balance sheet. Not in India. For days preceding B-Day, the last working day of February, the media hype builds up, speculating on a kind of 'wish list' for each industry. And then, after the finance minister wraps up his speech in the august hall of Parliament cited on Delhi's Raisina Hill, the media pores over each word of his. Print and television pundits examine how changes in the income tax, sales tax, customs tariff et al will impact major corporates.

There are two reasons for this unusual interest in the budget in India. Because at one level, it micromanages the economy; it raises or lowers taxes and duties due to which prices of end products fluctuate giving rise to arbitrage. At the other, the finance minister has in recent years taken the opportunity to lace his speech with policy reforms, revealing the government's agenda on many major issues. They set the ground for debate — and sense the political winds — before each initiative can be tabled in Parliament as a bill and passed.

So on February 28, the Harvard-educated Finance Minister Palaniappan Chidambaram kept his date with history and presented a remarkably 'feel good' \$114.3 billion budget that sent cheer through corporates, businessmen, investors, housewives and senior citizens. He had tax-cut lollipops for every one. Corporate tax, including surcharges, got reduced from 36.6 per cent to 33.67 per cent. (For foreign companies, the tax rate remained unchanged at 41.8 per cent.) But depreciation for plant and machinery too got reduced from 25 per cent to 15 per cent; a move which would affect capital-intensive companies. To offset the bite, and to encourage new investments, the initial depreciation was proposed to be increased by 5 per cent to 20 per cent.

For everybody across the board, the

basic level for paying income tax just got hiked by a whopping 100 per cent. Income tax will now kick in at an annual taxable income level of \$2222. For women and senior citizens, the tax-exemption limits are 25 per cent and 50 per cent higher. Of course, certain deductions which were automatic, got deleted, but there was still a higher residual income for everyone, which meant a fillip for the consumption boom. Another sweetener for the consumer was the lowering of customs duties for non-agricultural products from 20 per cent to 15 per cent. This level was more in keeping with ASEAN tariff levels and a sharp drop from the peak 150 per cent level that existed in 1991 on many items.

The talking point of this budget was the expenditure thrust in the social and rural sector through a plethora of schemes in health, education and rural employment

guarantee schemes. The outlay here has been hiked from \$8.7 billion to \$11.8 billion. Such enhanced outlays were backed by a higher credit outlay for agriculture at \$24 billion. It was in keeping with Chidambaram's statement nine months ago that he wanted to double the quantum of agriculture credit in three years. There were additional lines of credit from commercial banks for the tillers of the soil and all this gave the government spend a welcome rural bias. Another priority area in recent years, infrastructure funding, got a shot in the arm too. It was proposed to set up an institution, a special purpose vehicle, to fund infrastructure projects for which an authorised credit limit of \$2.2 billion was sanctioned.

Despite such giveaways, Chidambaram, banking on the supply-side of the Laffer Curve principle, is confident of raising resources and meeting revenue-collection

The Budget at a glance

All figures in Rs.00,00,000. \$1 = Rs 45 approximately	'03-04 Actuals	'04-05 Budget Estimate	'04-05 Revised Estimate	'05-06 Budget Estimate
1 Revenue Receipts	263878	309322	300904	351200
2 Tax Revenue (Net to Centre)	186982	233906	225804	273466
3 Non-Tax Revenue	76896	75416	75100	77734
4 Capital Receipts (5+6+7)†	207490	168507	204887	163144
5 Recoveries of Loans	67265*	27100	61565*	12000
6 Other Receipts	16953	4000	4091	-
7 Borrowings & Other liabilities†	123272	137407	139231	151144
8 Total Receipts (1+4)†	471368	477829	505791	514344
9 Non-Plan Expenditure	349088	332239	368404	370847
10 On Rev. Account of which,	283502	293650	296396	330530
11 Interest Payments	124088	129500	125905	133945
12 On Capital Account	65586*	38589	72008*	40317
13 Plan Expenditure	122280	145590	137387	143497
14 On Revenue Account	78638	91843	89673	115982
15 On Capital Account	43642	53747	47714	27515
16 Total Expenditure (9+13)	471368	477829	505791	514344
17 Revenue Expenditure (10+14)	362140	385493	386069	446512
18 Capital Expenditure (12+15)	109228	92336	119722	67832
19 Revenue Deficit (17-1)	98262	76171	85165	95312
20 Fiscal Deficit [16-(1+5+6)]	123272	137407	139231	151144
21 Primary Deficit (20-11)	-816	7907	13326	17199

* Includes receipts from states on account of Debt Swap Scheme. † Includes repayment to National Small Savings Fund. ‡ Do not include Rs 60,000 crore in BE 2004-05, Rs 65481 crore in RE 2004-05 and Rs 89500 crore in BE 2005-06 in respect of Market Stabilisation Scheme, which will remain in the cash balance of the Central Government and will not be used for expenditure. Source: Union Budget 2005-06



THE BUDGET HIKED OUTLAY IN THE RURAL AND SOCIAL SECTORS: P Chidambaram's feel-good budget got a thumbs up from everyone

targets. For example, though corporate tax has been reduced by about 10 per cent, he backs his projection of increasing revenues by 33 per cent with the fact that corporate tax collections have increased by over 30 per cent in the just concluded fiscal year ending March 2005. Banking on the buoyancy in the economy, Chidambaram expects to peg the revenue deficit at 2.7 per cent of GDP, the same

as last year, and the fiscal deficit at 4.3 per cent which is lower than last year's 4.5 per cent.

For the foreign institutional investors, the finance minister had a special gift. He allowed them to offer equities or bank guarantees as collateral for settlement obligations in the derivatives market, as against just cash at present. This relaxation brought them on par with domestic investors. He

also announced a broad policy in which foreign banks could buy out weaker private banks; they would however have to wait for four more years before they got controlling stakes in the stronger banks.

The stock market gave a thumbs up for the budget. The Bombay Stock Exchange gained 144 points, up by over two per cent. But there was some criticism too. The quantum of funding for the crucial infrastructure sector was not spelt out, there was no provision for raising revenues through the privatisation of government-owned companies. Was this lacuna to mean that the programme had been halted? Doubts were also expressed whether the fiscal deficit would hold since Chidambaram had cleverly pushed a slice of the deficit (0.7 per cent of the GDP) to the account of the states which make up the Indian polity.

The most biting criticism of the budget came from two features: one was the imposition a 0.5 per cent tax on cash withdrawals from banks exceeding \$222 and the other was the inclusion of 'fringe' benefits in taxable income. But in the main, even the Opposition could find little to fault the Chidambaram document. Indeed, for him it was a repeat of his original Dream Budget of 1997. 🌈

