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Theme 213

UNION BUDGET 2009-10

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Theme No. 213 : UNION BUDGET 2009-10

The Union Budget 2009-10 has been presented at a time when the country is confronting the impact of global economic recession. Though annual budgets are a routine affair with the government presenting its balance sheet of annual revenues and expenditures, in unusual times it assumes more significance for the share of benefits it passes on to the various sectors and sections of the economy and the signals it conveys as to the orientation of the economy. It also reveals the resolve of the government as regards new policy initiatives and action. Of course, unprecedented times call for unprecedented policy and direction.

India could remain insulated from the economic recession to a great extent due to the well-calibrated measures by the govt. and the RBI. The economy posted impressive 6.7 percent growth while developed economies underwent negative or nominally positive growth rates. The banking system remained sound, regulated and capitalized. The foreign exchange reserves and foreign debt are at comfortable levels and the inflation at benign zone. In recession, or more correctly in slowdown times in the domestic economy, the govt has to boost domestic demand and investment by following fiscal measures in line with 'Keynesian approach' of more of govt expenditure, even though it may result in an increase in fiscal deficit. The budget aimed at carrying forward the stimulus to lead the economy to 9 percent GDP growth and to broaden the agenda for inclusive development. The fiscal measures as outlined in the budget are expected to leave more money in the hands of consumers, leading to higher consumption and investment demand, thereby reducing the impact of economic slowdown/ recession.

What was the guiding philosophy behind the budget?

The Union Budget 2009-10 presented a common and pragmatic vision – an inclusive growth with increased spending to push the economy towards its expansionary potential. The Union Budget 09-10 focused on three challenges – of returning to high growth rates, ensuring inclusive growth and re-energizing government. The short-term objective was to focus on

growth and public spending. Though growth has declined, it has not come down as steeply as in many other countries. Govt. spending aims at putting more money in the hands of people, especially in the rural countryside, so that there is more consumption. The largest ever fiscal deficit – 6.8 percent of GDP for 2009-10 and a tax burden on the economy that is lower than in the last fiscal is one of the prominent aspects of the budget. The combined govt borrowings including state govt.'s deficit and special borrowings for fertilizer and food subsidies would be around 12 percent of the GDP which becomes fiscal stimulus of very large dimension.

What are the major expenditure and revenue estimates of the budget 2009-10?

The Centre's expenditure which stood at Rs 100 crore at the time of independence has crossed Rs 10, 00,000 crore with the present budget. The total expenditure estimated for 2009-10 is to the extent of Rs. 10, 20,838 crore, consisting of plan and non-plan expenditure of revenue and capital nature. This is financed by revenue receipts including tax receipts to the extent of Rs.474, 218 crore and by non-tax revenue and other capital receipts of Rs.145, 624 crore and the balance of Rs. 400996 is to be met by govt borrowings, which is reckoned as fiscal deficit, forming about 6.8 percent of the GDP. In fact, as and when the government plans to divest its stake in public sector enterprises, and if higher growth accelerates revenue collections, the fiscal deficit could be lower and gross market borrowing could be lower than the budget estimates.

What are the changes / reforms proposed on the taxation front?

The direct tax structure has been kept almost intact. Personal income tax exemption limit has been increased for individual category including women and senior citizens by Rs 10,000 and 15,000 respectively. The corporate tax has been retained without change. Minimum Alternate Tax has been increased from 10 percent to 15 percent of book profits. Fringe Benefit Tax has been abolished. DDT (Dividend Distribution Tax) and STT (Securities Transaction Tax) have been maintained at present levels. CTT (Commodities Transaction Tax) has been withdrawn. Also, the surcharge on direct taxes including on personal income tax has been removed. The new Direct Taxes Code will be released to the public for debate before implementation.

Excise duties will be almost stabilized at 8 percent, customs duties generally at 10 percent and services taxes at 10 percent. In indirect taxes, the new

GST (Goods and Services Tax) will be introduced by April 2010. Without any additional tax burden, the budget forecasts only 2 percent increase in gross tax revenues. The budget has accounted higher non-tax revenues from auction of spectrum for third generation of mobile telephony, higher dividends from public sector and transfer of surplus from the RBI.

How does the budget underline the ideal of inclusive economic growth?

The budget definitely focuses on inclusiveness. The budget estimates were 36 percent higher than last year's for both non-plan and plan expenditures. Infrastructure is the centerpiece of its goal for an inclusive growth – the rural sector is to get massive investments for employment and credit-enhancing capabilities. Increased spending on social infrastructure will create more assets as well as employment opportunities leading to increase in income and demand. The focus on infrastructure and rural development entails more allocations towards programs under NREGA (National Rural Employment Guarantee Act), Bharat Nirman, Indira Awas Yojana and the National Rural Health Mission. Increasing agriculture credit and providing interest subvention along with debt waiver would stimulate agriculture growth.

What is the roadmap for reducing the fiscal deficit?

Growth is the budget's first concern even if it means running up a huge deficit. No clear road map as such is laid out, but as per document presented in the parliament under FRBM Act, 2003, a target of 5.50 percent is fixed for 2010-11 and 4 percent for 2011-12. The situation of high fiscal deficit is not sustainable. The budget has not articulated any disinvestment target. The Economic Survey had suggested annual disinvestment to the extent of Rs.25000 crore. Disinvestment proceeds will be reflected in the revised estimates.

What are the major themes of economic reforms that are indicated in the Budget?

The budget proposes reforms in the areas pending reports by expert committees: national gas grid, relief to farmers indebted to money-lenders, food security, direct tax code to streamline all direct taxes, switch over to nutrient based fertilizer subsidy, market pricing regime for petroleum products and fiscal consolidation. On the whole, the budget marks continuity of slow reforms in the right direction. As the finance minister suggested, the budget is only one policy platform. Economic policy making and implementation have to be seen as on-going process. There are many

initiatives to bring in technology into governance, such as the unique citizen number identification plan, pan-India virtual employment exchange, and central universities in every state etc.

What are the reasons cited for the criticism that the Budget did not rise up to the expectations?

The Budget has not followed the indications of Economic Survey as regards divestment and a host of economic reforms. Accountability and transparency in public spending can be achieved by building institutional mechanisms, and this is not spelt out in the budget. Allocations to the rural sector are no doubt required but delivery mechanism is to be strengthened so that the benefits may reach the needy. Agriculture development should have spelt out details of a second Green Revolution – the word ‘green’ standing for both productivity and environmental protection. As regards infrastructure, the govt. should have specified short, medium and long-term action plan.

Since govt. borrowings are not to be monetized, the private sector will have less of funds for investment and spending. This may lead to lower overall investment, output, income and demand in the economy. Also, the larger borrowing may put pressure on interest rates. The govt could seek more revenues from disinvestment proceeds. No clear picture emerges about the strategy of the govt. for going forward with economic reforms.

What are the implications of the budget announcements on the banking sector?

Core sector financing gets a boost with banks getting 60 percent refinance from India Infrastructure Finance Company Ltd. (IIFCL) for public-private projects. A target has been fixed for the bank-IIFCL alliance to generate investments of Rs 1 lakh crore. Higher credit off-take is expected for infrastructure funding. Banks are also allowed to raise zero-coupon bonds which will reduce cost of borrowing. The budget also moots a ‘takeout financing’ for joint financing of long-term projects by banks without jeopardizing asset-liability management. Interest subvention extended for exporters and farmers will be income-neutral for the banks. The govt. also proposes to extend banking services in unbanked rural areas. Branch delicensing is also proposed. Financial sector reforms are not proposed as expected by many. FDI for insurance sector and dilution of govt stakes in banks found no mention in the budget. Nothing is detailed in the budget about consolidation or recapitalization of banks.



BUDGET AT A GLANCE

	2007-2008 Actuals	2008-2009 Budget estimates	2008-2009 Revised Estimates	2009-2010 Budget Estimates
1. Revenue Receipts (2+3)	641864	602935	602173	614497
2. Tax Revenue (net to Centre)	439547	507150	465970	474218
3. Non-tax Revenue	102317	95785	96203	140279
4. Capital Receipts (5+6+7)	170807	147949	338780	406341
5. Recoveries of Loans	5100	4497	9698	4225
6. Other Receipts	38795	10165	2567	1120
7. Borrowings and other Liabilities *	126912	133287	326515	400996
8. Total Receipts (1+4)	712671	750884	900953	1020838
9. Non-plan Expenditure	607689	607498	617996	696689
10. On Revenue Account of which,	420861	448352	561790	618834
11. Interest Payments	171030	190807	192694	225511
12. On Capital Account	88728	59146	56206	76855
13. Plan Expenditure	205082	243386	282957	325149
14. On Revenue Account	173572	209767	241656	278398
15. On Capital Account	31510	33619	41301	46751
16. Total Expenditure (9+13)	712671	750884	900953	1020838
17. Revenue Expenditure (10+14)	594433	658119	803446	897232
18. Capital Expenditure (12+15)	116238	92765	97507	123606
19. Revenue Deficit (17-1)	52569	55184	241273	282735
	-1.1	-1	-4.4	-4.8
20. Fiscal Deficit	126912	133287	326515	400996
{ 16-(1+5+6) }	-2.7	-2.5	-6	-6.8
21. Primary Deficit (20-11)	-44118	-57520	133821	175485
	-0.9	-1.1	-2.5	-3

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