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from the ringside

Budget 2006 — More hope than hype

Day after is not far. By now, the Budget would have been sealed, signed and settled, waiting to be delivered. Even the bits of poetry or prose from folklore and national icons selected and translated. Budget-making over the years has, for good reasons, become increasingly demystified, though this may have shorn it of its aura and mystique. More needs to be done. All over, policy making is a continuing process and even the arithmetic of accounting is periodically corrected.

In the post-liberalisation period however we moved away from accounting to make it the principal policy statement of the Government. In some ways, that is the day when the Finance Minister becomes an economic czar riding over 'narrow concerns of other ministries'. However, with deregulation and ownership of reforms resting with concerned economic ministries, the role of the Budget as the principal catalyst for change has diminished. At least two finance ministers, including the present, have expressed the hope that in due course a draft budget would be on the Net enabling everyone to analyse, comment and suggest changes. 'Budget on the Net', we hope, is realised soon.

There is therefore no point at this stage in making suggestions for the Budget. Let me focus on what is likely and whose absence would be a surprise:

First and foremost, a continuation of a sound macro-economic regime returning to the path of rectitude contained in the Fiscal Responsibility Act. Strong signals are needed to counter what the IMF in its recent Article IV Consultations on India describes as ''perceptions of a weakening of government commitment to reform''.

Second, it would be surprising if the integrity of the basic rates of income-tax, corporate tax or excise is altered, negating the principle that moderate and stable tax rates make for a virtuous circle of long-term planning and increased compliance.

In the same spirit, greater convergence of excise rates to the mean rate of 16 per cent would be attempted, benefiting some sectors like automobile. There would be an attempt to remove the irritant features of the Fringe Benefit Tax and Cash Withdrawal Tax, although I doubt they would be abolished or do not resurface in some form. I also do not think Chidambram would act a party pooper by reimposing capital gains to dampen Sensex sentiments; finance ministers are prone to viewing Sensex as an index of their success. In fact, further encouragement to the capital market, particularly mutual funds (say to the fund of funds), is likely.

The roadmap on banking reforms has made mixed progress. Credible measures to encourage mergers and consolidation, faster adoption of Basel-II norms and enhancing competition through private banks, both domestic and foreign, to improve efficiency of financial intermediation can scarcely be avoided.

Third, notwithstanding improvement in tax collections, indirect taxes, particularly excise-to-tax GDP ratio remains worrisome. The ambit of service tax, with an upward bias in the rates, is likely to be enlarged with addition of new services along with a roadmap for the adoption of GST on goods and services. There is also no escape from curtailing the scope of exemptions; moderate tax regimes and a plethora of exemptions are incompatible.

Fourth, the need to align peak tariffs with average ASEAN rates, repeated by successive finance ministers, has become somewhat of a joke. Chidambaram may settle for peak rates at 10 per cent, reducing these from 15 per cent, but there are enough indications that all imports, with some exceptions, would be subjected to CVD to allay fears of negative protection to domestic industries. In practice this might well increase the peak rates!

Fifth, the petroleum duty structure based on the Rangarajan recommendations would be a high priority. Customs duty on crude may become 7.5 per cent, with 10 per cent for downstream products. Even with some calibration in excise, increase of petrol and diesel prices is inevitable while coalition politics may leave the present level of subsidies on kerosene and LPG untouched. The Finance Minister may not want this to become a rallying point for opposition parties, including the Left.

Incidentally, a long sunset period suggested by Rangarajan often gets derailed jeopardising the basic integrity of the proposals. The experiment of compensating BPL consumers either through income transfers or stamps with a monetary value is embedded in the larger issue of better targeting of subsidies.

Sixth, I expect incentives for investment in infrastructure, particularly power, pipelines, lowering licence fee for better rural tele-density and making the Special Purpose Vehicle more attractive. The Urban Renewal Mission which has the potential to accelerate the construction sector and create employment opportunities needs impetus.

Seventh, a roadmap for the agricultural sector. It would be reasonable to expect some commitment to repeal the Essential Commodities Act, Agricultural Marketing Product Act, encouraging cold chains, increasing credit availability to name a few.

Eighth, coalition pressures may see increased allocation for programmes like Bharat Nirman, Employment Guarantee, Education and Health, or atleast a commitment to do so during the course of the year. Similarly, a focus on employment creation through self-help groups, micro-credit and sectors where employment co-efficient is higher, like tourism, will receive attention.

Ninth, a credible programme for reforms of human resource development has been neglected for long. When would this become a priority?

Finally giving greater boost to investment, both public and private, and measures to further improve the investment environment are inescapable. This Budget is being presented in the backdrop of current economic buoyancy and favourable expectations. Sustaining euphoric expectations is never easy. However, ‘Unpleasant Surprises’ are worse than muted outcomes. There is more Hope than Hype.

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