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Need for course correction

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Until about October 2007 the economy was behaving extremely well. Since then there has been a slight slowdown mainly because industry has not been able to keep its pace. This was mainly because of the fall in export demand induced by the hardening of the rupee and fall in domestic demand for select goods, particularly consumer durables, induced by the high interest rate.

Nevertheless, it is possible that the fiscal deficit this year may be lower than anticipated. That is because revenues have been increasing faster than provided for. Tax collections are up 25 per cent, mostly because of larger revenue from corporate tax and income-tax, indicating better tax compliance. Expenditure has also been well under control, even taking into account the supplementary demands for grants.

What is needed now is a correction of imbalances. The Budget needs to aim for 9 per cent growth keeping in mind the likely slowdown in the world economy, particularly the US. We are now an open economy but our growth depends essentially on indigenous factors. We can, therefore, keep up our growth if the loss in exports is made up using policy instruments that will energise domestic demand. That can be achieved using a combination of fiscal and monetary measures.

Considering that our tax rates are higher than in most other countries, it is necessary that they are brought down. All cesses that were expected to be temporary measures have to be eliminated and a simple tax structure created for the tax payer. The exemption limit in respect of personal taxation has to be increased and the tax rates re-adjusted.

Corporate tax rates have to be reduced while revisiting some of the tax incentives. The critical employment generating export industries that have been hit by rupee appreciation deserve tax relief. Similarly, industries hit by excessive imports made cheaper by rupee appreciation, need to be protected by selective increase in import duties. These tax revisions will partly stimulate domestic demand. Further, the inflow of foreign money in 2008 is not likely to be excessive and the RBI will find it easier to check inflation and rupee appreciation and consequently reduce the rate of interest. This combination of fiscal and monetary measures will rev up industrial growth and help achieve the 9 per cent growth.

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