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PC gets a pat for farm loan waiver and tax cuts

BOARD ROOM
REFLECTIONS

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WITH A typically difficult situation to handle given the pressures of politics in an election year as well as genuine difficulties faced by agriculture, the FM has done well to bring a fair degree of balance to the budget. Substantial waivers in farmer loans and individual taxation has constrained the FM from considering reductions in corporate tax or customs duties.

He maintained focus on the social sector giving big impetus to education and health by adding several key institutions and supporting the existing 7technical education centres and rural health centres.

The massive loan waiver to farmers will go a long way in relief to the troubled community. Importantly, it will also give a boost to agricultural production in the coming years. However, it will leave a trail that can affect discipline in loan servicing, even from those who have been compliant. The effect of write-off on banks remains to be seen, depending on budgetary support extended by the government.

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The general reduction in excise duty mean rate from 16% to 14% should help to a fair degree in price control and demand generation. Several industries have got additional benefits, pharma being a major beneficiary of an 8% reduction. It augurs well for the sector that has been facing pressures of price control and cost competitiveness for the last couple of years. Benefit on account of research and development outsourcing allowance for the pharma sector is another welcome feature. The reduction in duties for small cars and two/three wheelers will trigger higher demand as well as generate improved climate for the auto ancillary sector. India's strength in manufacturing should get a much needed boost with these concessions across the segment.

Though the budget speech did not highlight specific infrastructure investments, it was encouraging to hear about the promotion of a national fund for transmission and distribution and the setting up of a coal regulatory body, both of which are steps in the right direction.

The FM did not present any policy tools towards economic growth or fiscal management both of which are likely to be introduced from time to time as the impact of recession in markets like the US and relative position of the rupee may demand. The status quo on corporate tax is a neutral step and given the large list of priorities both economic and political, I don't think the FM had too many options available. However, he could have managed without the change in short term capital gains tax, which seems to have upset the market to a fair degree.

Given the sharp buoyancy in tax collections and excellent improvement in revenue deficit it may have been possible for the FM to have done more for industry. However, he seems to have exercised caution largely in anticipation of the scenario ahead of him.