

## Union Budget 2009-10

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With an allocation of more than Rs 10,000 billion, the budgetary estimates for 2009-10 announced on the 6<sup>th</sup> of July could be slated as one of the most socialist budgets post liberalization. The current slowdown has seen aggregate demand in the economy reaching record lows, with the contribution of private consumption to aggregate growth falling from 54% in 2007-08 to 27% in 2008-09 (as per estimates provided in the Economic Survey of 2009-10). Perhaps the Government had no alternatives other than augmenting expenditure on its behalf so as to cushion against this decline. However all this extra spending will come at a cost of ever inflating fiscal deficit which is currently being estimated to be 6.8% of GDP in 2009-10. This has meant putting aside the target set by the Centre's Fiscal Responsibility and Budget Management Act of taking the fiscal deficit down to 3%, for some time at least.

The social sector (that comprises mainly of Human Resource, Social Justice, Education and Health) accounted for almost a quarter of the total budgetary allocations made this year. Schemes such as the National Rural Employment Guarantee Scheme received an outlay that was 144% higher than the previous year. Also, Rs 21.13 Billion was earmarked for expansion of existing Indian Institute of Technologies, National Technological Institutes and opening more such centers of technical excellence. The Sarva Shiksha Abhiyan (to ensure 100% literacy) was allocated an amount of Rs 131 billion. Also, it has been proposed that income tax deduction benefits be extended to education loans secured for all courses of study. The allocation towards Rural Health Mission was augmented and customs duty on medical equipments for heart ailments and medicines for influenza, hepatitis etc were reduced. This heavy thrust towards the social sector of the economy will definitely help in improving the standard of living especially in the rural regions, a prerequisite for any developing economy. Currently, globally India is ranked at 128 on the basis of the Human Development Index (United Nations), much below China (81) and Sri Lanka (99). A healthy standard of living correlates directly to a higher aggregate demand in the economy.

Second in line was the infrastructural sector in terms of receiving budgetary allocations. Road development received a major boost in terms of an increase in The National Highway Authority of India's allocation by 23%. Further, infrastructural development in the rural regions of the country will benefit from a 45% hike in outlay for the Bharat Nirman Project (dealing with rural

roads, electrification and housing) along with a Rs 20 billion allocation for the Rural Housing Fund.

Urban infrastructure is also expected to receive an impetus with a 87% increase for the Jawaharlal Nehru Urban Renewal Mission. In addition, Rs 39.73 billion was earmarked to enhance provision of basic necessities to the urban poor. All this has been aimed at making the cities slum free.

The budget this time did not offer much to industries however as was reflected by the decline in the Sensex when the budget was announced. The Sensex fell by more than 800 points on the 6th of July. The industry was looking for more about the Government's divestment plans after the 2009-10 Economic Survey's ambitious recommendations for large scale divestments in the banking and insurance and energy sectors which was released a couple of days before the budget. But all that Mr. Pranab Mukherjee (Finance Minister, India) had to say was banks and insurance companies would remain in the public sector and the Government would extend full support including capital infusion for this sector to grow and remain competitive. He mentioned that people's participation in divestment programs would be encouraged though the Government would retain 51% of equity in Public Sector Undertakings and no specific road map has been laid out. Moreover, the estimated Rs 11.20 bn to be collected from disinvestments of equity in public sector enterprises was minimal compared to Rs 25.67 bn in 2008-09 or Rs 387.95 bn in 2007-08.

On the other hand, taxes saw several moderations. The Fringe Benefit Tax was done away with and Corporate Tax not increased significantly to the relief of the corporate sector. At a personal level, Income Tax slabs were increased marginally thereby ensuring a minimum of Rs 1000 additional earnings per annum for each working individual. Also, the Commodities Transaction Tax levied in the previous budget was scrapped along with a reduction in the Securities Transaction Tax. All this aims towards a simpler tax regime in the economy. With the General Sales Tax system (consisting of just a central and a state General Sales Tax) coming into effect from the next fiscal year, the indirect tax structure in the economy will be much simpler.