

# Higher interest rates are not justifiable

By **J D AGARWAL**



**WILL** the budget be used by the party in power to fight its

opponents politically? Or will it be used as an instrument to make economic reforms and structural adjustments programme successful? Will it be used to reduce fiscal deficit, revenue deficit, and budgetary deficit? Will it be used to achieve a sustainable economic development, keeping inflation under control and fighting recession? Will it be to woo Indian Polity or foreign investors and other foreign agencies? Will the government announce full convertibility on trade account in the current budget? And lastly will the budget be a welfare oriented budget distributing lollypops to poor without any substantive gains to them? These are some of the questions which are dominating the minds of people in the country today.

The union budget has been often identified by different

people differently. For a common man it has most often been associated with price rise, and higher taxes. For business houses, small and big, it has been associated with direct and indirect tax rates, tax incentives, reliefs and new policy prescriptions. For the government it has been a financial forecast of income and expenditure for the year and an instrument to depict its likely policies and

defence at the present level resulting in reduction in the real outlays. These actions may affect the economy adversely in the long run but may not show any adverse effects immediately.

On the taxation front, the budget may partially implement Chelliah panel recommendation by removing the surcharge both on personal and corporate taxes and may also reduce

Customs duties and excise taxes may be slashed further and the tax base may be widened by including items which are presently not covered under excise duties.

The government might announce full convertibility of rupee on trade account to give an incentive for exports and also control smuggling and the havala translations. In my opinion this measure may be announced even a week before the budget. However, if for any reason the government does not announce the full convertibility it may resort to increase the proportion of convertibility to 75 per cent.

The government may also announce reduction in interest rate as higher interest rates though boost savings yet are counter productive by contributing to a higher cost of production. India's need for larger investment at the lowest cost is paramount to increase its competitiveness internationally and to generate employment. Higher interest rates are not justifiable if this need is to be taken care of.

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thinking. The union budget 1993, is likely to be different than the budgets presented in the past.

In my opinion the finance minister would use a box office formula to present a budget incorporating a mix of all the above variables.

Once again he would try for a clap from the public and people in power even if he is to use fustiness. He might reduce fiscal deficit to 4 per cent of GDP, announce disinvestment of PSUs; make little provision for infrastructure and may not touch implicit subsidies given to higher education; transport and electricity for fear of a backfire; keep the outlays on

corporate tax rates

In return the budget may take away the incentives and reliefs currently made available to the industry. On personal taxation, the budget may provide relief by raising the minimum exemption limit to Rs 35,000 and might raise the standard deduction to Rs 15,000 per annum. A more rationale approach could be to allow 20 per cent of gross salary as standard deduction with a minimum of standard deduction amounting to Rs 12,000 and a maximum standard deduction of an amount of Rs 50,000 as the expenses incurred to generate incomes is not the same at different levels of incomes.

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