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Union Budget: On right track

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One word that comes to mind after listening to Finance Minister Arun Jaitley's maiden budget presentation for FY2015 in the Parliament today is 'Pragmatic'. The budget clearly demonstrates that the present government stays committed to the fiscal roadmap from last year with a target of 3% fiscal deficit by 2017. For the current financial year, the government has reiterated the interim-budget fiscal deficit target of 4.1%. Achieving this target is by no means plain sailing. In fact it will be challenging as the tax buoyancy assumed in the budget is aggressive and accounting for subsidies is lenient. However, the government has a leeway in achieving the fiscal target because the buoyant equity market provides it with an opportunity to be more aggressive in raising the moneys from disinvestment in PSUs.

The government expects nominal GDP growth of 13.4% in FY15 versus 12.3% in FY14 - so a mild recovery has already been factored in. Net tax revenue is budgeted to rise 16.9% Y-o-Y in FY15 vs. 12.7% in FY14. The allocation to subsidies, at 2% of GDP, is largely left unchanged from the interim budget target (1.9%). The commitment to 'overhaul the subsidy regime' is laudable, but the budget is short in details. Clearly, the direct benefit transfer system remains the key mechanism to cut the subsidy bill. Recent reports that the Government will continue to pursue this approach, which was initiated by the previous government, is a welcome continuity in policy direction.

The budget has made an effort to kick start the capex cycle. There is an attempt to enhance capex funding through multiple sources (including banks, REITS, corporate debt market, equity market). Further, the government has reiterated that it is supportive to FDI and has indicated that it will open up the Defence and the Insurance sectors to FDI to the tune of 49%. India's Infrastructure investment plans are based on the PPP model. There have been several issues that have arisen in recent years with respect to the PPP framework. These include rigidities in contractual arrangements, the need to develop more nuanced and sophisticated models of contracting and develop quick dispute redressal mechanism. The government has indicated that it will set up an institution to look into this, which is a welcome move. Preferably, such an authority should have regulatory and intervention powers.

For individuals and companies, there is no major change in tax rates. But the increase in the income tax exemption limit, an increase in savings limits and enhanced limits on deductible mortgage interest payments provides relief for individuals. The clarification on applicability of the 2012 retrospective taxation clause and the setting up of a committee to look into the pending cases falls short of hopes for a complete reversal of this vexatious issue. Hopefully, however, this should allow for closure of the existing cases. Further, an advance ruling mechanism is also proposed to be set up so that resident tax payers can obtain advance rulings for both direct and indirect taxes – this is expected to reduce the burden of tax litigation at later stages.

While it was expected that the government would use its mandate to bring about radical changes, the same, however, is not visible in this budget. But what this budget does provide is a sense of the roadmap, which this government has adopted. During the election campaign Prime Minister Modi espoused the principle of 'minimum government, maximum governance' and had said his government would focus on 'Actions' over 'Acts' (Laws). To that extent, we believe todays actions do provide a framework for growth and development as compared to the 'inclusive growth' focus of the previous government. Those looking for something more dramatic should also remember that the time was too short for the government to do all it may have wanted to. So, we may have to wait for the next Budget in Feb 2015 for more strategic vision and direction.

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