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Bridge over troubled waters: What industry expects from this year's budget

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Budget 2016-17 comes at a time when the global economic environment continues to be troubled. India Inc will be looking for signals to revive the investment momentum.

While public spending is certainly welcome, a stronger wave of job creation and income growth can come from broad-based industry-led capital expenditure. Issues such as stalled projects, delayed administrative clearances, and bank distress have depressed investor confidence. Subdued spending from consumers arising from two successive years of drought and economic uncertainties have led to surplus capacities in factories.

We expect that the budget would explore solutions to address bank balance sheets on the one hand, and build consumer demand on the other. Problems for banks have arisen primarily due to large infrastructure projects which have not taken off as speedily as originally envisaged. Banks face a high quantum of distressed assets, estimated at over 11% for loans gone bad as well as loans currently being restructured with fresh repayment norms.

The government must consider a National Asset Management Company (NAMCO) or asset restructuring entity, which would take over such project loans and either sell them off or revive them. When such bad loans are taken off their balance sheets, banks can reboot their credit cycles and help more businesses to access credit, especially small and medium enterprises.

Another confidence booster that we can expect from the budget is reduction in corporate tax rates. Currently, India's tax rate for companies compares unfavourably to most other emerging economies, so that firms are tempted to avoid India. The previous budget had announced cuts in this rate to 25% over a period of four years, accompanied by phasing out of exemptions and incentives. The new budget can take this forward by putting out a roadmap and inviting consultations on tax rate and exemptions.

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CII has suggested a target rate of 22%, while taking care to prudently channelise any exemptions for maximum employment creation. Regarding indirect taxes, the budget should stick to the current excise, customs and service tax rates as any upward revision may hamper recovery. Once the economy is on a sound GDP growth path above 8% annually, tax revenues would rise in tandem.

GST remains to be passed. We hope all stakeholders will work together to introduce this tax system at the earliest as it would drastically cut down high costs of interstate movement of goods and add huge efficiencies to the economy. By itself, GST is estimated to take GDP growth up into the 9% range.

All eyes will be on the government's own capital expenditure plans, given that the infrastructure deficit still hobbles growth. The government has made commendable progress on reviving roads with 10,000 km of new projects expected to be awarded during the current financial year. New capacities in power, ports, railways and airports can also be opened up for bidding. The last budget mentioned a 'plug and play' model of public-private partnership for power projects. This can be extended to other sectors as well to avoid project delays on account of approvals and clearances.

Such government expenditure can be carried out without going beyond the avowed 3.5% fiscal deficit target as a higher deficit would have negative impact on inflation and economic stability. The decline in oil prices has opened up plenty of fiscal room. Disinvestment too remains an untapped revenue source and the government must consider a 'systematic disinvestment plan' for staggered stake sale without depending on equity market conditions.

Public sector enterprises also enjoy surpluses that can be invested in key expansion projects. Such large-scale spending can attract investments down the supply chain, including from small and medium enterprises.

Much is in the hands of consumers and households, which must be incentivised to step up spending through the budget. The 7th Pay Commission can be rolled out in phases to keep demand going and contain fiscal outgo. Expanding the limit for investments under section 80C would channelise savings and lower the household tax burden. A special scheme for exemptions for low-cost housing loans can revive the real estate sector.

With the growth engines of consumer demand, private investments and government capital expenditure in revival mode, budget 2016-17 can be a force multiplier for the economy.

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