Broad Directions, New Focus On Investments

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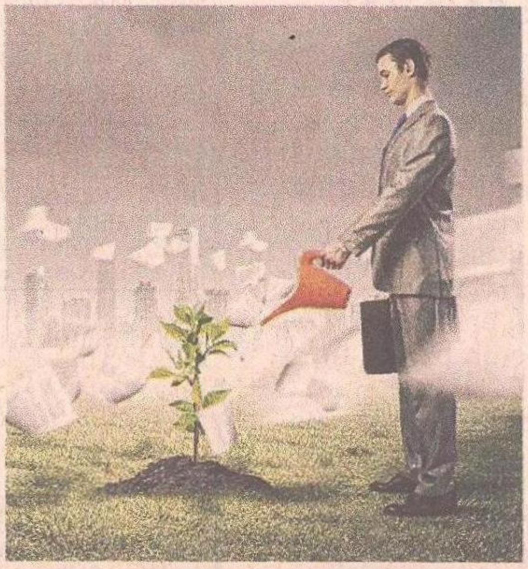
If one has to identify a strategy in finance minister Arun Jaitley's maiden Budget, it has to be the strong focus on reviving investment and growth in the economy. That he has laid out a plan for fiscal consolidation is itself positive for a revival, as it will enable interest rates to moderate. However, it is important that the fiscal targets set out in the Budget be achieved. The Expenditure Management Commission set up by the Budget is expected to come up with a detailed plan on ways to rationalise spending including through subsidy reform. The spending on subsidies has been high over the past few years at over 2.0% of GDP.

Given that the Indian government has little fiscal space to spend on capital investment, the Budget has tried to incentivise investment by the private sector in various ways. It has reduced the threshold limit for investment allowance on plant and machinery from ₹100 crore to ₹25 crore so that a larger number of businesses are encouraged to expand capacity. A number of infrastructure projects have been announced, including 16 new port projects with port connectivity, development of new airports, higher target for road building, ultra mega solar power projects and creation of additional gas pipelines. Since most of these will have to be implemented through PPP models, a new institution called 3P India will provide support to such projects.

At the same time, PSUs will continue their role in driving investments, which the FM has pegged at ₹2.48 lakh crore for the year. Indeed, the Budget itself has substantially increased its allocations to the infrastructure ministries. The Budget has also done its bit for financing investments. For one, it has increased the FDI limits in sectors such as defence and insurance. Importantly, it has relaxed conditions for allowing FDI in low cost housing. An improved tax structure will allow Real Estate and Infrastructure Investment Trusts to increase their investments in these sectors. The corpus for the pooled Municipal Debt Obligation facility has been significantly enlarged to finance urbanisation.

The Budget also envisages changes in the banking system that will enable increased access to finance. It says that banks will be permitted to raise long term funds for lending to the infrastructure sector with lower requirements for CRR, SLR and Priority Sector Lending. Measures to hasten the development of the corporate bond market have also been mentioned. Consolidation in the banking sector has been proposed, which together with recapitalisation should strengthen the public sector banks. Divestment of public shareholding in public sector banks together with the proposal to give them greater autonomy will increase confidence in their operational efficiency.



CII has been highlighting the supply-side issues in agriculture that have led to persistently high food inflation. It is heartening that the Budget has given adequate emphasis to this area. Even though many of the issues lie in the domain of state governments, the Budget has said the central government will work with them to develop a national market in food products. This will benefit both farmers and consumers. Greater allocations to irrigation, warehousing and R&D will also strengthen produc tivity. The commitment to restructure FCI and improve the functionin of the PDS will take forward reforms in the food sector.

This Budget will work if along with supply-side reforms it manages to bring back the confidence of investors and households. The minister has given assurances to investors that many of their tax related problems will be addressed.

As for households, the Budget has provided relief by increasing the exemption limit for personal income tax, increasing the annual investment limit under section 80C and als for PPF and allowing greater deduction on account of interest on housing loans. These should spark a reviv al in consumer confidence.

Overall the Budget provides a broad direction and many of its proposals will now need to be implemented on the ground. The GST is one such, which remains the top recommendation for industry in the list of proposed economic reforms.

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