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Go full steam ahead

The Budget's good for the economy but there are gaps

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The 2012-13 Budget is largely positive although industry does have some concerns. In the last one year, India's national income growth came down sharply from 8.4% to 6.9% and inflation was a persistent problem. While the aam aadmi was affected, industry confidence, too, was sapped. In this scenario, it was important for the Budget to come out with steps to revive investments.

Unfortunately, changes have been made to the Income Tax (I-T) Act and they are applicable to deals that have been concluded. The Confederation of Indian Industry (CII) views this as the single-biggest drawback of the Budget. During our interactions with the finance ministry, it was clarified that this will not apply to all deals from the 1960s. But changing the rules midstream means that overseas investors cannot be assured of policy stability. This would adversely affect future investments. We would urge the government to apply this measure to forthcoming deals only.

The CII was also not in favour of raising excise and service tax rates. This will put further pressure on the consumer and discourage industrial growth. The step to shift up personal I-T slabs will hopefully offset some of this negative impact.

Understandably, there was little choice since government's borrowings from the markets to finance its spending have increased over the last few years. However, there could have been some creative revenue generation to bring down the fiscal deficit. For example, about ₹3 lakh crore is locked up in tax disputes and out-of-court settlements could release at least ₹50,000 crore. Also, the government could have sold land or buildings of sick public sector firms.

Within the available limits, the Budget did a commendable job for certain sectors — infrastructure, agriculture and finance. In particular, roads, power, low-cost housing and aviation have been given high importance. The present infrastructure gap adds to costs, and the 12th Five Year Plan has rolled out a target of ₹50 lakh crore worth of expenditure for the next five years in this sector, including half from the private sector.

The Budget also made available more funds for infrastructure investment by opening access to tax-free bonds, bridge-funds for long-duration projects and borrowings from overseas. This should encourage industry to participate in more projects, especially since expenses on plant and machinery will also get additional tax breaks. The industry had hoped that some tax facilities for private investments in education and healthcare would also be announced, but this did not happen.

In agriculture, farmers will now have access to more money since credit for the sector has been increased by ₹1 lakh crore. The interest rate for farm loans will continue at 7% and those who repay loans on time for storage and transport facilities will enjoy a further 3% cut.

The government has been making efforts to direct private sector spending into post-harvest activities such as cold storage, warehousing and agricultural markets. The Budget takes these forward by giving additional deductions for expenditure in these areas.

A number of initiatives have been taken to deepen capital markets. The Indian market for corporate bonds is underdeveloped and not aligned to the global trends, leaving industry deprived of routes to access finance. Qualified foreign investors can buy such corporate bonds. Now venture capital funds investing in start-ups can now look at every sector instead of being allowed only in nine areas. Similarly, the securities transaction tax has come down, although we had hoped it would be eliminated altogether.

It could've been better: Pranab Mukherjee on Budget day, Delhi

The Budget could have announced more measures for sectors that need urgent attention like skill development. Small and medium enterprises continue to suffer from lack of funds, including for adding technology. Research and development incentives have been limited to only a few industries and should be expanded for India to take advantage of global developments.

Much of the action for spurring investments would be outside the Budget. For example, many bills are in Parliament and could be enacted within the next year. Issues of governance and implementation must also be addressed. Some quick announcements could bolster the steps announced in the Budget and industry hopes that we can see further action ahead.

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The views expressed by the author are personal