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An impressive debut

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The Finance Minister has addressed a number of issues in the budget, including some brought up by industry. First, he has boosted investor confidence by committing to a path of fiscal consolidation. This will restore macroeconomic balance, bring about a decline in interest rates and revive the economy. He has also promised to resolve some tax-related issues that have been dogging investors, which will succeed in inviting investors from India and abroad.

Budget 2014-15 augurs well for the domestic economy as it focusses on the medium term rather than short term. Arun Jaitley has talked about fiscal prudence by maintaining inter-generational equity. The proposal of setting up an expenditure management committee is also forward looking. Announcements on the implementation of the Goods and Services Tax and a cautious approach toward retrospective taxes have lived up to people's expectations.

Encouraging investment

Mr. Jaitley has taken several measures to encourage investment such as allowing higher levels of FDI in defence and insurance, among other sectors. Other measures include decrease in the limit for investment allowance on plant and machinery, announcement of several projects in the infrastructure sector and promotion of construction activity. The focus on urbanisation, smart cities and urban transportation is welcome. Industry hopes that the pace of activity in sectors such as ports, roads and power will be stepped up.

It is indeed commendable that despite constraints, the budget has been able to provide funds in a number of critical areas. In particular, the proposal to establish a venture capital fund of Rs. 10,000 crore will support entrepreneurship. Given that Micro Small and Medium Enterprises are critical to the country's industrial output and employment, the decision to review their access to finance is welcome. A higher capital ceiling to define MSMEs would be appropriate for current conditions. The entire ecosystem for small and medium enterprises needs to be improved by reducing regulatory requirements. Developing a better bankruptcy framework would be a step in that direction.

The budget has also taken measures to ease access to long-term finance for the new projects that the government has initiated. Long-term funds raised for financing infrastructure will attract lower regulatory requirements. For some time, public sector banks have been plagued by rising levels of non-performing assets. Together with an effort to revive stressed assets, the budget has also made provisions for recapitalisation of banks. The government is likely to lower its shareholding in public sector banks by selling shares to the public. Incentivising Real Estate Investment Trusts and promoting Infrastructure Investment Trust by providing tax efficient pass through status would infuse more funds in the infrastructure sector and reduce pressure on banking system for funds.

Reviving sentiment in capital markets can help in reviving economic growth by creating better access to finance. The right signals will not only encourage large investors but also households to invest their savings in financial markets. Household savings in financial instruments are expected to increase with measures such as increase in the exemption limit for personal taxation and the investment limit under Section 80C. A spate of issues from public sector entities is also expected to attract savers into financial instruments.

Recognising the synergy between agriculture and economic growth as well as tackling inflation, the budget has also provided a strong focus on agricultural and rural development

The broad vision of the budget reflects a market-friendly approach to revival of growth and investment. It is a comprehensive package that addresses concerns in diverse areas.

(Ajay S. Shriram is President, Confederation of Indian Industry.)

THE BROAD VISION OF THE BUDGET REFLECTS A MARKET-FRIENDLY APPROACH TO REVIVAL OF GROWTH AND INVESTMENT