Budget Article

Push for consumption, a more transparent India and a brave front for global protectionism.

On the heels of declining growth rate and disruption due to demonetization, the finance minister has provided for a balanced budget. This is one amongst the least volatile budgets that we have had. Both the benchmark indices remained flat throughout the speech of the finance minister which has been largely unprecedented.

There was a concern about the fact that the taxes would increase significantly on the back of 24-25% increase in the rural and capital expenditure spending. However, the FM pleasantly surprised us by keeping the direct taxes largely unchanged. In fact for 96% (with revenues upto INR 50 crore) of the companies which come under the tax net, the rate of taxation has been fixed at 25%. What is even more encouraging for them is the fact that the INR 50 crore revenue limit would be considered for FY 15-16. It is apparent that the government intends to generate revenues by enforcement of tax compliance and by expanding the tax net. Buoyant tax collections (17% growth for the last two years) only corroborate the government's stand.

The FIPB abolition is also a firm step in the right direction. One can now file applications online, which goes a long way in establishing the ease of doing business in India. Cash transactions above INR 3 lakh would be allowed only for transactions with government or banks. The government has taken unprecedented steps for making political funding transparent by lowering the limit of cash donations and making a provision of RBI bonds for higher amounts. Since these bonds will be paid for by cheque, it will be easy to track the source of these funds to political parties. This is also in line with the government's digital and transparent India philosophy.

The thrust on affordable housing and granting it an infrastructure sector status, will add impetus to housing and other allied sectors. One of the resultant impacts will obviously be on employment generation and in turn on consumption. Another factor that will add to consumption is the move to halve the tax rate for the sub 5 lakh income bracket.

As with the previous two budgets, the Government emphasised the impetus on the infra sector. However, with an increasing base of proposed spending, the growth was in single digit (9%) over the previous year (39%) in roads and railways. Perhaps for the first time, the Minister alluded to allocations made towards the transport sector (INR 2.4 trilion, up 11%) rather than addressing each segment independently, suggesting that that the Government will be deploying a holistic approach to the sector. The key now remains on whether the increasing allocations can be met with policy changes to effect on-ground issues in execution of projects. The spend and impetus on the Infrastructure sector is also in line with the government's thrust on employment generation.

India will merge the existing state-owned oil and gas companies to set up a global behemoth that would compete with some of the largest global petroleum companies. There is also going to be a greater emphasis on listing of more state owned companies. This is going to be a big opportunity for the investors. To quote Peter Lynch: If the government is selling silver, go buy it.