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FIRST FULL TERM BUDGET OF THE NEW GOVERNMENT

WHAT CAN YOU EXPECT?

This Special Issue of the ADC focuses on the Budget and has got the best and most respected names across the business and financial spectrum to give you their views on what is required and what can be expected on the last day of this month

Counting on Jaitley's prudence and competence

The feel good factor has already set in and has been reflected in the optimistic and bullish fervour on D-street over the last few weeks. Economic numbers also reflect a certain betterment in the overall economic scenario.

So when Finance Minister Arun Jaitley, delivers the first full term budget of his government on February 28th, he will be doing so in a scenario pregnant with extremely high expectations. Any let down, could see the markets going into a tailspin, crashing perhaps as a reflection of perceived disappointment. A few positives could see the euphoria extending and taking the stock markets to further fresh highs. So what holds in the budget? What can be expected?

While the plans on the government's table are good and feasible, the ground reality is slightly different. Finances for concluding existing commitments and further spending for future projects are the greatest constraint in the present fiscal situation. So it boils down to raising revenues in an extremely difficult situation. If he raises taxes, he will be taking off money from the public and this would directly or indirectly reflect on consumption spending. That will have an indirect domino effect on many other factors including manufacturing, GDP, public sentiment etc,etc.

If he doesn't raise taxes and instead incentivizes savings and consumption through concessions, than he will have the long term situation under control, but in the short term will have to struggle to ensure prudent spending with efficient tax collection systems. Disinvestment of government holdings in PSUs could also help to some extent.

So what will he do? We don' know...But our confidence lies in the fact that this man will use prudence added with his own competence to better a situation that is already improving.

Saturday, February 28th will tell.

—Deepak Sahijwala
Business Editor

Could Take India On A Higher Growth Trajectory

D.R Dogra,
MD & CEO, CARE Ratings

The forthcoming budget would no doubt be a critical one for the country and markets alike. Expectations abound that the prevailing positive sentiments surrounding the country's business environment and economic prospects will be re-validated by the first full term budget of the new government.

The better economic growth prospects increase in foreign inflows and the moderation in inflation have provided the much needed respite to the Indian economy. Further the long term reforms oriented approach, new initiatives undertaken and the business friendly perception associated with the government signal that India could be on the path of a higher growth trajectory.

However, the optimism encompassing the improvements in the business environment and the economy over the last 8-10 months is yet to translate into quantifiable growth and investments for the country. The structural weakness that has built into the Indian economy over the years, owing to absence of significant reforms, investments& infrastructure building coupled with policy uncertainty, delayed project implementation and fiscal profligacy at the expense of public investments, makes it difficult for a sudden reversal in the economic health of the country. The progress is more likely to be steady yet gradual. Moreover, the weak global economic environment too has not been very supportive and going forward, atleast in the medium terms, with no significant improvement expected on this front the hoped for boost from the export market is unlikely to materialize.

Given the constraints under which the Indian economy is operating, the Budget would necessary have to be an exercise that would primarily be concerned with reigning in and better targeting of government expenditure with focus on capital building/investments, its financing being a thrust area. The budget would also include measures to increase domestic demand and output.

The confidence in the potential of the Indian economy prevails given its fundamental strengths and the general consensus is that the government will continue with its administrative and legislative measures in an ongoing manner. The FY16 budget is likely to capitalize on this and set the tone for the year.

In terms of expectations...

- The government is likely to go along with the earlier set target of 3.6% fiscal deficit for FY16. This will be in line with the FRBM target of 3% by FY17. The government would be seen to adopt fiscal discipline and curtail discretionary expenditure. Sops and relief sought by the various states are unlikely to materialize under these circumstances.
- The FY16 Budget is expected to bring about a reduction in the government's subsidy bill, especially that of petroleum subsidy. Given the sharp decline in global crude oil prices (by over 50% in the last 6 months) and the deregulation of diesel, the fuel subsidy is likely to be around Rs. 30,000-40,000 crs lower than the Rs. 63, 432 crs of FY15. The savings on this account can be diverted towards infrastructure spending.
- With regard to welfare spending, the government is likely to have a consolidated focus on social schemes with emphasis to better targeting of beneficiaries. One can also expect to see lower allocations, anywhere between Rs. 7,000 – 10,000 crs, being made to the rural employment guarantee programme (NREGA)
- The Budget should address and enable the financing of infrastructure given that it is the key inhibitor to our growth. There is need for re-introducing the concept of tax free bonds which will go a long way in providing the much needed investment funding as well as help channelize savings. Not only the public sector companies but even those associated with big infrastructure projects should be permitted to issue tax free bonds. This will also provide a boost to the debt market.
- The debt markets could look forward to seeing some major changes given the governments thrust on bringing about reforms and creating an enabling environment for the markets. This is one area which will be closely watched as the development and vibrancy of these markets could prove to be a major source of funding, for the infrastructure sector in particular. There could also be measures undertaken to cater to the financing of the SME segments, such as creating a debt market segment for these entities that raises funds via

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