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# Focus on infrastructure; but more work needed on inflation

## GROWTH PATH

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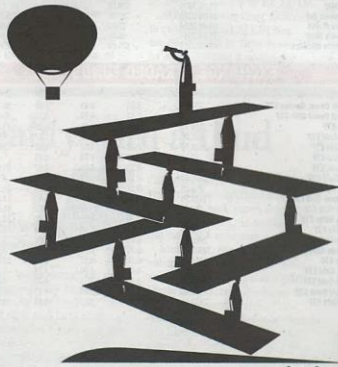
By adhering to a fiscal deficit target of 4.1% of gross domestic product (GDP), Union Budget 2014 reinforced the government's commitment to fiscal consolidation. Not only does the current year's target exhibit the commitment to fiscal prudence, but also indicates towards the roadmap to reach a fiscal deficit of 3% of GDP by FY17. This budget may be viewed as a manifestation of the government's vision to take India back to a path of high, inclusive and sustainable growth by addressing key issues such as infrastructure growth, investment in skill development, growth for various segments of society and states, and price instability in agriculture. Many problem areas have been covered and one could argue that we are spreading ourselves too thin or that there will be execution challenges.

For an infrastructure deficit economy, this budget paid due attention to the sector. By exempting long-term funds raised by banks to extend credit to this sector, the finance minister has incentivized infrastructure investment. The plans to set up 16 new ports, new airports in tier 1 and 2 cities, doubling the gas pipeline spread in the country by 15,000 km, linking rivers to develop inland waterways, additional support to build 8,500 km of national highways, allocating ₹30,000 crore to rural infrastructure fund and ₹7,000 crore to create 100 smart cities—all these highlight the government's intent to push infrastructure growth. The key here is getting the public private partnership (PPP) model to work well so that these projects can be delivered.

The focus on "re-skilling India" is evident from the announcement about setting up new education institutes, such as four new All India Institutes of Medical Sciences (AIIMS), five new Indian Institutes of Technology and the same number of Indian Institutes of Management. These will be critical to ensure that our demographic dividend gets realized by imparting high quality higher education. The finance minister also allocated ₹28,600 crore to the primary education programme of Sarva Shiksha Abhiyan. Another ₹200 crore has been allocated

towards new agriculture and horticulture universities to enhance agricultural productivity, which significantly lags that of developed economies.

On the inflation front, as recommended in the election manifesto, ₹500 crore was set aside to create a price stabilization fund. The creation of a national agriculture market and the process of re-orienting the APMC (Agricultural Produce Marketing Committee) Act for various states also found mention. With the objective of promoting research in agriculture, ₹200 crore has been set aside, while providing real time information to farmers through 'Kisan TV' was also recommended. All this was promised in the manifesto and was duly delivered in the maiden Budget. The thrust on tourism, sports and youth affairs and encouraging the growth of micro, small and medium enterprises (MSMEs) is also in line with what was laid out in the run up to the elections.



An area where the budget perhaps did not place enough emphasis was on lowering India's inflation through supply side steps.

While the government has announced a ₹500 crore price stabilization fund for food items and an allocation of ₹5,000 crore towards adding to the warehousing capacity to increase shelf life of agricultural produce, steps towards streamlining the inefficient supply chain, which is primarily responsible for our persistently high food inflation, were not evident.

Similarly, while the finance minister mentioned that he would work towards creating national common farm markets, concrete steps towards this goal were missing in the speech. Of course, it is likely that these issues will be dealt with subsequently as there was very little time to prepare this budget.

The increase in limits of investment under section 80C by ₹50,000 and raising the tax exemption limit by the same amount is expected to increase financial savings, which is needed to fund more investment. A fall in inflation will also help grow financial savings.

By increasing the foreign direct investment limits in the insurance and defence sectors from 26% to 49%, the government has exhibited its intent to encourage foreign capital inflows. The announcement to extend the withholding tax at 5% till June 2017 and allowing international settlement of all Indian debt securities reinforces that thought.

Finally, the government deserves credit for taking some strong steps on reforming our tax structure and making our financial sector more robust.

The most positive statement in this regard was that there will be a final solution to the Goods and Services Tax (GST) in financial year 2015. This will be a significant achievement on a long pending and critical structural tax reform in our country.

The government also extended the 5% tax withholding on all Indian bonds for two more years to encourage further foreign institutional investor participation in our bond markets. A number of administrative reforms and steps to build investor confidence in our economy were evident in the budget.

Put together in a short period, the budget was the first step towards setting priorities and direction. It was also a reflection of the government's intent to put India back on a strong, sustainable and inclusive growth path.

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