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RIGHT ON THE MONEY

The proposals seek to spur capital expenditure, boost credit growth and recovery, grow savings and curb black money

THE FINANCE MINISTER has presented a realistic budget which is pro-growth and focuses on several sections of the economy and country. The Budget was presented with a clear tone of optimism about the Indian economy, setting out the key focus areas of this government — health, housing, skilling, education, agricultural productivity, connectivity and manufacturing. Eschewing the demand for fiscal consolidation, a fiscal stimulus to kick-start the economy has been provided. This has been done by increasing expenditure, primarily on infrastructure. Capital expenditure has been increased by 25 per cent, which itself is handsome, but the real increase in spend for capital purposes could be higher. Innovative means have been devised to fund the infra sector, including an infrastructure fund that has been allocated Rs 20,000 crore. This fund can leverage and provide equity to infra financing entities, and, therefore, the impact can be meaningful for the sector. The concept of plug and play projects is equally interesting and should gain traction. The government has chosen to set up MUDRA bank with Rs 20,000 crore of seed capital in order to make it easier to raise money for micro enterprises. As the finance minister said, banking the unbanked and funding the unfunded are the key planks of this government's focus.

The financial sector seems to have received a fair amount of attention in the Budget. The proposal to bring in a comprehensive bankruptcy code and allowing non-banking financial companies (NBFC) access to Sarfasei will help credit growth and recovery. The NBFCs have evolved as important financial intermediaries, particularly for the small-scale and retail sectors. As per the Survey, NBFCs as a whole accounted for 13.1 per cent of bank assets as on 31 March 2014.

There is a focus on growing financial savings through monetisation of gold (which also reduces the pressure on imports) and by enabling real estate investment trusts (REIT). Both these measures should bring in more money from physical assets into financial assets. Similarly, the move to bring more cash into the formal system by targeting black money and incentivising the use of debit cards as opposed to cash should also help the formal financial system. Besides, the increased scope of direct benefit transfers through utilisation of the JAM trinity — Jan Dhan Yojana, Aadhaar and mobile numbers — will lead

Photograph by Subhabrata Das

to less leakages and more money staying in the formal financial system.

For foreign institutional investors (FII), the postponing of the General Anti Avoidance Rule (GAAR) by two years with its applicability on a prospective basis and the removal of the distinction between foreign direct investments and FIIs are positive. Clarification on the definition of the Permanent Establishment Act should bring back some capital market activities that had moved or stayed out of India. Tax 'pass-through' status has been provided for category-I and category-II of Alternative Investment Funds (AIF) governed by the Securities Exchange Board of India's (Sebi) Alternative Investment Funds Regulations, 2012 and encouragement has been provided for foreign portfolio investment in this asset, which should help grow this category.

The government has taken the first step to create a social security net for the common man. Pension and life insurance schemes have been launched to provide these facilities at a nominal premium. Additionally, tax incentives have been introduced to promote the health insurance and pension sectors, which are both under-penetrated and require some tax incentives to grow.

In order to improve the governance of public sector banks, the Budget has proposed to set up an autonomous banks' board bureau to help lenders raise capital for meeting expansion needs. The provision of about Rs 8,000 crore in the Budget for capitalisation of PSU banks is by itself inadequate, so we should watch developments in this space including the possible setting up of bank holding companies. If the Budget was silent on an area that was being watched for, it was this.

The phased reduction in corporate tax to 25 per cent with a phased reduction in exemption should be positive for all financial services entities. However, in the short term, corporate taxes will probably be higher due to the surcharge.

The dividend distribution tax for fixed income schemes unfortunately has gone up again, this time by 2 per cent. This will reduce the returns from such schemes.

In order to operationalise the International Financial Services Centre (IFSC) at Gujarat, a notification under the Foreign Exchange Management Act, 1999, shall be issued by the Reserve Bank of India in March 2015, which will allow for regulations relating to the setting up of financial institutions in the IFSC zone.

THE PROVISION OF ABOUT Rs 8,000 CRORE IN THE BUDGET FOR CAPITALISATION OF PSU BANKS IS BY ITSELF INADEQUATE

Steps to improve the overall structure for the financial sector have also been taken. A proposal to merge the Forwards Markets Commission with the Sebi to strengthen the regulation of commodity forward markets could increase the size of commodity trading considerably. Deepening of the Indian bond market by setting up a public debt management agency, which intends to bring both India's external borrowings and domestic debt under one roof, would help. Permitting tax-free infrastructure bonds for projects in the rail, road and irrigation sectors will provide increased funding to these sectors. The concept of a task force to establish a sector-neutral financial redressal agency that will address grievances against all financial service providers has been mooted.

Overall, this Budget looks to be pro-growth and yet creates a base for equitable and sustained growth. There was a lot of expectation from this Budget and by and large the FM has delivered on all counts. Given that this was done with increased devolution of revenues to the states is all the more creditable.