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EXPERT TAKE

Many measured steps towards meeting govt goals

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TAXING THE WELL-TO-DO AND USING THAT TO PROVIDE MORE TO SMALL FARMER, COMMON MAN, SMALL ENTERPRISE, WAS EVIDENT, AS WAS THE FOCUS ON ADMINISTRATIVE REFORM

THE Budget was presented in the face of a challenging global economy. Not only have world growth and global commodity prices gone for a toss in the past year, the additional asks from OROP and 7th Pay Commission, along with the clamour to step up public investment to push growth, made it even more challenging.

Against this backdrop, the balance the finance minister would strike between fiscal discipline and fiscal stimulus to spur growth was keenly being watched. Adhering to fiscal prudence, he stuck to 3.5% of GDP as targeted fiscal deficit for FY17, while committing to achieve 3.9% of GDP in FY16. Bond markets have clearly rewarded this stance. But fiscal math is also a zero sum game. For instance, in the quest to secure financial prudence, the amount set aside for bank recapitalisation seems low against the size of the problem that the banking balance sheets are facing. The finance minister has assured that funds would be made available if required and, hopefully, there could be some other options looked at as well, including reducing stakes, consolidation and selling assets to ARCs.

This Budget was expected to address the rural sector, which has been reeling due to weather vagaries. Not surprisingly, the first of the nine pillars discussed in the Budget was agriculture and farmer welfare. A lot of thrust has been given to reviving rural growth by allocating more resources for agriculture credit, irrigation, crop insurance, rural roads, etc.

The 11% budgeted growth in total expenditure is expected to be met by a realistic growth in revenues. The nominal GDP growth rate assumption also looks achievable in light of the improvement in real growth that comes on account of some push to consumption via the award of the 7th Pay Commission, normal monsoon and growth in investment as interest rates fall.

Financial sector reforms were another pillar of the plan to transform India. The Budget tries to develop the ARCs as part of financial sector reform. Among the reforms are allowing 100% FDI in ARCs through automatic route, proposing to allow non-institutional investors to invest in SRs, allowing the sponsor to hold 100% in an ARC and providing a complete pass-through of income tax to securitisation trusts, including ARCs.

The Budget took a number of measured steps towards the goals of the government. Taxing the well-to-do and using that to provide more to the small farmer, common man and small enterprise, was evident, as was the focus on administrative reform and dispute resolution mechanisms.