

## INDIA'S FEDERAL BUDGET FOR FY2014 FISCAL PROGRESS OVER POLITICAL EXPEDIENCY

The key debate before this Budget was whether directionally it would be driven by politics (with a national election in mid-2014) or would the prevailing economic realities force fiscal prudence. The Finance Minister clearly chose to mend his balance sheet with an attempt to reduce the fiscal deficit to 4.8% in FY14, much lower than the 5.2% estimated in FY13. The Budget lacked a wow factor however. In particular, there was not much to drive investment, critical to reviving economic growth.

### **The rich get taxed more, but limited action elsewhere**

- i. Those with a taxable income above a INR10m (USD180,000) threshold will face a 10% surcharge
- ii. Duties increased on imported luxury vehicles
- iii. Corporates with taxable income of over INR100m (USD1.8m) will suffer an increase in their corporation tax surcharge from 5% to 10%.

### **Modest attempts at reviving investment**

- i. The Government's planned expenditure is expected to jump 30%, although no specific area has been identified; this spending comes off a low base from FY13
- ii. Doubling the aggregate limit for companies raising tax free bonds for infrastructure investment to INR500bn (USD9bn)
- iii. Providing 15% tax relief on corporate capital expenditure in excess of INR1bn (USD18m) invested over FY14 and FY15
- iv. Doubling planned investments in urban infrastructure for FY14 to INR150bn (USD2.7bn)

### **More negatives than positives for corporate India**

Besides the corporation tax surcharge, (which will hit corporate earnings by 1.5%), the main negative fell on the tobacco sector (as always) which saw an 18% increase in duties. Power companies relying on imported coal will also be affected with an increase in duty on coal from 1% to 4%. The main gainers would be those benefitting from a 15% investment allowance on capital expenditure in excess of INR1bn (USD18m).

### **Fears of populist measures allayed; now it is all about implementation**

In the last six months the Government announced measures to revive sentiment and address the issues hampering infrastructure investments. The Budget has allayed fears that the Government would announce populist measures, resulting in further deterioration of the fiscal deficit. Consequently the immediate threat of a Sovereign credit rating downgrade from the international rating agencies has passed. Looking ahead, the key is to see how the policy measures already announced are implemented, and what additional reform measures are expected in the current Parliamentary session, such as FDI in Insurance, the land acquisition Bill and a constitutional amendment paving the way for the unified goods and services tax (GST). These are critical to reviving GDP growth to 6.5% for the current year and to maintaining the high level of institutional fund flow from overseas.

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