2015 India Budget
"Building a robust first innings from the middle order"

Introduction

- Directionally sound with little to criticise; evidence to suggest that policy makers have listened and responded to external opinion on a range of issues
- The budget will ensure decision makers stay invested in India
- The currency should not be unduly affected by the budget, even if bond yields pick up a little as a consequence of a modest fiscal expansion
- Policy measures have been introduced that support the Government's efforts to bring about meaningful change, and which strengthen its resolve to reinvigorate the economy
- Credible projections for GDP growth, macro-economic forecasts and tax revenue assumptions which are expected to keep the rating agencies onside
- Historically, Government forecasts on key pillars of growth were overly optimistic and of little value, implying that this Government is more in tune with the private sector today
- The market's initial reaction is somewhat muted, despite the promising specifics. This initial response is a function of the current despondency; domestic players are consensually bearish on the short term outlook for the economy and corporate earnings
- As the "virtuous reality" sets in however, the budget's positive impact can build momentum from the bottom up quite quickly.
- Thus equities will maintain their rating, and the commensurate "earnings catch up" may surprise on the upside, providing the macroeconomic backdrop stays favourable.

Tax Reform

- An increase in the States' share of tax collection from 32% to 42% as per the Financial Commission recommendation
- Corporate tax rate reduction from 30% to 25% (alongside multiple exemption removals) phased over four years, commencing in FY17
- Service Tax increased to 14% (from 12.36%) as a first step to align rates on the introduction of the goods and services tax (GST).
- A re-iteration of the introduction GST by April 2016
- General anti avoidance rules (GAAR) deferred until 2017 at which time the law will be introduced prospectively
- Tax treatment of overseas transactions on onshore assets considered to be "substantial" now clearly defined
- Wealth tax abolished. In lieu, a 2% surcharge on all income above INR10m (US$150,000) has been introduced which will offset the revenue loss and simplify collection
- Custom duties will be reduced on 22 items, reversing the inverted duty structure and incentivising domestic manufacturing
- Excise duties will be hiked from 12.36% to 12.5%

Infrastructure Reform

- Introduction of the "plug and play" concept for Ultra Mega Power Projects (UMPPs) whereby all land, linkage and environmental approvals are granted simultaneously, reducing delays to project completion. This will be extended to encompass all infrastructure projects in due course
- Circa 25% increase in planned public expenditure directed towards railways, roads and defence, intended to "crowd in" the private sector and resuscitate the economy
- Establishment of National Infrastructure and Investment Fund designed to ensure the Government takes on its share of the risk. This will be capitalised with equity from the Government, debt funding from international funds and surplus cash from public sector enterprises

Source: Budget Documents

Financial, Banking and Gold sector reform

- Introduction of laws to deter "black money" including imprisonment for up to 10 years
- The current laws permitting banks to repossess assets are extended to the non-banking financial sector
- The establishment of a Monetary Policy Committee (MPC) with independent members, and a formal inflation targeting regime
- A new bankruptcy law, loosely modelled on the United States Chapter 11 to be tabled in Parliament
- The launch of a sovereign gold bond designed to encourage retail investors not to invest directly in the physical asset
- Gold depositors (both corporate and retail) will receive interest on gold deposits and will be able to monetise gold assets held "unproductively"
- Gold and Real Estate purchases above a certain limit will require formal identification to reduce cash transactions and increase tax take
- Social security, pension and health schemes will benefit from an increase in tax deductibility
- As an extension of the existing policy to ensure everyone has a bank account, measures to incentivise more transactions through debit cards (125m already issued), have been introduced. These measures are designed to reduce the use of cash in the economy

In Conclusion

The Finance Minister has delivered a budget that is growth orientated whilst maintaining a balance. It facilitates job creation, provides for an increase in public expenditure in crucial areas of infrastructure, whilst remaining fiscally responsible. It focuses on areas of policy already prioritised by the Government, such as manufacturing and the "Make in India" campaign, tax and banking sector reform, improving co-operation between the Centre and the States and cracking down on corruption. It also reinforces the Government's intentions to facilitate "ease of doing business" in India in order to attract further foreign investment. Overall this consistency is very encouraging. Also included are elements specifically directed towards the common man, calculated to ensure reform remains ‘inclusive’. It opens up new areas of innovative reform, such as measures to monetise gold assets and increasing non cash payments in the system. The budget should be viewed positively by the market as it strengthens the platform on which India is being rebuilt, whilst hastening the much needed near-term recovery in corporate earnings.

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