COMMENTARAO' IN "THE TELEGRAPH" OF July 11A 2014

'PRACTICAL, BUT NO BIG BANG-UNION BUDGET JULY 2014"-S L RAO

The Modi government has proposed a Budget two months after it took office. It is a budget of great detail. It does not give a coherent policy framework .

It was to deal with a weak and declining economy: sharp fall in GDP growth, persistent high inflation, static employment growth, high fiscal deficits, high deficit on the current account in the balance of payments, declining savings and investment. The stock market anticipated that the Budget would transform the environment for industrial growth and climbed to extraordinary levels. Foreign institutional investors poured in funds. The Rupee exchange value improved sharply.

Within six weeks of taking office the government announced steep increases in railway tariffs, garnering around Rs 8000 crores. This signal that the Budget would inflict more pain did not deter the stock market. It expected administrative and labour law reforms to speed up approvals for projects, cut inspector raaj, make labour hiring and firing in relation to market needs more easy, use information technology to improve transparency in government purchases, projects, and clearances. There would be fiscal consolidation by pruning waste in social expenditures and privatizing and disinvesting in state owned enterprises. The response to the impending drought through release of grain stocks, making hoarding of vital vegetables and other food products as more serious crimes might lead to a more stable supply and price situation. The Budget needed to invest in water storage and conservation, storage including cold storage, and free agricultural markets from the heavy hand of the bureaucracy, we will.

Industry would like a free market over India that the goods and service tax would bring about, direct tax reforms so that there is consistency in tax demands, scrapping of unreasonable retrospective taxes, clear rules on transfer pricing, rebalancing of customs and excise taxes to encourage local production, changes to the new Companies Act so that there is less burden of compliance and more freedom for decision making. Industry would also like to see a lower interest rate regime. Stimulants for small scale and cottage industries like easier funds, materials procurement, technological and marketing support, were other expectations. After years of inflation, the lowest income tax slabs needed upward adjustments.

The Railway Budget made clear that costs will be reflected in future tariffs; it announced openings for private and foreign investment and talks of the private public partnership model for private investments, (with no detail) . The ppp was an innovative idea, poorly implemented and there are over Rs250000 crores of private infrastructure loans lying un-serviced with banks. The Finance Minister in his Budget speech recognized the weaknesses in contracts, etc, but left the actions to a later announcement. The announcement of "Bullet" trains seemed inappropriate, considering the huge investments necessary and when existing trains need improvement.

Jaitley's Budget accepted Chidambaram's February deficit calculations and the target for the year of 5.1%. The statements show non-tax revenues as going up in relation to 2013-14 from Rs 79788 to Rs 99099 crores, an increase of almost Rs 20000 crores. It is not known is this is because of selling bank shares (as mentioned when he talks of recapitalizing banks), or general disinvestment.? The Budget speech was long, uninspiring and full of so many pilot schemes that the major achievements were lost.

The Budget has much to benefit individuals and for investment. Itt reduces the tax liability of the middle class, BJP's backbone, by raising tax exemption limits, limits on tax free investments in public provident funds, tax benefits on housing investment and borrowings and by raising the limit for exemption of investments under 80C. The Budget will stimulate future foreign direct investment by committing to avoid changes as with retrospective taxation, commits to more transparency and method in transfer pricing rules, and raising FDI limits for Defence, insurance, real estate and smart cities. The UPA had passed a law to overcome a Supreme Court Order invalidating retrospective tax claims against Vodaphone. Mr Jaitley and the NDA could have abandoned that legislation. The Budget also commits to bank capitalization on Basel norms, and implies selling significant bank shareholdings.

It encourages domestic investment in manufacturing, both in the organized and in the msme sectors. It promises a stable tax regime, that all government departments and ministries will be integrated through E-platform' (enabling speedier and coordinated clearances), extends the benefit of advance tax rulings to locals and not just NRIs. It talks of a mechanism to settle pending tax claims expeditiously. It also provides significant allocations for road construction, on national highways, rural roads, sanitation, investments in roads and rail in the North East. These substantial allocations will have a multiplier effect on the economy. The indication of a predictable tax regime is welcome as is the extension of advance tax ruling to domestic investors and opening more benches for the purpose.

There are indications of administrative and legislative changes, for example, changes in the Apprenticeship Act to enable much larger use of apprentices by all including msmes. Such long awaited changes if they come, will be a great addition to the country's need for skills development. One hopes that this is a precursor to changes in Central ands state labour laws.

For many investments it talks of a public private partnership model, and in some, with viability gap funding. However it has no mention of how these will be contracted to avoid the pitfalls of past years in implementation. For example ppp projects allowed debt ratios of as much as 80%. A considerable part of the sticky advances with nationalized banks today are to such projects. Private parties have also bid aggressively, leading to abandonment of projects.

On many items the Budget speech postponed decision s by setting up for example, an Expenditure Reforms Commission to review government expenditures, a high level committee to interact with trade and industry for clarity on tax laws, examining the UPA's revised Direct Tax Code, and commits to introducing the goods and services tax this year. It will add signdificantly to government revenues, but more important, stimulate industry and trade by making a true common market of India.

The two and half hour budget speech (with a 5-minute break), was largely taken up with details of many different imaginative projects, many with token allocations for each of Rs 100 crores-for states many new AIMS, IIMs and IITs, tribal welfare, improving the rural power infrastructure, 24x7 power to all households, madrasas modernization,. There are other such with token provisions of Rs 500 or 1000 crores when the requirement would be many times higher.

The Budget pays much attention to agriculture and rightly wants private investment in the infrastructure. It does not tamper with the UPA expenditures on social schemes, but will make NBREGA focus on building agricultural assets.

This Budget is commendable for being prepared in 45 days in government. It is a realistic budget and not one of empty promises. It is disappointing in relation to the promises of "better days", and the specifics mentioned by the Prime Minister-lower deficit, better iplemntation of social programmes, big push for growth and employment. Because it is realistic , one can expect that Mr Modi will achieve the promise of 7-8% GDP growth with only moderate inflation in 2 to 3 years.

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