Finance Budget – Lacks the flash but has teeth.

Finance budgets of Indian government should always be viewed more for cues than for fine prints & successful execution. There has always been a chasm between budget speeches and its execution success. Reasons are many and include inadequate money allocation for the issue, center-state relationship, inadequate implementation framework etc.

With this disclaimer, this year's budget offers specific directions of government's interpretation of issues that need urgent repair, areas that need revival, problems that need resolution and irritants that need to be removed. The government will hope that this budget achieves the dual objective of economic growth and of political dividend.

The budget clearly sees that revival of growth lies in rural India. A major thrust of this year's budget is the revival of rural economy that has been under distress and needs urgent attention. This is indeed the most positive aspect of this year's budget. Allocation for rural electrification with the target to electrify 100% villages, for digital connectivity of villages, crop insurance scheme, thrust on irrigation and organic farming, Rs. 15 lakhs for every panchayat for village development and MNREGA are all announcements towards this direction. The budget hits the right notes on increasing transparency in price discovery and price realization for farm produce by announcing a nationwide E-enabled platform for farmers with the hope that states reform their own APMC act and come on board. The finance minister hopes to partially recover this expenditure through "Krishi Kalyan" cess on all services. Assuming heavy skew of value share of the services from metros and big cities, the cess implies that consumers in the cities should get cognizant of the rural distress in the countryside and partially pay for it. These initiatives will take at least two years for greenshoots of rural distress to ease and growth in rural consumption to return. Nothing wrong with it as long as you are a fan of Robin Hood.

The budget sees Urban India primarily through the lens of the low income families, tier II towns, migrants and the young looking to enter the job market, while the disposable expenditures of the privileged class will be taxed a little more on expected lines.
No complaints here again but the quantum may leave more to be desired. Individual income tax sops are primarily aimed to give a little extra cash (~Rs.3100 per annum) to tax paying low income households that will translate to Rs. 3000-Rs.3500 crs of additional total money in the consumption basket of the economy that will eventually get spend on food, education, healthcare, apparel, electronics etc. Rental housing in cities gets a major boost with the tax exemption limit on rent increased significantly from Rs. 24000 to Rs.60000. This should soothe the migrants with additional disposable income. Thrust on skilling the youth through 1500 skilling centres and incentives for companies to hire fresher are aimed at job creation. Home buyers will get an additional advantage on their housing loans provided house prices are less than Rs. 50 lakhs, clearly aimed at urban housing market in Tier II towns and beyond.

To some extent this budget is also a clean up exercise. The budget recognizes that there is an issue with non-performing assets with public sector banks. Public sector banks will need recapitalization support for which the budget aims to commit Rs. 25000crs if not more. While the role of public sector banks cannot be undermined in India, it is akin to rewarding non-performance. Though it is hoped that with the recent actions and initiatives (RBI's canning and constitution of BBB) the quantum of NPAs do not increase, past track record does not offer enough confidence that such a clean up will be the last.

The budget clearly prioritizes public expenditure over private consumption. Boost in spending on roads especially rural road connectivity, up gradation of road, on railways, on revival of defunct airstrips and airports are largely in line with this intent. The budget also aims to incentivize asset reconstruction entities, resolve dispute related to infrastructure projects with the aim to revive stalled projects. It remains to be seen if this allocation will be enough to spur capital expenditure to spur growth. Probably the other question is managing expectation for these projects typically unfold with high gestation period ?

All these commitments are essentially government expenditures that requires source of funding. The budget aims to keep the fiscal deficit at 3.5%. This is one interesting part of the budget. There is a commitment to fiscal consolidation while promising significant increase in public expenditures and fund clean-ups. Government aims to increase tax revenues through in-direct taxes on neo middle class. Automobiles, dividends, services have all got the attention of the finance minister as sources to generate extra tax revenues. Also, posturing of the finance minister during the budget speech on the voluntary disclosures of black money, arresting leakages in subsidy disbursement and faster out-of-court settlement of tax disputes suggest that the government may be keeping some cards close to its chest on disruptive efficacy of these approaches to generate additional revenues.

The budget may lack big bang announcements and is blurred on short term impact, but it has teeth to make long term impression. In the short term we will continue to play the guessing game on the direction of the stock market but going long on companies in infrastructure, rural development, semi-urban consumption, home financing and banking will not be a bad bet. There is no such thing as a please all budget. Neo-middle class, healthcare and air pollution will probably need to wait a little longer.

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