Budget Continues India's Growth Story - FM Plays it Safe and Steady

Finance Minister Pranab Mukherjee has delivered a safe and steady budget. He has not made any of the radical pronouncements by way of growth-linked fiscal measures which are necessary for the economy to script a double-digit growth story – essential to ensure that every Indian participates in progress. Clearly a detailed action plan is required if the aspirations of ordinary Indians are to be realized.

Sectors that ensure inclusive growth and require an attitudinal change on the part of the government – such as education, rural development, agriculture and national healthcare – have only seen a marginal increase. While it is encouraging that the government proposes to extend the health insurance scheme for all BPL NREGA families, this must be extended to all Indians through a public-private partnership.

The attention paid to infrastructure continues with the government upping the allocation to Rs 1.74 lakh crore and ensuring that the crucial sectors of roads and power have more money. This is important to push the pace of implementation especially for projects being executed through Public Private Partnerships. Infrastructure funding will get a boost as the government allows a deduction in income tax for investments in long-term infrastructure bonds. However, implementation with transparency must keep pace with allocations to ensure that infrastructure development does not remain on paper.

The FM has done a good job by giving concessions to corporate tax payers, cutting the surcharge to 7.5%. However, he has given with one hand and taken away with the other, increasing Minimum Alternate Tax (MAT) to 18%. This is a disappointment.

Raising the weighted deduction on in-house research and development expenses to 200% from 150% is a positive step for the pharma sector but we need to take a look at the fine-print to see what is allowed under this expenditure to be able to examine its effectiveness in boosting R&D. The R&D expenses allowed until now have been restrictive, failing to address the bigger challenges faced by the industry in terms of international patenting, technology licensing and royalties. There is no indication whether schemes pertaining to EOUs and SEZs, which are key to exports and double digit growth, will be extended or supported. However, it is disappointing to note that the sector will not get a 10-year tax holiday which would have helped compete with MNCs.

What should be a matter of some concern to all is inflation – last year's stimulus measures have brought inflationary pressures that may intensify with the hike in petrol and diesel prices. Mr Mukherjee has taken some anti-inflationary measures. However, it remains to be seen whether they have a positive effect.

A ‘no news is good news’ type of budget, without any major negative tax impact for corporates and a positive impact for ordinary tax-payers, it is likely to be received well by the industry and market.

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