

Budget 2015: Credible revenue targets and push towards supply-side reforms are a boon

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The budget has laid down a road map for the economy, delivering against the backdrop of high expectations. However, there was not much scope for a big-bang Budget, as currently, the tax-to-GDP ratio is low and revenue deficit is high. Yet, the government has done well to reiterate the fiscal consolidation road map, capex cycle visibility and infrastructure thrust.

A road map on GST implementation is yet another positive. It offers several other positive aspects, including tax-deductible measures for individuals, steps to monetise households' gold holdings, stepped up infrastructure investment and a wider social safety net.

This Budget has credible revenue targets, which would make it much easier to run fiscal deficit at 3.9% of GDP. It has increased service tax rates, marginally raised excise duties and corporate tax, while the income tax limits for individuals have not changed.

This is clearly a very credible revenue collection strategy and reflects high-quality fiscal adjustment. Another clear positive is visibility on capex revival through increased government spending and addressing issues of financing infrastructure projects, which could benefit certain sectors in this space. Cascading benefits could boost loan growth and aid the banking sector.

At the onset of any new system, initial obstacles are commonplace. There have been several starting hurdles for REITs to fall into place. Yet, we see a positive step in this direction. With global interest rates being low and domestic interest rates high, REITs could be a valuable source of capital for our commercial real estate industry.

The Budget maintained the government's push towards supply side reforms, a business-friendly tax environment, while slightly relaxing the deficit reduction plan to occupy the fiscal space towards infrastructure spending.

There is also a thrust on increasing financial savings and reducing physical savings through gold monetisation schemes, incentivisation for usage of debit and credit cards and loans and advances transactions in real estate electronically or through cheques. As for markets, equities albeit not cheap, continue to remain a good long-term investment destination. For that matter, even debt markets offer good short-term opportunities, with interest rates placed in the downward trajectory.

This article has also been published in The Economic Times on 1st March 2015.