Budget 2016-17 & The Indian Economy

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Growth Restored

Real GDP annually grew 8.3% from 2003-04 to 2011-12. But it fell sharply in 2012-13. Under the present government, it has recovered to above 7%.

Year	Real	Nominal	2015-16 (Adv. Est.)	Real	Nominal
2012-13	5.6	13.9	Q1 (April-June)	7.6	8.7
2013-14	6.6	13.3	Q2 (July-Sept)	7.7	6.4
2014-15	7.2	10.8	Q3 (Oct-Dec)	7.3	9.2
2015-16*	7.6	8.6	Q4 (Jan-March)	7.8	10.1

*Advance Estimate

Macroeconomic Stability Restored

* Inflation: CPI below 6% (from above 10% in 2013)
* CA Deficit: 1 to 2% (4-5% in 2013)
* Fiscal Deficit: 3.9% in 2015-16 (4.1% in 2014-15)
* FX Reserves in excess of $350 billion ($304 billion in 2013-14)
* R.E. Plan Expenditures in 2015-16 higher than the B.E. unlike the past years

Background: Reforms by the Present Government Prior to Budget 2016-17

* End to paralysis and unblocking of the vast majority of infrastructure projects
* End to inspector raj: Shram-Suvida portal allowing self-certification of compliance of central labor laws backed by random inspections
* FDI: 49% in insurance and defense and 100% in railways
* Labor law reforms in Rajasthan, Madhya Pradesh, Andhra Pradesh and Gujarat (in progress in Haryana)
* Reform of Land Acquisition Act 2013 in Tamil Nadu
* Modern bankruptcy law
* DBT in LPG distribution
* Accelerated infrastructure build up
* No new cases of retrospective taxation

A Well-rounded Budget 2016-17

* Macroeconomic stability Maintained
* Reform measures across a wide variety of sectors (other than taxation and financial sector)
* Reform measures in taxation
* Reform measures in the financial sector
* Central focus on agriculture and rural economy
* Strengthening of social safety nets

Macroeconomic Stability Maintained

* Fiscal deficit pegged at 3.5% as per the commitment last year despite widespread calls for its breach to accommodate larger expenditures
* Revenue deficit down to 2.3% (from 2015-16 R.E. of 2.5%)
* Commitment to review the FRBM Act
* Statutory basis for Monetary Policy Framework and Monetary Policy Committee through Finance Bill 2016

Reforms Across Wide Variety of Sectors Proposed

* Statutory backing to AADHAR
* New policy on disinvestment and strategic sales
* Experiment with DBT in fertilizer
* Private entry in passenger road transport (enabling measure for the states wishing to take advantage)
* Deregulation of gas price for new discoveries
* Unified agricultural e-marketing platform
* Revamping of National Land Record Modernization Program
* Infrastructure to get a whopping Rs. 2.21 trillion in expenditure (target of approval of 10,000 km of National Highway; revival of un-served and underserved airports; and expansion, doubling and electrification of railway lines)
* Amendment of Companies Act to create enabling environment for start-ups

Reforms: Taxation - I

* Continued commitment to the GST
* Corporate Tax
  * Option of 25% tax plus surcharge and cess to companies incorporated beginning March 1 2016
  * Tax rate down to 29% plus surcharge and cess for companies with turnover of Rs. 5 crore or less beginning 2017-18
* Presumptive Taxation
  * Presumptive taxation of companies with turnover less than Rs. 2 crore (with income assumed to be 8% of the turnover) and of professionals with gross receipts of Rs. 50 lakh (with income presumed to be 50%)

Reforms: Taxation - II

* Litigation and Tax Certainty
  * Option to declare undisclosed income by paying 30% tax plus 7.5% penalty plus 7.5% cess
  * New dispute resolution scheme (no penalty in cases with tax liability below Rs. 10 lakh and 25% of the minimum imposable penalty in other disputes): Rs. 5.5 trillion worth of disputes are currently pending
  * One-time scheme for the resolution of cases under retrospective taxation on payment of assessed tax (with interest and penalty waived)
* Simplification and Rationalization
  * 13 cesses eliminated (these are cesses with revenue less than Rs. 50 crore)
  * Custom single window project at major ports and airports

Reforms: Financial Sector

* A comprehensive Code on Resolution of Financial Firms to deal with bankruptcy situations in banks, insurance companies and financial sector entities
* Privatization of IDBI Bank
* Consolidation of public sector banks
* Allocation of Rs. 250 billion towards recapitalization of Public Sector Banks
* General Insurance Companies owned by the Government to be listed in the stock exchanges

Central Focus on Agriculture and Rural Economy

* PMKSY to be implemented in mission mode with additional 2.85 million hectares to be brought under irrigation (89 irrigation projects to be fast tracked)
* Dedicated long-term irrigation fund of Rs. 200 billion to be created at NABARD
* Soil and seed testing facilities at 2000 retail outlets of fertilizer companies
* PM crop insurance scheme
* Rs. 385 Billion for MNREGS
* Remaining 65,000 villages to be connected under PMGSY by 2019
* All villages to be brought under electrification by May 1, 2018
* Digital literacy mission to cover 60 million additional households

Strengthening of Social Safety Nets

* Rs. 1.51 trillion allocated to social sectors including education and health
* LPG to 15 million new BPL households in 2016-17; to be expanded to 50 million households in three years
* Health insurance for all BPL households for Rs. 100,000
* 3000 stores to be opened for medicines at low prices
* SSA to focus on improved education quality
* Regulatory architecture for 10 private and 10 public institutions to emerge as world-class teaching and research institutions

Some Concluding Thoughts

* Unlike the Land Acquisition Act 2013 and retrospective taxation under the UPA, the present government has taken no steps that would call for reversal
* In large part, in designing its schemes, the present government has gone for Empowerment instead of entitlement
* Optically, the government may appear to be moving slowly but the reforms have accumulated marking substantial change
* This is why the prospects for the growth rate to cross the 8% mark are excellent