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India Union Budget 2015

Paving the way for sustainable growth

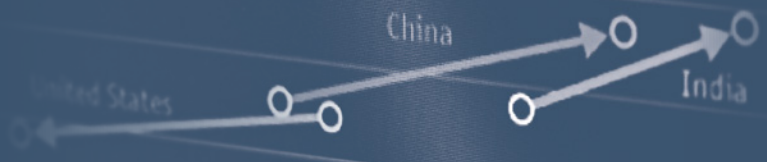


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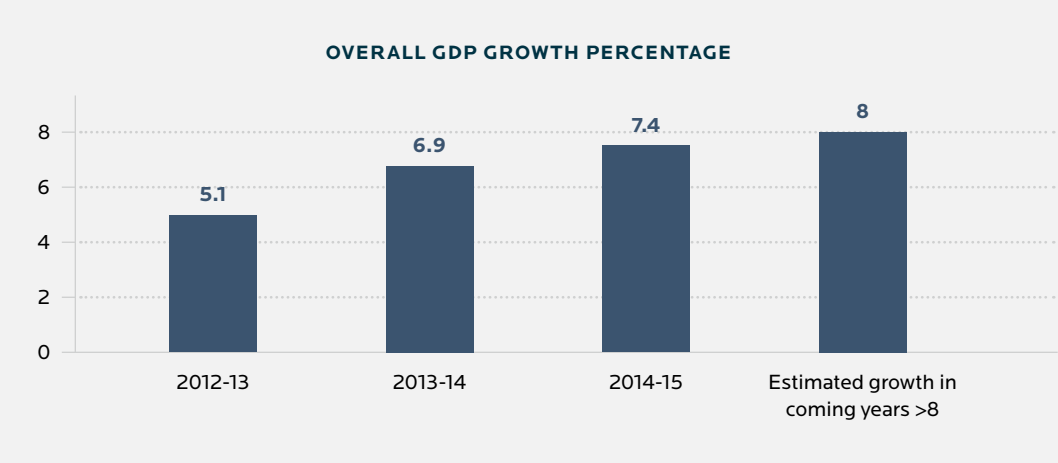
INTRODUCTION

Union Finance Minister Mr Arun Jaitley presented the first full-year budget of the Prime Minister Modi led government in the Lok Sabha (lower house of the parliament) on 28th February, 2015 – aiming at higher growth, boosting investments and benefiting common people. For the first time in the last ten years, this budget has been proposed by a government which has an absolute majority in the Lok Sabha. Hence the challenge is to enthuse the economy with much-needed vigour and instil investor confidence whilst paving the way for long-term inclusive growth.

Indian markets have reacted positively to the budget. Post an initial volatility, with the Sensex swinging 700 points, it finally settled at 141.38 points up – the first rise on a budget day in four years. The Nifty also ended at a month-high closing level, positively reacting to announcements such as reduction in corporate tax from 30 % to 25 % and deferred implementation of the GAAR (General Anti Avoidance Rule – norms to avoid tax avoidance measures) by a period of two years.

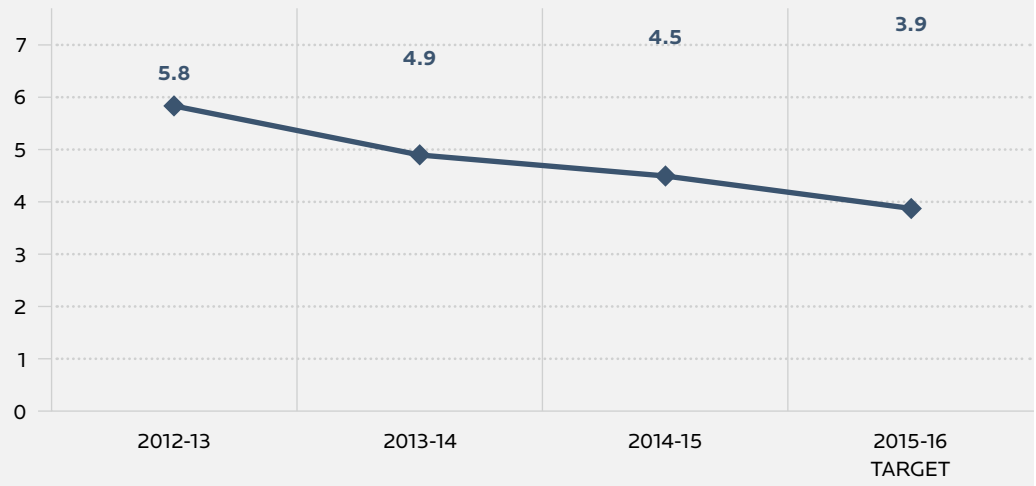
I. HIGHLIGHTS

- **Gross Domestic Product (GDP) target:** As the budget supported Prime Minister Modi's call to "Make in India", GDP rate for 2015-16 was forecasted to accelerate from 7 % to 8-8.5 % this year. Mr Jaitley showed confidence in the nation's economy, assuring the possibility of double digit growth in the near future.



- **Make in India:** The Bharatiya Janata Party (BJP)-led National Democratic Alliance government will pursue the policy to achieve greater self-sufficiency, job creation and skill enhancement in areas of capital and technological investment and to enhance India's position as the manufacturing hub. The defence sector is earmarked as one of the key areas to boost this development via focusing on local manufacturing of defence equipment, particularly the military aircrafts segment. Moreover, textiles and pharmaceuticals, where India has a competitive advantage, are also expected to stimulate this trend.

- **Fiscal deficit target:** The budget in the medium-term appears to focus on kick-starting the investment cycle in the country. However, Mr Jaitley has emphasised on the need of keeping in mind "fiscal discipline while aiming for higher foreign investments". Fiscal deficit target for 2015-16 is set at 3.9% of GDP, whilst maintaining commitment to a medium-term target of 3% of GDP.



SOURCE: tradingeconomics.com | Ministry of Finance, Government of India

- **Foreign trade :** After growing by 4.7% in 2013-14, India's merchandise exports growth moderated to 2.4% to reach Rs 15.9 trillion (USD 255.42 billion[*]) in 2014-15 (accounted April-January). At the same time, imports grew by 2.2% totalling to approximately Rs 23 trillion (USD 369.48 billion[*]). As a result, the trade deficit etched north of Rs 7 trillion (USD 112.45 billion[*]) in 2014-15.

- **Foreign investments:** In pursuit of fresh modes of foreign investments, the government has announced to allow overseas investments in Alternative Investment Funds (AIFs) – a new class of pooled-in investment vehicles for real estate, private equity and hedge funds, among others. Moreover, distinction between different categories of foreign investments in Indian companies, particularly with regard to Foreign Portfolio Investment and Foreign Direct Investment, are to be discontinued.

[*] Rate of Exchange USD : INR = 1 : 62.25 (approx.) on March 4, 2015.

II. TAKEAWAYS FOR KEY SECTORS

- **Infrastructure:** Within the infrastructure space, the budget allocation has gone up significantly to more than Rs 75,000 crore (USD 12.05 billion[*]). The first priority is road construction, for which 100,000 km of road is already under construction whilst the objective for fiscal 2015-16 is to incrementally build another 100,000 km. The government has also fixed a target of constructing 8,500 km of national highways for the current fiscal. Companies, particularly within the EPC (engineering, procurement and construction) space are expected to gain considerably as result of this year's key budget priority. Moreover, Public Private Partnerships (PPP) projects are also proposed to ignite and further streamline infrastructure projects across the nation, totalling to approximately Rs 70,000 crore (USD 11.24 billion[*]).

- **Defence:** A modest 7.8% increase in defence spending was announced with emphasis on policy of transparency and quick decision-making surrounding the procurement process. Modi government is expected to move cautiously with the military's requirements for fighter jets, ships and artillery. Mr Jaitley announced that the defence spending will rise to Rs 2.47 trillion (USD 39.68 billion[*]) for 2015-16. For the current financial year, the allocation was Rs 2.29 trillion (USD 36.79 billion[*]), translating to an increase of 12% from 2013-14.

- **Energy:** Renewable energy projects (Green Energy Sources) have also received significant impetus in this year's budget. Approximately 175,000 MW of capacity is earmarked for alternative energy, out of which 100,000 MW from solar, 60,000 MW from wind, 10,000 MW from bio-mass and 5,000 MW from small-to-mid-size hydro power plants has been planned for fiscal 2015-16.

- **Agriculture:** There is sharp focus on reigniting projects surrounding rural infrastructure, irrigation, long-term rural credit and short-term cooperative rural credit refinance. The finance minister has proposed to increase the target of agriculture credit by Rs 50,000 crore (USD 8.03 billion[*]) to Rs 8.5 lakh crore (USD 136.5 billion[*]) for 2015-16. In addition, Mr Jaitley has allocated Rs 5,300 crore (USD 851.41 million[*]) for micro-irrigation projects and Rs 25,000 crore (USD 4.02 billion[*]) crore to the boost the Rural Infrastructure Development Fund.

- **Tobacco:** The budget proposed a sharp increase of 25% in excise duty on cigarettes of length 65 mm or below and an increase of 15% for cigarettes of other lengths including a similar excise rate hike for cigars, cheroots and cigarillos. Excise duty on cut tobacco is also increased from Rs 60 (USD 0.96[*]) per kg to Rs 70 (USD 1.12[*]) per kg. However, there has been no increase in tax rate on bidis and chewing tobacco.

- **Gold:** The finance minister has allowed for a gold monetization scheme, as well as decided to issue sovereign gold bonds as an alternative asset to purchasing physical gold. Additionally, the central government is also coming out with a national Indian gold coin to incentivize the recycling of enormous physical quantity of gold held within the country.

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CONCLUSION

Overall, the budget seeks to provide a direction to bring the Indian Economy back to a two-digit development trajectory. However, the success of the budget also depends on how much the government actually acts and implements the key provisions. The BJP with a full majority needs to act on putting India on a long-awaited sustainable path of growth which is not only high but also more inclusive, to fully capture its social and economic diversity.

ABOUT CNC – COMMUNICATIONS & NETWORK CONSULTING

CNC is an experienced international strategic consultancy which helps clients solve business problems through communications. When Communication Matters, companies, institutions and individuals use CNC's unrivalled expertise to advise on communications affecting decisions, valuation, and change and reputation. We work in corporate and financial communications, public affairs, crisis support and change management, underpinned by a strong understanding of the rapidly evolving digital media environment. CNC has 11 offices in eight countries worldwide.

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