

THE HINDU Business Line

Budget evokes mixed response



Bloomberg The Indian Parliament building stands in New Delhi, India, on Friday, March 16, 2012. India's economy is expected to grow at 7.6% in the year through March 2013, Finance Minister Pranab Mukherjee said in his budget speech to parliament. Photographer: Pankaj Nangia/Bloomberg
March 17, 2012:

“The 2012 Budget presented by the Finance Minister has shaken the international investor community. The Budget proposes a number of regressive, retrograde and extraterritorial provisions that would significantly increase tax costs and alter the dynamics of cross-border transactions and M&As.

The proposal to retroactively override the Supreme Court's decision in the Vodafone case with effect from 1962 raises a question as to whether foreign investments are protected in India at all and whether it will give rise to claims under bilateral investment protection treaties.

In the face of global financial slowdown, decline in India's GDP growth from 8.4 per cent to 6.9 per cent and high inflation, a 'reformist' Budget is normally prescribed to kick start the economy. Unfortunately, the 2012 Budget does not propose any notable fiscal reforms or incentives of far reaching impact.

The proposals to tax offshore share transfers and the introduction of general anti-avoidance rules (GAAR) will have the most critical impact on foreign investors.” — **Mr Nishith Desai, Founder, Nishith Desai Associates**

“While the revenue enhancing measures were a positive, the lack of expenditure reforms especially on the subsidy front was a bit of a let down. The Government also seems to be relying on one-time items such as divestment and excess spectrum/ 4G auctions to reign in fiscal deficit. As expected there was adequate focus on supporting investment demand especially in the infrastructure space.

“The fact that the next Budget in 2013 would be presented in the backdrop of the 2014 general elections also increased reformist expectations from this Budget. Overall, the Budget turned out to be a careful balance between fiscal and political compulsions.” — **Mr Ramanathan K, CIO, ING Investment Management (I) Pvt Ltd**

“Impact of Budget on market should be by and large neutral. Although the fiscal deficit for FY13 announced by the Finance Minister is in line with the expectations, borrowing required by the Government is on the higher side.

“If the borrowing programme of Government remains elevated, it can postpone the monetary easing cycle by RBI, thereby impacting banking and investment sectors. There were not many sector-specific changes in tax rates apart from increase in royalty on crude oil, which will impact upstream oil companies like ONGC and Cairn India.” — **Mr Hemant Kanawala, Head of Equities, Kotak Mahindra Old Mutual Life Insurance**

“We find the Budget to be more realistic than the one presented last year. This makes it less likely to be subject to the large and inevitable slippage incurred in FY11/12.

“Unlike the previous year, when the Budget's lack of credibility stemmed from a zero nominal growth assumption in discretionary spending, the spending side assumptions appear more realistic.

“One challenge would be to contain the fuel subsidy cost, which just like last year would depend upon the timing and magnitude of diesel and kerosene price adjustment.

“This is one area where we remain sceptical. The budget aims to hold total subsidy under two per cent of GDP, of which fuel subsidy at just 0.4 per cent of GDP, something that has not been accomplished in years. This is ambitious but doable, only if administrative price adjustments are carried out expeditiously and the disbursement system is made more efficient.” — Mr Taimur Baig, Chief Economist, Deutsche Bank — Fixed Income Research — Asia

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