FICCI REACTION ON UNION BUDGET 2012-13

New Delhi, March 16, 2012: FICCI had expected and recommended that the budget would include measures for promoting investment led growth. This was specially requested in the context of ongoing slowdown of economic growth which could be lower than 6.9% in 2011-12. The nominal growth rate of GDP is expected to be 14% for 2012-13. This translates into a 6.5% inflation rate, assuming a 7.6% GDP projection in the next fiscal. It is not clear if the higher growth rate would see a strong revival of the manufacturing sector.

There has been no revival of investment allowance, no restoration of tax exemption on dividend income or capital gains for infrastructure capital fund / company and no hike in depreciation rate. These had been expected as fiscal steps for improving investment. However, the reduction in withholding tax on interest payable on External Commercial Borrowings (ECBs) in certain sectors and extension of concessional tax treatment on the repatriation of overseas dividends, are indeed welcome features. The raising of the ECB limit for infrastructure sector will also encourage investment in the sector.

Growth impulse could be dampened by the 2% hike in excise duty and service tax. These hikes are expected to add to inflationary pressure and would work against budget expectations of lower inflation.

FICCI believes fiscal consolidation would continue to be one of the major challenges. The disinvestment target at Rs 30,000 crores is an ambitious one. Additionally, the budgeted spectrum proceeds at Rs 40,000 crores for the next fiscal assumes inbuilt buoyancy in non-tax revenues that may be difficult to achieve.

Though the budget targets to contain the central subsidies under 2 % of GDP in 2012-13, and bringing them down from the current 3.1 percent will not be easy if the implementing of food security bill will alone amount to a minimum of 0.7% of GDP and could be as high as 1.5% of GDP. Also, the budgeted figures for oil subsidy indicate a decline by about 12%, however there has been no word on the proposed deregulation of the sector or an increase in diesel prices. We hope that the much required deregulation of the petroleum sector is taken forward in the right earnest.

It might also be noted that the capital expenditure is budgeted to go up by 31% in the year 2012-13. But the growth in the non-plan capital expenditure is estimated to be much higher than the growth in plan capital expenditure. Hence an impetus to growth through pump priming capital expenditure is difficult to envisage.

The gross market borrowings for the year 2011-12 have been revised upwards by 22% from Rs 417128 crores (BE) to Rs 510000 crores (RE). This figure is further expected to go up to Rs 569616 crores in 2012-13. Such a high level of borrowing will continue to exert pressure on interest rates

On the positive side, individuals have been provided tax benefits with the exemption limit being raised to Rs 2 lakhs. Also the decrease in interest rates on EPFs is an encouraging move. The removal of cascading impact of DDT, which was recommend by FICCI is most welcome. The extension of tax benefit period for companies engaged in in-house R&D activities may also provide some relief to the companies.

Provision of extension of 200% weighted deduction for R&D expenditure is specially welcome as it has been announced for a period of 5 years. This should encourage firms to expand their R&D activities.

The 150% weighted deduction for agricultural extension will hopefully encourage private sector investment in agriculture and raise crop yields. While the measures like monopoly of Coal India to supply fuel supply agreements and reductions in customs duty and CBD on imported steam coal are welcome measures. The continued monopoly of CIL can pose a problem in improving coal supplies. The exemption from basic customs duty for power generating firms such as Natural Gas is also welcome. For the power sector besides access to low cost funds the Budget has also extended the sunset date by one year until March 31, 2013 by claiming 100% deduction of profits for 10 years along with an additional distribution of 20%. This measure would encourage investment in power generation.

The Finance Minister's gesture of exempting copy rights relating to cinematograph films has been specially welcomed by the media and entertainment industry which is now celebrating its 100th year. These are all positive measures, which will help the Indian corporate sector going forward. Over all, therefore, FICCI perceives this Budget as a balanced and pragmatic one but one, who could have used this from, brings growth back on track in a bolder measure.

The Government has also proposed rationalisation of tax provisions that accrues from overseas transfer of shares holding underlying assets in India. The proposed rationalisation will effect retrospectively from April 1'1962. FICCI believes that any policy changes should always be forward looking and not with retrospective impact as it hurts the investment climate and the business strategies for the investors.

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