Budget 2013-14: Likely to be austere on threat of credit rating downgrade

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The Union Budget for FY 2013-14 is being formulated against the backdrop of subdued economic growth, high inflation and rising twin deficits both fiscal deficit and current account deficit. On a positive note, the government has acted rapidly to counter the downslide in the economy and has announced reforms measures aimed at fiscal consolidation and encouraging investment in the economy.

The Union Budget for FY 2013-14 will be designed to augment economic growth while ensuring fiscal consolidation and other structural reforms. The Hon'ble Union Finance Minister P. Chidambaram - credited with the dream Budget of FY 1997-98 - is expected to attempt a balance between supporting growth by making expenditure more effective and ensuring fiscal discipline.

Based on the above, the Union Budget for FY 2013-14 is likely to emphasize the following:

1. The Budget is likely to be austere, even as a threat of sovereign credit rating downgrade looms large over the economy. The Budget will seek to contain public expenditure and thus, reduce borrowing costs for private investors and uplift capital investment growth. Further, the government will seek to tap other sources to boost their tax revenue in FY 2013-14 taking a cue from the lower revenue generated in the current fiscal. While tax rate for the 'super rich' is likely to go up, the masses are likely to benefit from some tax concessions in the view of the high inflationary pressures faced by them.

2. One of the most critical needs is recapitalization of the banks in the country to enable them to meet the capital requirements under the new Basel III norms as also finance productive activities in the economy and thus, drive economic growth.

3. It is also crucial to boost the infrastructure sector as it provides a thrust to the growth momentum. Accordingly, tax breaks/concessions can be extended to the sector in order to augment the infrastructural facilities in the country.

4. Measures to support Micro & Small Enterprises (SME) such as revision in Micro, Small And Medium Enterprises Development (MSMED Act) to increase investment ceiling in plant & machinery/equipment for Micro/ Small enterprises could be announced in the Budget in the view of the critical importance of the sector in terms of employment, share in output and export-orientation.

5. During the year 2012-13, we witnessed a significant weakening in the export sector growth on the back of weak global demand. Hence, the revival of the sector should be treated as a matter of utmost import by way of ensuring easier financial assistance and implementing measures on a sustainable basis to enhance the competitiveness of the domestic exports at a global level.

6. Traditionally, Indians have been credited with a high degree of financial thrift in terms of savings but only a small part of it is invested in productive sectors. In the view of the above, the need of the hour is to channelize the savings into productive investment by introducing easy-to-comprehend and flexible investment avenues as also extending various tax benefits.

It is also crucial to push for higher deposits with banks, provident funds and pension funds as the funds garnered in these accounts can be channelized into the corporate debt market and thus, develop the financial markets further. Further, the scope of Rajiv Gandhi Equity Savings Scheme (RGESS) may be widened to higher income individuals as other segments of the economy.

7. Disinvestment has already figured on the list of priorities with the Government targeting to raise Rs.30,000 crore through disinvestment in the FY 2012-13. Going forward, the Government must continue on its path to reduce its stake in PSUs and thus, raise the much needed capital.

8. The CAD in the economy has largely been led by the high oil and gold imports. In a bid to contain the gold imports, the Government is likely to incentivize investments in gold linked financial instruments by offering tax benefits.

Thus, the key themes for the Union Budget 2013-14 are fiscal consolidation, inducing growth by mobilizing saving and deepening financial markets along with limiting the CAD.

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