GDP growth likely at 7% in FY'13 and DTC Bill could be tabled in Parliament in monsoon session

Finance Minister Pranab Mukherjee on Monday said he expected economic growth in fiscal 2013 to increase to 7 per cent but that a bounceback would likely take time.

"FY12 growth of 6.5 per cent is disappointing," he said at a conference of tax officials on Monday, but added that "I am expecting a turnaround in growth this year."

"We are taking all steps to increase GDP growth," the Finance Minister said.

"Reversal of interest rate cycle, weak crude prices and normal monsoon likely to improve economic conditions," he said.

The slowdown in the Indian economy has dampened investor sentiment. Economic growth slumped to a nine-year low of 5.3 per cent in the March quarter of 2012, while GDP growth for the full fiscal slipped to 6.5 per cent, down from the 8 per cent growth in the past two years.

Mr Mukherjee added that a Direct Tax Code Bill that aims to simplify India's current tax regime, could be tabled in Parliament in the monsoon session, Finance Minister Pranab Mukherjee said on Monday.

"DTC will bring uniformity to decision making," he said. "I am hopeful that DTC will become effective from start of April 2013, we should be prepared to implement it."

He also reiterated that there is a need to hike tax collection to drive growth. "There is a need to increase tax-GDP ratio," he said, adding that the income tax collection target for fiscal 2013 is Rs5.71 trillion.

Meanwhile, foreign investors have started to shy away from Indian markets, fearing a tax amendment that could impose a higher tax burden on them as the Indian government seeks to crack down on black money.

"Black money eats away at vitals of economy, threat to country's security," Mr. Mukherjee said.

The income tax department has drawn the attention of global investors in the past few months after it decided to impose capital gains tax on global deals involving assets in India – the most visible such case being Vodafone's takeover of Hutchison Essar in 2007. The IT department is demanding about Rs20,000 crore in taxes, penalty and interest.

The 2013 Finance Bill saw an amendment to India's tax laws, applicable retrospectively, to make this possible, but this has also scared off other investors, such as holders of Participatory Notes and foreign institutional investors. P-Note holders are estimated to have pulled out Rs. 1 trillion from the Indian economy due to concerns over taxation and a crackdown on black money held overseas.

On Friday, however, RBI deputy governor K C Chakrabarty said “High interest rates not the major reason for low growth,... infrastructure is not suffering due to lack of finance.” That statement was in contrast with what another deputy governor, Subir Gokarn, said a few days earlier when he suggested that slower economic growth and falling crude oil prices had given the RBI some room to cut rates. The central bank’s mid-quarterly policy review is scheduled for June 18.

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