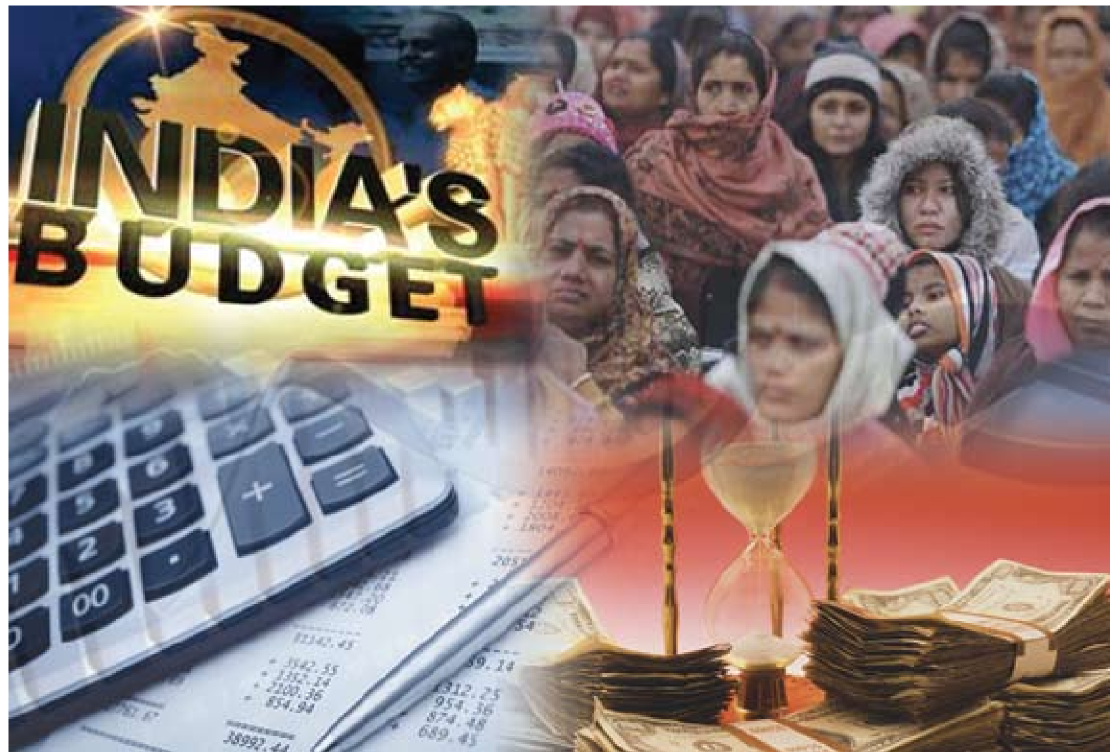
FICCI

Financial Foresights

Views, Reflection and Erudition

Budget Special Edition



Reactions to the Union Budget 2013-14

FEDERATION OF INDIAN CHAMBERS OF COMMERCE AND INDUSTRY

Industry's Voice for Policy Change

MCX Stock Exchange Limited

MCX'SX India's New Stock Exchange

"Application for National Membership of MCX-SX"

ABOUT MCX-SX:

MCX STOCK EXCHANGE (MCX-SX), India's New Stock Exchange, commenced operations in the Currency Futures Segment on October 2008 and currently provides trading facility in Currency Futures and Options. Trades on MCX-SX are cleared by MCX-SX Clearing Corporation Limited (MCX-SX CCL). The Exchange currently has 751 members participating from 734 towns and cities across India.

The Exchange has received permission from SEBI to trade in Equity, Futures and Options on Equity, Interest Rate Derivatives and Debt Segment and would commence operations after enrolment of members and completion of other compliances. The membership offer is for these segments. MCX-SX believes new opportunities will unfold for members and securities industry professionals as the capital market develops further. The exchange proposes to undertake capacity building for members to enable them to manage new opportunities.

1. MEMBERSHIP CATEGORIES:

A person can apply for any of the following membership categories subject to the terms and conditions and relevant eligibility criteria provided in the membership dossier. Potential members can apply for any membership category and be a Trading Member (TM)/ Self Clearing Member (SCM)/ Trading-cum-Clearing Member (TCM)/ Professional Clearing Member (PCM).

i. **Composite Members:** Includes segments referred above and is available to all eligible persons. MCX-SX has conceptualised an 'India Model' to harness the latent potential of domestic savings and reinforce it with institutional, FII and domestic investment. Accordingly two important types of membership are being introduced to create a deep, wide and liquid market and also achieve financial inclusion.

ii. **Professionally Qualified Members:** Includes segments as referred above and is meant only for professionals such as MBA/CA/CFA/ICWA/LLB/CS/BE/MBBS who are taking membership of a Stock Exchange for the first time.

Practicing career professionals with a background of capital market ecosystem such as investment banking, private equity, venture funds, market intermediation, banking, etc could benefit from this membership.

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ii. Registered Partnership Firms

iii. Corporate Bodies

iv. Banks and Financial Institutions, including their subsidiaries

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Details of Net-worth, Fees and Deposits, and Admission Procedure information is provided in the Membership Dossier which can be collected from the Exchange or downloaded from: http://www.mcx-sx.com/membership.

Interested persons may obtain Application Form and other details either from Exchange website or Corporate office/ Regional offices. The duly filled in Application Form along with a demand draft for admission fees should reach the Exchange. Payments are to be made through demand draft, drawn in favour of 'MCX Stock Exchange Limited' payable at 'Mumbai'.

Head - Membership

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About FICCI

Established in 1927, FICCI is the largest and oldest apex business organisation in India. Its history is closely interwoven with India's struggle for independence, its industrialization, and its emergence as one of the most rapidly growing global economies. FICCI has contributed to this historical process by encouraging debate, articulating the private sector's views and influencing policy.

A non-government, not-for-profit organisation, FICCI is the voice of India's business and industry. FICCI draws its membership from the corporate sector, both private and public, including SMEs and MNCs; FICCI enjoys an indirect membership of over 2,50,000 companies from various regional chambers of commerce. FICCI provides a platform for sector specific consensus building and networking and as the first port of call for Indian industry and the international business community.

Acknowledgments

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A to Z of Financial Services

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RELIGARE
Values that bind

Budget Synopsis by FICCI's Financial Sector Team

Banking

S. No	Budget Announcements	Likely Impact	Unmet demands and any further demands relating to the sector
1	The Government will provide Rs 12,517 crore for capitalisation of Public Sector Banks by end March 2013. Further re-capitalisation of Rs 14,000 crore proposed for the year 2013 -14.	FICCI welcomes the proposal of infusing capital in Public Sector Banks. The move will provide impetus to the cash starved banking industry due to increasing NPAs and protect the financial health of Public Sector Banks. It will enable them to comply with Capital Adequacy norms under Basel III norms and meet the credit needs of the productive sectors of the economy.	
2	Proposed setting up of India's first women bank as a Public Sector Bank with an initial capital of Rs 1,000 crore.	The proposal will largely help in meeting the financial needs of women and women run businesses and support women SHGs. It will also play an important role in promoting women entrepreneurship.	
3	Provide interest subvention – 4% for crop loans by private sector banks.	Providing interest subvention of 4% for crop loans by private sector banks will provide a big fillip to the Private Sector Banks in meeting their priority sector and direct farm loan targets far more easily.	
4	All scheduled commercial banks and regional rural banks have moved to core banking solutions and electronic payment systems (NEFT and RTGS). The Government is working with the RBI and NABARD to bring all other branches and certain cooperative banks on the CBS e- payment platform by December 31, 2013.	This move will enable easy transfer of payments and play a significant role in fostering financial inclusion.	
5	The Government proposes to leverage the reach of post offices by making them part of core banking solution and offering real time banking services through post offices. A budget allocation of Rs 5.32 billion has been made for this purpose.	FICCI feels that this is an innovative step that will enable banks to reach out the vast number of unbanked population in the rural areas without opening bank branches. Thus it will prove to be cost effective in driving inclusive growth.	
6	Public sector banks will have ATMs at all their branches by March 31, 2014	FICCI welcomes this move. It will reduce the burden on public sector banks for carrying out routine transactions for the customers such as depositing/ taking out money etc. Public sector banks can then focus on providing advisory related services to their customers. Advisory is one area where public sector banks have not done enough when compared to private sector or foreign banks.	

Capital Markets

S. No	FICCI Wish list of the sector	Budget announcements	Likely impact	Unmet demands and any further demands relating to the sector
1	**Equity, Futures and Mutual Funds** Expand the scope of RGESS (Rajiv Gandhi Equity Savings Scheme) to mutual funds.	RGESS (Rajiv Gandhi Equity Savings Scheme) has been made liberal to enable first time investors to invest in mutual funds in addition to listed shares. The investor will be able to do this for a period of 3 successive years (not just one year). The income limit for investors wanting to invest in RGESS has been raised from Rs 10 lakh to Rs 12 lakh. Mutual fund distributors will be allowed to become members in the Mutual Fund segment of stock exchanges so that they can leverage the stock exchange network to improve their reach and distribution. The list of eligible securities in which Pension Funds and Provident Funds may invest will be enlarged to include exchange traded funds, debt mutual funds and asset backed securities.	Liberalization of the Rajiv Gandhi Equity Savings Scheme (RGESS) will boost retail participation and encourage households to invest in equities for long-term. The focus on augmenting domestic savings & investment will boost funding through better equity and debt financing. These comprehensive measures along with higher than anticipated increase in plan expenditure will help rejuvenate investment.	
2	**Debt** Encourage insurance, pension and Provident funds to invest in corporate bonds.	Stock exchanges will be allowed to introduce a dedicated debt segment on the exchange. Insurance companies, provident funds and pension funds will be permitted to trade directly in the debt segment with the approval of the sectoral regulator. Allow some institutions to issue tax free bonds in 2013-14, strictly based on need and capacity to raise money in the market, upto a total sum of Rs 50,000 crore. Proposal to introduce Inflation Indexed Bonds or Inflation Indexed National Security Certificates.	The focus on development of debt market is welcome. A strong bond market provides diversification to the financial sector and can act as a backstop if there is a problem with the banking system as the one faced in recent times. Inflation-indexed bonds would protect savings, especially of the poor and middle class from the effect of inflation.	

S. No	FICCI Wish list of the sector	Budget announcements	Likely impact	Unmet demands and any further demands relating to the sector
3	**Infrastructure financing through debt** Encourage Infrastructure Debt Funds (IDF)	Infrastructure Debt Funds (IDF) will be encouraged. India Infrastructure Finance Corporation Ltd (IIFCL), in partnership with the Asian Development Bank, will offer credit enhancement to infrastructure companies that wish to access the bond market to tap long term funds. More institutions will be permitted to issue tax-free bonds strictly on the basis of need and capacity to raise money. It is expected that approximately INR 500 billion will be raised through tax free bonds in the year 2013-14.	Encouraging Infrastructure Debt Funds (IDFs), through take out financing and credit enhancement will be able to provide long-term low cost debt for infrastructure projects through take-out finance, credit enhancement and other innovative means.	
4	**SMEs and Venture Capital**	SME enterprises, including start-up companies, will be permitted to list on the SME exchange without being required to make an initial public offer (IPO), but the issue will be restricted to informed investors. This will be in addition to the existing SME platform in which listing can be done through an IPO and with wider investor participation. SEBI will prescribe requirements for angel investor pools by which they can be recognised as Category I AIF venture capital funds.	This would promote entrepreneurship and benefit SMEs to capitalise their companies without incurring expenditure on public offerings. The recognition of angel investors as an important category of investors is positive.	
5	**Foreign investments** Simplify KYC norms for foreign investors. Withholding tax to be reduced to 5 % in all sectors. In the long-term, withholding tax should be repealed completely.	Clear recognition of the need for foreign investment in all forms-FDI, FII or External Commercial Borrowing (ECB); USD 75 billion is needed to finance the Current Account Deficit (CAD). SEBI to simplify KYC norms governing foreign portfolio investors. SEBI will converge the different KYC norms and adopt a risk-based approach to KYC to make it easier for foreign investors such as central banks, sovereign wealth funds, university funds, pension funds etc. to invest in India.	Facilitating FII participation by simplifying registration procedures and allowing them to take position in the exchange traded currency derivatives will help in increasing foreign inflows and keeping the current account deficit in check.	Withholding tax to be reduced to 5 % all sectors. In the long-term, withholding tax should be repealed completely.

S. No	FICCI Wish list of the sector	Budget announcements	Likely impact	Unmet demands and any further demands relating to the sector
		The country will now adopt international practices to differentiate between foreign institutional investors and foreign direct investment into the capital market. Foreign investors with less than 10% stake in a particular stock will be considered as FII, and more than 10% stake as FDI. Designated depository participants, authorised by SEBI, will now be free to register different classes of portfolio investors, such as FIIs, sub-accounts, QFIs, etc. subject to compliance with KYC guidelines. FIIs will be allowed to participate in the exchange traded currency derivative segment to the extent of their Indian rupee exposure in India. FIIs will also be permitted to use their investment in corporate bonds and Government securities as collateral to meet their margin requirements.		
6	**Macro level announcements**	It is proposed to amend the Securities Exchange Board of India Act,1992, to strengthen the regulator.	Positive	
7	**Securities Transaction Tax (STT)** Reduction/removal of STT	STT has been reduced on equity futures from 0.017 to 0.01 percent, on MF/ETF redemptions at fund counters: from 0.25 to 0.001 percent, on MF/ETF purchase/sale on exchanges: from 0.1 to 0.001 percent, only on the seller.	Rationalization of STT for equity futures and mutual funds will reduce transaction costs and result in an uptrend in the market trading volumes.	
8	**Commodities Transaction Tax (CTT)** Do not levy CTT. Transaction Tax does not really benefit the markets and revenue collection is not too attractive as well.	CTT has been levied on non-farm commodities futures at 0.01% of the price of trade.	FICCI is against levy of any transaction taxes in principle. The imposition of CTT needs to be reviewed as it would send a negative signal to the potential hedgers insuring against price risk. It will also impact the volume and liquidity of commodity exchanges. The commodity transactions in India are already heavily taxed and all taxes together add up to more than 20 percent of value of their trades in the cash markets. Further imposition of CTT may also result in exporting our market to other global exchanges.	

S. No	FICCI Wish list of the sector	Budget announcements	Likely impact	Unmet demands and any further demands relating to the sector
	Direct Tax	**Infrastructure Debt Funds (IDFs)** Budget 2013 seeks to bring parity in taxation of income from investment made by a non-resident in an IDF, whether setup by a NBFC or a Mutual Fund, by extending the concessional tax rate of 5 percent to distributions made by a Mutual Fund to its non-resident investors in an IDF managed by it (hitherto applicable only for IDFs set up by NBFCs) **Cross border infrastructure debt financing** There is currently a concessional tax rate of 5 per cent for interest paid on money borrowed in foreign currency by infrastructure companies under a loan agreement or by way of issue of long-term infrastructure bonds (LTIB). Budget 2013 proposes to extend the benefit of the concessional tax rate of 5 percent on interest]paid on Indian rupee denominated LTIBs. To avail of this concessional tax rate, the non-resident will need to deposit the foreign currency into a designated bank account in India, from which subscription money for Indian rupee denominated LTIBs may be paid. **Mutual Funds** In order to bring uniform taxation for all types of schemes that are managed by a Mutual Fund, other than equity oriented schemes. Budget 2013 proposes that with effect from June 1, 2013, the rate of tax on distributed income be increased from 12.5 per cent to 25 per cent in all cases where distributions are made to individual or HUF investors. **RGESS** The individuals will be able to claim income tax deduction for 3 consecutive years starting from the financial year in which the investment was made.		Income tax deduction in respect of long term infrastructure bonds be extended for this year and the limit to be extended to Rs. 50,000.

Insurance and Pensions

S. No	FICCI Wish List	Budget Announcements	Likely Impact	Unmet Demands
1	**Schemes for Increased penetration and awareness of Insurance.**	KYC of banks will be sufficient to acquire insurance policies. Banks will be permitted to act as insurance brokers. Also business correspondents will now be allowed to sell micro-insurance products. Insurance companies will now be empowered to open branches in tier II cities without prior IRDA approval. Group insurance products will also be announced for homogenous groups such as SHGs, domestic workers associations, anganwadi workers, teachers in schools, nurses in hospitals etc. All towns with a population of 10000 and above will have an LIC office and one public sector general insurance company office.	All these initiatives when implemented would boost penetration of Life Insurance and General Insurance in the country. The entire network of bank branches and business correspondents can now be leveraged by Insurance companies.	
2	**Passing of The Insurance Laws (Amendment) Bill, 2008 and increase FDI limit- Increase in FDI limits from 26% to 49%.**	The Hon'ble Finance minister has requested all political parties for a consensus and clear the pending Insurance Laws (Amendment) Bill.	Opening up FDI in insurance will enable more capital inflow and foster investor confidence.	
3	**Passing of The Pension Fund Regulatory and Development Authority Bill, 2011.**	The Hon'ble Finance minister has requested all political parties for a consensus and clear the pending Bill.	The Pension Fund Regulatory and Development Authority Bill, 2011 seeks to give statutory powers to PFRDA.	
4		Relaxation of eligibility conditions of life insurance policies for persons suffering from disability or certain ailments by increasing the permissible premium rate from 10 percent to 15 percent of the sum assured.	The relaxed eligibility conditions for disabled person will enhance their economic potential.	
5		Adalats will be organised for third party claims pending before Tribunals/ Courts pertaining to third party motor insurance claims.	This provision will aid in speedy settlement of claims.	

S. No	FICCI Wish List	Budget Announcements	Likely Impact	Unmet Demands
6	**Schemes for Social welfare** It had been proposed that while calculating the disallowance under rule 6(3), all input credit relating to general insurance (including reinsurance) services which are exempt from service tax should also be excluded in the computation of dis-allowance on the similar lines as input credit relating to services provided under Special Economic Zone (SEZ) and services falling under export of services which are excluded in the present regime.		Presently some insurance schemes of Government like RSBY mentioned under the negative list of services are exempt from service tax. However, some schemes are still subject to service tax for example health & personal insurance schemes for handicrafts, handloom & weavers under schemes of Ministry of Textiles. It is proposed that similar exemption may be extended to all such schemes.	All input credit relating to general insurance (including reinsurance) services which are exempt from service tax should also be excluded in the computation of dis-allowance on the similar lines as input credit relating to services provided under Special Economic Zone (SEZ) and services falling under export of services which are excluded in the present regime.
7	**Receipt of amount under Life Insurance Policy - Section 10(10D)(d) of the Act** As per Sec 10(10D)(d) of the Act, any sum received under an insurance policy in respect of which the annual premium payable during the term of the policy exceeds ten percent of the actual capital sum assured, is taxable in the hands of receiver. Thus, whole of maturity/ proceeds of life insurance policy in such case get taxed under this Section. Further, to the extent such amount received is calculated based on premium within specified limit (10 per cent) the said amount should be exempt. In other words exemption should not be eligible for amount calculated with reference to premium in excess of 10 per cent of sum assured.			Receipt of amount under Life Insurance Policy - Section 10(10D)(d) of the Act.
8	**Removal of MAT for General Insurance companies -rewind provisions of section 115JB)** The provisions of MAT were not applicable to general insurance companies till F.Y. 2011-2012. Finance Act 2012 provides that MAT provision would be applicable only to general insurance companies & not life insurance companies. The amendment reverses the exemption enjoyed since commencement of general insurance business.		General insurance industry is placed at a singularly disadvantaged position as compared to life insurance sector being taxed at maximum marginal rate of 30%. The life insurance companies are assessed at presumptive rate of taxation basis at 12.5%.	Removal of MAT for General Insurance companies.

Financial Inclusion

S. No	FICCI Wish List	Budget Announcements	Impact
1	Availability of funds for the sector.	Increase in the corpus of Small Industrial Bank of India's (Sidbi) microfinance equity fund by Rs 100 crore. Aggregators of farm output i.e. registered Farmer Producer Organisations (including Farmer Producer Companies) have been provided with equity grants of up to 10 lakh per FPO. Additionally, a Credit Guarantee Fund will also be created in the Small Farmer's Agri Business Corporation with an initial corpus of Rs 100 crore. Hike in allocation of funds to welfare schemes including MNREGS, PMGSY and IAY. Allocation for the integrated watershed programme increased from Rs 3,050 crore in 2012-13 (BE) to Rs 5,387 crore in 2013-14. Rural Infrastructure Development Fund (RIDF) corpus raised to Rs 20,000 crore in 2013-14.	Microfinance equity fund would provide the much needed relief to provide for their financing requirements. Support to FPOs and the Watershed programme would help boost the agricultural productivity. Increased allocation under welfare schemes would provide employment and infrastructure.
2	Infrastructure creation for Financial Inclusion.	All banks, including some of the cooperative banks, to be brought on Core Banking Solution (CBS) and electronic payment systems (NEFT and RTGS). Post Offices to become part of core banking solution, a sum of Rs 532 crore has been proposed for the project. Women's bank has been proposed to be instituted to address gender related aspects of empowerment and financial inclusion.	Expanding the outreach of technologies such as CBS and e-payment systems would significantly support financial inclusion. Bank which exclusively serves women would encourage women entrepreneurs.
3	Addressing regulatory bottlenecks to financial inclusion.	Business correspondents would be allowed to sell micro-insurance products. Insurance companies will now be empowered to open branches in tier II cities without prior IRDA approval. Group insurance products will also be announced for homogenous groups such as SHGs, domestic workers associations, anganwadi workers, teachers in schools, nurses in hospitals etc.	Allowing Business Correspondents to sell micro insurance products would further enhance their business ability to deliver last mile connectivity to customers. The finance minister's announcement with respect to opening of branches of insurance companies in non metro cities will increase insurance penetration and benefit the vulnerable sections by hedging against risk.
4	Sector specific initiatives.	National Livelihood Mission to be launched in 2013-14 National Skill Development Corporation to impart employable skills to nearly 50 million people during the 12th plan period. Interest subvention scheme for short-term crop loans will be continued. Farmers making timely repayment would be rewarded with crop loans at a low interest rate of 4 percent per annum. Direct Benefit Transfer scheme to be rolled out throughout the country during the term of UPA government. Comprehensive and integrated social security package by integrating diverse schemes offered by various departments and ministries.	National Livelihood Mission: This would draw investment and enhance agricultural productivity. It also provides the much needed social security to the vulnerable farmers since their livelihoods are directly connected with livestock. Interest subvention scheme: Agricultural productivity is firmly tied to adequate and timely availability of credit. Incentivising farmers to make use of credit is a positive move. Skill Development: Skilling 9 million people in 2013-14 alone, both in rural and urban areas, would go a long way in improving labour employability and eventually making the labour force more productive.

Cornerstone for reviving growth and investment

Mr. Saugata Bhattacharya, *Senior Vice President, Business and Economic Research, Axis Bank*

Contrary to initial market disappointment, the FY14 Budget was a very pragmatic, workmanlike and credible fiscal exercise. The last couple of years have been difficult, with global turbulence aggravating domestic investment bottlenecks, resulting in a buildup of macroeconomic imbalances. The FY14 Budget had to manage multiple tradeoffs, and yet has succeeded in preserving the fiscal "red line" the Finance Minister had drawn. The Budget also "put more sand on the wheels" to the corrective actions taken earlier, with a sharpened focus on growth – through measures to encourage investments in manufacturing and infrastructure, with an emphasis on encouraging job creation and employment – even while attempting credible fiscal consolidation.

India's twin deficits – fiscal and current account – have been the main visible symptoms of the buildup of macroeconomic imbalances, which has resulted in a near stagflationary environment. Of the deficits, the fiscal gap is more directly under the Government's control, and this has been credibly tackled. The fiscal deficit has been contained at 5.2 percent of GDP in FY13, and budgeted at 4.8% in FY14. There is a clear commitment – which is becoming more credible with each passing day of reform measures – on achieving the fiscal consolidation target of 3.0% of GDP by 2016-17.

Growth can be sustainable only with an equitable distribution of the incomes generated. Consistent with the focus on financial inclusion, private sector banks have been provided a level playing field with the extension of the 4% interest subvention scheme

Chart 1: Tax revenues in proportion to GDP

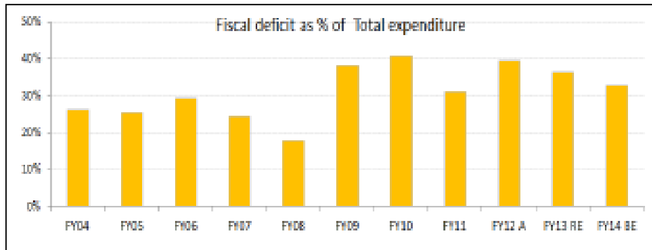
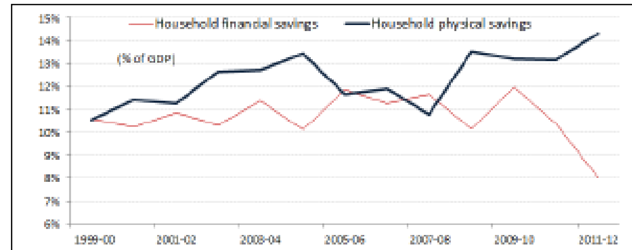


Chart 2: India's domestic savings



Moreover, there is a fair degree of credibility in the underlying assumptions on revenues and expenditures. Laying to rest doubts on the quality of adjustment in fiscal consolidation, plan expenditure has been increased, while targeting allocations judiciously to select programmes which can leverage infrastructure and manufacturing investments. Credit guarantees for infrastructure bonds will increase flow of credit to projects.

The approach to increasing revenues was also guided by principles of "clarity in tax laws and a stable tax regime", which will sustain the improvement in investor sentiment. With India's large Current Account Deficit, it is increasingly dependent on foreign funds to finance its investment, which the Budget has facilitated.

This was a Budget to accelerate the reversal of slowdown in economic growth and capex, adding to the measures which the Government had already taken earlier, since September 2012, including inter alia fuel price rationalization, facilitating FDI, and establishing the Cabinet Committee on Investment. Many measures were taken to revive investment, including the additional investment allowance of 15 percent, provision of credit enhancement for infrastructure bonds through IIFCL, issue of tax free bonds, a PPP framework for coal production and more.

Increasing domestic finance for these investments is of critical importance. One of the alarming fallouts of the macroeconomic imbalances has been the sharp slowdown in financial savings, with diversions towards increased purchases of gold and expenditures on house construction. This was a natural consequence both of growth slowing and investors' concern on preserving real value of savings in a high inflationary environment. This squeeze on domestic financial savings has also increased India's dependence on offshore funds, thereby increasing vulnerability to these funds drying up. Measures to increase financial savings include the proposed introduction of inflation indexed (capital protection) bonds, besides other incentives to increase investments in bank deposits and capital markets. The former is also a very important instrument in allowing a market indication of inflationary expectations, which will help RBI to get a better feel of inflationary pressures. These measures are in addition to the steps taken to discourage gold imports and the flexibility given to banks to tap gold deposits of Exchange Traded Funds (ETFs) to partially meet Indian domestic gold demand.

Growth can be sustainable only with an equitable distribution of the incomes generated. Consistent with the focus on financial inclusion, private sector banks have been provided a level playing field with the extension of the 4% interest subvention scheme. This will help private sector banks, who have been increasingly active in rural areas, to make their rural products more cost effective and increase deposit and credit penetration.

The projected fiscal consolidation might result in some short term growth sacrifice, but will provide monetary policy more headroom for easing. The focus must now be on execution and credible implementation, so that the measures are leveraged to the full for reviving investment and growth.

Saugata Bhattacharya
President and Chief Economist, Axis Bank

Mr. Saugata Bhattacharya is Senior Vice President and Chief Economist at Axis Bank.

He was a member of the RBI's Working Group on Operating Procedures of Monetary Policy and the Finance Ministry Sub-Group on Estimating Foreign Savings for the Approach Paper for the 12th Five Year Plan (2011).

He was previously with Unilever in India and with Infrastructure Development Finance Company (IDFC). He was educated at the Delhi School of Economics and Oxford University. He is a columnist for the Financial Express and is on the Board of India Today Economists (BITE).

A Fiscally Prudent & Growth-Oriented Budget

Shri S. S. Mundra, *Chairman & Managing Director, Bank of Baroda*

In the Budget for 2013-14 (FY14), the Finance Minister has finely balanced the considerations of economic growth with fiscal prudence. Moreover, he has taken care that the growth process will primarily be driven by inclusiveness.

So far as the fiscal prudence is concerned, the Budget has managed to contain the fiscal deficit for FY13 at 5.2% of GDP through significant expenditure compression. For the next financial year FY14, the Finance Minister has penciled in the fiscal deficit to GDP ratio at 4.8% by focusing on both the revenue augmentation and control of non-plan expenditure. Global rating agencies Standard & Poor's and Fitch have retained India's ratings post the announcement of Budget for FY14, saying that the Budget is consistent with the fiscal and economic policy directions of recent months.

At the same time, the Budget has attempted to give a boost to economic growth by focusing on the overall investment sentiment and the revival of key sectors like infrastructure, housing and agriculture. First, the Budget has allowed for an investment allowance of 15.0% of investment of Rs 100 crore or more in plant and machinery. This will give a necessary boost to the new capex plans plus help revive the domestic capital goods industry. To step up the investment in infrastructure, the Budget has encouraged Infrastructure Debt Funds, which raise resources and, through take-out finance, credit enhancement and other innovative means, provide long-term low-cost debt for infrastructure projects. Also, the limit on tax-free bonds has been enhanced to Rs 50,000 crore. The

Fiscal prudence is concerned, the Budget has managed to contain the fiscal deficit for FY13 at 5.2% of GDP through significant expenditure compression

infrastructure companies have been permitted to tap the bond market for long-term funds with the assistance of India Infrastructure Finance Corporation Ltd (IIFCL), in partnership of Asian Development Bank (ADB). Another big positive for the infrastructure projects and the banking industry is that the government has decided to constitute a regulatory authority for the road sector.

To stimulate the industrial sector, the government has proposed to develop two new industrial corridors in Gujarat and Maharashtra in FY14. To ensure that the Micro, small and medium enterprises (MSME) sector continues to grow, the Budget has ensured that these units continue to get the present benefits associated with them for three more years even after they grow in size.

In order to support the agricultural sector, the Budget has retained the interest subvention on short-term crop loans not just for the PSU banks but extended the scheme also to the private banks. Besides this, the higher target for agriculture credit for FY14 would ensure that the agriculture sector continues to receive sufficient finance and eventually the nation finds success in controlling the most worrisome food inflation.

The Finance Minister has flagged the high current account deficit as the biggest worry facing the economy mainly because of high oil, coal and gold imports, and the slowdown in exports. As FIIs play a significant role in financing current account deficit, the Budget has sought to widen the scope of FII investment by allowing them in exchange traded currency derivatives and simplifying the registration procedure for FIIs. Furthermore, the Finance Minister has sought to remove the ambiguity regarding FDI and FII and the FIIs have been permitted to use their investment in corporate bonds and Government securities as collateral to meet their margin requirements.

For the Banking Sector, the Union Budget has addressed the immediate concern of recapitalization of public sector banks by proposing to invest Rs 14,000 crore in FY14 as against Rs 12,500 crore in FY13. In order to address the gender related aspects of empowerment and financial inclusion, the government has decided to set up India's first Women's Bank with an initial capital of Rs 1000 crore.

As the Gross Domestic Savings have been falling over the past few years, the Finance Minister has introduced a few select measures to enhance the savings rate and move the household sector's preference from physical to financial savings. For instance, the income limit for Rajiv Gandhi Equity Savings Scheme (RGESS) for first time investors has been increased from Rs 10 lakh to Rs 12 lakh. Given high inflation, the Union Budget has sought to protect the savings of the household sector by introducing Inflation Indexed Bonds or Inflation Indexed National Security Certificates. This was a long awaited move that will go a long way in discouraging savers from investing in gold as a hedge against inflation.

The boost given to the new home buyers in the form of tax incentive for loans up to Rs 25 lakh in the form of an additional deduction of interest of up to Rs 1 lakh over and above the existing limit, will help both the new buyers as well as the banking industry and would give an indirect benefit to a number of industries like steel, cement, brick, wood, ceramic products etc., besides jobs to thousands of construction workers. In line with Rural Housing Fund, the government proposes to start Urban Housing Fund to mitigate the huge shortage of houses in urban areas.

In order to improve the insurance penetration, the Budget has undertaken a number measures. The government has finalized a few proposals relating to the insurance sector in consultation with IRDA. These include empowering insurance companies to open branches in Tier II cities and below without prior approval of IRDA, having an office of LIC and a public general-insurance company in all towns with the population of 10,000, and permitting banks to act as insurance brokers. Furthermore, the Budget has allowed the banking correspondents to sell micro insurance products. This will help banks to boost their third party earnings. The customers of the banks will also benefit as the KYC of the banks will be sufficient to acquire insurance policies.

The Rashtriya Swasthiya Bima Yojana, which covers 34 million families below the poverty line, will now be extended to other categories

such as rickshaw, auto-rickshaw and taxi-drivers, sanitation workers, rag pickers and mine workers.

The Finance Minister has also proposed to evolve a comprehensive social security package by converging various schemes for life-cum-disability cover, health cover, maternity assistance and pension benefits.

The Finance Minister has made an earnest effort to cash in on India's demographic dividend. The Budget has therefore tired to create opportunities for the youth to acquire education and skills that will get them decent jobs or self-employment. This alone will bring them adequate incomes that will enable them to live with their families in a safe and secure environment. The Budget has set a laudable target of skilling 90 lakh people in FY14, for which funds will be released by the National Rural Livelihood Mission and National Urban Livelihood Mission. Also, the Budget has set up a Nirbhaya Fund for women with the government contributing the initial capital of Rs 1,000 crore to it.

The Budget for FY14 has focused on well balanced growth without losing sight of the fiscal prudence

In short, the Budget for FY14 has focused on well balanced growth without losing sight of the fiscal prudence.

S. S. Mundra
Chairman & Managing Director, Bank of Baroda

Shri S. S. Mundra, took over charge as Chairman and Managing Director of the Bank on 21st January, 2013.

He was Executive Director of Union Bank of India, prior to his assuming charge as Chairman & Managing Director of our Bank.

It is home coming for him as he was with Bank of Baroda for almost 3 decades before he was promoted and posted as ED of Union Bank of India in September, 2010.

Born on 18th July, 1954, Shri Mundra holds a Masters Degree in Commerce and CAIIB.

He began his career as a Probationary Officer in Bank of Baroda in 1977. During the course of career in his first stint with the Bank, he looked after a range of portfolios like, treasury, credit, investor relations, and served as the Zonal Head for the Maharashtra & Goa Zone.

During his stint in as General Manager of our bank in Centralized Treasury Operations, he guided its various functions, including money market operations, treasury back office and front office.

As far as his overseas exposure is concerned, he worked in Uganda and later his experience as the Chief Executive, Bank of Baroda's European has added global perspectives to his leadership.

A Pragmatic Budget amidst Challenging Times

Mrs. V. R. Iyer, *Chairperson, FICCI's Banking and Financial Institutions Committee & CMD, Bank of India*

The Budget recognises tough global and domestic challenges- especially on the twin deficits front and has tried to balance the responses to these. The Budget has outlined government's commitment for fiscal prudence and at the same time providing enough thrust to the Social and Infrastructure sectors.

On the Fiscal Deficit front, the Budget reiterates government's commitment to the FRBM Act and seems to have done well in containing the deficit to 5.2% of GDP against the Budgetary Estimate of 5.3% in FY2012-13 (which it projects at 4.8% in FY2013-14). Though, it proposes an additional Rs. 18,000 crore revenues through direct and indirect taxes; we have to be watchful of the expenditure side. The Budget has also taken steps on the Subsidies front by capping the Food, Fertiliser and Fuel subsidies to Rs. 2.2 lakh crore.

The Budget acknowledges Current Account Deficit as bigger threat to the economy than the Fiscal Deficit. It has tried to attract foreign investments for financing the deficits by initiatives like deepening the debt market and other incentives introduced for capital market. Permitting FIIs to use investments in G-Secs and corporate bonds for margining purposes will increase FII investments in these instruments. If this measure is backed by higher FII ceiling for investment in corporate bonds and G-Secs, the bond market will develop further. SEBI will simplify Know-Your-Customer (KYC)

The Budget acknowledges Current Account Deficit as bigger threat to the economy than the Fiscal Deficit

norms for foreign portfolio investors. Simplification of KYC norms will enable higher FII flows through direct channels, thus limiting instruments like P-Notes.

Stimulus given to the Capital Markets (by hike in income limit in Rajeev Gandhi Equity Savings Scheme-RGESS, introduction of inflation indexed bonds and tax free infrastructure bonds) and the Infrastructure sector are big positives. This will increase individual participation in the capital market as well as increase the options available for the households. Reduction on Securities Transaction Tax (from current 0.17% to 0.1%) will increase the volume of equity futures transactions which are essential for efficient price discovery and to increase the depth of equity markets. However, imposition of Commodity Transaction Tax (proposed at 0.1%) may hamper trading of non-agri commodities in the futures market and their price discovery. Introduction of a dedicated debt segment in stock exchanges is also aimed at development of corporate bond markets.

Infrastructure debt funds are expected to supplement credit flow to infrastructure sector, which is very much required for India to move towards a high growth path. Further, this will also take pressure off the banks to lend more to infrastructure segment since they have already reached sectoral caps.

Special impetus to the Education, Health, Housing (especially Rural) and MSMEs will go a long way in broadbasing the growth. Hike in Education expenditure by 17%, allocation of Rs. 15,000 crore for clean drinking water, 46% hike in rural spending, allocation of Rs. 6000 crore for the Rural Housing Fund are some of the welcome steps. Refinancing capacity of SIDBI being raised to Rs. 10,000 crore and Corpus of Rs. 500 crore to SIDBI for setting up Credit Guarantee Fund for Factoring are expected to support the MSME sector further. SMEs, including start-ups, will be permitted to list in stock exchanges without going through IPO process. This will be in addition to the existing SME platform in which listing can be done through an IPO and with wider investor participation. The proposed measure is expected to provide more liquidity to SMEs and save them the trouble of going through the IPO process.

Recognising the fact that Banks should be healthy and well capitalised under the new Basel III regime, Rs. 14,000 crore has been provided for capitalisation of PSU banks. Banks will be permitted to act as insurance brokers so that the entire network of bank branches will be utilised to increase penetration. This will enable banks to sell insurance products. Besides increasing non-interest income of banks, this will indirectly aid financial inclusion. Move of setting up an All-Women Public Sector Bank is a novel idea, which is very much appreciated and it recognises the woman-power in the industry. It will give fillip to financial inclusion measures as women in rural and semi-urban areas would always be more comfortable in dealing with all-women branches.

Over all, the budget has given required thrust to the deserving sectors so that growth momentum is built up ensuring stability. The Budget seems very pragmatic and practical amidst these challenging times.

V. R. Iyer
Chairperson, FICCI's Banking and Financial Institutions Committee & CMD, Bank of India

Mrs. V. R. Iyer took over as Chairperson & Managing Director of the Bank w.e.f. 5th November, 2012. Prior to this assignment, Mrs. Iyer was Executive Director of Central Bank of India from September 01, 2010 till she joined Bank of India.

Mrs. Iyer, post-graduate in Commerce with CAIIB, started her career in Union Bank of India in 1975. Mrs. Iyer, in her career span of 33 years, had good stint in branch banking having worked in very large and extra large branches. She has extensive exposure in Credit Department, Credit Monitoring Department and contributed significantly in setting up of Risk Management Department, rolling out CBS, alternate channels and various other e-initiatives.

Mrs. Iyer served as Deputy General Manager (Information Technology) during 2006-07 before getting elevated as General Manager in January 2008 and was holding the portfolios of Information Technology and Risk Management.

Mrs. Iyer was elevated as Executive Director of Central Bank of India with effect from 01 September, 2010 where she looked after Credit, Treasury, Forex, IT, CBS, Risk Management and Inspection & Audit portfolios.

Reactions to the Union Budget 2013-14

Mr. Russell Gaitonde, *Partner, BMR;* ***Mr.Vishal Agarwal,*** *Director, BMR and* ***Mr. Anand Laxmeshwar,*** *Director, BMR*

There are no major changes proposed in Budget 2013. However, numerous policy announcements and some tax changes make it interesting to decipher in the context of the financial services sector. The FM also appears set to undertake a major financial sector regulatory overhaul with a new approach to attracting foreign portfolio flows into India.

Policy announcements

Legislative reforms

A Standing Council of Experts in the Ministry of Finance will be constituted to analyze the competitiveness of the Indian financial sector, evaluate transaction costs and provide inputs to improve its efficiency and competitiveness.

The report of the Financial Sector Legislative Reforms Commission constituted in 2011 is expected soon. Reforms will be proposed based on the recommendations in the report.

The SEBI Act, 1992 is to be amended to strengthen the regulator.

FII investments

Multiple categories of foreign investors, such as FII, sub-accounts, QFIs etc may be rationalized; investment by an investor of 10% or less in an Indian company will be treated as FII; investments beyond 10% will be FDI.

SEBI authorised depository participants to directly register different classes of FIIs, subject to KYC requirements.

Most of the policy announcements are aimed towards bringing cheer to the existing investment climate and furthering the social objectives of the Government, while many of the pre-budget tax expectations have been ignored

FIIs will be permitted to participate in currency derivatives up to their Indian INR exposure. FII investments in corporate bonds and Government securities can be used as collateral to meet margin requirements for transactions over the stock exchanges.

SMEs and angels

SMEs, including start-ups, to be permitted to list on SME exchanges without an IPO; only informed investors will be permitted to invest in such issuances.

SEBI to prescribe conditions for angel investor pools to register as Category I Alternative Investment Funds ('AIFs') under the SEBI (AIF) Regulations, 2012 ('SEBI AIF Regulations')

Infrastructure finance

Budget 2011 introduced Infrastructure Debt Funds ('IDFs') to raise resources and provide long-term low-cost debt for infrastructure projects using innovative means. More IDFs to be encouraged.

Bond markets

Stock exchanges will be allowed to introduce a dedicated debt segment; banks and primary dealers will be proprietary traders, with insurance companies, provident and pension funds as participants, subject to necessary regulatory approvals.

Banking

By end of March 2013, INR 125 billion would have been infused into 13 Public Sector Banks ('PSBs') as capital. An additional INR 140 billion for financial year 2013-14 has been committed.

A Women's Bank to be established as a PSB; INR 10 billion has been allocated as initial capital.

Housing

An urban housing fund is now proposed to be set up through the National Housing Bank with an initial allocation of INR 20 billion.

Insurance

Measures to increase penetration of life and general insurance in the country have been finalised in consultation with the Insurance Regulatory and Development Authority.

Mutual Fund ('MF') distribution

MF distributors to become members on the MF segment of stock exchanges to boost distribution of MF products.

Income-tax proposals

AIFs

SEBI registered Venture Capital Funds ('Old VCFs') enjoy a tax transparent status under the Income-tax Act, 1961 ('Act'). The VCF regime has been replaced by the SEBI AIF Regulations. Tax pass through status available to the Old VCFs has now also been extended to Category I AIFs that qualify as VCFs, under the SEBI AIF Regulations ('New VCFs'), subject to certain conditions.

Share subscriptions at a premium for Old VCFs do not attract tax for the investee company. This relaxation has been extended to New VCFs also.

Infrastructure finance

IDFs can be established by SEBI registered MFs or RBI registered Non-Banking Finance Companies ('NBFCs'). Interest earned by a non-resident from an IDF set up by a NBFC is subjected to a 5% tax in India; non-resident investors in IDFs established by MFs suffer a distribution tax at 30%. This anomaly has been removed by reducing the distribution tax on IDFs established by MFs to 5%.

Monies borrowed in foreign currency by infrastructure companies under a loan agreement or by way of issue of long-term infrastructure bonds ('LTIB') is taxable at 5%. This has been extended to INR denominated LTIBs, subject to certain conditions.

MFs

Bringing uniformity to all types of schemes managed by a MF, other than equity oriented schemes, the tax rate on distributed income has been increased from 12.5% to 25% where distributions are made to individuals or HUFs, wef June 1, 2013.

Securitization Trusts ('STs')

STs covered under (i) the RBI guidelines for securitization of standard assets, or (ii) the SEBI regulations for listing of securitized debt will not be liable to income-tax; investors in such STs will also not be liable to income-tax on income received from the trust. The ST will pay distribution tax of (i) 25%, on distributions made to individuals and HUFs, and (ii) 30%, in other cases; no distribution tax will apply for distributions to persons exempt from tax.

Insurance

Monies received under any life insurance policy are tax exempt, only if the premium payable in any year does not exceed 10% of

	Transaction	Payable by	Existing	Proposed
1.	Units of an equity oriented MF			
	Delivery based and over a stock exchange			
(a)	Purchases	Purchaser	0.1%	Nil
(b)	Sales	Seller	0.1%	0.001%
(c)	Redemption	Seller	0.25%	0.001%
2.	Sale of securities futures	Seller	0.017%	0.01%

the sum assured. This has been raised to 15% if the insurance is on the life of any disabled person or a person suffering from any specified disease. Premiums on these policies will be tax deductible in the year of payment, subject to the prescribed cap.

Securities Transactions Tax ('STT')

STT rates have been revised

Commodities Transaction Tax ('CTT')

CTT has been introduced on transactions involving sale of commodity derivatives on a recognized association, other than agricultural commodities.

Conclusion

In the absence of any major policy announcements, signalling by the FM is important. Most of the policy announcements are aimed towards bringing cheer to the existing investment climate and furthering the social objectives of the Government, while many of the pre-budget tax expectations have been ignored.

Industry Insights Partner

Russell Gaitonde
Partner, BMR

Russell is a Partner with BMR based in Mumbai and is responsible for the financial services industry. He has over 17 years of experience advising a wide range of clients, comprising banks, asset management, private equity, offshore-fund structuring, real estate, entry strategy formulation and group restructurings.

Vishal Agarwal
Director, BMR

Vishal is a Director with BMR in the financial services practice. He has over 12 years of experience in advising financial services clients on tax and regulatory matters and has worked with multinational banks, financial institutions, NBFCs, securities businesses, etc.

Anand Laxmeshwar
Director, BMR

Anand is a Director with the Mumbai office of BMR. He has over extensive experience in advising clients in a wide range of sectors on tax and regulatory matters.

Reactions to the Budget

Mr. M. V. Tanksale
Chairman & Managing Director, Central Bank of India

Budget 2013-14 presented by Hon'ble Finance Minister against backdrop of difficult economic scenario, is a balanced budget with a promise of fiscal consolidation without the colour of election promises.

"The purpose of a Budget and a job of Finance Minister is to create the economic space and find the resources to achieve the socio-economic objectives".

I think the budget has broadly addressed these issues in right earnest. When the Current Account Deficit (CAD) burdened by high Oil Import Bill and Gold Import with inflation and weak rupee against Dollar, the budget 2013-14 tried to be growth impulsive. Capping the fiscal deficit to 5.3% of the GDP in 2012-13 by restricting budgetary expenditure to the extent of 4% has been a commendable work. Keeping fiscal deficit at 4.8% in 2013-14 looks pragmatic and achievable.

I would like to dwell on few positive steps proposed in the budget which would boost growth :

A. Banking & Insurance Sector

Union Budget proposed to provide Rs.14000 crore as Capital support to PSU Banks in 2013-14 with intention to help Banks to meet capital requirement under BASEL- III.

The budget clearly intends to give a boost to housing sector which would have positive impact to individual

Keeping fiscal deficit at 4.8% in 2013-14 looks pragmatic and achievable

borrower (Tax savings due to an additional tax deduction of Rs. One lac on interest paid towards Home Loans upto Rs.25 lacs availed in 2013-14 for first home buying, this is over and above Rs.1.5 lac deduction already available), Banks & NBFCs, other Housing Finance Companies, Construction, Cement, Steel, Transport, labour etc.

Provision of Rs.6000 crore to Rural Housing Funds and Rs.2000 crore to Urban Housing Funds too impact positively to above mentioned sectors.

Influenced by fact that today there are many women CEOs in Banking industry (PSUs, Private & Foreign), budget provision of Rs.1000 croreis made for a Women Only Bank that would lend mostly to women and women run business.

All PSU Banks required to have an ATM for each of their Branch by March, 2014. This Govt induced target would make PSU Banks freeing more people from cash handling to marketing and customer interaction.

Similarly, Life Insurance service penetration would happen in all the towns with a population of 10000 or more due to compulsory opening of a Branch by LIC and or public sector general insurance co. This step will make financial inclusion more realistic.

B. Infrastructure / Construction

These sectors have been under tremendous stress due to prevailing economic factors. Budget permits issue of Rs. 50,000 crore Tax Free Bond by IIFCL. IIFCL, in partnership with Asian Development Bank, is to offer credit enhancement to infrastructure companies for raising long term resources through issuance of Bonds. Credit enhancement would help to better credit rating and reduction in cost of borrowing. PradhanMantri Gram SadakYojna (PMGSY) & Jawaharlal Nehru National Urban Renewal Mission (JNNURM) have been allocated Rs.80194 crore and Rs.14873 crore respectively. In addition, Budget for Ministry of Drinking Water & Sanitation has been increased by 17% in 2013-14 to Rs.13000 crore, thereby driving investment totaling Rs.1,08,067 crore.

C. Agriculture Credit

For 2013-14, the Agriculture Finance target increased from Rs.5,75,000crore to Rs.7,00,000 crore with a targeted growth of 21.74% The interest subvention scheme of 4% subsidy to those farmers who repay crop loan on time for one more year would help to boost crop production and growth in agriculture.

D. Power

It is proposed to devise a PPP framework with Coal India Ltd to increase production of Coal for supply to power producers, this would help in improving domestic coal supply in the long term. This may help to address stalemate in the coal mining. Further, extension of sun-set clause by one year to avail 10 years Tax Holiday would benefit those small power projects which are to be commissioned in 2013-14.

E. Textiles

For modernization of Power loom sector, budget provision of RS.2400 crores under Technology Upgradation Fund Scheme(TUFS) would have positive impact in the sector. Garment manufacturers are expected to see an improvement in margin and boost exports.

The budget provision of 14000 crore for capital infusion to PSU Banks and other measures taken would ignite credit expansion

F. Micro, Small & Medium Enterprises (Msme)

Tax benefit to MSME units for 3 years after it graduates to a higher category, help many units. SIDBI refinance capability is increased from Rs.5000 to Rs.10000 crore.

As MSME, have large share of jobs, production and export, any support to these segments would help credit growth and GDP.

Still in India, credit to GDP ratio is 75.12% as against world average of 165.36% as per World Bank Report 2012. The figure for USA and UK are 234.88% and 212.62% respectively. Even, Brazil has a better credit GDP

ratio of 98.31%. Hence, in India we have ample scope for credit expansion. For credit expansion Banks require capital (for maintaining capital adequacy ratio as per BASEL norms) and resources (deposit) to fond credit expansion. The budget provision of 14000 crore for capital infusion to PSU Banks and other measures taken would ignite credit expansion. Hopefully, the credit quality of Banks would improve and provision blocked againstNon Performing Assets would be released. This add to the Bank's profitability with positive impact on internal accrual.

To sum up, I believe direct soaps to these important segments of economy proposed in budget 2013-14 would help the economy to grow at a targeted growth of 8% of GDP.

Partner Exchange

M.V. Tanksale
Chairman & Managing Director,
Central Bank of India

Shri Tanksale was elevated as Chairman & Managing Director, Central Bank of India from 28th June, 2011. He is instrumental in making the Bank a bottom driven Bank from a top driven Bank by changing the Bank's profile of Big Ticket Corporate Loan and Bulk Deposit driven growth to Retail / MSME and CASA / Normal Term Deposit based growth to leverage large Branch network across the country. A Visionary Banker for a span of more than 38 years, he has held several important fields and administrative positions in 3 Banks viz Union Bank of India, Punjab National Bank & Central Bank of India.

Shri Tanksale is enriched with a Bachelor degree of Science, a Master degree in English Literature, Diploma in Russian language and professional credentials like Fellow member of the Institute of Cost& Management Accountants of India (FCMA); Company Secretary (Inter) of the Institute of Company Secretaries of India; CAIIB. ShriTanksale is Chairman of H R Committee of Indian Banks Association. ShriTanksale is also on the Board of Life Insurance Corporation of India, Indo Zambia Bank Ltd. He is also ex-officio Chairman of Cent Bank Home Finance Limited and Cent Bank Financial Services Ltd.

Budget 2013 - Catalyst to Capital Formation

Dr. Naresh Maheshwari, *Chairman of Farsight Group*

Primary role of the capital market is to channelize the domestic savings into industry or capital seekers by ensuring an orderly play in achieving a reasonable rate of return and reducing cost of impact on transactions. Thus, investment should induce profits and profits should make investment vibrant and market should provide liquidity and volume. Investors would flock to the capital market if they believe that economy is growing at a faster pace to provide them reasonable and sustainable returns.Budget 2013 has not made any paradigm shift yet it has taken important steps to bring back the investors' confidence into the market

Investment Allowance

Last few years has seen not many green field projects. Growth in manufacturing sector is negligible. There cannot be any better pill but to re introduce the Investment allowance. Provisions similar to this had been introduced earlier and were phased out as its resulted into reducing collection of Corporate tax to around 25% of Corporate profits instead of 30% targeted. However, the period of 2 Years require an upward revision as planning, execution of bigger projects require longer time. Stable Fiscal policies and stimulus only work in long term.

Budget 2013, by and large is a responsible budget. It might not have improved the markets on D'day but neither were the angry reactions or a doze of populist measures

Securities Transaction Tax

There are no two opinions that taxing transaction is a bad economics. It not only distorts the price discovery mechanism but also affects the impact cost which in term reduces the liquidity. Budget has proposed to reduce STT on equity derivative and on mutual funds transactions through ETF (Exchange Traded Funds) which will help in bringing back volume and liquidity in the market?

Commodities Futures traded in Exchanges would now be considered not speculative transactions. It would encourage institutional and corporate players to take hedge positions in exchanges and to reinvigorate the risk management system. Thus, a level playing field is contemplated between equity and commodities trading. Time probably has come for more convergence amongst various stakeholders for regulating commodities and equity future trading.

However, the non-delivery intraday trade in Capital Market- Cash segment continues to be charged with higher rate of Non delivery STT. This would result day trader and jobbers to shift to derivatives market from cash segment and cash segment thin volume will become thinner. In lieu of this higher rate of Non delivery STT in cash market, the rate of short term capital gain tax could have been reduced substantially, aligning with recommendation of Shome Panel.

Government has announced constitution of committee to look into all aspects of transaction cost in financialsector. It is expected the committee would be able to review a large number of cost associated like Exchange transaction charges, Service Tax, Stamp Duty, SEBI Fee, DP Charges etc. Much awaited reforms on Stamp Duty on financial sector could not come in this budget. May be committee would be in a position to look into all these and can recommend a consolidated duty/taxes and may suggest a way out of phasing out many. The imposition of CTT should be started only after taking a decision on this committee report.

RGESS: Rajiv Gandhi Equity Saving Scheme

Budget proposes to make RGESS more attractive by enhancing the benefits from 1 year to 3 years and also increasing the income limit. This will definitely help the small investors to come to Capital Market directly or through mutual funds.

SME's including startups will be permitted to list on SME Exchange even without making an IPO.

Taxation of Overseas Investors

The policies of taxing overseas investors should be constant, stable yet crisp clear and unambiguous. Despite that every budget have its own share of some unintended irritants in the shape of Tax Residing Certificate (TRC) Participating note (P– note), Tax avoidance treaty or rules, which could have been avoided particularly at a time when our CAD (Current Account Deficit) is worsening.Import bill is rising because of gold and crude imports.

Simplification in registration process, KYC for various categories of foreign portfolio investors and broadening the role of qualified depository participants would boost the market sentiment as more foreign inflows can be expected. FIIs would be allowed to participate in an exchange traded currency derivatives segment and can now place their investment in Government securities as collateral to meet margin requirements.

Budget proposes to make RGESS more attractive by enhancing the benefits from 1 year to 3 years and also increasing the income limit. This will definitely help the small investors to come to Capital Market directly or through mutual funds

Dividend Distribution Tax

Increase in DDT only strengthens the fallacy that dividend is a tax free income. With such increase there is no need of covering dividends under section 14A. Cost of paying DDT and suffering mandatory disallowances under section 14 A may sometimes nullify the benefits of making

dividends tax free.. The dividend yield of sensex is less than 1%.

Summary

To conclude Budget 2013, by and large is a responsible budget. It might not have improved the markets on D'day but neither were the angry reactions or a doze of populist measures. The efforts to contain fiscal deficit and current account deficit would be welcomed by the long term interest.

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Naresh Maheshwari
Chairman, Farsight Group

Dr. Naresh Maheshwari, National president DPAI, doctorate in Options Trading Strategies besides being FCA, FCS, FISA with a standing of 30 years and presently, is Chairman of Farsight Group, a well known broking house of India. He is associated with many research projects on Derivatives with professional Institutes and Universities. He is a prolific commentator on matters pertaining to Capital Market, Investors Protection and Corporate Laws in electronic and print media. Recently, he has been elected co-chairman of FICCI (the biggest federation of Trade Bodies in India) capital market secondary market committee. He is part of Expert Advisory Group of Institute of Company Secretaries of India premier corporate body set up under Act of Parliament.

He was instrumental in setting up Commodity Participants Association of India (CPAI) association of all commodities brokers in India and is its Past President. Dr. Maheshwari just completed his term as National President of ANMI, Association of National Exchanges Members of India and presently, is chairman of ANMI committees for Investor Education and Govt. Affairs. He is part of SEBI Secondary Market Advisory committee and committee for Review of Disclosures. He is also part of various committees of Ministry of Finance pertaining to capital market Dr. Maheshwari has recently taken over as chairman of ASIA forum for Investor Education (AFIE), South Korea, and Comprising of 31 organizations of 21 counties having vibrant Capital Market.

He has authored a hand book for Investing & Investor Protection authored by Dr. Maheshwari published by Institute of Chartered Accountants of India

Does the current budget take us towards an 8% growth economy in the medium term?

Mr. Sunil Sanghai, *Chair, FICCI's Capital Markets Committee and Managing Director, Head of Global Banking, India, HSBC*

In the midst of the challenging economic environment globally as well as in India, Budget 2013-14 is an attempt by the Finance Minister to address some of the major issues being faced by the country to revive overall economic growth.

As outlined in the Economic Survey 2012-13, while India's recent slowdown is partly rooted in external causes, domestic factors such as high inflation, tightening of monetary policy and reduced corporate and infrastructure investments have led to the overall weakness across sectors. This has contributed towards the slowdown in India's GDP in the third quarter of 2013-14 to 4.5% y-o-y – the lowest quarterly growth rate in a decade. The estimated GDP for the financial year ending March 31, 2013 is 5%, the lowest since 2003-04.

In line with the Economic Survey 2012-13, the Budget identifies three broad themes to revive overall economic growth: containing the fiscal deficit, improving current account deficit and reviving investments.

On fiscal deficit, it is heartening to see that the Finance Minister has been able to contain the same at 5.2% for the year 2012-13, lower than the previous estimate of 5.3% as targeted by the Government in its roadmap on fiscal consolidation in October 2012. Going forward, the Government

Increased investment by both foreign and domestic investors is key to reviving overall economic growth

aims to further reduce fiscal deficit in line with key recommendations of the Kelkar Committee from an estimated 4.8% in 2013-14 to 3% by 2016-17. The revenue deficit is also expected to fall from an estimated 3.3% in 2013-14 to 1.5% by 2016-17. It should give Reserve Bank of India the comfort to reduce interest rates to stimulate growth going forward.

We hope that such fiscal consolidation involves rationalization of government expenditure in the long term. Its worrisome that the Total plan and non plan expenditure has increased over the years from Rs 7.1 lakh. crore in 2007-08 to an estimated Rs 16.6 lakh crore in 2013-14, growing at a CAGR of 15.2%.

It is also not too often that a Finance Minister mentions the severity of current account deficit (CAD) so early in his Budget Speech. The CAD has widened from 1.3% of GDP in FY08 to an estimated 4.6% of GDP in FY13. Excessive dependence on oil imports, high volumes of coal imports and a surge in gold imports has led to the pressure on India's CAD. Indeed, India is the largest consumer of gold, third largest consumer of coal and fourth largest consumer of oil in the world, and these requirements are largely fulfilled through imports. This, in turn, has led to a sharp depreciation of the Indian rupee.

To finance the CAD, the Government has correctly identified foreign investment as an imperative, with Foreign Direct Investment (FDI), Foreign Institutional Investment (FII) and External Commercial Borrowing (ECB) being the three main sources. While FDI investments in FY12 had amounted to app. US$35bn, it was only US$17bn during the first nine months of FY13. FII trends, on the other hand, have been more encouraging, with net inflows increasing from US$9bn in FY12 to US$23.7bn for the 11 months of FY13. Going forward, the Government proposes to further encourage foreign investment that is consistent with India's economic objectives.

Increased investment by both foreign and domestic investors is key to reviving overall economic growth. Budget 2013-14 has identified infrastructure as being the main sector that needs large investments of app. USD1 trillion during the 12th Five Year Plan. Measures such as encouraging Infrastructure Debt Funds (IDF), credit enhancement by India Infrastructure Finance Corporation Ltd (IIFCL) to infrastructure companies, allowing infrastructure tax-free bonds of up to Rs 50,000 crore in 2013-14 are expected to mobilize investments into infrastructure and further encourage private sector participation. Further, the Government's decision to create a regulatory authority for the road sector is likely to remove bottlenecks stalling road projects and expedite the process of awarding over 3,000km of road contracts.

In addition to the above, the introduction of an investment allowance of 15% for companies investing Rs 100 crore or more in plant and machinery would act as a catalyst for both large corporates and SMEs and encourage them to revisit previously stalled capex plans.

Apart from fiscal consolidation, the Finanace Minister has also focused on promoting savings and capital markets.

To promote savings particularly from the household sector, which would also lead to higher economic growth, the Finance Minister announced several measures. In this regard, the revamped Rajiv Gandhi Equity Savings Scheme, additional interest deduction of upto Rs 100,000 for a first time home loan borrower, proposal of Inflation Indexed Bonds or Inflation Indexed National Security Certificates are expected to incentivize household sector to invest in financial instruments and divert a portion of their savings from unproductive assets such as gold.

From the capital markets' perspective, there are three takeaways.

First, there is a clear recognition of the need for foreign investment in all forms. The Government's decision to remove ambiguity between FDI and FII definition by defining the investment based on percentage stake is a welcome move as it is likely to assist in further simplifying procedures and putting in place uniform norms for foreign portfolio investors to encourage inflows. Also, the ability of FIIs to participate in exchange traded currency derivatives and to use investment in corporate bonds and Government securities

as collateral are positive steps for increasing foreign investments.

Second, easier access to funding for smaller companies and start-ups is expected to provide a fillip to overall growth. Permitting small and medium enterprises, including start-up companies, to list on the SME exchange without requiring to make an IPO (provided issue is restricted to informed investors), coupled with recognition of angel investors, who would bring both experience and capital to new ventures, as Category I AIF venture capital funds are welcome initiatives.

Third and finally, the government has reiterated its focus on developing the debt markets. The Budget has proposed to allow stock exchanges to introduce a dedicated debt segment, while also permitting insurance companies, provident funds and pension funds to trade directly in the debt segment with the approval of the sectoral regulator, in order to create a complete market.

While Budget 2013-14 has a number of interesting proposals, it could have contained additional measures to widen the overall tax base (a surcharge of 10% on 42,800 persons is not likely to move the needle) and ensure tax compliance. The Budget also fails to address requirements of certain key sectors such as power.

To conclude, Budget 2013-14 seems to be a responsible budget given the growth-inflation conundrum and the trade-off between spending to stimulate growth and containing the fiscal deficit. The proposed steps would go a long way to provide long-term stability while mitigating the risk of any potential sovereign rating downgrade and ensuring stability in inflows.

Budget 2013-14 seems to be a responsible budget given the growth-inflation conundrum and the trade-off between spending to stimulate growth and containing the fiscal deficit

Going forward, the implementation of these steps, together with various reform initiatives already announced in key sectors, holds the key for India to return to the 8% growth path.

Sunil Sanghai
Chair, FICCI's Capital Markets Committee and Managing Director, Head of Global Banking, India, HSBC

Sunil Sanghai joined HSBC in September 2010 as the Head of Global Banking, India.

Prior to joining HSBC, he was a Managing Director and Co-Head Investment Banking India at Goldman Sachs. Sunil joined Goldman Sachs in 2006. Prior to that he spent many years with JM Morgan Stanley (a joint venture between JM Financial and Morgan Stanley), based in Mumbai and with Morgan Stanley in Singapore.

Sunil, started his investment banking career 1992 and has a rich experience in mergers and acquisitions, corporate restructuring, advisory and domestic and global capital markets. He has been involved in many significant and large capital markets and M&A transactions in India. His coverage experience includes managing key relationships including large Indian corporates, large conglomerates, global corporates, banks, financial institutions, financial sponsors, Government agencies and the Regulators.

At HSBC, Sunil is responsible for Corporate & Investment Banking, Capital Markets and Project Finance.

Sunil chairs the Committee on Capital Markets of FICCI, the largest and the oldest apex industry representative body in India. He is also a member on Government of India committees on Life Insurance and NBFC.

Sunil is closely associated with a few philanthropic organizations working towards growth of children.

Reactions to the Budget

Mr. Bhargav Dasgupta, *Co-Chair, FICCI's Insurance and Pensions Committee & MD and CEO, ICICI Lombard General Insurance Co. Ltd.*

The Union Budget for 2013-14 was presented amid the backdrop of slowing growth, persistent inflationary headwinds and most importantly high fiscal and current account deficits. It was a crucial event and had to deliver on critical areas of ensuring fiscal consolidation, controlling inflation by addressing the supply side and providing the necessary impetus for a sustainable and inclusive growth of the nation.

The Finance Minister has done a commendable act in being able to provide the necessary inputs to push the economic growth agenda, while at the same time trying to achieve fiscal prudence. Even if there may have been no headline grabbing announcements, the budget does offer several small but important elements which when seen from a holistic perspective, will address the current economic hurdles. Having contained fiscal deficit to 5.2% in the current financial year and pegging next year's target at 4.8%, he has clearly signalled the government's intent to ensure fiscal discipline. At the same time, the budgeted 29% increase in Plan expenditure showcases the Finance Minister's resolve in terms of not compromising on efforts required to give the necessary fillip to the economy, while focussing on fiscal prudence. On the flip side though, the estimates of tax revenue growing at 19% along with 23.4% growth in total receipts may be a little optimistic. Any shortfall in terms of achieving these numbers may force the government to curb the plan expenditure thereby affecting the growth impetus, as was witnessed in the current fiscal with plan expenditure growth curtailed at 4.1% compared to the budget estimate of 22.7%.

Further, in the attempt to restart the stalled growth engine by promoting capital investments, the Finance Minister has offered incentives for companies to invest in new production capacity by allowing deduction of 15% on investments of more than Rs. 100 crore in plant and machinery over the next two fiscal years. The measures

Finance Minister for now has delivered on his promise and provided evidence that the government has indeed got its intent right

in encouraging investments in roads, additional tax deduction for housing loans, extension of non-tax benefits to MSME for three years after the firm moves out of the category are all growth positive. He has also given due recognition to the need to promote job-led education by offering Rs. 10,000 to at least 1 million students for completing skill training courses. This, coupled with the proposal to qualify corporate spends on incubators in education institutes as corporate social responsibility, will help channel corporate spends into this area, thus promoting entrepreneurship in higher education institutes, an essential element in shaping a sustainable future for the nation's progress.

In another example of long term prudence, the Finance Minister has attempted to divert household savings from unproductive assets like Gold to financial assets by proposing to introduce instruments like inflation indexed bonds, enhancing tax-free infrastructure bonds to Rs 50,000 crore and making changes in the Rajiv Gandhi Equity Savings Scheme. This is a step in the right direction given that India is amongst the highest importers of Gold today which puts immense stress on the country's current account deficit and balance of payments.

Even as the budget has given the necessary impetus to the critical areas of sustainable growth and development, one of the segments that should have received a bigger thrust is healthcare. The proposed allocation of Rs. 37,330 crore towards health may be inadequate to take forward the government's agenda of Universal Health Coverage (UHC). Schemes like National Rural Health Mission (NHRM) have been allocated a sum of Rs. 21,239 crore, a marginal increase over last year's quantum of Rs. 20,862 crore which may prove to be inadequate to kick start the new projects envisaged. While one may have been left wanting on this front, the proposal to expand the scope of Rashtriya Swasthya Bima Yojana (RSBY), a mass health insurance program for BPL families, to include rickshaw pullers, mine workers, taxi drivers etc. will help a larger base of citizens in the lower strata to gain access to such schemes, thereby meeting their healthcare needs. RSBY has already covered 3.4 crore BPL families and received international recognition for its innovative approach, effective practices and use of technology. The move to extend the coverage of RSBY also corroborates the government's intent to assume the role of 'Payer' while inviting Private entities to take up the role of 'Provider' of Healthcare facilities. Similarly, the proposal to facilitate promotion of micro insurance products through banking correspondents and enabling self help groups and Anganwadi workers to access group insurance schemes is a significant step towards enabling the under privileged to access healthcare services through health insurance.

One of the key highlights of the budget has been the emphasis on the Insurance sector. The Finance Minister announced a slew of measures on the supply side, thereby attempting to provide the necessary thrust to increase penetration of both life and general insurance among the Indian masses. A significant step is to allow banks to function as insurance brokers, thereby enabling these entities to sell insurance products of more than one company. Similarly, the proposal to allow automatic approval to insurers to open branches in Tier II towns, along with the commitment to open one LIC and one non-life PSU insurance company office in all towns with population greater than 10000, will definitely help insurance products reach the hinterlands in the coming months. The announcement regarding common KYC norms for insurance and banks is also a welcome move. This will make the process of buying insurance products far easier for bank customers who have already complied with the KYC requirements of the bank where they hold their individual account.

The Union budget is an important step, but not the only measure available with the government for facilitating economic growth. Even as the Finance Minister has taken small but concrete steps to restart the growth engine, a lot more needs to be done by policy makers to ensure a long term sustainable and inclusive growth for the nation. In addition, one should not ignore the uncertainty that still prevails in the global markets, especially Europe, which has the capacity to derail things given our high current account deficit and dependence on imported oil. The Finance Minister for now has delivered on his promise and provided evidence that the government has indeed got its intent right.

Bhargav Dasgupta

Co-Chair, Ficci's Insurance and Pensions Committee & MD and CEO, ICICI Lombard General Insurance Co. Ltd.

Mr. Bhargav Dasgupta, is the Managing Director & CEO, ICICI Lombard General Insurance Company Limited, the largest private sector general insurance company in India.

Mr. Dasgupta began his career with the erstwhile ICICI Limited in 1992 and he has held key leadership positions in diverse business areas in the ICICI Group including Project Finance and Corporate Banking, E-commerce & Technology Management, International Banking and Life Insurance.

Mr. Bhargav Dasgupta holds a PGDBA from the Indian Institute of Management Bangalore and a B.E (Mechanical) degree from Jadhavpur University.

An Inclusive Budget

Mr. Puneet Nanda, *Executive Director,*
ICICI Prudential Life Insurance Company Ltd.

In the backdrop of a slowing economy and several constraints, the finance minister (FM) has chosen a path of fiscal probity for the economy in the current budget. At the same time, it is also an inclusive budget as it makes sufficient provision to protect the vulnerable classes from the pains of fiscal readjustment. To that end, the budget achieves a fair balance.

The economy today faces several challenges. The twin deficits—fiscal and current account deficit--threaten to derail the country's credit ratings unless tackled quickly and decisively. Some progress has been made on the fiscal deficit front, which has been reined in at 5.2% of GDP in 2012-13. The Budget has set the target for next year at 4.8 %, enroute to the ultimate goal of bringing it down to 3% by the end of the 12th Plan period. Much of the targeted deficit reduction is contingent on tax buoyancy, riding on economic growth in this year. The scope to reduce government expenditure, particularly Plan expenditure is limited.

The Current Account Deficit (CAD), now at a record level of 5.4 % of the GDP is a more pressing issue, as articulated by the finance minister. A runaway CAD has implications for monetary policy, in that a weakening rupee limits the leverage available to the monetary authority to lower interest rates. The largest components in our import basket are energy (oil and coal) imports and gold. The demand for energy imports is rather inelastic and more could have been

The government must commit itself whole heartedly to executing the just-started 12th Five Year plan, laser-focused delivery of all the centrally sponsored schemes, and to the cause of a fair, transparent and internationally competitive financial sector

done to control gold imports.

An effort has been made in the Budget to moderate demand of energy sources by setting the selling price close to the landed price. This is a step in the right direction, with the state pledging to remove subsidies on all items except items meant for the Below Poverty Line (BPL) families. Financing the CAD of almost USD 75 billion calls for resolve to encourage non-debt creating foreign inflows, both as direct investment and portfolio investment, even as we wait for exports to pick up momentum in line with a turnaround in global economic growth. The Government can use this opportunity to hasten liberalization of foreign holding norms in all industry groups outside the negative list. For instance, the Insurance Amendment Act, awaiting parliamentary approval, if cleared in due course will allow foreign ownership in insurance to increase from the current 26% to 49%, According to various industry estimates, this has the potential of bringing in USD 5-7 billion inflows into the country. There may be a case of liberalization in other parts of the financial services industry as well.

The challenges are tough, but they are not insurmountable. The government has shown the inclination to, but now it needs the determination to pull off this act. The vision of the budget is captured in three interlocking aspects.

- Firstly, the budget underscores to boost the aggregate savings rate and more particularly the household financial savings rate in the country. The FM acknowledges that a six percentage fall in the Gross Domestic Savings (GDS) rate between 2007-08 (pre-crisis) and 2011-12 is matter of serious concern. In the light of inflationary expectations in the post-crisis (and monetary easing) period, households seem to be putting more faith in assets such as gold and real estate. The budget has rightly identified two tracks for this effort: one, to invite first time investors into the equity markets, through the liberalized Rajiv Gandhi Equity Savings Scheme and two, for households more inclined towards fixed income products, the Budget proposes a new instrument, inflation linked bonds, which will have inbuilt protection against inflation. Households will have an additional avenue of savings in the tax-free infrastructure bonds, where the limit of issuance has been raised to Rs. 50,000 crore. Along with this, there is an opportunity to further boost financial savings by giving greater tax incentives to long term savings instruments like insurance and pension.
- Secondly, the budget makes a serious effort at kickstarting infrastructure projects. Public works generate direct employment and have a multiplier effect on the economies around them. Focus on power and a strong road network across the country can boost the economy manifold. Finding resources to fund infrastructure investments is a challenge. The mandate for Infrastructure Debt Funds to raise resources through take out financing, credit enhancement and other innovative means so as to provide infrastructure projects access to low cost long term finance will help considerably in the long run.
- The third piece in this jig saw is a genuine effort to overhaul the image of India as a friendly place to do business. The newly constituted Cabinet Committee on Investments (CCI) is expected to be a meeting ground-cum-catalyst agency for sorting out all inter-ministerial issues relating to investments. The important point is that the CCI will have oversight over projects under implementation. This should cut down delays in implementation and provide a safety net to investors. In the same spirit, the Budget recognizes the need to overhaul the architecture of the financial system to keep it relevant for the times. .
- The budget has specific measures to improve household access to insurance by empowering insurance companies to increase their footprint in towns and cities. Additionally, allowing banks to operate as insurance brokers as well permitting banking correspondents to sell micro-insurance products will have a multiplier effect on the distribution of the

Indian insurance industry. These steps will surely give a boost to insurance penetration in the country. These initiatives will channelise household savings into the financial system and provide a fillip to increasing household savings rate. Recognising that multiple KYC norms are a dampner in the penetration of financial products, the budget proposes that bank's KYC documents will suffice for the insurance industry. We hope and expect that one day KYC done by any regulated entity will be acceptable across all areas of financial services in India.

Enthused by the optimism of the FM, the industry hopes the Insurance and PFRDA Acts will be passed by Parliament in due course. Given the challenges to the economy outlined in the budget, and the pressing need for long term funds, the industry believes that early passage of the Insurance Bill is crucial. Apart from access to long term funds, the industry will be able to access the latest technology, products and practices for the greater good of the Indian consumer.

The finance minister has laid out the roadmap for the economy in the years ahead. To achieve an 8 per cent growth rate per annum, we need to focus our attention to the quality of delivery on each of these issues. The government must commit itself whole heartedly to executing the just-started 12th Five Year plan, laser-focused delivery of all the centrally sponsored schemes, and to the cause of a fair, transparent and internationally competitive financial sector.

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Puneet Nanda
Executive Director, ICICI Prudential Life Insurance Company Ltd.

Mr. Puneet Nanda is currently Executive Director on the board of ICICI Prudential Life Insurance Company Ltd., India's largest insurance company in the private sector with assets under management in excess of 70,000 crore.

He has been with the company since inception and consequently has been a part of the life insurance sector ever since it opened up in 2000-01.

He is also a Director on the board of ICICI Prudential Pension Funds Management Company Ltd.

Reactions to the Budget

Mr. Nimesh Shah, *Managing Director & CEO, ICICI Prudential AMC*

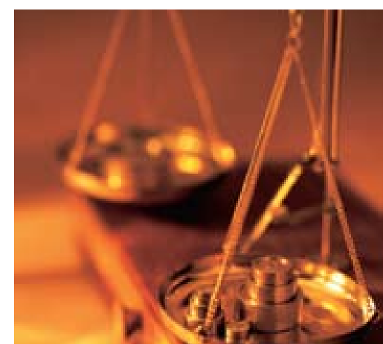
Budget 2013-14 is a budget for the "aam admi" with keeping economics in perspective.. It has been a fine balancing act between need of economics and demand of politics. Given that the budget was created in the background of a pre-election year, elevated fiscal and current account deficit and worries of a rating downgrade, Budget 2013-14 has almost walked the talk.

On the positive side the finance minister delivered his promise of fiscal consolidation, projecting a fiscal deficit at 4.8% of GDP for FY14 (year ending March 2014), in line with our expectations. The revised estimate of the FY13 fiscal deficit is 5.2% of GDP, better than the revised budget target of 5.3% of GDP. The objective of the budget was to ensure that there is no chance of a rating downgrade in the next one year and that has been achieved in our view.

The budget also announced measures to boost financial savings. This is a very welcome step since we have seen a lot of erosion in household savings post the credit crisis years. By introducing a TDS on sale of houses above Rs. 50 lacs and increasing the service tax for new flats, they have de-incentivised real estate transactions. The budget has also sought to increase home ownership by assuring a first-time home buyer of additional deduction of interest of Rs. 1 lakh for housing loans of value Rs. 25 lakh or less taken from banks in 2013-14.

From the mutual fund industry's

Budget 2013-14 has the potential to address many of the concerns plaguing the economy on fiscal consolidation and growth, albeit execution



perspective, budget has been a mixed bag. On the positive side the easing of RGESS eligibility criteria and allowing the benefit to be extended over three years is good. Also the emphasis on Infrastructure Debt Funds is positive and will open up a new investment avenue for the mutual fund investors. However, increase of Dividend Distribution Tax on debt mutual funds for individuals has been of concern. While widening the eligibility of RGESS has been positive, extending the RGESS benefit to beyond first-time investors could have significantly increased participation in the capital markets.

The government in this budget has also demonstrated clear intent on facilitating infrastructure development. Steps like investment allowance reserve framework allowing an additional investment allowance at the rate of 15 percent to a manufacturing company investing more than Rs 100 Crore in plant and machinery over the next two years as aimed at incentivising investment and triggering the capex cycle will strike the right cord.

To raise tax revenues, various measures have been taken including

1. The list of services exempt from taxes has been shortened
2. The excise duty rate raised for select sectors
3. A higher surcharge has been imposed on the rich and on Corporates above a certain threshold.

The trajectory adopted is right. On account of the increase in taxation, there will be a slowdown in consumption which will lead to a lower inflation number and aid in bringing down the current account deficit. This will allow RBI to cut rates leading to a pickup in investment cycle.

On the equity sides markets are likely remain volatile. We are more positive than before now since the budget has achieved our trigger on taxation and is beneficial for economy.

Economics: Government has taken many good steps in the last six months to cut both fiscal deficit and current account deficit. The steps taken to increase taxation add to our comfort.

Valuations: Due to the recent correction, we are comfortable with valuations which are now in fair value zone. has corrected and is now in closer to mfortablethe lower end of the fair value range, so on that count it is positive.

Sentiments: On the sentiment side investors have remained away from equities. There is a big scope of investing in equities today for long term wealth creation.

On the fixed income front, markets were initially disappointed by the Budget primarily on account of two reasons:

The market was expecting the gross borrowing number to be around Rs. 5,90,000 crores instead of the stated Rs. 6,29008.84 crores (This takes in account scheduled repayment of Rs. 95008.84 Crs. and Rs. 50000 Crs. towards buyback of Government Securities for better debt management. The net borrowing is placed at Rs. 484000 Crs (net borrowing FY13 Rs. 467384.06 Crs.). The market was also hopeful that withholding tax for foreign institutional investors will be waived which did not materialize. This may impact markets in short run. In our view, the tax revenue numbers which are being indicated in the finance bill looks realistic and achievable. The expenditure side also is realistic making the budget estimates credible.

The government could have provided a lower gross borrowing number. We think there is reasonable scope for government borrowing to come down but expect it to happen over a period of time.

Budget 2013-14 has the potential to address many of the concerns plaguing the economy on fiscal consolidation and growth, albeit execution. Finally the budget is a roadmap and real test is now on execution.

Nimesh Shah

Managing Director & CEO,
ICICI Prudential Asset Management Company Ltd.

Nimesh joined ICICI Prudential AMC as its Managing Director in July 2007.

Nimesh has completed his Chartered Accountancy. Prior to joining with us, Nimesh was Senior General Manager at ICICI Bank and has over 21 years experience in banking and financial services. At ICICI Group, he has handled many responsibilities including project finance, corporate banking and international banking.

He was associated with one of the first batches of senior managers selected to lead the foray of ICICI Bank into the international arena (Middle-East and Africa)

Low on decibel, high on performance

Mr. Anup Bagchi, *Co-Chair, FICCI's Capital Markets Committee & Managing Director & CEO, ICICI Securities Ltd.*

The Indian economy has been in a tough situation with decade low GDP growth, declining savings rates, sticky inflation, expanding current and fiscal account deficit and tumbling capital expenditure on part of India Inc. It needs to be noted that there are no short-term solutions to the economic downturn and the Budget could not have altered the growth trajectory overnight. I believe the Finance Minster has presented a very pragmatic and sensible Budget, which is aimed at mending the state of economic affairs of the country. The Budget seems to have taken several small, yet certain measures to put the economy back on the right track, which could have got derailed very easily.

To address the immediate concerns of fiscal deficit consolidation, the Budget showed serious intent towards reining in the fiscal deficit at 4.8%, thus paving the way for monetary easing, which is paramount for revival of slowing growth. The Budget aims to achieve a 19% jump in tax collection with the help of 10% surcharge on wealthy individuals and corporates and service tax amnesty scheme. However, the focus is not lost on the expenditure front as the Budget has rightly provided for a 29% jump in plan expenditure without going overboard on subsidies where it curtailed the additional allocation towards food security bill at Rs 10,000 crore. There were a host of other measures such as just a moderate hike in defence spending, etc. to address the near term concerns on the economy. So, the FM has done a remarkable job to avoid the temptation of presenting

The government initiated the reforms process in late September last year and needs to continue with such low decibel highly productive policy initiatives, while sticking to the fiscal consolidation path

a highly populist Budget just before an election.

Rather than focusing too much on quick fix solutions, the Budget aims to provide long term answers by means of job creation, promoting the manufacturing industry, restarting the capex cycle, encouraging savings in financial instruments and enhancing capital markets. The role of any government is to guide the overall pace of economic activity and ensure equitable distribution of economic benefits to all stakeholders. Service tax is the lower contributor to the exchequer though the sector accounts for the highest share of India's GDP and is relatively better placed in terms of growth compared to other segments such as manufacturing and agriculture. The FM has rightly expanded the tax net and also introduced an improved compliance mechanism to generate much needed revenues. Similarly, the Finance Minister is tapping rich individual tax payers and corporates, who are relatively better placed, to pay higher taxes while the lower and middle class is getting extended support to avoid yawning income disparity levels. This is reflected in measures like introducing surcharge on the wealthy, increasing custom duty on imported cars, higher excise on SUVs, reducing abatement of service tax for luxurious homes, etc. At the same time, the lower and middle class has been supported with Rs 2000 income tax rebate for individuals with taxable income less than Rs 5 lakh.

Besides a large market, India has a large and highly talented workforce. The manufacturing sector needs to grow rapidly to tap the demographic dividend effectively. Giving the right push to the manufacturing sector can contribute significantly to the GDP, improve and sustain our trade quality besides generating employment to millions. To provide a fillip to the electronics sector, which is the third biggest contributor to our import bill, measures such as zero customs duty on plant and machinery and investment allowance of 15% for investment exceeding Rs 100 crore in plant and machinery, among others, go a long way in creating a good ecosystem for manufacturing. Besides these, the tax holiday for the power sector has been extended to FY 2013-14. In addition, allocation of Rs 2400 crore to the textile sector, lower duties on pre-forms of precious and semi-precious stones and specified machinery for manufacture of leathers goods are key steps to boost and diversify the export basket.

Availability of finance is another crucial aspect which he focused upon. The Budget has effectively curbed the fund raising by the government by limiting net borrowings at Rs 4.84 lakh crore, thereby preventing crowding out effect. Additionally, several other innovative measures like increasing the limit for infra tax-free bonds, encouraging infrastructure debt funds to provide low cost debt for infrastructure projects and developing bond markets through IIFCL and ADB have been taken to impart vibrancy and depth to the debt market.

To mobilise savings for the huge plan expenditure target, the FM has tried to incentivise households to invest in financial instruments, rather than investing in a dead asset like gold. The liberalisation of RGESS and proposal to introduce inflation linked bonds or saving certificates are steps in the right direction. However, the efficacy of these measures remains to be seen. I believe, we may need further measures on this front and this alone may not suffice to reduce the lure of investing in gold.

The Budget is also pro capital markets and exhibits the FM's focus on both facilitating higher investments and mobilising funds necessary for such investments. The reduction in STT in equity futures, MF sale, purchase and redemption should encourage small investors to start investing. Moreover, a dedicated debt exchange and allowing insurance companies, provident and pension funds would help develop the debt market in the country.

The Finance Minister has also highlighted the need for curbing the ballooning current account deficit (CAD), which has resulted in currency volatility last year. To fund the CAD, the Budget aims to facilitate FDI and FII investment in India, by measures like simplifying registration procedure and KYC norms for portfolio investors, clearly differentiating FDI and FII, allowing FIIs to participate in exchange traded currency derivatives, etc. These measures, in addition to postponing GAAR and further clarity on the tax residency certificate issue should make FII investments easier

in India. Moreover, several other measures taken outside the Budget to make India an attractive FDI destination should help reduce the CAD.

Stability and introduction of efficient tax measures from the regulatory side are pertinent in creating a health climate for growth. The Budget has effectively provided for compensation to states for introduction of GST, GAAR has been postponed to FY 2015-16 and some light has been shed on the DTC bill. Additionally for capex heavy sectors such as oil & gas, road regulations are moving in the right direction.

In an overall assessment, the Finance Minister has aimed for an inclusive Budget with the focus on tapping the right pressure points to help grow all facets of the economy. The tight rein on fiscal deficit, without stifling growth, by curbing plan expenditure is commendable. But it is worth mentioning, though inevitably vital, the Budget is merely the Finance Ministry's projections of future year's finances. The government initiated the reforms process in late September last year and needs to continue with such low decibel highly productive policy initiatives, while sticking to the fiscal consolidation path.

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Anup Bagchi
Co-Chair, Ficci's Capital Markets Committee & Managing Director & CEO, ICICI Securities Ltd.

Mr. Anup Bagchi is the Managing Director & CEO of ICICI Securities Ltd.

During his tenure of 20 years with ICICI Group he has held many key positions in Retail Banking, Corporate Banking and Treasury. He was in the core team of setting up ICICI Bank which was amongst the first few bank licenses given and then again in setting up and running ICICIDirect.com. He is a Co-chairman of Federation of Indian Chambers of Commerce & Industry (FICCI) Capital Markets Committee and a member of Confederation of Indian Industry (CII). Mr. Bagchi is an alumnus of IIT Kanpur and IIM Bangalore.

Mr. Bagchi was honoured with `The Asian Banker Promising Young Banker Award'. Mr. Anup Bagchi has recently been honoured with `Industry Newsmaker Award' by Zee Business for his tremendous and unmatched contribution in the field of Finance.

Targeting the Three 'I's of Growth - Budget '13

Dr. V. Shunmugam, *Chief Economist,*
MCX Stock Exchange

As it was rightly noted by the Finance Minister in his speech, India continues its lead in the league of emerging nations next only to China with a robust growth of 5 percent adding to its attractiveness given the current GDP of nearly USD1.5 Trillion. Rightly so, the foreign investors are net buying into the capital markets whereas the domestic institutions have net sold their positions. To the Indian stakeholders, the current estimated growth rate of 5 percent during 2012-13 is the lowest in the recent years compared with a near double digit growth rate in the last five years despite the onslaught of global financial crisis and weakening global demand. The 2013-14 growth estimated at above 6 percent is an encouraging sign that the economy's growth run will continue to steamroll more foreign investments accelerating the growth momentum given the right policy environment which can sustain it.

With the deepening of the current account deficit, it is all the more inevitable that this growth story should be effectively conveyed to the foreign investors augmenting our forex reserves while devising ways and means by which India's robust savings could be tapped into productive investments. Budget '13 tries to provide a mixture of both the efforts with impetus on both the domestic and foreign investors. The economic survey in a prelude to the budget had pointed towards the need for stable and consistent policies where markets play an appropriate role and that private investment in infrastructure be stepped up. In view

Proposed reduction in STT on equity derivatives segment and the mutual funds would provide for improved participation in the mutual funds industry and in equity futures segment of the Indian capital markets

of the above, Budget '13 has laid a strong emphasis on sustainable and inclusive growth & development. This growth oriented budget has focused on inclusion, infrastructure besides setting the path to reaping demographic dividend through women & youth empowerment.

The continuing inflation and weakening income levels, had eroded into the household savings rate which witnessed a decline from around 36.8 % in 2007-08 to about 30 % in 2011-12. Aiming to boost savings and to convert household savings into productive financial investments, the Rajiv Gandhi Equity Savings Scheme which was recently launched has been liberalized to enable the first time investor to invest in mutual funds besides extending its scope for three successive years; while increasing the income limit from Rs. 10.00 Lakhs to Rs. 12.00 Lakhs. In addition, the proposed introduction of Inflation Indexed Bonds or Inflation Indexed National Security Certificates that will protect savings from inflation will help add debt as a kitty in to the retail direct investment portfolio.

To meet the 12th plan projections for growth in the infrastructure the current approach to rope in private participation through fiscal incentives such as permission to allow institutions to issue tax free bonds in 2013-14, upto a total sum of Rs. 50,000 crore on need basis and promotion of IDFs as SPVs to share the infrastructure development needs would go a long way in making infrastructure improvement a contributed and participatory effort of the private investors as well.

The decision to allow banks and banking sector correspondents to act as Insurance agents would provide for inclusive growth of insurance sector in the country and would help life, health and other general risks to our well being are adequately and cost effectively covered. The synchronization of the KYC for the banking industry and the insurance industry is a welcome move and a similar move with respect to capital markets would provide for inclusive growth of capital markets as well. It would in fact provide for enhanced retail participation in the equity markets.

In line with the need for increased foreign participation in the capital markets, the efforts of SEBI to simplify the procedures and prescribe uniform registration norms for entry of foreign portfolio investors would help set the tone of changes to come. Such changes taken to their logical conclusion would remain a booster to foreign participation in Indian capital markets. The proposed move to synchronize the FII and FDI in line with international norms would help increased flow of foreign capital into the Indian enterprises. The proposed move to put a cap of 10 percent to differentiate FII from FDI would help smaller but long term investors respond to liquidation needs in a more efficient manner.

Apart from the investment sops for the large manufacturing corporates, the budget also pledges to promote MSME sector with the continuance of the benefits associated with that category. Their access to market based fund raising has also been eased by permitting listing without being required to make an initial public offer (IPO), targeting informed investors. Taking a cue from the JOBS Act, the proposal to allow listing without an IPO on the SME exchange platforms would go a long way in promotion of investment in growth sector companies while at the same time providing for improvement in their governance and contribute towards improved transparency.

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Debt capital forms an integral part of corporate growth and its availability at competitive rates would help in healthy growth of the corporate sector. Hence, launch of trading in corporate bonds on the exchange platforms would help bring in transparency and cost-effectiveness – the need of the hour in Indian debt capital markets. Participation of insurance companies, provident funds and pension funds in addition to banks and primary dealers would help bring in vibrancy and effective price discovery in the exchange traded corporate debt instruments.

Proposed reduction in STT on equity derivatives segment and the mutual funds would provide for improved participation in the mutual funds industry and in equity futures segment of the Indian capital markets. Additionally, the mutual fund industry would also welcome the move to allow distributors to become members in the Mutual Fund segment of stock exchanges to effectively leverage the stock exchange network in their business.

Overall, the budget has been bang on the target of achieving growth through the

3 I's i.e. investment, inclusion and infrastructure. Measures to promote inclusion should expand beyond the current focus on banking industry and the insurance sector in to the capital.

markets. Inclusive capital markets would provide the much needed capital formation, employment generation and the wealth creation by providing an access and building the knowledge. In addition, the efforts of the Finance Minister to look into cost competitiveness of the Indian financial sector would go a long way in addressing issues connected with globalization of markets. Putting together all pieces of the puzzle would make it clear that significant measures have been taken to elevate the Indian financial sector and attempts have been made to connect them more closely with the real sector.

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V. Shunmugam
Chief Economist,
MCX Stock Exchange

Dr. Shunmugam V has a rich global experience in intensive policy matters, developmental economics & research and working in close proximity with policymakers and market regulators. He is a prominent figure in the industry, foreseeing and proposing policy changes for its impending impact on larger business environment. A thought leader and trained macro-economist with a wealth of network across ranks and files in Government, regulators, business, academics, he has expertise in dealing with multiple regulators, markets, products and strategic communication with various industry stakeholders.

In his role as Chief Economist at MCX-SX and at MCX prior to that, he has structured pragmatic policy recommendations based on the foresight about its linkages with various aspects of the economy and its impact on economic stakeholders, investors, producers, savers, intermediaries and institutions, leading to balanced and sustainable growth of the economy. He plays a key role in interfacing with regulators, product development & research, risk mapping and product design. Before his stint in India, Dr. Shunmugam worked with the US Government where he played a robust role of connecting the Governments of India and the US through trade relations, commodity market dynamics, trade & policy matters and facilitating workshops, conferences, and official missions. He also engaged in resolving several non-tariff barriers, helping industries and importers establish appropriate forward and backward linkages in financial markets ecosystem value chain of India.

Dr. Shunmugam has authored several reports, analyses, papers and articles on various subjects related to financial markets, regulation, dark markets, market micro-structure in various media and journals of international and national repute. He is a Ph.D. in Agricultural Economics from Indian Agricultural Research Institute, New Delhi (1997) and M.Sc. in Agricultural Economics (Gold Medalist, 1993). He was selected for Senior Fellowship award under Indian Council of Agricultural Research and also associated with Ford Foundation Research Project on Natural Resource Economics.

Inclusive Budget Offers Incentive to Revive Growth

__Mr. Shachindra Nath,__ Group CEO, Religare Enterprises Ltd.

The 2013-14 Union Budget came in the backdrop of a sharp slowdown in growth, fears of a rating downgrade, a tight fiscal position and looming general elections. For any finance minister, this is a challenging mix where splurging cash to kick start growth can be dangerous.

Thus, given a very limited macro-economic space, Finance Minister P. Chidambaram has presented a well crafted and inclusive budget that has some incentives for growth, sticks to fiscal prudence and avoids any sizeable populist pitfalls. In a nutshell, there is something for every segment.

The fiscal deficit for the current year has been kept at 5.2% and it is targeted to be brought down to 4.8% in the next financial year in line with the fiscal consolidation roadmap. It's going to be a tight rope walk but some buoyancy in tax collections coupled with better compliance, check on spending and realization of divestment and spectrum revenues will see this math through.

The divestment mop up aim is at an all-time high of 56,000 crore rupees and more than twice this year's 24,000 crore rupees but this is achievable if

Finance Minister P. Chidambaram has presented a well crafted and inclusive budget that has some incentives for growth, sticks to fiscal prudence and avoids any sizeable populist pitfalls

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the government sells stakes in couple of large public sector firms like Coal India Ltd. A big chunk will also come from residual stake sale in Hindustan Zinc and BALCO.

Finance minister has also paid adequate attention to three crucial constituencies of youth, women, and poor. Steps have been taken to spread insurance to the vast uncovered swathes of the hinterland as banks have been allowed to act as brokers. A number of categories below the poverty line have been covered under Rashtriya Swasthiya Bima Yojana.

There are incentives for infrastructure with companies in the sector allowed to raise up to 50,000 crore rupees via tax-free bonds. A road sector regulator will be set up and that should allow faster completion of road projects. The 15% allowance for companies investing 100 crore rupees or more in plant and machinery up to March 31, 2015 should give much needed boost for the manufacturing sector.

For individuals, there is a sizeable saving on interest paid on home loans for first year of an additional 100,000 rupees while the tenure of investments under RGESS has been extended to three years from one year. Those earning up to 500,000 rupees annually have also got a marginal tax relief of additional 2,000 rupees. Here, the finance minister could have given tax breaks to woo the middle class but to his credit, he has been able to keep electoral compulsions at bay.

The levy of surcharge on 'super rich' and companies with taxable income of over 10 crore rupees per year was greeted with some disappointment but this is only for one year. One will also wait for some concrete action from the government to attract foreign capital, which is so crucial to tackle the yawning current account deficit.

Finally, the budget is just one of the documents that influences a vast economy like ours. With the government sticking to its resolve of keeping a tab on fiscal deficit, it's time for RBI to further unwind its rate hike cycle. A decent cut in interest rates over the next 10-12 months should aid further growth and bring down EMIs. Revival of growth sentiment with limited means in an absolute must for the budget calculations to come right. Add to this, we just need some good luck with the monsoons.

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Shachindra Nath
Group CEO,
Religare Enterprises Ltd.

Mr. Shachindra Nath (Group Chief Executive Officer) Religare Enterprises Ltd. carries the overall responsibility for leading all pivotal operations and businesses of the group. He has been associated with Religare since the year 2000 and has been instrumental in building various businesses under the Religare umbrella from scratch.

His strategic agility coupled with hands on approach has been a key to Religare's growth and success over the years. With a career span of more than 20 years, Shachindra is a highly accomplished professional backed by an exemplary academic record. He is a University rank holder for his Bachelor's degree in Law from the Banaras Hindu University, Varanasi. He also went on to pursue a Post Graduate diploma in Intellectual Property Rights from the Amity Law College, Delhi.

Prior to joining Religare; Shachindra has worked in the manufacturing and Financial services sector in various capacities. A great motivator and leader, when not at work he loves to read, contribute to columns, travel and spend time with his family.

Budget 2013 Reactions

Mr. Sundeep Sikka, *President and CEO,*
Reliance Capital Asset Management Ltd.

Economic Background and first reactions

The Honorable Finance Minister presented the Union Budget 2013 on the backdrop of major challenges facing the global and Indian Economy. Global economic growth slowed down from 3.9% in 2011 to 3.2% in 2012 as economies gradually recover from the global slowdown.

India's exports and imports amount to 43% of GDP – ergo global changes have also affected the Indian economy. The Indian economic growth had fallen to 6.2% in FY 12 and the latest Q3 growth number of 4.5% has been a shocker. Besides contracting GDP, the slowdown also contributed to supply side shortages, accentuating the inflationary pressures.

Growing Fiscal Deficit was accentuated by a sharply higher Current Account Deficit, due to imports of oil and coal and the Indian psyche of hoarding gold as a safe haven investment in uncertain times. There was also the threat of Global Credit Rating agencies downgrading India, which could worsen India's fiscal situation even further as foreign inflows would slow down and come at a higher cost.

Given the multiple challenges, The Honorable Finance Minister has

The Honorable Finance Minister has presented a simple and responsible budget

presented a simple and responsible budget. He has delivered a budget which seeks to steady public finances by promising to cut fiscal deficit, with equal emphasis to bring down revenue deficit.

Budget Overview

We see the budget presented by Finance Minister as pragmatic. The Budget was a clear indicator to attract foreign investments, encourage infrastructure spending and fiscal prudence particularly to enhance capital markets. Overall, the Budget was balanced with a focus on sustained and inclusive growth.

The FM has stuck to the fiscal deficit estimates of 4.8%. The credibility of this number also goes up given that last year's deficit number is 5.2% against earlier estimates of 5.3%. The revenue estimates and especially the tax revenue estimates are realistic. This is a very important step to stabilize public finances and employs a prudent directional approach towards sustained growth.

He has taken a series of measures in this budget. One aspect is on mass housing, which helps grassroots progress in rural India. Any individual taking a loan for his first home from a bank or housing finance

The FM has stuck to the fiscal deficit estimates of 4.8%. The credibility of this number also goes up given that last year's deficit number is 5.2% against earlier estimates of 5.3%

corporation up to Rs 25 lakhs till year ended 31 Mar 2014, will be entitled to an additional deduction of interest up to Rs 1 lakh. This would help a host of industries like cement, steel, wood etc and also boost employment in rural areas. Secondly, to give a direct incentive to new investments, manufacturing companies investing Rs 100 Crs or more will be entitled an investment allowance up to 15% for the next two years which is a clear positive. Another bright spot is the proposed inflation-linked savings instrument which has the potential of safeguarding the savings of investors in a fast developing country like India where inflation pressures abound.

In the financial sector, some small steps have been taken to encourage investment in financial assets - like reduction in securities transaction tax (STT), clarity on the securitization guidelines, as well as tax treatment on alternate assets. STT has been reduced to 0.01% for Equity futures and 0.001% for MF/ETF redemption at fund counters and sale on exchanges. The reduction in STT, which is levied on every stock market transaction, is expected to encourage investments in the stock market.

As part of roadmap to introduce new investors to the capital markets, certain improvements were made to the Rajiv Gandhi Equity Savings Scheme. The Budget seeks to widen the investor base by increasing the income limit of investors from INR 10 lakhs to INR 12 lakhs. Also, tax deduction is now allowed for three consecutive years. Pension funds and provident funds can now invest in ETFs, debt mutual funds and asset backed securities. To augment Mutual Fund distribution, distributors can now become members in the Mutual Fund segment of the stock exchange and leverage on the stock exchange network which could result in increasing their reach and distribution. The DDT applicable for NRI Investors in IDF-Mutual Funds has now been reduced to 5% which would attract larger inflows into the Infrastructure space.

There were some changes that might pose a challenge to the markets – like the increase in corporate taxation. The surcharge for domestic companies whose income exceeds Rs 10 Cr has been raised from 5% to 10%. This increase in corporate taxation will put pressure on post-tax earnings of companies. Also, the doubling of DDT for individuals and

HUF will impact corporate dividends and those who depend on dividends from debt funds.

The road ahead…

To sum up, a lot now depends on the execution and systematic improvements that remain to be made during the coming fiscal year. Areas like the Land Acquisition bill, Labour Laws and enhancing FDI limits remain to be focused on. While there were no big bang reform announcements in the budget, the finance minister has aptly communicated that efforts to revive the investment climate will continue. He hinted at ongoing efforts on major reforms on power, infrastructure as well as on GST & DTC. As the Finance Minister concluded, there is a strong likelihood of the Indian economy reaching a USD 5 Trn mark by 2025 and be among the top 5 global economies. Though it is a long and strenuous road, it is an encouraging goal to strive for.

Sundeep Sikka
President and CEO, Reliance Capital Asset Management Ltd.

At 40 years of age, Sundeep Sikka is amongst the youngest CEOs in the country, heading the most profitable Asset Management Company in India, Reliance Capital Asset Management (RCAM) having presence in Singapore, Malaysia, Dubai and Mauritius. He has been with the Company since 2003 and has handled various positions before becoming the CEO. RCAM is currently India's largest Asset Management Company, with average assets under management (AUM) of over Rs 164,000 Cr on 31st Dec 2012, comprising of Mutual Fund, Managed Accounts and Offshore strategies.

Sundeep plays an active role in representing the Industry. He holds the following positions:

- Vice Chairman and Director of the Industry Body, AMFI (Association of Mutual Funds in India)
- Chairman of the Investor awareness committee of AMFI.
- Director, Financial Planning Standards Board (FPSB)

Under Sundeep's exemplary leadership the team performed exceedingly well and went on to become the No.1 Asset Management Company in India. His achievements also include Nippon Life, the 5th largest life insurer in the world and the Number 1 private life insurer in Asia and Japan agreeing to partner with RCAM. He has been instrumental in developing the Real Estate business and also the Portfolio Management Services by clinching prestigious mandates like the one from EPFO (Employees' Provident Fund Organisation)

Sundeep has also been recognized by various global bodies. He is:

- Among 30 selected people in Asia, featured in a book on "Decision Makers Investment Funds Asia - 2010".
- Part of the "Asia FM" Power 50 list identifying the most influential individuals across the Asia ex Japan fund industry.
- One of India's Top 25 Hottest Young Executives as covered by the magazine 'Business Today'.

Budget 2013 aims to deliver fiscal consolidation and policy stability

Ms. Meera H Sanyal, *Chairperson, FICCI's Financial Inclusion Committee & Chairperson & Country Executive, India, Royal Bank of Scotland*

The Budget 2013 was formulated in a backdrop of a broad and sharp slowdown in growth on the back of a drop in investments, persistent and high inflation particularly in food and twin deficits, especially a high current account deficit. Given these economic challenges the Budget for FY2013-14 was expected to deliver fiscal consolidation and improve the investment climate for local and foreign investors – an agenda which the Finance Minister has been following from September last year now.

Fiscal consolidation has been pursued as was expected with fiscal deficit for FY13/14 estimated at 4.8% of GDP as against 5.2% in FY12/13. In the current financial year, despite higher subsidies, overall spending is lower than what was initially estimated last year, which implies that for achieving the fiscal deficit target of 5.2% of GDP, there has been a widespread reduction in spending on other key areas like defence. However, capital spending has been reduced more than revenue spending for the purpose of achieving this fiscal consolidation, which is not desirable considering the shortages in the public infrastructure.

The overall approach of the Budget towards allocations and spending remains pragmatic taking into account the tough economic environment we find ourselves in, both domestically

Overall tax revenue collection targets seem to be aggressive considering that a 19% growth has been budgeted on the centre's tax revenue on the back of a 13.4% nominal GDP growth

and globally. The fears of populist announcements ahead of the general elections next year have been allayed, especially around the Food Security Bill for which the Finance Minister has allocated Rs. 100 billion within the total food subsidy of Rs. 900 billion. Given the recent initiatives towards curbing fuel subsides and considering that food subsidy has more merit than other subsidies, the general approach towards curtailing and targeting subsidies will help in keeping them within 2% of GDP.

There is continuity in the other key areas as well, with an aim to create an environment of policy stability. Consistent with the agenda of social development and inclusion, the Finance Minister has increased spending on health, education and skill development (17% increase) and rural development (46% increase), fairly significantly in the coming fiscal year. The FM has also focused on greater inclusion of women by setting up of a women's bank (for women borrowers and to be run by women borrowers). There is also an increased thrust towards skill enhancement, keeping in mind the demographic profile of the country and is aimed at seizing the demographic dividend.

The objective of financial inclusion has also been promoted through some significant steps. The Finance Minister has aimed to widen the penetration of the insurance sector to smaller cities. Reach of the banking system would also be enhanced through electronic channels via implementation of the CBS which will facilitate their integration into the national payments system. Announcement of taking the Direct Benefit Transfer scheme on subsidies to the national level through the Aadhaar UID and the banking system will help reduce leakages and directly reach beneficiaries, thus improving the effectiveness of financial inclusion measures.

These steps along with the introduction of the inflation linked

bonds will also help channelize household savings into the financial system and reduce their physical savings. Rising gold imports has been one of the main reasons behind the bloating up of the current account deficit, as physical savings of households in the form of gold have increased on the back of high and persistent inflation. Inflation linked bonds will provide another instrument to hedge against inflation and encourage financial savings.

In order to counter the supply side bottlenecks in the power sector, which depends mainly on coal for fuel, the announcement of a setting up a PPP framework between private players and Coal India Limited is also a step in the right direction. Shortage of coal has been one of the main reasons holding back power sector investments and therefore any measures aimed at increasing production of coal would be helpful in the long run, especially as reliance on imported coal is increasing significantly. The announcement of awarding of road contracts for 3000 kms by September 2013 and various sops on loans for housing would also help in reviving investment activity as roads and construction sectors have strong forward and backward linkages into other sectors.

On the taxation front, the overall tax regime remains stable both for the direct and indirect taxes, with revenue buoyancy expected from a pickup in growth in the next fiscal year. The Economic Survey of the Ministry of Finance projected real GDP growth in the range of 6.1% to 6.7% in FY2013-14. On direct taxes, some element of progressive taxation has been introduced by levying a surcharge on taxable income above Rs. 100 million for individuals and companies for a period of 1 year. This measure however, is picking on a low hanging fruit and is the easiest route of generating more tax revenue. The Finance Minister has also announced an amnesty scheme for

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service taxpayers in order to encourage tax compliance, even though amnesty schemes are not an answer to widening the tax base. Implementation of GST is therefore most crucial considering that under the GST regime evasion of tax in a supply chain is difficult. The FM has committed Rs. 90 billion towards compensation of states in order to encourage them to move towards the GST regime. Tangible progress on GST regime is important for widening the tax base, creating a national market in the country and generating growth. Overall tax revenue collection targets seem to be aggressive considering that a 19% growth has been budgeted on the centre's tax revenue on the back of a 13.4% nominal GDP growth. On the non-tax revenue, the disinvestment target has been set at Rs. 400 billion as against Rs. 240 billion in the current fiscal. This too is an aggressive assumption going by the government's track record.

The gross market borrowings of the government at Rs. 6290 billion and net borrowings of Rs.4840 billion are large and that would continue to exert upward pressure on interest rates. The borrowings estimate seems credible especially as the government is looking to curtail its fuel subsidy even further in FY13/14, especially on diesel.

The commitment shown towards fiscal consolidation should go down well with the foreign investors and ratings agencies. That in turn would make a case for a pick-up in capital inflows gradually which would reduce the pressure on interest rates and the Rupee. Government's commitment towards fiscal consolidation would also strengthen the RBI's hand for providing some more monetary stimulus through reductions in the repo rate, which in turn would help in softening interest rates across the board.

Meera H Sanyal
Chairperson, FICCI's Financial Inclusion Committee & Chairperson & Country Executive, India, Royal Bank of Scotland

Meera graduated with an MBA from INSEAD, France and has completed the Advanced Management Program at Harvard Business School. She is a Fellow of the Chartered Institute of Bankers (UK). As the Chairperson and Country Executive of the Royal Bank of Scotland in India, she leads 12,500 employees. She chairs the Supervisory Boards of 2 of the bank's local subsidiaries, and has executive responsibility for the Indian branch of RBS Bank N.V. and Global operations and IT activities that have been right shored to India. Meera has mentored the bank's MicroFinance program that has financed over 650,000 women in rural India and chairs the bank's Foundation that provides livelihood assistance to 55,000 households in threatened ecosystems.

In her banking career spanning 29 years, Meera has worked with the bank for 21 years, as COO for the Asia Pacific region, Head of Corporate Finance Advisory for Asia, Founder and CEO of the bank's global ITeS company and Head of the Investment bank in India. Her prior experience was with Lazards and Grindlays Bank. In 2011-12 Meera served as a member on Hilary Clinton's International Council of Women Business Leaders.

She is a member of the National Executive Council of FICCI and chairs FICCI's Financial Inclusion Committee. She is also a member of the National Council for Public Policy of the Confederation of Indian Industry.Meera is a Non Executive Director on the board of PRADAN, a highly respected NGO that provides skills and capacity building to poor and marginalized rural women. She is the Chairperson of the Indian National Advisory Board of AIESEC, the world's largest youth driven organization and serves on the Supervisory Board of Jaihind College, a reputed graduate college in Mumbai.

Reactions on the Union Budget

Mr. Sandip Biswas, *Group Director,*
(Corporate Finance and M & A) for Tata Steel Ltd.

The Union Budget FY 14 has delivered on many counts in my opinion and is largely positive for the economy. The FM has maneuvered to provide impetus to the struggling economy within the current political constraints. The budget balances austerity with populism with an eye to stimulate growth. The absence of increase in subsidies and large populist proposals like tax breaks is a departure from ones presented closer to the election years in the past. It assures me, that the political will to steer the economy out of the doldrums, which has been missing for sometime, is certainly there now. This gives me confidence that the government will follow through on critical policy matters that go beyond the budget.

The fiscal deficit for FY13 has been contained at 5.2% largely due to expenditure control. I believe the target of 4.8% for FY14, though challenging, is achievable with implementation of policy measures that would boost GDP growth (>6%). Tax surcharge on corporates and high income earners will bring in additional inflows, but deficit control will have to be achieved by faster growth. The targeted GDP growth, at a nominal rate of ~13%, is quite achievable in the next fiscal with improved governance and policy impetus. The reform measures announced by the government since mid-September 2012, coupled with

While the budget continues the focus on growth and inclusiveness, the FM has been prudent in increasing allocations to social scheme

the measures announced by the FM will put us back on the growth track. I would have liked to see more clarity on controlling the current account deficit from the FM and hope concrete measures will be announced in due course.

While the budget continues the focus on growth and inclusiveness, the FM has been prudent in increasing allocations to social scheme. Social schemes such as NREGA cannot be ignored in a developing country like India, and I support the thrust on inclusive development and believe that proper implementation of the schemes will not only benefit the people, but also the industry.

The FM has announced some measures that will boost the capital markets. Measures such as allowing FII participation in the currency derivative segment and the clarity provided on classification as foreign institutional investors (FII) or foreign direct investment (FDI) will boost investor confidence and attract much needed inflows. The proposal to allow stock exchanges to have a dedicated debt segment is a welcome move. The FM has also made an attempt to attract the retail investor. We will have to wait to access the impact, but I welcome such measures as a deeper stock market is needed for a robust capital market which will enable the government to meet its divestment targets.

A stable tax regime that encourages investments, from corporates and investors is necessary for a growing economy like ours where significant infrastructure related capital expenditure is required. The FM has assured the investors and the industry of a stable and supportive tax regime. The clarity provided on the deferment in implementation of GAAR is a welcome move for investors.

I expect measures, such as government plans to raise Rs 500 billion through infrastructure tax-free bonds and tax breaks on infra bond, to help kick-start the stalled infrastructure development. Notwithstanding challenges to this target, I believe this is an achievable target. Infrastructure growth will boost growth across a number of industries. Tax breaks on housing loans and allocation towards the Rural Housing & Urban Housing fund would assist growth in the housing sector. Measures, such as the announcement of a road authority clear road projects & proposals for developing industrial corridors, display a commitment to boost infrastructure spending. The investment allowance on capital projects will encourage investments and provide impetus to growth in the manufacturing sector. Measures have also been announced to enable MSMEs to raise capital. Such measures will need to be supported by other policy reforms, especially the land acquisition and mining policy bills. The Cabinet Committee on Investment has already been formed. I expect CCI to resolve some of these issues in FY14 and help growth in the core sectors like Steel and Power.

In conclusion, I would say the budget is a sign of the commitment towards growth and puts in place the requisite policy directions. In the current climate, where India faces significant headwinds due to internal & global factors, implementation of the policies announced in 2012 and implementation of those indicated in the budget is critical. I believe the FM has set a path of reforms and fiscal prudence that would help India emerge stronger from the slowdown

Sandip Biswas
Group Director, (Corporate Finance and M & A), Tata Steel Ltd.

Mr. Sandip Biswas is currently the Group Director - (Corporate Finance and M & A) for Tata Steel Limited. In his role, he oversees the Tata Steel Group's Financing Strategies, Capital Structure, Mergers and Acquisitions, Planning and Execution of capital raising activities for debt and equity, liquidity management, foreign exchange risk management, investor relations activities and corporate legal among others. Prior to taking up this assignment, he was Group Head – Corporate Finance, Treasury and Investor Relations, Chief Corporate Finance and Treasury and Chief Foreign Exchange & Treasury Management for Tata Steel Limited, India.

He is currently also serving as a Director in the Board of various Tata Steel subsidiaries and joint ventures both in India and abroad namely Kalimati Investment Company Limited, Rujuvalika Investments Limited, Tata Steel Odisha Limited, Tata Steel Netherlands, B.V., Tata Steel KZN (Pty) Limited, The Dhamra Port Company Limited, Black Ginger 461 (Proprietary) Limited, Tata Steel Global Minerals Holdings Pte. Ltd., Tata Steel Holdings Pte. Limited, ProCO Issuer Pte. Ltd., Orchid Netherlands (No.1) BV, Tata Steel Global Holdings Pte. Ltd., Tata NYK Shipping Pte Limited, Singapore, Tata Steel Minerals UK Limited, Tata Steel Minerals Canada Limited, Sedibeng Iron Ore (proprietory) Limited, Rio Tinto Benga (Mauritius) Limited, New Millennium Iron Corporation, Canada, Tata Steel Canada Capital Limited, and Tata Steel Odisha Limited.

Before taking employment in Tata Steel, he has worked with American Express Bank, ANZ Grindlays Bank, First India Mutual Fund, CEAT Finance Ltd, Usha Martin Industries Ltd and Price Waterhouse.

He is a member of the Institute of Chartered Accountants of India and also the Institute of Company Secretaries of India. He holds a bachelor's degree in Commerce from The University of Calcutta.

Union Budget 2013-14 – Pragmatism Wins Over Populism

Dr. Shubhada Rao, *Chief Economist, Yes Bank*

The Union Budget for the year 2013-14 announced by the Honorable Finance Minister can be ascribed as being balanced, refraining from any big bang announcements and instead opting for multiple pragmatic initiatives with a focus on socio-economic development and resuscitating growth thereby ensuring fiscal prudence. Despite the challenging macroeconomic backdrop, the FM succeeded in consolidating the fiscal position in 2012-13 by announcing a lower fiscal deficit target of 5.2% of GDP, and has signaled further improvement to 4.8% of GDP in the year 2013-14.

In the Budget, the government retained its focus on agriculture, MSME and social spending, to set the pace for sustainability of growth backed by employment creation, not only in the near term but also uncompromisingly in the long term.

Fiscal consolidation rests on solid grounds

The expected fiscal consolidation in 2013-14 is characterized by expenditure switching policies along with an increase in the Tax-to-GDP ratio.

On the expenditure side, subsidy expenditure has been compressed by 60 basis points to 2.0% of GDP in 2013-14. The recent reform measures on administered fuel over the last five months have helped the government to budget lower, yet credible subsidy expenditure.

On the revenue front, the FM has refrained from making any major changes in tax rates, while providing some relief and savings incentives

The 2013-14 Union Budget has very prudently addressed the concerns on mild growth, lackluster investor climate and unsustainable current account deficit within the ambit of credible fiscal consolidation

to the lower income category. The government expects Tax-to-GDP ratio to improve by 50 basis points to 10.9% in 2013-14. I believe the expected pickup in economic growth to around 6.5% next year along with the widening of the tax net will help in achieving higher tax revenue growth.

Improvement in investment climate

The room created from compression in subsidy expenditure has been very prudently utilized by the government to augment capital spending, which is expected to grow by 37% in 2013-14, significantly higher than the average growth of 4% seen in the last two years.

In my opinion, the expected increase in government's capital spending will promote 'crowding in' of private investment. In fact, the last time capital spending rose by a similar amount (39% in 2010-11), the overall investment ratio in the economy jumped by 70 bps to 37% of GDP and overall the GDP growth rose by 70 bps to 9.3%.

A significant step to revive investments has been the announcement of a deduction of 15% investment allowance for investments over ` 100 crore in plant & machinery, which will provide a fillip to front load investment decisions. The budget has also aptly reiterated its focus on the industrial corridors by allocating higher funding to the existing DMIC and proposing new industrial corridors of Chennai Bangalore and Bangalore Mumbai to create growth multipliers.

MSME and agri continue to retain focus

The budget retained its focus on MSMEs and agriculture sector, to set the pace for sustenance of growth. Given the sheer importance of the two sectors in the economy, the unwavering focus on the sectors is a positive. Most importantly, the government has allowed MSME units to continue to enjoy benefits or preferences for a period of three years even after it grows out of the category. In addition, to provide greater credit to MSME, the budget doubled the refinancing capability of SIDBI to ` 10,000 cr and provided ` 500 cr to set up a Credit Guarantee Fund. On the agriculture front, the budget announced a `1000 cr allocation to 'green revolution' in East India and `500 cr allocation for crop diversification, in order to support persistent rise in agricultural output. These coupled with a focus on improving healthcare and skill development, would create the necessary employment across the country.

Incentivizing financial savings

After dissuading physical gold investments by raising duties on gold import earlier, the Finance Minister took the overall step to its logical end by incentivizing financial savings so as to lower the pressure on the unsustainable current account deficit.

The relaxation in limit for Rajiv Gandhi Equity Savings Scheme by `2,00,000 will attract more retail investors to the capital markets while the additional interest deduction of ` 1,00,000 for home loan will not only promote home ownership, but also have a strong positive multiplier impact on the economy through inter-industry linkages.

More importantly, the introduction of Inflation Indexed Bonds is a practical solution for protecting the interest of savers from the impact of high inflation. This has the potential to become a viable alternative to physical savings, which has often played the role of a hedge against inflation in India.

The 2013-14 Union Budget has very prudently addressed the concerns on mild growth, lackluster investor climate and unsustainable current account deficit within the ambit of credible fiscal consolidation. More importantly, it has managed to lay the framework for both DTC and GST.

I believe this will provide the beginning of a virtuous cycle for the Indian economy.

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