

## Union Budget of India FY15

### First runs on the board

Given that the Government has been in power for just 45 days, we are encouraged by the Budget. Foreign investor expectations were set high and they have largely been met. The Budget shows a commitment to reform in challenging economic circumstances and we expect announcements on implementation over the next few months.

1. Fiscal Policy – Conservative but optimistic
  - The previous Government's optimistic deficit target of 4.1% for FY15 has been retained. This daunting challenge shows commitment to fiscal prudence
  - The expectation of a poor monsoon is preventing an immediate cut to subsidies. Following the State Elections in December, we expect this to be revisited
  - The Finance Minister (FM) set a long term deficit target of 3% by FY17
2. Reviving business sentiment with specific focus on Infrastructure
  - Bank lending to long term infrastructure projects is exempted from reserve requirements lowering the cost of lending to the sector
  - Real estate and infrastructure investment trusts can now have a REIT structure
  - 8500km of road projects to be awarded to private companies in FY15 vs 1000km in each of the previous two years
  - Extension of tax holidays in the power and manufacturing sectors
  - Withholding tax on long term bonds reduced from 15% to 5%
3. Foreign investors – “No red tape, only red carpet” (Narendra Modi, May 2014)
  - Insurance and defence FDI limits raised from 26% to 49%
  - Whilst FM retained the Government's right to retrospective tax legislation he provided assurance in his speech that he is “*committed to provide a stable and predictable taxation regime that would be investor friendly and spur growth*”
  - Income for FII's based in India now taxed as a capital gain (15%) and not business revenue (up to 40%)
4. Key concerns
  - Achieving the 4.1% deficit target will be challenging and further clarity on an optimistic forecast of 19% growth in tax revenue for FY15 is now due
  - The Government has 80% of the State assemblies on board for GST (nationwide VAT). After the December State Elections, a roadmap for Parliamentary assent will need to be provided Successful implementation here is critical to retain foreign investor's confidence
  - A target to raise \$7.2bn via a public sector divestment programme which is dependent on continued global liquidity

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