# Progressive, forward looking Budget amidst challenging circumstances

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Despite formidable challenges emanating from a sharply lower nominal GDP growth in FY16, fragile global economy and ballooning of expenses as a result of VII pay commission award & OROP, the Finance Minister (FM) has done an admirable job of containing fiscal deficit to 3.9% of GDP in FY16 and holding steadfast to his medium-term fiscal consolidation roadmap of 3.5% in FY17 and 3% in FY18. This adherence to fiscal rectitude would allay apprehension among investors who feared that any fiscal slippage would lead to a spike-up in the government's borrowing program and impact RBI's decision in lowering rates. By announcing a significantly lower gross and net borrowing program of Rs. 6 lakh cr. and Rs. 4.25 lakh cr. respectively, against an expectation of Rs. 6.35 - 6.55 lakh cr. and Rs. 4.5 - 4.75 lakh cr. respectively, the government has firmly lobbed the ball in the RBI's court. We expect RBI to lower rates atleast by 25 basis points at the earliest. This would spur demand in many interest-rate sensitive sectors like BFSI, Automobiles, Consumer Durables, Capital Goods / Construction, etc., and act as a force multiplier to the substantial boost to consumption demand as a result of VII pay commission award & OROP.

In view of weak investment demand from the private sector due to high leverage, the government has continued its efforts like last year in reviving the tepid investment cycle by focusing on investments in key infrastructure sectors that have a substantial economic multiplier effect on aggregate demand in the medium-term like Roads (Rs. 97,000 cr.), Railways (Rs. 1.21 lakh cr.) and Rural sector (Rs. 87,765 cr.). For instance, the multiplier impact on aggregate demand in the medium term for investments in transport sectors like Railways & Roads is to the order of 5x.

In view of two successive monsoon failures and resultant rural distress, the government has announced multiple initiatives to increase area under irrigation, sustainable management of ground water resources, coverage of soil health cards, unified agricultural marketing ePlatform, crop insurance and rural roads. With total allocation of Rs. 35,984 cr. towards agriculture in FY17 and a normal monsoon rural demand should get a leg-up.

Two bold initiatives worth a special mention are firstly the voluntary disclosure of undeclared income by paying 45% tax (and gaining immunity from prosecution) and secondly a one-time dispute resolution for ongoing cases under retrospective amendment. We feel that the first can help garner large sums which can then be deployed for enhancing public expenditure in infrastructure, and the latter if adopted by many high profile aggrieved corporates that are currently locked in fierce battle with the government in various forums, would burnish India's image as a tax friendly investor destination and spur inward FDI in many sectors.

A progressive, forward-looking budget, if complemented by passage of key economic legislations like the GST Bill, Bankruptcy Code, Real Estate Regulation Bill, etc., would help steer the economy on a path of high growth, well-anchored moderate inflation, falling interest rates and low twin deficits (fiscal & current account). With strong macro-economic fundamentals, India will stand out as the beacon of stability amidst turbulent commodity-exporting emerging economies as well as many developed economies which are teetering on the edge of recession.

We believe that once global risk-aversion subsides substantial FII allocations will come India's way both in equities and fixed-income. The current scepticism in allocating capital to Indian equities due to a delay in revival of earnings cycle and sharp correction in valuations presents an apt opportunity for investors to buy with a medium-term perspective. We would advocate building a portfolio with a judicious mix of consumption-led demand like Automobiles and FMCG, investment-led demand like Capital Goods & Construction and interest rate sensitive sectors like BFSI. Some allocations towards fundamentally-strong export driven names in the Pharmaceuticals and Technology sectors would round up the portfolio.

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