

Turning to the Budget

Focus must be on incentivising savings via tax route

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An immediate market response to the election result can be gauged by how three indicators have moved. The Nifty ended at 23,263 on Monday and moved to 21,884 when the market closed on Tuesday. The 10-year bond yield which was at 6.95 per cent ended at 7.05 per cent while the rupee ended lower around T83.53/\$ from 183.14/\$ on Monday. Clearly the markets have been surprised with the exit polls not quite working out. However, this can be considered to be transient and the markets should revert to normal once the government is formed.

It can be argued that irrespective of the victory margin and the government that comes to power, there are certain areas which need to be addressed on the economic front. The two big policies coming up in the first two months would be the credit policy and the Budget. The credit policy is more in the realm of the Monetary Policy Committee which is independent and would deliberate and decide on the policy rate and any other related issues on June 7. Therefore, the repo rate and stance are outside the result of the elections.

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The Budget would, however, be the first immediate policy to be implemented by the government. It can be assumed that the Finance Ministry has already the blueprint of what needs to be done and hence it would be more of a review of the numbers as well as any new thought on the content which would be included. In fact, with the knowledge of both the fiscal performance in FY24 and the provisional figures of GDP for FY24, the numbers for FY25 can be relooked and revised.

Are there any specifics that would need to be covered in the Budget? On the taxation front there will be a need to look at how best to manage the right mix of consumption and savings which have been pain points in the last few years. Savings need to be increased to ensure that the current account deficit is under control and that domestic funds can be used for furthering investment. Here a call has to be taken on whether there should be any incentives provided on savings through the tax route. Any benefits on say interest or principal paid on home loans can boost not just savings but also help to accelerate investment. While the government has



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indicated that it would like people to move to the new tax module where rates are lower but concessions not available, expanding on the tax concessions on savings would be pertinent in the current situation.

On the expenditure side the immediate need will be to look at ways of spurring investment in the private sector. Here it can be expected that there would be some outlays for a PLI like scheme for the MSMEs. This will help to not just increase investment but also create job opportunities in this segment and make the sector more competitive such that it becomes apart of the longer term aspiration of becoming a part of global value chains.

Outside the Budget the government will probably look more attentively at exports. This has been an Achilles heel for us. Notwithstanding the creation of SEZs and various incentives provided through duty drawbacks and cash incentives, exports of goods have been more demand driven and hence volatile. Here there is a strong case for drawing up a medium term strategy for the next three years where export of goods are able to attain a stable rate of growth much like what can be seen in case of exports of services. The way out is to sign more FTAs with countries so that there is fostering of both trade and investment flows.

Besides these areas of growth, the Centre will have to draw up plans with the States to ensure that the right direction can be given to both health and education, which is essential to ensure that there is a viable future for the youth. As these are concurrent subjects, the initiative has to come from both the governments.

The fact that the economy is well-positioned for a take-off is a big plus for the government. These issues can be taken up immediately to leverage this situation.