

## Analysts give thumbs up to Arun Jaitley as Finance Minister

NEW DELHI: Arun Jaitley, who will look after finance, defence and corporate affairs, is the ideal candidate for the job to bring economic revival and unlock growth potential in Asia's third largest economy.

On his first day as the newly-appointed Finance Minister, Jaitley told reporters that "we have to restore the pace of growth, contain inflation and obviously concentrate on fiscal consolidation."



Finance is arguably the most crucial portfolio in Modi's new government and analysts are of the view that the 61-year-old has everything that's required to push through important reforms to kick-start the investment cycle in the economy where GDP growth is hovering near sub-5 per cent.

Based on the BJP manifesto and public comments, the government may also announce relief from retrospective taxation. The BJP government has emphasised the need for a stable tax regime, and it may roll back some retrospective decisions requiring corporates to pay additional taxes.

Marginal tax relief for the middle class and tax holidays to incentivise investment in selected sectors are also likely. The BJP manifesto promises to bring black money back into government coffers, prompting expectations of a tax amnesty scheme.

"Being a legal person, he should be able to respect rules and laws of the land & send a positive signal to the international investors," said Nirmal Gangwal, Founder and Managing Directors, Brescon Corporate Advisors, a debt resolution advising company.

"We hope we will not go back on past commitments through retrospective amendment in legal framework like the one seen in the Vodafone case," he added. Gangwal is of the view that current FM (his party being in full majority) should be able to proceed with difficult yet essential reforms like GST, FDI, etc. unlike his predecessors who got derailed due to lack of support from coalition partners as well as their own non-performance.

Going forward, markets will watch closely for policies that can improve the macroeconomic environment as likely changes in the government's decision-making process could have a long-lasting impact on the economy.

"Modi's cabinet formation has clearly shown that he will not be cowed down by the seniors in his party. He has been able to finagle a cabinet which he seems to be comfortable with. Further, certain key aspects of all major ministries have been integrated into the PMO to speed up decision making," said Dr. Vikas Gupta, Executive Vice President, Arthveda Fund Management Pvt Ltd.

Commenting on the next Finance Minister, Gupta said that the way Cabinet is structured means that Modi means business and he doesn't see the market having any issues with Arun Jaitley as the FM.

Jaitley is also entrusted with the job of Defence Ministry along with Finance. Although the defence ministry seems to be temporary with him as an additional charge till a full-time cabinet minister takes charge.

The move is probably on the similar integration theme as power and coal being integrated where it is important for the production capacities to be aligned.

"The Defence Ministry being with the same person can be perceived in a couple of ways. It will reduce the chances of crucial purchases getting delayed in the inter-ministerial bureaucracy. It probably also gives the PM more influence on Defence. In my opinion, it will not be perceived as a negative," added Gupta.

Analysts believe that this is a relatively small cabinet currently compared to the last government. So it would emphasize on more governance and transparency.

"New Govt. cabinet would try to remove debottlenecks from the sectors which were badly stuck and try to streamline the policy and bring back confidence of all the stake holders in varied industries," said Siddharth Sedani, Vice President (Portfolio Management Service) at Microsec Capital Ltd.

"Worst seems to be behind for the economy and required a stable and efficient Govt. for revival process to begin. Oil & gas, power and mining sectors seem to be the few sectors which would get immediate attention of the respective cabinet and PMO," he added.

### **Fiscal consolidation top priority:**

Analysts expect the new government to remain on the fiscal consolidation path, though a marginal upward revision of the FY15 fiscal deficit target cannot be ruled out.

The Finance Ministry today said it has to be watchful of the Current Account Deficit (CAD) as well as the rupee because global markets are still volatile. As per the latest data, India's CAD sharply narrowed to 1.7 per cent of the GDP or \$32.4 billion in 2013-14 from a record high of 4.7 per cent in FY'13.

"The outgoing government targeted a FY15 deficit of 4.1 per cent of GDP. We do not expect a significant upward revision given the strong fiscal discipline seen under the previous NDA government and in Gujarat under Modi's leadership," said Standard Chartered Bank said in a report.

"We expect the government to remain highly dependent on disinvestment proceeds (especially in FY15) to contain the fiscal deficit," added the report.

A buoyant equity market increases the chances of higher disinvestment proceeds in FY15 - the BSE PSU index has increased by 56 per cent since the end of February 2014.

"The FM has to carry fiscal consolidation along with curbing inflation and increase investment sentiment in the country. Hence, we have a government in place with full mandate along with young and fresh faces at the helm, which would speed up the revival on the ground going forward," added Sedani.