Our Views

What Would Make This a 'Full-Marks' Budget for the Capital Markets

For over three decades, India's economic strategy has been anchored in attracting capital — foreign and domestic — to fund growth, build infrastructure and deepen financial markets. That effort is far from complete. As India seeks to sustain high growth, finance its energy transition, expand manufacturing capacity and compete for global supply chains, foreign capital will remain indispensable.

At the same time, the effectiveness of capital inflows increasingly depends on how efficiently capital moves within the system once it arrives. Markets may be deeper and savings pools larger, but frictions in corporate restructuring, bank balance sheets, household asset allocation and investor taxation continue to slow capital circulation and dilute impact. The forthcoming Union Budget therefore has an opportunity not just to keep India attractive to global capital, but to ensure that both foreign and domestic capital flows faster, allocates better and remains productively deployed across the economy.

While such reforms may not command immediate attention, they play a critical role in shaping the efficiency and continuity of capital flows. For global investors assessing India's long-term attractiveness, these institutional mechanics often matter as much as headline FDI limits or incentive schemes.

1. **Corporate restructuring**

   Corporate restructuring has become central to capital recycling, yet India's tax and approval framework has not kept pace with market needs. The absence of tax neutrality for fast-track demergers continues to inject uncertainty into transactions, increasing execution risk and delaying reorganisations that are otherwise commercially sound. Extending tax-neutral treatment would reduce compliance friction and allow companies to adapt more swiftly to evolving business realities.

   A similar inconsistency exists in the capital gains treatment of slump sale transactions. While most capital assets attain long-term status within 12 or 24 months, business undertakings transferred through slump sales remain subject to a 36-month holding period. Aligning this threshold with the broader capital gains regime would make asset monetisation more predictable and facilitate smoother redeployment of capital across sectors.

   There is also merit in re-examining the institutional framework governing corporate restructurings. For unlisted companies, a dedicated Corporate Restructuring Authority under the Ministry of Corporate Affairs could replace today's court-centric process with a time-bound, expert-driven mechanism, reserving NCLT intervention for exceptional cases. For listed companies, where SEBI already scrutinises every scheme of arrangement, consolidating final approvals within the market regulator would improve speed without diluting oversight. Faster restructurings directly improve capital turnover — a key metric for both domestic and foreign investors.

2. **Banking sector**

   In the banking and non-banking financial sector, recovery efficiency remains a binding constraint on credit expansion. NBFCs and their industry body, FIDC, have urged the RBI and the Ministry of Finance to harmonise the SARFAESI Act threshold for NBFCs with banks at ₹1 lakh, versus the current ₹20 lakh floor that applies only to NBFCs. Most retail, MSME, gold and vehicle loans fall below ₹20 lakh, effectively denying NBFCs access to SARFAESI for their core customer segments and forcing slower, more litigious recovery routes.

   A uniform ₹1 lakh threshold would level the playing field with banks and housing finance companies, improve recovery efficiency on small-ticket secured loans, strengthen asset quality and reduce credit costs. As the government looks to promote affordable housing and expand formal credit in rural and semi-urban areas, clearer and standardised SARFAESI rules could materially improve credit availability and lender confidence.

   Parallel to this, investors in the BFSI sector are closely watching potential reforms to governance and ownership norms. Capital allocation, especially by strategic and foreign investors, is closely tied to governance influence. The current voting rights cap of 26%, which applies uniformly regardless of shareholding, creates a fundamental misalignment. An investor acquiring 50% or even 51% economic ownership receives only minority voting control. Unsurprisingly, foreign banks and long-term institutional investors find it difficult to justify deploying large amounts of capital without commensurate governance rights.

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This issue assumes greater relevance following the liberalisation of FDI limits in insurance to 100%, signalling a broader shift in the government's approach to capital openness in financial services. Aligning voting rights with economic ownership — with appropriate safeguards — would materially enhance India's attractiveness to high-quality, long-term foreign capital.

3. Turning gold from idle savings into productive capital

Few indicators illustrate India's capital paradox as starkly as gold. Despite rising financialisation, gold remains the country's largest unproductive store of household wealth. Over the past decade, cumulative gold imports have broadly offset foreign investment inflows, diluting the net benefit of external capital through sustained import leakage. Given gold's contribution to the trade deficit, the macroeconomic implications are significant.

The policy imperative is not to suppress household preferences, but to offer credible alternatives that mobilise domestic wealth already within the system. A voluntary gold procurement programme — offering transparent, market-linked pricing with a modest discount — combined with zero-coupon government gold bonds could provide such a pathway. This would formalise household gold holdings, reduce import dependence and redirect savings into productive assets without relying on subsidies or tax arbitrage.

Reducing gold's gravitational pull on household savings would not only strengthen domestic capital formation, but also improve India's ability to absorb foreign inflows without parallel leakages through the external account.

4. Simplifying capital gains to revive investor participation

Capital markets ultimately benefit from simplicity. India's capital gains framework, particularly for mutual funds, has become increasingly complex and uneven across products. Proposals to restore indexation benefits for debt funds, rationalise ELSS rules and introduce targeted debt-linked savings instruments are aimed at restoring balance and predictability.

A simpler and more stable tax regime would reduce friction for retail investors, encourage long-term participation and stabilise flows into capital markets. For fund houses, it would ease compliance and product design. Over time, this would reinforce mutual funds as a primary bridge between household savings and long-term capital formation — a critical complement to foreign capital inflows.

Making capital work harder

Capital attraction and capital efficiency are no longer sequential policy goals; they are mutually reinforcing. India will continue to need foreign capital to finance growth, innovation and structural transformation. But the quality, durability and cost of that capital increasingly depend on how quickly and predictably it can be redeployed across the economy.

The measures outlined — easing corporate restructurings, strengthening recovery frameworks, unlocking household wealth and simplifying investor taxation — may appear incremental in isolation. Taken together, they improve the foundational plumbing of India's financial system. For global investors, they signal not just openness, but institutional maturity. For domestic savers, they promise better intermediation. And for corporate India, these reforms would directly lower friction, shorten decision cycles and improve access to capital.

A Budget that delivers meaningfully on these fronts would likely receive full marks from the capital markets perspective — not because it announces headline-grabbing giveaways, but because it fixes the mechanics that determine how efficiently capital is raised, redeployed and retained in the economy.

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