HIGHLIGHTS OF UNION BUDGET FY 2017 - 18

1st February, 2017

This year's budget had some firsts: 1. Unlike previous years when it would be presented at the end of February, this year it was presented on the 1st of February; 2. For the first time after independence the Railway budget and General budget were combined into one and 3. A holistic view of the expenditures was taken unlike earlier when it used to be classified as planned and unplanned. But, in spite of the market voices proclaiming it as a 'make or break' budget till yesterday; the finance minister, Mr. Arun Jaitley, today, took the middle path and delivered an investor-friendly budget. The budget was one with a rural and socio-economic focus with a large allocation to infrastructure, was redistributive while still adhering to fiscal prudence.

The budget for fiscal 2017-18 came at a time when the global economy faced considerable uncertainty, in the aftermath of major economic and political developments during the last year. External uncertainties in the form of likely US Fed rate hikes, rising commodity prices, especially crude oil, build-up of protectionism in the developed world, etc. have capital flow and fiscal implications for an emerging market like India. Add to that, domestic events like demonetisation and elections in February'17 in 5 states, could have potentially derailed the reform agenda the current government has been treading. Announcing the Budget, the FM stated that '***India stands out as a bright spot in the world economic landscape.***' Several key economic parameters were on a much stronger footing as compared to last year: CPI inflation declined from 6% in July 2016 to 3.4% in December 2016; Current Account Deficit declined from about 1% of GDP last year to 0.3% of GDP in the first half of 2016-17; Foreign Direct Investment (FDI) increased from Rs.1,07,000 crores in the first half of last year to Rs.1,45,000 crores in the first half of 2016-17(an increase by 36%, despite 5% reduction globally); Foreign exchange reserves represents a comfortable cover for about 12 months of imports. The union budget 2017-18 proved yet again that big-bang reforms need not necessarily wait till the budget announcement, but have continued and will continue to be announced through the year.

Key Take Away:
The Finance Minister tried to club the various budgetary allocations under 10 distinct themes as under:

1. Farmers: committed to double the income in 5 years
    - Introduce a new law on contract farming for adoption by states.
    - Expand coverage of existing schemes like Fasal Bima Yojana and National Agricultural Market (e-NAM) while increasing allocation to the Long Term Irrigation Fund.
    - Computerise and integrate all Primary Agriculture Credit Societies with Core Banking System of district Central Cooperative Banks over next 3 years.
    - Introduce two new funds under NABARD; Micro Irrigation Fund and Dairy Processing and Infrastructure Development Fund.
    - Agricultural credit target fixed at record Rs.10 lakh crores.
2. Rural Population: providing employment & basic infrastructure
    - MGNREGA allocation to be highest ever at Rs.48,000 crores.
    - Against target of 5 lakh farm ponds, 10 lakhs would be completed by March 2017. Targeting another 5 lakh for 2017-18.

- Increased allocations for Pradhan Mantri Gramin Sadak Yojana to cover all left wing extremism affected areas and Pradhan Mantri Awaas Yojana targeted towards completing 1 crore houses by 2019.
- On its way to achieve 100% village electrification by 1st May 2018.
- Total allocation for Rural, Agricultural and Allied sectors at Rs.1.87 lakh crores

3. Youth: energising them through education, skills and jobs
    - Skill Acquisition and Knowledge Awareness for Livelihood Promotion programme (SANKALP) to be launched to provide market relevant training to 3.5 crore youth.
    - SWAYAM platform, leveraging IT, to be launched with at least 350 online courses.
    - A scheme for creating employment in the leather and footwear industries along the lines in Textiles Sector to be launched.
    - Several new and innovative initiatives in the field of education announced
4. The Poor and the Underprivileged: strengthening the systems of social security, health care and affordable housing
    - Mahila Shakti Kendra will be set up in 14 lakh ICDS Anganwadi Centres. This will provide one stop convergent support services for empowering rural women with opportunities for skill development, employment, digital literacy, health and nutrition.
    - Affordable housing to be given infrastructure status.
    - To foster a conducive labour environment, legislative reforms is proposed to be undertaken to simplify, rationalise and amalgamate the existing labour laws into 4 Codes on (i) wages; (ii) industrial relations; (iii) social security and welfare; and (iv) safety and working conditions.
    - Increased budgetary allocation to Scheduled Castes, Scheduled Tribes and Minority Affairs.
5. Infrastructure: for efficiency, productivity and quality of life
    - For transportation sector as a whole, including rail, roads, shipping, provision of Rs.2.41 lakh crores has been made in 2017-18.
    - For 2017-18, the total capital and development expenditure of Railways has been pegged at Rs.1.31 lakh crores. This includes Rs.0.55 lakh crores provided by the Government.
    - A new Metro Rail Policy will be announced with focus on innovative models of implementation and financing, as well as standardisation and indigenisation of hardware and software.
    - A new and restructured Central scheme with a focus on export infrastructure, namely, Trade Infrastructure for Export Scheme (TIES) will be launched in 2017-18.
6. Financial Sector: growth & stability by stronger institutions
    - Bill relating to curtail the menace of illicit deposit schemes to be introduced. A bill relating to resolution of financial firms to be introduced.
    - A Computer Emergency Response Team for our Financial Sector (CERT-Fin) to be established.
    - In line with the 'Indradhanush' roadmap, Rs.10,000 crores for recapitalisation of Banks provided in 2017-18.
    - Foreign Investment Promotion Board to be abolished in 2017-18 and further liberalisation of FDI.
7. Digital Economy: for speed, accountability and transparency
    - Proposed to create a Payments Regulatory Board in the Reserve Bank of India by replacing the existing Board for Regulation and Supervision of Payment and Settlement Systems.
    - A proposal to mandate all Government receipts through digital means, beyond a prescribed limit, is under consideration.

- Banks have targeted to introduce additional 10 lakh new POS terminals by March 2017. They will be encouraged to introduce 20 lakh Aadhar based POS by September 2017.
- No transaction above Rs.3 lakh would be permitted in cash subject to certain exceptions.

8. Public Service: effective governance and efficient service delivery through people's participation
    - To utilise the Head Post Offices as front offices for rendering passport services.
    - A Centralised Defence Travel System has been developed through which travel tickets can be booked online by our soldiers and officers.
    - Web based interactive Pension Disbursement System for Defence Pensioners to be established.
9. Prudent Fiscal Management: to ensure optimal deployment of resources and preserve fiscal stability
    - FRBM Committee recommended 3% fiscal deficit for the next three years, keeping in mind the sustainable debt target and need for public investment, fiscal deficit for 2017-18 is targeted at 3.2% of GDP and commitment to achieve 3% in the following year.
    - Net market borrowing of Government restricted to Rs.3.48 lakh crores after buyback in 2017-18, much lower than Rs.4.25 lakh crores of the previous year.
10. Tax Administration: honouring the honest.
    - Reduction in the holding period for computing long term capital gains from transfer of immovable property from 3 years to 2 years. Also, the base year for indexation is proposed to be shifted from 1.4.1981 to 1.4.2001 for all classes of assets including immovable property.
    - Concessional withholding rate of 5% charged on interest earned by foreign entities in external commercial borrowings or in bonds and Government securities is extended to 30.6.2020. This benefit is also extended to Rupee Denominated (Masala) Bonds.
    - Income tax for companies with annual turnover upto Rs.50 crore reduced to 25%.
    - Extension of tax concessions to start-ups.
    - MAT credit is allowed to be carried forward up to a period of 15 years instead of 10 years at present.

Other announcements:

- Transparency in electoral funding:
    - Maximum amount of cash donation, a political party can receive, will be Rs.2000/- from one person.
    - Amendment to the Reserve Bank of India Act to enable the issuance of electoral bonds.
    - Every political party would have to file its return within the time prescribed in accordance with the provision of the Income-tax Act.
    - Existing exemption to the political parties from payment of income-tax would be available only subject to the fulfilment of these conditions.
- Ease of doing business:
    - Foreign Portfolio Investor (FPI) Category I & II exempted from indirect transfer provision.
    - Under scheme for presumptive taxation for professionals with receipt upto Rs.50 lakhs p.a. advance tax can be paid in one instalment instead of four.
    - Scope of domestic transfer pricing restricted to only if one of the entities involved in related party transaction enjoys specified profit-linked deduction.
- Personal Income Tax:
    - Existing rate of taxation for individual assesses between income of Rs.2.5 lakhs to 5 lakhs reduced to 5% from the present rate of 10%
    - Surcharge of 10% of tax payable on categories of individuals whose annual taxable income is between Rs.50 lakhs and Rs.1 crore

Equity Outlook:

The FY17-18 Budget is primarily geared towards the rural and agriculture sector. A significant thrust is given to the capital investment program which can result in a multiplier effect on the economy. Concerns surrounding the treatment of long term capital gains arising before the budget were allayed as there was no mention of such a proposal. Equity markets immediately gave a thumbs up and markets rallied over 1.5%.

The prospect of a lower fiscal deficit, due to better compliance in tax collections, lower expenditure due to plugging of loopholes through Aadhar implementation is expected to result in the government achieving its objectives in terms of fiscal prudence, thereby allowing fiscal expansion. This coupled with lower inflation going forward would enable the RBI to reduce rates in a more aggressive fashion which should be positive for equity markets.

Further, the clear emphasis on tax compliance will enable the government to increase the tax to GDP ratio meaningfully. Overall, the budget can be termed as growth oriented with a clear focus on fiscal prudence. Structurally, India continues to remain in a bull market and the FY 2017-18 Budget only reinforces our stand.

Fixed Income Outlook:

The government has reiterated that macro-economic stability is likely to remain a cornerstone of policy making and hence the Budget for 2017-18 has been made keeping fiscal prudence in mind. The FRBM panel has recommended to keep fiscal deficit @3% of GDP for next 3 years in light of global uncertainty and lower domestic growth. The Finance Minister has set target of 3.2% of GDP for FY2018, while keeping the target of 3% for FY2019. This is to ensure that while fiscal prudence is followed, there is enough resources allocated for public investment. Bond markets were expecting a gross borrowing program of Rs.6.1-6.25 lakh crores on a deficit number of 3.2%. However, strong flows in small savings scheme, post demonetization and sharp reduction in bank deposit rates have provided an unexpected windfall to the government. The small savings scheme is estimated to collect Rs.90,376.57 crores (net) against budget target of Rs.22,107.91 crores (net). Accordingly, the budget of FY2018 has assumed a collection of Rs.1,00,157.16 crores under this head.

The government could have used this unexpected windfall to increase expenditure in FY2017 or shown a much lower fiscal deficit. However, the government chose to use this windfall to buyback short term government debt maturing in 2017-18 amounting to Rs.59,489.84 crores including switches of Rs.40,510.16 crores in FY2017. The government was able to reduce redemptions in 2017-18 by nearly Rs.1 lakh crore. Continuing on the same lines, the government has budgeted buyback of Rs.75,000 crores in FY2018. Hence the Gross Borrowing of the government remains more or less at last year's level i.e. Rs.5.8 lakh crores with net borrowing number of Rs. 3.48 lakh crores. Without the buyback, the net borrowing would have been around Rs. 4.25 lakh crores.

This clearly shows the government intent on reducing government debt burden and continuing on path of fiscal prudence irrespective of political pressures. The Budget also extended the concessional 5% withholding tax on Indian debt for foreign investors till June 2020, which was expiring in June 2017. This will likely be positive for FPI debt inflows, which may have gone out on expectation that the concessional rate may not be extended. With government sticking to fiscal target, RBI is likely to see this as a positive. With last two inflation numbers near 3.5% it is expected that the March 2017 inflation number will likely undershoot 5% by a large margin. Further, dollar strength is waning in wake of the Trump administration's call for a weaker dollar. This is likely to be positive for Emerging Market flows. We continue to expect RBI to cut policy rates by 25bps and continue in an accommodative mode.

Source: www.indiabudget.nic.in