Budget Article

It was very evident that Finance Minister Arun Jaitley's Union Budget 2018 has been designed with an eye on the next central and state government elections. Therefore, it was on expected lines.

If one looks at the Budgets of FY17 and FY18, the move of the government towards driving rural demand was apparent. Today, the announcements included providing monetary support to farmers with better minimum support pricing, benefits on the healthcare side, education, employment and infrastructure.

The Budget also underlined the government's commitment towards affordable housing as the Finance Minister proposed a dedicated fund for the same under National Housing Bank. All of these would drive the rural consumption, which was so far flickering in the Indian economy.

The tax benefit on additional employment and reduction in corporate tax rate for companies with revenue of up to INR 250 crore will help generate employment and will also aid driving capex in small and medium enterprises critical to the growth of the economy.

The government has set a divestment target of INR 80,000 crore for FY19. The Finance Minister also said that Oriental Insurance, National Insurance, and United India Insurance were to be merged into a single insurance company and listed on the bourses. Since raising capital through the same of PSU equity is the agenda, having a vibrant and a fertile capital market becomes imperative.

With this in view, levying of Long Term Capital Gains tax (LTCG) on equities came as a surprise for investors. In fact with the introduction of LTCG and the continuation of Securities Transaction Tax (STT) India becomes one of the very few economies with both LTCG and STT in place. This could lead to some of the volumes moving from Indian exchanges to the Singapore exchange.

The Finance Minister introduced much needed changes in the tax law to allow distress companies to be sold through the Insolvency process. Such companies can now carry forward unabsorbed losses and depreciation and the acquirer would not be affected by MAT provisions, while utilizing the aforesaid losses. However current provisions that create taxable income when business/assets are sold at less than face value continue to be a deterrent in resolution of stressed companies.

In our view the markets were already expecting that the government will not be able to stick to its fiscal deficit target of 3.2% for FY18. But 3.5% came at the higher end of market expectations of 3.3%-3.4%. Also, the fiscal deficit target of 3.3% for FY19 is higher than a more comforting level of 3.1% - 3.2%. On the other hand, I am happy to hear that the government is aiming at containing the debt to GDP ratio to 40%.

The Finance Minister expects to have bullish tax collections, growth of almost 17% (YOY). I think corporate and personal tax collections can be justified, the key question is whether the GST regime will stabilize adequately to support more than 20% growth in GST collections. If this does not happen we could have fiscal deficit, closer to the current year number.

In summary, the budget while committed to the welfare of farmers slipped a bit on fiscal prudence. That said, the markets have so far taken the announcements in its stride and continue to bat solidly.