NRI Sampark

Budget Special

Dear NRI friends,

February 20, 2018

Season's greetings from IDBI Bank.

At the outset, I take this opportunity to share with you the special edition of NRI Sampark, a quarterly newsletter for our esteemed NRI Clients. This special edition is being released to give an insight on Union Budget 2018-19.

Trust you shall find the same useful.

Suggestions, as always are welcome and may be shared on e-mail Id nri@idbi.co.in

Warm regards,
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Union Budget 2018-19

1. The Union Budget for 2018-19 focuses on the development agenda of the country with emphasis on empowering and enabling segments such as the agrarian populace, MSMEs, poor and underprivileged sections, among others and social infrastructure such as healthcare and housing. The Government expects that the revival in the manufacturing sector and continued high growth in the services sector will lead to 7.4% GDP growth in 2018-19, as projected by IMF.

2. Apart from the sector-specific measures announced by the Government, it is notable that the Government is committed to containing the fiscal deficit at 3.5% of GDP in 2017-18 and at 3.3% of GDP in 2018-19. Although deficit targets are higher as compared to previous estimates, higher than estimated expenses and lower than expected revenue on account of lower GST collection coupled with the absence of spectrum auctions have resulted in missing the fiscal deficit target. From the year 2018-19 onwards, it is likely that the gradual pickup in GST collection along with better tax compliance will augur well for fiscal math. The Government has also proposed to accept the key recommendations of the Fiscal Reform and Budget Management Committee with regard to reduction in the Central Government's Debt to GDP ratio to 40% and use Fiscal Deficit target as the key operational parameter. Better fiscal discipline will help the Indian economy in at least two ways directly. Firstly, it will help in containing inflationary pressures in the economy by rationalizing the money supply for productive investments. Secondly, curbing the Government borrowing to a limit would help in avoiding crowding out of private investment, which may otherwise occur. Both would have positive impact on the overall economic growth by driving an increase in investment and income levels.

Union Budget 2018-19

Key Announcement	Impact
Agriculture	
• Minimum Support Price (MSP) for all agricultural commodities to be at least at 1.5 times of the production cost • Setting up of 22,000 Gramin Agricultural Markets (GrAMs) to help small and marginal farmers who often do not have access APMCs and wholesale markets. An Agri-Market Infrastructure Fund will be set up for developing and upgrading agricultural marketing infrastructure. • Develop cluster based model in districts in a scientific manner for identified agriculture produces. • Organic farming in large clusters, preferably of 1000 hectares each, will be encouraged; Women Self Help Groups (SHGs) will also be encouraged to take up organic agriculture in clusters under National Rural Livelihood Programme. • Establishment of specialized agro-processing financial institutions in food processing sector to be promoted. • "Operation Green" – to promote Farmer Producers Organizations (FPOs), agri-logistics, processing facilities and professional management	These Budget announcements, which are in line with the Government's agenda to double farmer income by 2022, will provide major boost to agriculture and allied activities sector. These measures are directed at creating a mechanism for better pricing for the farmers, thereby augmenting their farm income. This would augment the rural demand and improve the debt servicing capacity of the farmers – a credit positive for banks. Emphasis on certain niche segments (organic farming, agro-processing, bamboo cultivation), broadening the scope of KCC facility, liberation of agri exports, etc. open up new avenues for widening and deepening the Bank's agri portfolio. Tax incentive for promoting post-harvest activities of agriculture is expected to encourage "Operation Greens" mission announced and give a boost to Sampada Yojana. Further, it will lead to surplus funds which may be re-invested in the activities of the company.

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Key Announcement	***Impact***
Agriculture	
• Export of agriculture commodities will be liberalized. • KCC facility to be extended to fisheries and animal husbandry farmers • Launch of Re-structured National Bamboo Mission. • Setting up of Long Term Irrigation Fund (LTIF) in NABARD, Fisheries and Aquaculture Infrastructure Development Fund (FAIDF) for fisheries sector and an Animal Husbandry Infrastructure Development Fund (AHIDF). • Volume of institutional credit for agriculture sector increased from Rs.10 lakh crore in 2017-18 to Rs. 11 lakh crore in 2018-19. • Tax incentive for promoting post-harvest activities of agriculture -To allow hundred per cent deduction to the companies registered as Farmer Producer Companies and having annual turnover up to Rs.100 crore in respect of their profit derived from such activities for a period of five years from financial year 2018-19.	This move might also encourage all FPCs to file returns which in turn will help them to gain access to bank credit.
Housing for all by 2022	
• Establishment of a dedicated Affordable Housing Fund (AHF) in National Housing Bank, funded from priority sector lending shortfall and fully serviced bonds authorized by the Government of India.	The Prime Minister Awas Scheme Rural has a target of constructing one crore houses exclusively in rural areas (51 lakhs houses in year 2017-18 and 51 lakh houses during 2018-19) and 37 lakh houses in urban area. This along with announcement for developing better connectivity through development of rural infrastructure is expected to give an impetus to the real estate sector. The Bank may take specific initiatives to target this segment.

Key Announcement	Impact
Social Protection	
• Announced two major initiatives as part of "Ayushman Bharat" programme. ➢ The National Health Policy, 2017 has envisioned Health and Wellness Centres (1.5 lakh centres) as the foundation of India's health system. These lakh centres will bring health care system closer to the homes of people. ➢ Launch a flagship National Health Protection Scheme - the world's largest government funded health care programme which will cover over 10 crore poor and vulnerable families (approximately 50 crore beneficiaries) providing coverage up to 5 lakh rupees per family per year for secondary and tertiary care hospitalization.	These initiatives will go a long way in empowering India's poor and underprivileged section of the society and ensure enhanced productivity, well-being and avert wage loss and impoverishment. Further, besides reinforcing access to healthcare, it would also lead to creation of jobs in healthcare sector as new facilities will come up in districts and villages.
• The Government has identified 115 aspirational districts with an aim to improve the quality of life in these districts by investing in social services like health, education, nutrition, skill upgradation, financial inclusion and infrastructure like irrigation, rural electrification, potable drinking water and access to toilets at an accelerated pace and in a time bound manner.	This initiative is expected to bring about an overall development in these select districts. The Bank could identify / expand presence these districts and chalk out a detailed business plan to tap the emerging potential in segments like housing loan, education loan, investment services, among others, to broaden their retail portfolio.

Key Announcement	***Impact***
Medium, Small and Micro Enterprise (MSMEs) and Employment	
• The Government has allocated Rs.3,794 crore in 2018-19 to the MSME sector	In the backdrop of demonetization and GST, the MSME sector has emerged as a key contributor in generating employment and growth. The allocation of funds targeted at higher credit support, capital and interest subsidy and innovations will help them to be adequately capitalized, providing a further impetus to growth. As far as the banks are concerned, the increase in the capital subsidy quantum will ensure higher credit flow to the sector. The government's plan to address the bad loans in this sector is a positive step for banks too.
• It is proposed to onboard public sector banks and corporates on Trade Electronic Receivable Discounting System (TReDS) platform and link it with GSTN	Banks will be able to access data through this electronic receivable platform for prompt credit assessment of MSMEs. Such credit facilities will be a big boost to the MSME sector by easing their cash flow requirement.
• The Government has proposed to set a corpus of Rs 3 lakh crore for lending under Micro Units Development Refinance Agency (MUDRA) in the fiscal year 2018-19	The target set for Pradhan Mantri Mudra Yojana has been surpassed since its launch in April 2015, which implies there is further scope of growth in this sector. The majority of the loanees being women and the weaker section, the corpus will further support the unfunded and underfunded sector leading to employment generation and poverty alleviation. For the banking sector, the re-emphasis on MUDRA will lead to increase in their PSL portfolio with a higher representation of the weaker section. With the government reviewing the refinancing policy and eligibility criterion set by MUDRA, the NBFCs too will be furthered by increasing their portfolio in this sector.

Key Announcement	***Impact***
• The Government has approved an outlay of Rs 7148 crore for the textile sector in 2018-19.	Higher allocation for textiles will help revival of this sector and also address issue of NPAs which will reduce on incremental basis. Financing units in such textile clusters is likely to be more lucrative for the banks.
• The Government has extended the benefit of reduction of corporate tax rate from 30% to 25% for companies who have reported turnover up to Rs 250 crore in the financial year 2016-17	Proposal to extend the benefit of reduced rate of 25% currently available for companies with turnover of less than 50 crore (in Financial Year 2015-16), to companies reporting turnover up to Rs. 250 crore in Financial Year 2016-17, will benefit the MSME sector leaving them with higher investible surplus which in turn will boost investment and create more jobs. The redeployment of the surplus fund as equity will improve the leverage of the MSMEs, opening up further scope for credit growth. It is also proposed to devise separate measures for the MSMEs to effectively deal their stressed assets and improve their NPA management.
• The Government proposes to make amendments in the Employees Provident Fund and Miscellaneous Provisions Act, 1952 to reduce women employees' contribution to 8% for first three years of their employment against existing rate of 12% or 10% with no change in employers' contribution.	The reduction in women contribution of EPF to 8% from 12% will provide higher disposable income to working women.
• The Government will contribute 12% of the wages of the new employees in the EPF for all the sectors for next three years.	This move will create job opportunities and facilitate generation of employment across all sectors.

Key Announcement	***Impact***
Infrastructure and Financial Sector Development	
• The Government has made an all-time high allocation to rail and road sectors and is committed to further enhance public investment. The budgetary allocation on infrastructure for 2018-19 is Rs.5.97 lakh crore against estimated expenditure of Rs.4.94 lakh crore in 2017-18. • The government's two interlinked programmes – Smart Cities Mission and the AMRUT • The Budget proposes to expand the airport capacity more than five times to handle a billion trips a year under a new initiative - NABH Nirman. Under the Regional connectivity scheme of UDAN (Ude Desh ka Aam Nagrik) initiated by the Government last year, 56 unserved airports and 31 unserved helipads would be connected. • The budget doubled the allocation on Digital India programme to Rs 3073 crore in 2018-19. Rs 10000 crore has been allocated in 2018-19 for creation and augmentation of Telecom infrastructure. • The Government also proposes to setup five lakh wi-fi hotspots which will provide broadband access to five crore rural citizens. • The Government will explore use of block chain technology proactively for ushering in digital economy. • The Government does not consider crypto-currencies legal tender or coin • The Government will evolve a scheme to assign every individual enterprise in India a unique ID, on line with Aadhar	Infrastructure being the growth driver of economy, emphasis has been laid in increased government expenditure in this sector. The government has taken several initiatives to integrate the nation with a network of roads, airports, railways, ports and inland waterways and to provide good quality services to the country. The ambitious Bharatmala Pariyojana has been approved and NHAI to continue with the road development of the country. This will provide seamless connectivity to interior and backward areas and borders of the country. These programmes will further develop 100 small cities with state-of-the-art amenities and provide water supply to all households in 500 cities. It is expected to boost bank credit flow to these centres. It should also serve to stimulate the demand for credit from the affordable housing segment in these cities. The Railway capex being on target is good for backward linkages for steel, cement and electronic goods industry, benefitting industrial growth in FY19. This initiative is expected to improve linkage in the country along with making flying more affordable for the masses. These Budget announcements are a further fillip to the Government's agenda to digitalize Indian economy. The government is opposed to crypto currencies given that they can be a channel for money laundering and terrorist financing. It plans to use blockchain technology to curb its use. This measure is expected to encourage good governance and enhance ease of doing business in the country.

Key Announcement	***Impact***
• Reserve Bank of India has issued guidelines to nudge Corporates access bond market. SEBI will also consider mandating, beginning with large Corporates, to meet about one-fourth of their financing needs from the bond market. • Corporate bonds rated “BBB” or equivalent is investment grade. In India, most regulators permit bonds with the “AA” rating only as eligible for investment. It is now time to move from “AA” to “A” grade ratings. The government and concerned regulators will take necessary action.	In tune with the global trend, the step to mandate large corporates to meet one fourth of their funding needs from the corporate bond market is a forward looking step by the government. This is a further step to widen and deepen the Indian bond market. As the bond prices are market-driven and reflective of the creditworthiness of the borrower, it would lead to better governance standards among corporates. With more option with the treasuries, the banks will now be able to earn more by diversifying their investment portfolio.
Tax Proposal	
• **Relief to salaried taxpayers** *A standard deduction of Rs.40,000/- in lieu of the present exemption in respect of transport allowance and reimbursement of miscellaneous medical expenses is proposed.*	In view of the higher taxes paid by the salaried employees as compared to the individual business persons, a standard deduction of Rs.40,000/- has been provided to the salaried taxpayers leading to an increase in their disposable income.
• **Relief to senior citizen** ➢ *Exemption of interest income on deposits with banks and post offices to be increased from Rs.10,000/- to Rs.50,000/- and TDS shall not be required to be deducted on such income, under section 194A. This benefit shall be available also for interest from all fixed deposits schemes and recurring deposit schemes.*	As the interest received from Bank deposits and post offices for a major portion of income for senior citizens, the benefits announced in the budget including the increase in the limit for insurance premium and medical expenditure will provide a relief for the senior citizens. Increase in the limit of TDS exemption is expected to enhance customer ease by reducing the requirement for submitting Form 15 G/H. This will also lead to operational ease for the banks.

Key Announcement	Impact
➢ *Raised the limit of deduction for health insurance premium and/ or medical expenditure from Rs.30,000/- to Rs.50,000/-, under section 80D. All senior citizens will now be able to claim benefit of deduction up to Rs.50,000/- per annum in respect of any health insurance premium and/or any general medical expenditure incurred*. ➢ *Raised the limit of deduction for medical expenditure in respect of certain critical illness from, Rs.60,000/- in case of senior citizens and from Rs.80,000/- in case of very senior citizens, to Rs.1 lakh in respect of all senior citizens, under section 80DDB*. ➢ *Extended the Pradhan Mantri Vaya Vandana Yojana up to March 2020 under which an assured return of 8% is given by Life Insurance Corporation of India. The existing limit on investment of Rs.7.5 lakh per senior citizen under this scheme has also been enhanced to Rs.15 lakh.*	This would also leave the senior citizens with surplus funds which may translate into short-term FDs.
• **Tax incentive for International Financial Services Centre (IFSC)** ➢ It is proposed to exempt transfer of derivatives and certain securities by non-residents from capital gains tax. ➢ Non-corporate taxpayers operating in IFSC shall be charged Alternate Minimum Tax (AMT) at concessional rate of 9% at par with Minimum Alternate Tax (MAT) applicable for corporates.	This will encourage investment in IFSC thereby leading to better utilization of capacity created.

Key Announcement	Impact
• **Rationalization of Long Term Capital Gains (LTCG)** *Proposed to tax long term capital gains exceeding Rs.1 lakh at the rate of 10% without allowing the benefit of any indexation. However, all gains up to 31st January, 2018 will be grandfathered.*	Re-introduction of long term capital gains tax will bring in additional revenue for the Government and is expected to provide a level playing field across growth oriented funds and dividend distributing funds. However, the imposition of LTCG tax in addition to STT being paid on every transaction will lead to lower returns for the investors. Further, this will affect the compounding in the future when investors switch to other investments (including bank FDs).
Proposed for an amendment in the section 115JB of IT Act pertaining to Minimum Alternate Tax (MAT) on book profits	In the case of a distressed company, the bidder can set off aggregate amount of unabsorbed depreciation and loss brought forward from the book profit. The distressed companies could attract better offers and lenders could see lower haircuts.

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