Publication: The Financial Express	
Page No.: 26	Date: February 02, 2018

EXPERT TAKE

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Govt committed to doubling farmers' income by 2022

THE BUDGET WAS was faced with the task of juggling between fiscal prudence and providing a push to the economy, which has slowed this year and faces headwinds such as a slowing rural economy and rising oil prices. The government has an impressive list of reforms including the GST, Bankruptcy code, recapitalisation of public banks, liberalisation of FDI, etc and it will take some time for some of these to play out.

This Budget is clearly focused, as was widely expected, on directing money to farmers, rural India and the poor. The government appears committed to doubling the income of farmers by 2022 and provide a house to everyone by 2022. The government would raise the MSP for the kharif crop to 1.5x of cost of produce.

The highly successful Ujjwala scheme for free cooking gas has been expanded significantly. A key new scheme was introduction of a national health protection scheme to cover 100 mn families and 500 mn beneficiaries. The aim is to provide ₹5 lakh benefit per family per year for hospitalisation. How this scheme will be rolled out and how it will be funded will be important to watch.

Missing the fiscal deficit target for this year was understandable, given we had both demonetisation and the GST. However, the fiscal deficit target of 3.3% for next year seems a bit higher than expected. The government, however, is committed to Fiscal Responsibility and Budgetary Management (FRBM) Committee report and will bring down central govt debt to GDP ratio to 40% by 2021.

Tax receipts targets for next year seem a tad optimistic, while non-tax receipts have been budgeted somewhat conservatively. Non-tax receipts can provide some buffer should there be slippage on tax revenue estimates.

The Budget may create some upward pressure on prices, particularly food prices. This is on account of higher MSP.

Moreover, expenditure growth has been budgeted higher, which could boost consumption but might entail some inflation.

While the introduction of LTCG is prima facie negative for the equity markets, the grandfathering clause has removed the immediate pain.

On the other hand, the FY19 divestment target means large government equity supply will continue and so a buoyant market would be helpful. Indian markets have recently underperformed global markets and this might continue for awhile till earnings growth shows through. The imposition of LTCG along with STT increases the tax on equity investors.

The opening up of the a rated market to insurance companies and others will be good overall and should lead to spreads in this category coming down. The fiscal deficit number, higher expenditure and some upside pressure on food prices is negative for the bond markets. Consequently the bond markets witnessed a sell-off.