

**INDIA BUDGET COVERAGE**

# India boosts spending on rural poor as cash ban bites

AFP, New Delhi

INDIA'S finance minister pledged to raise spending on the rural poor and halved the basic rate of income tax in his annual budget Wednesday, seeking to ease the pain of a shock move to ban high-value banknotes.

Arun Jaitley defended the so-called demonetisation, saying it would increase revenues by forcing people to declare untaxed wealth, but conceded it had hit the economy and promised relief to the poor ahead of key polls.

Jaitley promised to increase government funding for farmers, who have been hard hit by the currency ban, including by granting them a 60-day waiver on interest for agricultural loans.

He also promised more affordable housing for the poor and pledged to halve the basic rate of income tax for low earners to five percent. "My overall approach while preparing this budget has been to spend more in rural areas, poverty alleviation through fiscal prudence," Jaitley said in a speech to parliament.

He said the government would double the income of farmers in the next five years and bring 10 million households out of poverty by 2019.

The finance minister also laid out further measures to increase tax revenues after last November's currency ban, saying tax evasion had become India's "new normal".

"We are largely a tax non-

compliant society. When too many evade tax, the burden falls on those who are honest," he said. Prime Minister Narendra Modi's unanticipated decision removed around 86 percent of India's available cash at a stroke, triggering massive queues outside banks.

The abrupt shortage of high-value notes hit businesses across the country, especially in cash-intensive sectors like agriculture, real estate and jewellery.

The government conceded on Tuesday that the fallout would hit short-term expansion in the world's fastest-growing major economy, but said it would ultimately help boost growth by reducing corruption.

With elections due in the key battleground state of Uttar Pradesh this month, analysts had predicted the government would try to offset the pain by cutting taxes and announcing spending to help the poor.

On Wednesday Jaitley said the government would slash the basic rate of income tax from 10 percent to five percent.

"The present burden of taxation is mainly on the taxpayer and the salaried employees who are showing their income correctly. Therefore post-demonetisation, there is a legitimate expectation of this class of people to reduce their burden of taxation," he told parliament.

"Also an argument is made that if nominal rate of taxation is kept at a lower slab more



India's Finance Minister Arun Jaitley arrives at the parliament to present the federal budget yesterday.

people will prefer to come in the tax rate." The basic rate applies to those with annual incomes of between 250,000 rupees (\$3,700) and 500,000 rupees and will fall from 10 percent to five percent from April, he said.

Jaitley also said the government was well on the way to meeting its goal of bringing electricity to villages across the country by May 1, 2018.

The government relaxed its fiscal deficit target to 3.2 percent

for the financial year 2017/18, citing the increase in government spending, but said it would be back on track for a three-percent deficit the following financial year.

On Tuesday it had lowered its growth forecast for the 2016-17 fiscal year ending in March to 7.1 percent, down from 7.6 percent in the previous year, acknowledging the pain of its demonetisation scheme.

Jaitley said India had undergone "historic reform" over the

last year but still remained an "engine of global growth".

Modi's government swept to power in 2014 on a promise to tackle corruption and bring about the economic reforms needed to increase growth and provide jobs for a rapidly expanding young population.

"Demonetisation is a bold and decisive strike in a series of measures to arrive at a new normal of bigger, cleaner and real GDP," he said.

## Law to seized assets of financial crooks on cards

AFP, New Delhi

India is considering new measures to seize the assets of "big time offenders" who flee abroad, the finance minister said Wednesday, after tycoon Vijay Mallya left for Britain last year owing over \$1 billion.

Arun Jaitley flagged a proposal to confiscate the domestic holdings of criminals and financial offenders who have escaped the jurisdiction of Indian authorities.

"In the recent past there have been instances of big time offenders -- including economic offenders -- fleeing the country to escape the reach of the law. We have to ensure the law is allowed to take its course," he told parliament.

"The law will have constitutional safeguards and the assets in India would stand confiscated until the person submits himself or herself to the law." Jaitley did not expand on the proposal or refer to specific cases.

Mallya has refused to return home from exile in England despite repeated efforts by India's financial crimes agency to question him.

An Indian court in January ordered a consortium of banks to start the process of recovering roughly \$1 billion in loans from Mallya, known for his flamboyant lifestyle.

The government has been driving a blitz on corruption and undeclared wealth, known as "black money", to try to increase tax revenue and curb India's thriving underground economy.

Its shock decision in November to remove all high-value banknotes from circulation was meant to bring billions in undeclared money back into the formal system.

India is one of the world's most cash-intensive societies. Corruption is endemic and strict tax laws encourage people to keep money off the official books.

The wealthy channel money to tax havens such as Switzerland or Singapore, convert it into jewellery, antiques, paintings or property, or send a relative abroad for half the year to avoid tax.

India has run amnesty schemes to try to lure back ill-gotten gains held abroad, but this new proposal would target assets at home to apply pressure to financial crooks.

## Income tax rate halved to 5pc

AFP, New Delhi

India is to halve the basic rate of income tax to 5 percent, Finance Minister Arun Jaitley announced on Wednesday in his annual budget.

Jaitley said the move would ease the burden of the government's shock decision last year to ban high-value banknotes to combat widespread corruption. It would also encourage more people to pay tax.

"The present burden of taxation is mainly on the taxpayer and the salaried employees who are showing their income correctly," he told parliament.

"Therefore post-demonetisation, there is a legitimate expectation of this class of people to reduce their burden of taxation." Also an argument is made that if nominal rate of taxation is kept at a lower slab, more people will prefer to come in the tax rate."

The basic rate applies to those with annual incomes of between 250,000 rupees (\$3,701) and 500,000 rupees and will fall from 10 percent to five percent from April, he said. Prime Minister Narendra Modi's surprise currency decision removed around 86 percent of India's available cash at one stroke, triggering massive queues outside banks as the authorities struggled to print enough new notes.

## Sensex hits over 3-month high

REUTERS

Indian shares rose 1.8 percent on Wednesday after Finance Minister Arun Jaitley unveiled a budget with a range of incentives for companies and geared towards boosting infrastructure and developing the rural economy.

The broader NSE Nifty ended up 1.81 percent at 8,716.40, while the benchmark BSE Sensex closed 1.76 percent higher at 28,141.64. Both indexes earlier hit their highest since Oct. 25, 2016.

# Jaitley sticks to bank spending plan, no bumper recapitalisation yet

REUTERS, Mumbai

INDIA stuck to a previously planned injection of \$1.5 billion for state-owned banks in the coming financial year, disappointing hopes for a broader recapitalisation and fuelling concern that some may trim lending to keep afloat.

In his budget speech on Wednesday, Finance Minister Arun Jaitley reiterated an earlier plan to put 100 billion rupees into the banks during the fiscal year that begins in April.

Even though Jaitley said the government would provide banks with additional capital if needed, some of those who had hoped for a bigger recapitalisation sum were left disappointed.

"Given certain banks are under significant stress, naturally one would have expected that the government would have augmented the capital injection," said Saswata Guha, a director at Fitch Ratings.

"While they can do that anytime, including it in the budget adds a degree of seriousness, and also adds clarity."

Bank stocks shook off the disappointment, rallying in an overall strong market where the main index .NSEI ended up 1.8 percent, as Jaitley unveiled several incentives for companies, geared toward boosting spending on infrastructure and developing the rural economy.

A move to allow banks higher tax bene-



India's Prime Minister Narendra Modi, President Pranab Mukherjee, Lok Sabha Speaker Sumitra Mahajan and Vice President Mohammad Hamid Ansari arrive at the parliament in New Delhi to attend the first day of the budget session yesterday.

fits on bad loan provisions was also seen as positive. While the government estimates the two dozen banks majority-owned by the state need about \$27 billion in new capital to meet global Basel III banking rules expected to take full effect by March 2019, private economists and analysts peg it much higher.

Fitch Ratings estimates the capital requirement, including that of private sector lenders, at about \$90 billion. About 80 percent of that will have to be met in the next two financial years, Guha said.

India is injecting 700 billion rupees (\$10.4 billion) into the banks in four years to March 2019. With just 200 billion

rupees of that left over the next two financial years, many fear the existing recapitalisation plan will fall well short.

State-run lenders that account for nearly 70 percent of India's banking assets are not favorites of external investors, with \$127 billion in soured loans by June - and weak profits. Several reported losses last year after a clean-up ordered by the central bank drove up their bad-loan provisions.

Adding to their woes, the government's shock move in November to replace about 86 percent of currency in circulation will delay the clean-up of bad loans beyond a March 2017 deadline, bankers and analysts say.

With limited capital and large bad-loan provisions, some weaker banks will have to stop making new loans, hurting the broader economy reliant on such loans to fund projects. Credit growth is also hovering near two-decade lows.

"It looks like the government wants the banks to improve efficiency and raise capital through internal resources," said an executive director at a mid-sized state-run bank.

"If today my bank is not in a position to have adequate core equity capital as per Basel III norms, what will I do?" he added. "I will not increase my advances, but I'll try to recover my non-performing assets."

# Oil giant to take on global rivals



A worker walks atop a tanker wagon to check the freight level at an oil terminal on the outskirts of Kolkata, India.

REUTERS

INDIA plans to form a giant national oil company by combining other state-owned firms, finance minister Arun Jaitley said on Wednesday, as New Delhi wants to expand its foreign presence to meet growing domestic fuel demand.

India, struggling to lift its local oil production, imports about 80 percent of its oil needs. Prime Minister Narendra Modi in 2015 set the goal of cutting this import dependence to 67 percent by 2020. "We propose to create an integrated public sector oil major which will be able to match the performance of international and domestic private sector oil and gas companies," Jaitley said in his budget speech.

India has about a dozen state-run oil and gas companies - including Indian Oil Corp, Oil and Natural Gas Corp, Hindustan Petroleum Corp and others - but alone they do not have the financial

power to rival global oil majors in bids for overseas exploration and production assets. Combining them "will give them capacity to bear higher risks, avail economies of scale, take higher investment decisions and create more value for shareholders," Jaitley said.

It was not clear if Jaitley was talking of a plan to combine all of the state-run oil companies or just some of them. To lift the share of natural gas in India's overall energy mix, Jaitley also announced a cut to the import tax for liquefied natural gas (LNG) to 2.5 percent from 5 percent.

The minister also proposed setting up strategic oil storage facilities at two new locations, one in the eastern state of Odisha and another in the northwestern state of Rajasthan. India is hedging against energy security risks by building emergency storage sites in underground caverns in southern India to hold 36.87 million barrels of crude or about 10 days of its average daily oil demand in 2016.

## Budget fiscally prudent, reforms key: Moody's analyst

REUTERS

India's 2017/18 annual budget is "fiscally prudent," as it maintains the government's fiscal consolidation efforts and would lead to stable economic growth if implemented correctly, a Moody's analyst said on Wednesday.

However, the ratings agency would still need to see more evidence of the effectiveness of reforms to justify a change in its ratings stance, said Marie Diron, associate managing director of the sovereign rating group at Moody's Investors Service.

On Wednesday, Finance Minister Arun Jaitley presented a budget for the fiscal year beginning April 1 that increased spending on rural areas, infrastructure and fighting poverty, but keeping fiscal deficits in check. "It is a fiscally prudent budget," Diron said in a phone interview.

"What would potentially lead to an upgrade would be evidence that these reforms that are being implemented are becoming gradually more effective in ensuring a stable and growth environment, and hence lower debt than currently," Moody's rates India at "Baa3", or its lowest-investment grade, with a "positive" outlook.