EXPERT TAKE

Budget not very sweet for public sector banks

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FM HAS FINELY BALANCED THE NEED FOR HIGHER CAPITAL EXPENDITURE AND REVENUE SPENDING WHILE STAYING TRUE TO FISCAL DEFICIT TARGETS

THE Budget is a fine balancing act by the finance minister, who was caught in a difficult situation where he had to balance the mutually conflicting needs for higher capital expenditure and higher revenue spending, while staying true to fiscal deficit targets. As expected, there was a distinct rural flavour to the Budget, with allocation to both capital creation and welfare schemes being increased. The allocation of ₹17,000 crore for irrigation and thrust on fast-tracking projects will reduce dependence on monsoons. Allocation of ₹38,500 crore for MGNREGA will help in reducing short-term rural distress brought about by deficient rainfall.

Another thrust area was transportation infrastructure, where total allocation is ₹97,000 crore. This, combined with the ₹1.21-lakh capital expenditure target set by the Railways, should help kickstart economic activity in the short term. In the long term, this will help the country reduce its infrastructure deficit, while also providing rural connectivity.

On the revenue front, while many will be disappointed by the dividend distribution tax and Krishi Kalyan cess, it should be appreciated that the FM cannot deliver higher government spending and low fiscal deficits without adequate tax revenues. Given the pre-budget speculation of increase in service tax rates and increasing long-term capital gains threshold, one would see the absence of these proposals as a positive. Furthermore, as an NBFC, we are glad that there is movement towards bringing about tax parity between banks and NBFCs, with the FM allowing NBFCs to claim 5% deduction on provisions for bad loans.

The service tax exemption and the income tax deductions provided to the affordable housing sector will go a long way in generating traction for project developers and housing finance companies. The move towards smoothening resolution of disputes and contract renegotiations for PPP projects is a sign that the PPP regulatory regime in India is finally attaining a fair degree of maturity. The vow to not invoke retrospective tax amendments and fast-tracking resolution of tax disputes should be taken positively.

The Economic Survey had estimated that the banks will require a recapitalisation of ₹1.8 lakh crore over the next three years. The government, in contrast, has allocated just ₹25,000 crore for FY17. Given that PSBs have limited avenues to raise additional capital due to the precarious condition of their balance sheets, one was expecting a higher financial commitment from the government.

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