

INDIA BUDGET 2018

For Private Circulation Only



INDEX

Foreword.....	2
Budget Highlights.....	4
Direct Tax Proposals	9
Indirect Tax Proposals.....	22
Key Policy Changes – 2017-18	28
Capital Market	30
Economic Outlook	34
Sectoral Analysis.....	43

FOREWORD

While the Union Budget 2018 has attracted mixed reviews from various quarters, it is pertinent to understand the background and constraints in which the budget was presented. FY 2015-16 and FY 2016-17 were years of dramatic structural reforms leading to reduction in economic activity in the short run but aiming to facilitate unleashing of true growth potential of Indian economy.

The twin-disruptive reforms of demonetization and GST slowed the revenue traction in the first 9 months of the current fiscal which posed limited options for the Finance Ministry while preparing the Budget. Further, the Government has completed 80% of its term, and its election promise of 'Aachhe Din' beholds it in a year before elections. The Government's almost missionary zeal in creating worthy infrastructure, recapitalizing and reforming banks and such other commitments ensure limited head-room in cutting expenditure meaningfully. Given the above, the budget planners have done a commendable job in restraining their populist instincts, as also, trying to ensure fiscal discipline to the extent possible by ensuring plugging of leakages including non-directed subsidies.

Key stand-out in the otherwise incrementalist budget remains the medical safety-net promised to the bottom 40% of the populace. This shall meaningfully impact living quality of those it matters to. The efficacy of this measure shall be seen, however, in effective delivery of the service, and shall by far the stiffest delivery challenge that the incumbent Government has encountered. The Government can however derive comfort from the fact that the Aadhaar linked backbone is far more robust than it was a few years back. Post smooth implementation of Aadhaar linked Direct Benefit Transfers, medical care package can also be effectively implemented sans leakages.

As far as the tax policy was concerned, reduction in tax slab for Medium Enterprises is an encouraging step towards

furtherance of tax reforms, incentivizing a larger number of companies towards more transparent reporting and better tax compliance, as also, making MSMEs more competitive globally. Though Long Term Capital Gain tax has received much flak from various quarters, the Finance Minister has ensured fair-play through the grand-fathering provision, where in for the purpose of computation of LTCG booked, highest traded price of 31-Jan-2018 shall be deemed to be acquisition price. The impact on the markets seem more to be a short-term knee jerk, which should even out over the medium term. Given the appreciation equity as an asset class has provided over the last few years, as also, potential upside on account of policy reforms/structural shift, 10% tax on capital gains shouldn't have any substantial impact on most investment decisions. Further, more large economies have LTCG tax at similar levels. Government can do well though, to take a relook at STT, given that STT was levied in lieu of LTCG tax in 2004.

Though there has been a minor fiscal slippage, it is more on account of systemic constraints due to the structural shift. The momentum gathered in the last two quarters looks rather enduring, especially given global economic recovery and possibly it can give a serious boost to Government revenues and consequential accelerated expenditure over the next 18 months may bring the reality of '*Achche Din*'.

Like every year, we have created our Budget Analysis in the following pages from both Macro and Micro perspectives.

Hope you would find this booklet useful. Please send us your suggestions / feedback at info@krestonsgco.com



BUDGET HIGHLIGHTS

Economy

- Being the last Union Budget by NDA Government before the next general elections, the Budget was guided by mission to strengthen agriculture, rural development, health, education, employment, MSME and infrastructure sectors.
- Fiscal deficit estimate at 3.5% of GDP at ₹ 5.95 lakh crore for FY 2017-18. Projecting fiscal deficit to be at 3.3% of GDP in next fiscal year.
- ₹ 21.57 lakh crore transferred as net GST to States against a projection of ₹ 21.47 lakh crore.
- As per the first advance estimate (AE), released by CSO, GDP is expected to grow at 6.5% in FY 2017-18 in terms of GDP at constant (2011-12) market prices. The Gross Value Added (GVA) is expected to grow by 6.1% in FY 2017-18, as compared to the growth of 7.1% achieved in FY 2016-17.
- Current Account Deficit (CAD) increased from US\$ 3.8 bn (0.4% of GDP) in H1 of FY 2016-17 to US\$ 22.2 bn (1.8% of GDP) in H1 of FY 2017-18.
- CPI averaged 3.3% in April-December, 2017 and stood at 5.2% in December, 2017.
- During FY 2017-18 (April-September), net FDI inflow was US\$ 19.6 bn as compared to US\$ 20.9 bn in FY 2016-17 (April-September).
- The stock of foreign exchange reserves was US\$ 409.4 bn as on 29-Dec-2017.
- Emphasis on healthcare with introduction of world's largest government-funded healthcare programme.
- Focus was also kept on the agri-economy with the Minimum Selling Price (MSP) for the Kharif Crops set at 1.5 times of the cost of produce.

Budgetary Allocations

- ₹ 16,000 crore allocation for PM Saubhagya Yojana (power connection).
- ₹ 2,000 crore fund to be set up for agricultural market and infrastructure to strengthen the market connectivity.
- ₹ 500 crore will be allocated for Operation Green to be launched to promote agricultural products.
- ₹ 10,000 crore allocated for Fisheries and Aquaculture Development Fund.
- ₹ 10,000 crore allocated for Animal Husbandry Infra Fund.
- ₹ 5,750 crore allocated for National Rural Livelihood Mission (NRLM).
- ₹ 1 lakh crore allocated to revitalization and upgradation of education sector, to promote learning based outcomes and research.
- ₹ 1,200 crore for Aayushman Bharat programme.
- ₹ 600 crore allocated for tuberculosis patients - ₹ 500 per month during the course of treatment for nutritious food.
- ₹ 52,719 crore for social inclusion schemes for Scheduled Castes and ₹ 39,139 crore for social inclusion schemes for Scheduled Tribes.
- ₹ 4.60 lakh crore sanctioned under MUDRA Scheme.
- ₹ 3,794 crore allocated to the MSME sector in the form of capital support and interest subsidy.
- ₹ 5.35 lakh crore outlay to develop 35,000 km under phase 1 of Bharatmala project (Road Infrastructure).
- ₹ 11,000 crore allocated for Mumbai rail network and ₹ 17,000 crore for Bengaluru metro.
- ₹ 3,073 crore allocated to Digital India scheme.
- ₹ 7,148 crore allocated for textile sector.
- Defence outlay raised to ₹ 2.82 lakh crore for FY 2018-19 from ₹ 2.67 lakh crore in current year.

Direct Taxes

- No changes in the tax slab rates of income tax of individuals, HUFs, Firms and Companies.
- New Health and Education Cess of 4% in place of present Education Cess and Secondary & Higher Education Cess of 3%.
- A standard deduction of ₹ 40,000 for salaried employees. However present exemption for transport allowance and reimbursement of medical expenses withdrawn.
- For Senior Citizens, additional benefit of Mediclaim Premium under Section 80D of ₹ 50,000 from present ₹ 30,000.
- For Companies having turnover / gross receipts up to ₹ 250 crore (in FY 2016-17), tax rate reduced to 25% from present 30%.
- Long term capital gain tax of 10% levied on gains from listed equity shares, if shares held more than 12 months, on gain exceeding ₹ 1 lakh without Indexation benefit.
- Short term capital gains tax on equity shares remains unchanged at 15%.
- Tax of 10% levied on distributed income of equity oriented mutual funds.
- For senior citizens - exemption of income from Banks FD and post offices increased up to ₹ 50,000 from present limit of ₹ 10,000.
- Benefit of investment in Bonds u/s. 54EC to be allowed only in respect to Long Term Capital Gain on land or building or both.
- Deemed Dividend u/s. 2(22)(e) to be taxed in hand of the Company itself as DDT @30%.

Goods and Services Tax

- No major changes proposed under the Act, Rules and Regulations of Goods and Services Tax laws.

Customs and Excise

- Scope of the Customs Act extended to include any offence or contravention committed outside India.
- "Indian Customs Waters" scope expanded from existing "Contiguous zone of India" to "Exclusive Economic Zone".
- Scope of assessment expanded and introduction of "risk-based evaluation through appropriate selection criteria" for verifying Self-Assessment.
- Definite time frame provided for adjudication of matter.
- Provision for facilitating imports and exports meant for repair, manufacture and further processing with full or partial duty exemptions.
- Appointment of New Customs Advance Ruling Authority with Appellate mechanism;
- Concept of Electronic Cash Ledger introduced (as in GST).
- Providing legal basis for clearance by Customs Automated System.
- Education Cess (EC) and Secondary and Higher Education Cess (SHEC) abolished
- Social Welfare Surcharge introduced, as Customs Duty, on
 - o 3% on Petrol, high-speed diesel oil, gold and silver
 - o 10% on other imported goods
 - o Goods exempted from EC and SHEC remains exempted
- Customs Duty on solar tempered glass for manufacture of solar cells / panels / modules reduced to Nil from present 5%.
- Customs Duty on various items increased including:
 - o Mobile phones from 15% to 20%; parts thereof to 15%
 - o Food processing products from 30% to 50%

- o Perfumes and toiletry preparations from 10% to 20%
- o Automobiles and automobiles parts by 5%
- o Silk fabrics from 10% to 20%
- o Footwear to 20% and footwear parts to 15%
- o Diamonds, precious stones, jewellery from 2.5% to 5%
- o Toys and games from 10% to 20%
- Road and Infrastructure Cess of ₹ 8 per liter proposed to be levied on imported petrol and high-speed diesel oil, however excise duty reduced



DIRECT TAX PROPOSALS

(Unless Specified, proposals shall take effect from AY 2019-20)

RATES OF TAX / THRESHOLD LIMIT

a. Individual, HUF, AOP, BOI, Artificial Judicial Person

- No Change in tax slabs, basic tax rates and Surcharge.
- Surcharge @10% is applicable where income exceeds ₹ 50 lakhs and @15% where income exceeds ₹ 1 crore.
- Education Cess and Secondary & Higher Education Cess of 3% to be substituted by "Health and Education Cess" of 4%.
- Effective tax rate shall be as under (subject to AMT).

Taxable Income Slab (₹)	Tax Rates (including surcharge & cess)		
	General	Senior Citizen	Very Senior Citizen
Up to 2,50,000	NIL	NIL	NIL
2,50,001 to 3,00,000	5.20%	NIL	NIL
3,00,001 to 5,00,000	5.20%	5.20%	NIL
5,00,001 to 10,00,000	20.80%	20.80%	20.80%
10,00,001 to 50,00,000	31.20%	31.20%	31.20%
50,00,001 to 1,00,00,000	34.32%	34.32%	34.32%
1,00,00,001 and above	35.88%	35.88%	35.88%

b. Firm and LLP

- No change in basic tax rate of 30% and surcharge of 12% for income above ₹ 1 crore.
- Education Cess and Secondary & Higher Education Cess of 3% to be substituted by "Health and Education Cess" of 4%.

- Effective Tax rates shall be as under (subject to AMT)

Taxable Income	Firm/LLP
Up to ₹ 1 crore	31.20%
Above ₹ 1 crore	34.94%

c. Companies

- Tax rate of 25% for domestic companies, having total turnover or gross receipts not exceeding ₹ 250 crore in FY 2016-17 as against earlier ceiling of ₹ 50 crore turnover in FY 2015-16, which was applicable for AY 2018-19.
- For domestic companies, surcharge of 7% is applicable where income exceeds ₹ 1 crore and 12% where income exceeds ₹ 10 crore.
- For foreign companies, surcharge of 2% is applicable where income exceeds ₹ 1 crore and 5% where income exceeds ₹ 10 crore.
- Education Cess and Secondary & Higher Education Cess of 3% to be substituted by "Health and Education Cess" of 4%.
- Effective tax rates shall be as under (Subject to MAT):

Particulars	Domestic Company	Foreign Company
Turnover/Gross Receipts up to ₹ 250 crore in FY 2016-17		
Taxable Income Up to ₹ 1 crore	26.00%	41.60%
Taxable Income above ₹ 1 crore to ₹ 10 crore	27.82%	42.43%
Taxable Income above ₹ 10 crore	29.12%	43.68%
Turnover/Gross Receipts above ₹ 250 Crore in FY 2016-17		
Taxable Income Up to ₹ 1 crore	31.20%	41.60%
Taxable Income above ₹ 1 crore to ₹ 10 crore	33.38%	42.43%
Taxable Income above ₹ 10 Crore	34.94%	43.68%

d. Dividend Distribution Tax (DDT)

- No change in basic tax rate and surcharge.
- Education Cess and Secondary & Higher Education Cess of 3% to be substituted by "Health and Education Cess" of 4%.
- It is proposed to introduce DDT @10% on any income distributed by an equity-oriented fund.

e. Minimum Alternative Tax (MAT) & Alternate Minimum Tax (AMT)

- No change in the basic MAT & AMT rate and surcharge except that AMT of 9% shall be charged in case of units located in International Financial Services Centre.
- Education Cess and Secondary & Higher Education Cess of 3% to be substituted by "Health and Education Cess" of 4%.

f. Permanent Account Number (PAN) u/s. 139A mandatory for certain persons/entities w.e.f. 01-Apr-2018

- Every Person (other than Individual) entering into financial transactions aggregating to ₹ 2.5 lakhs or more in any FY shall be required to apply for PAN.
- Also, managing director, director, partner, trustee, author, founder, karta, chief executive officer, principal officer or office bearer or any person competent to act on behalf of such entities shall also be required to apply for PAN.

g. Clarification on Benefits available under Section 115BA (w.e.f. AY 2017-18)

- It is proposed to amend Section 115BA in the case of startups to clarify that the concessional rate of 25% would be restricted to income arising only from manufacturing, production, research or distribution referred to therein.

h. TDS on interest income to Senior Citizens – Section 194A (w.e.f. 01-Apr-2018)

- It is proposed to increase the threshold limit for deduction of TDS on interest income for senior citizens to ₹ 50,000 as against existing limit of ₹ 10,000.

SALARIES

a. Standard deduction on salary income

- It is proposed to allow standard deduction of ₹ 40,000 on salary income in lieu of existing transport allowance (maximum of ₹ 19,200 p.a.) and reimbursement of medical expenses (maximum of ₹ 15,000 p.a.).

BUSINESS INCOME

a. Taxability of compensation received on termination/ modification of contract

- It is proposed to tax any kind of compensation received on termination or modification of the terms and conditions of any contract relating to business under the head business/ profession.

b. Taxability on conversion of inventory into capital asset

- It is proposed that on conversion of inventory to capital asset, the fair market value of the inventory on the date of conversion shall be taxed as business income.
- Correspondingly, for computing capital gain on transfer of such converted capital asset, the fair market value adopted as on date of conversion shall be taken as the cost of acquisition. Further, the period of holding would be considered from the date of conversion.

c. Key provisions of Income Computation and Disclosure Standards (ICDS)

- In order to bring certainty in the wake of recent judicial pronouncements on applicability of ICDS, it is proposed to make certain amendments in the provisions of the Act:
 - o Deduction in respect of marked to market loss or expected loss as computed in accordance with ICDS shall only be allowable as deduction.
 - o Gain or loss arising on account of foreign currency transactions shall be taxed or allowed in accordance with the ICDS.

- o Profits and gains arising from construction contract and service contracts shall be ascertained in accordance with provisions of ICDS.
- o Valuation of inventories shall be worked out on the basis of ICDS.

d. Amendment in Presumptive scheme for transporters covered u/s. 44AE

- In order to distinguish between the large capacity goods carriages and small capacity goods carriages, it is proposed to amend section 44AE.
- In the case of heavy goods vehicle (more than 12MT gross vehicle weight), the income would be deemed to be an amount equal to ₹ 1,000/- per ton of gross vehicle weight or unladen weight, as the case may be, per month or part of a month for each goods vehicle or the amount claimed to be actually earned by the assessee, whichever is higher.
- The vehicles other than heavy goods vehicle will continue to be taxed as per the existing rates i.e. ₹ 7,500 for every month (or part of a month) for each goods carriage owned by the assessee.

CAPITAL GAINS

a. Withdrawal of exemption on Long Term Capital Gain on sale of listed shares, etc. u/s. 10(38)

- It is proposed to withdraw exemption u/s. 10(38) and insert / amend sections 112A and 115AD to govern the taxation of long term capital gain on sale of listed equity shares, etc.
- Long term capital gain arising to investors from transfer of equity shares or unit of an equity oriented mutual fund or unit of business trust shall be taxed at a concessional rate of 10% on such gain exceeding ₹ 1 Lakh, if:
 - o in the case of equity shares, STT is paid on both acquisition (except in case of certain types of acquisition to be prescribed by Central Government) and transfer of such capital asset; and

- o in case of unit of an equity-oriented fund or a unit of business trust, STT has been paid on transfer of such capital asset
- Grandfathering provisions are proposed for gains accrued till January 31, 2018 in case of capital assets sold after one year from date of acquisition.
- The cost of acquisition of assets acquired before February 01, 2018 shall be deemed **to be higher of:-**
 - o Actual cost of acquisition of such asset; or
 - o **Lower of:-**
 - a. The FMV (highest traded price on January 31, 2018 or highest price on preceding trading day, if not traded on January 31, 2018); and
 - b. Actual consideration received or accrued on transfer of capital asset

Sr.	Particulars	Case I	Case II	Case III
A	Actual Cost	10	30	20
B	Lower of (i) & (ii) below	20	10	10
(i)	FMV on 31-01-2018	20	10	30
(ii)	Sale Consideration	30	20	10
C	Cost = Higher of A & B	20	30	20

- LTCG to be calculated without indexing the cost of acquisition / improvement.
- The deduction under Chapter VIA and rebate under section 87A shall not be allowed.
- In case of FIIs, LTCG (exceeding ₹ 1 lakh) arising on transfer of above referred long term capital asset shall be taxed at 10% under section 115AD.

b. Concession on variation in stamp duty valuation on transfer of immovable property

- It is proposed that in case of transfer of immovable property being land or building [whether held as capital asset (section 50C/56(2)(x)) or stock-in-trade (section 43CA)], if the variation between the stamp duty value and actual sale consideration is not more than 5% of the actual sale consideration, then no adjustment would be made to the actual sale consideration.

c. Restriction of capital gain exemption u/s. 54EC

- It is proposed to amend section 54EC to provide exemption from capital gains arising on transfer of capital assets only being land or building or both (as against all long term capital assets covered earlier) up to ₹ 50 lakhs invested in long term specified assets for a period of 5 years (as against 3 years stipulated earlier).

OTHER SOURCES

a. Compensation received in relation to termination/ modification of employment

- It is proposed to tax the compensation received on termination or modification of the terms and conditions of any contract relating to employment as "Income from Other Sources".

b. Relief on receipt of capital asset by or from a wholly owned subsidiary

- It is proposed that the receipt of capital asset by or from wholly owned subsidiary company for inadequate or without consideration shall not be taxable u/s. 56(2)(x) in the hands of the recipient provided the conditions of section 47(iv) and 47(v) are complied.

DEDUCTIONS

a. Deduction for health insurance premium and medical treatment – Section 80D

- It is proposed to raise deduction from existing ₹ 30,000 to ₹ 50,000 for payment towards health insurance premium, or preventive health check-up, or medical expenditure incurred for the health of senior citizens.

b. Deduction for medical treatment of specified diseases Section 80DDB

- It is proposed to increase the limit of deduction for medical treatment of specified diseases in relation to senior citizens to ₹ 1,00,000 as against the existing limit of ₹ 60,000 and ₹ 80,000 for senior citizens and very senior citizens, respectively.

c. Deduction of interest income to senior citizens - New Section 80TTB

- It is proposed to provide deduction up to ₹ 50,000 in respect of interest income earned by senior citizens out of bank and post office deposits. No separate deduction of ₹ 10,000 u/s. 80TTA shall be allowed to such assessee.

d. Mandatory filing of return within due date for claiming certain deductions - Section 80AC

- It is proposed that no deductions covered under the Chapter VI-A within heading "C – Deductions in respect of certain incomes" (section 80HH to section 80RRB) shall be allowed to the assessee unless the assessee furnishes the return within the due date specified u/s. 139(1).

e. Rationalizing deduction in respect of new employment - Section 80JJAA

- It is proposed that the minimum period of employment for availing the deduction be reduced to 150 days in case of footwear and leather industry from earlier requirement of 240 days.
- It is clarified that where the conditions of employment for 240 days or 150 days is not complied in the first year of employment but is complied in the subsequent year, the person shall be deemed to be employed in the subsequent year.

f. Relaxation in relation to deduction to start-ups – Section 80IAC

- It is proposed to make the following changes for claiming deduction by start-ups:

- o The definition of start-up has been expanded to include businesses having high potential of employment generation or wealth creation.
- o Extension for incorporation date of start-ups from 01-April-2019 to 31-March-2021.
- o Total turnover should not exceed ₹ 25 crore for 7 years from the date of incorporation.

INTERNATIONAL TAXATION

a. Aligning the scope of business connection u/s. 9(1)(i) with modified PE rule as per Multilateral Instrument (MLI)

- The OECD under BEPS Action Plan 7 has revised the definition of the term PE in the context of tax treaties. The revised definition is in relation to dependent agent PE, which under the Income Tax Act is covered under *Explanation 2* to section 9(1)(i).
- In order to have same tax impact on Non-Resident (NR) assessee both under domestic tax laws and under the relevant treaty provisions, it is proposed to amend the definition of agency PE under the Income-tax Act and accordingly the term "business connection" is amended to include any business activity carried through a person who, acting on behalf of the NR, habitually concludes contracts or habitually plays the principal role leading to conclusion of contracts by the NR.

b. Introduction of Significant Economic Presence test for determination of business connection in India

- The traditional concepts of PE have failed to address the challenges posed by new age digital economy, in allocating rights of taxation between the residence and the source State. BEPS Action Plan 1 has tried to address the same.
- India being an active member of the BEPS initiative and based on the recommendation given in Action Plan 1 it is proposed to introduce the Significant Economic Presence test for a non-resident in India by introduction of new explanation.

- Significant Economic Presence means:
 - o Any transaction in respect of any goods, services or property carried out by a NR in India including provision of download of data or software in India if the aggregate of payments arising from such transaction exceeds the amount as may be prescribed, or
 - o Systematic and continuous soliciting of its business activities or engaging in interaction with such number of users as may be prescribed in India through digital means

PROCEDURAL AMENDMENTS

a. Scheme for E-assessment

- It is proposed to prescribe a scheme for the purpose of making electronic assessments to impart greater transparency and accountability, by eliminating the interface between the Assessing Officer and the assessee, optimal utilization of the resources and introduction of team-based assessment.

b. Rationalization of adjustments during processing of return u/s. 143(1) (w.e.f. AY 2018-19)

- It is proposed to amend section 143(1) to provide that no adjustment shall be made in respect of addition of income appearing in Form 26AS or Form 16A or Form 16 which has not been included in computing the total income in the return furnished for AY 2018-19 onwards.

c. Increase in Penalty u/s. 271FA for failure to furnish statement of financial transaction as required u/s. 285BA (w.e.f. AY 2018-19)

Nature of Default	Penalty u/s. 271FA	
	Existing	Changed to
Failure to furnish the statement of financial transaction u/s. 285BA(1)	₹ 100 for every day of default	₹ 500 for every day of default
Failure to furnish the statement of financial transaction within the period specified in the notice issued u/s. 285BA(5)	₹ 500 for every day of default	₹ 1000 for every day of default

d. Appeal against Penalty imposed by Assessing officer/ Commissioner (Appeals) u/s. 271J

- Earlier there was no provision in the Act for filing an appeal with respect to penalty order passed u/s. 271J on an accountant, merchant banker or registered valuer for furnishing incorrect information in reports or certificates. It is now proposed to amend section 253 to make such order appealable before the Appellate Tribunal.
- e. Rationalization of Prosecution u/s. 276CC for failure to furnish return**
- In order to prevent abuse of the provisions for not filing the returns by shell companies and companies holding benami properties, it is proposed that prosecution u/s. 276CC(ii) in case of a company can be launched even if the tax payable after deducting advance tax and TDS is less than ₹ 3,000.

OTHER PROPOSALS

a. Disallowance for TDS defaults and cash payments on expenditures by charitable & religious institutions

- It is proposed that for the purpose of determining the application of income of charitable trust, the following disallowance provisions shall also apply to charitable trusts:
 - o Section 40(a)(ia) (30% disallowance of expenditure on TDS defaults),
 - o Section 40A(3) and 40A(3A) (disallowance for cash payments)shall also apply in case of computation of income of charitable trusts.
- Similar provisions shall also apply in relation to entities specified in sub-clauses (iv), (v), (vi) and (via) of section 10(23C).

b. TDS on 7.75% GOI Savings (Taxable) Bonds, 2018 (w.e.f. AY 2018-19)

- The existing 8% Savings (Taxable) Bonds, 2003 have been replaced with new 7.75% GOI Savings (Taxable) Bonds, 2018. It is proposed to amend Section 193 to provide for TDS on payment of interest on these bonds in excess of ₹ 10,000 to a resident.

c. Extending the benefit of tax free withdrawal from NPS to non-employee subscribers

- It is proposed that 40% of the total amount payable to an assessee (employee or any other person) on closure of his account or on his opting out of the National Pension scheme shall be exempt.

d. Widening of scope of accumulated profits for the purposes of Deemed Dividend (w.e.f. AY 2018-19)

- To prevent abusive arrangements to escape liability of paying tax on distributed profits, it is proposed to insert a new Explanation 2A in section 2(22) to provide that in the case of an amalgamated company, the accumulated profits or losses shall be increased by the accumulated profits of the amalgamating company on the date of amalgamation.

e. Application of DDT to Deemed dividend

- It is proposed to tax deemed dividend u/s. 2(22)(e) also under the scope of dividend distribution tax under section 115-O instead of taxability in the hands of recipient. Further, such deemed dividend is proposed to be taxed @30% without grossing up.

f. Relaxation in Minimum Alternate Tax (MAT) provisions

- It is proposed that in case of a company whose application has been admitted for corporate insolvency under the Insolvency and Bankruptcy Code, 2016, the aggregate amount of brought forward loss including unabsorbed depreciation will be allowed to be reduced from computation of book profit w.e.f. AY 2018-19.

- MAT shall not be applicable to foreign companies covered under presumptive tax scheme u/ss. 44B/ 44BB/ 44BBA/ 44BBB w.r.e.f. AY 2001-02.
- g. Benefits of set off and carry forward of losses (Section 79) (w.e.f. AY 2018-19)**
 - It is proposed that a closely held company shall be eligible to set off and carry forward of the losses if the change in 51% shareholding is pursuant to a resolution plan approved under Insolvency and Bankruptcy Code, 2016.
- h. Amendments in provisions relating to Country-by-Country Report (CbCR) – Sec. 286 (w.e.f. AY 2017-18)**
 - Constituent entity resident in India, having a non-resident parent, shall also furnish CbCR in case its parent entity outside India has no obligation to file the said report in its country or territory.
 - It is proposed to extend the due date for CbCR filing to 12 months from end of reporting accounting year.
 - Definition of Agreement shall include an agreement for exchange of CbCR report and notified by Central Government.

INDIRECT TAX PROPOSALS

CUSTOMS

a. Change in BCD

(Changes to come into effect immediately from 2-February-2018)

Sr.	CTH	Description of Goods	Old Rate	New Rate
I - Incentivizing domestic value addition, 'Make in India'				
A.	Reduction in Customs duty on inputs and raw materials to reduce costs			
		Food Processing		
	08013100	Cashew nuts in shell [Raw cashew]	5%	2.5%
		Capital Goods and Electronics		
	84834000, 84669390, 85371000	Ball screws, linear motion guides, CNC systems for manufacture of all types of CNC machine tools falling under headings 8456 to 8463	7.5%	2.5%
	70	Solar tempered glass or solar tempered [anti-reflective coated] glass for manufacture of solar cells /panels/modules	5%	Nil
B.	Changes in Customs duty to address the problem of duty inversions in certain sectors			
		Medical Devices		
	Any Chapter	Raw materials, parts or accessories for the manufacture of Cochlear Implants	2.5%	Nil
C.	Changes in Customs duty to provide adequate protection to domestic industry			
		Food Processing		
	20091100, 20091200, 20091900	Orange fruit juice	30%	35%

Sr.	CTH	Description of Goods	Old Rate	New Rate
	20092100 to 20099000	Other fruit juices and vegetable juices	30%	50%
	20098100, 20099000	Cranberry juice	10%	50%
	210690	Miscellaneous Food preparations (other than soya protein)	30%	50%
	3303 to 3307	Perfumes and toiletry preparations	10%	20%
		Automobile and automobile parts		
	8702, 8703, 8704, 8711	CKD imports of motor vehicle, motor cars, motor cycles	10%	15%
	8702, 8704	CBU imports of motor vehicles	20%	25%
	40112010	Truck and Bus radial tyres	10%	15%
	5007	Textiles – Silk Fabrics	10%	20%
		Footwear		
	6401 to 6405	Footwear	10%	20%
	6406	Parts of footwear	10%	15%
		Diamonds, precious stones and jewellery		
	71	Cut and polished coloured gemstones	2.5%	5%
	71	Diamonds including lab grown diamonds-semi processed, half-cut or broken; non-industrial diamonds including lab-grown diamonds (other than rough diamonds), including cut and polished diamonds	2.5%	5%
	7117	Imitation Jewellery	15%	20%
		Electronics / Hardware		
	8517 12	Cellular mobile phones	15%	20%
		Specified parts and accessories of cellular mobile phones	7.5%/ 10%	15%

Sr.	CTH	Description of Goods	Old Rate	New Rate
	8504 90 90/ 3926 90 99	PCBA of charger/adaptor and moulded plastics of charger/adaptor of cellular mobile phones	Nil	10%
	Any Chapter	Inputs or parts for manufacture of: a) PCBA, or b) moulded plastics of charger/adaptor of cellular mobile phones	Applicable rate	Nil
	85176290	Smart watches/wearable devices	10%	20%
	85291099 85299090	LCD/LED/OLED panels and other parts of LCD/LED/OLED TVs	7.5%/ 10%	15%
	9401, 9403 9404, 9405	Furniture	10%	20%
	9101,9102 9103, 9105	Watches and Clocks	10%	20%
	9503 to 9508 [except 950691]	Toys and Games	10%	20%
II	Rationalization measures			
		Edible oils of vegetable origin		
	1508, 1509 1510, 1512 1513, 1515	Crude edible vegetable oils like Groundnut oil, Olive oil, Cotton seed oil, Safflower seed oil, Saffola oil, Coconut oil, Palm Kernel/Babassu oil, Linseed oil, Maize corn oil, Castor oil, Sesame oil, other fixed vegetable fats and oils.	12.5%	30%
	1508, 1509 1510, 1512 1513, 1515 151620, 15171021, 15179010, 15180011, 15180021, 15180031	Refined edible vegetable oils, like Ground nut oil, Olive oil, Cotton seed oil, Safflower seed oil, Saffola oil, Coconut oil, Palm Kernel/Babassu oil, Linseed oil, Maize corn oil, Castor oil, Sesame oil, other fixed vegetable fats and oils, edible margarine of vegetable origin, Sal fat; specified goods of heading 1518	20%	35%

Sr.	CTH	Description of Goods	Old Rate	New Rate
		Refractory Items		
	6901	Bricks, blocks, tiles and other ceramic goods of siliceous fossil meals or of similar siliceous earths	10%	7.5%
	6902	Refractory bricks, blocks, tiles and similar refractory ceramic constructional goods, other than those of siliceous fossil meals or similar siliceous earths	5%	7.5%
	6903	Other refractory ceramic goods	5%	7.5%

b. Other Changes

(Changes to come into effect from the date of enactment of Finance Bill)

- Import manifest and Export manifest to be substituted with words "Arrival manifest or import manifest" and "Departure manifest or export manifest" respectively.
- Scope of Customs Act expanded to include any offence or contravention committed outside India by any person.
- Word "Assessment" expanded to include determination of tariff classification, value, exemption / concession, origin of goods or another specific factor which affects duty or tax payable on goods.
- "Indian Customs Waters" scope expanded from existing "Contiguous Zone of India" to "Exclusive Economic Zone (EEZ)".
- Any prohibition or restriction or obligation related to import or export of any goods under any other law shall be applicable only if notified under Customs Act.
- Scope of Self-Assessment expanded to include entry of goods on importation and entry of goods for exportation. Further, selection of cases for verification shall primarily be based on risk evaluation through appropriate selection criteria.

- Scope of reassessment expanded beyond valuation, classification and exemption or concessions of duty availed.
- Provisional assessment of duty expanded to include export consignments.
- Board to be empowered to issue regulations for providing time limit for importer and exporter to submit information / document for finalization of provisional assessment.
- Section 25A and 25B of the Customs Act empowers Central Government to exempt goods, which are imported or which are re-imported after being exported, for repair or further processing or manufacture from Customs duty subject to fulfillment of certain conditions.
- In case of duty not levied or not paid or short levied or short paid or erroneously refunded, Custom Officer, before issuing notice, shall hold pre-notice consultation with person liable to such duty or interest.
- Powers has been given to Custom officers to issue supplementary show cause notices.
- Definite time frame provided for Adjudication - Senior officer can extend current period by another six months (in normal scenario) or one year (in case of collusions, etc.) for adjudication. If Adjudication is not completed within such period, the matter would be concluded as if no notice has been issued.
- Advance ruling provisions has been amended to:
 - o Expand its scope to cover subjects beyond mere determination of duty
 - o Definition of Applicant expanded to make it broad based
 - o Advance Ruling can be obtained in respect of taxes apart from duties either under Customs Act or any other law for time being in force
 - o Advance Ruling can be obtained for any other matter as notified by Central Government
 - o An applicant can be represented by a duly authorized person who is resident in India
 - o Time limit to pronounce advance ruling reduced from 6 months to 3 months
 - o Provides for an option to Custom Authorities or applicant for filing an appeal to Appellate Authority

against the ruling or the order passed by the Customs Authority for Advance Ruling

- Importer, who presents Bill of Entry, shall ensure accuracy, completeness, authenticity, validity of document / information and compliances with restriction or prohibition.
- System of electronic cash ledger has been introduced which would enable payment of duties, taxes, fee, interest & penalty.
- Scope of word "Post" has been expanded to include "Courier" under special provision regarding baggage, goods imported or exported by post and courier to reduce litigation.
- Provision relating to audit has been introduced under the Customs Act.
- Procedure of control delivery system has been introduced which authorize officer to undertake the delivery of any consignment of goods destined in India or foreign country in order to identify persons involved in commission of an offence or contravention of the Customs Act.
- Relief has been provided in respect of fine on confiscated goods where demand proceeding have been closed on the grounds of payment of dues subject to condition that the goods are not prohibited.
- Order for redemption fine of confiscated goods shall be void if the fine is not paid within 120 days, except in cases where appeal is pending. If order is passed before assent of the President and no appeal has been filed, 120 days will be calculated from the date on which assent is received.
- To maintain transparency in import and export and reduction in the transaction cost for clearance of import / export goods separate procedure / documentation for a class of importer / exporter will be notified.
- Reciprocal arrangement for exchange of information facilitating trade, the Central Government may enter into agreement with other countries.
- In line with provision of CGST Act, speed post, courier and registered mail are valid modes of delivery for service of order/decision.

KEY POLICY CHANGES – 2017-18

FEMA / RBI

- Framework of External Commercial Borrowings (ECB) policy amended / harmonized by laying down framework for issuance of Rupee denominated bonds overseas (Masala Bonds).
 - o Any proposal of borrowing by eligible Indian entities by issuance of these bonds shall be examined at the Foreign Exchange Department, Central Office, Mumbai;
 - o Maturity period increased from 3 years to 5 years for investment beyond US\$ 50 mn equivalents INR;
 - o All-in-cost ceiling shall be 300 basis points over the yield of GOI security of corresponding maturity;
 - o Eligible investors shall not be a related party as per Ind AS 24
[A.P. (DIR Series) Circular No. 47 dated 7-Jun-2017]
- Notification No. FEMA 20/2000-RB Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000 and Notification No. FEMA 24/2000-RB Foreign Exchange Management (Investment in Firm or Proprietary concern in India) Regulations, 2000 has been superseded by Notification No. FEMA 20(R)/2017- RB, dated 7-Nov-2017 issued Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2017 wherein the following statements needs attention:—
 - o Key Definition viz. Capital Instruments, Investment, FDI, Foreign Investment, Foreign Portfolio Investment, Group Company, Resident Indian Citizen, NRI & OCI amended;
 - o No RBI approval on transfer of shares by way of sale or gift by NRI / OCI to person resident outside India;

- o Late Fee to be prescribed for late filing of FC-GPR;
- o Allotment of shares to foreign investor within 2 months of receipt of consideration in line with provisions of Companies Act.
- FDI allowed under Government Approval Route for CICs and other investing companies engaged in investing in capital of Indian companies / LLP.
- 100% FDI allowed under Automatic Route in Non-Banking Finance Company (NBFC) registered with RBI.
- Foreign airlines allowed to invest up to 49% under approval route in Air India.
- Real-estate broking service does not amount to real estate business and eligible for 100% FDI under automatic route.
- 100% FDI under automatic route for Single Brand Retail Trading subject to prescribed conditions.
- Issue of shares against non-cash considerations like pre-incorporation expenses, import of machinery etc. permitted under automatic route in case of sectors where FDI allowed under automatic route.
- "Joint audits" mandatory for Indian Investee Company receiving foreign investment in cases where foreign investor specifies a "particular auditor/audit having international network". The joint auditor should not be part of the same network

[DIPP Press Note No.1 (2018 Series)]

CAPITAL MARKET

Primary Equity Markets

- It has been a blockbuster year for the Indian primary market, with ₹ 700 bn capital raised via IPO so far – an all-time high.
- One of the stand out feature of this year has been the number of large-sized IPOs that hit the market. The year witnessed four US\$1 bn plus IPOs – General Insurance Corp of India, The New India Assurance Co, HDFC Standard Life and SBI Life Insurance Co.
- Several factors, including a resilient domestic economy and strong domestic liquidity coming into equities and financialization of domestic savings have contributed to the buoyant market for IPOs. The supply side too has been vibrant with high-quality companies from a wide variety of sectors coming to the market.
- As many as 18 stocks including SME IPO are still trading at over 100% premium to IPO price which includes names like Apex Frozen, Shankara Building Products, Avenue Supermarts, Salasar Techno Engineering, CDSL and AU Small Finance.
- The activity in 2018 could see a rush as companies might look to advance their IPOs considering the general election in 2019.
- With the coming 2019 general election, many companies who have IPO plans will likely move forward with their transactions in the first three quarter of 2018, resulting in pent-up IPO activity



Source: Capitaline IPO Activity data till 15-Dec-2017. Fund raising includes IPO, FPO, QIPs and SMEs

Secondary Markets

- In the December quarter, FIIs invested US\$2.51 bn in Indian shares after selling equities worth US\$3 bn in the previous quarter. However, in the whole year 2017, FII bought Indian shares worth US\$8.01 bn and so far, this year, they have invested US\$1.76 bn in Indian equities. In 2017, Domestic Institutional Investors bought a record ₹ 90,834.80 crore worth of Indian equities. The net FPI/FII investment for the year 2017 is ₹ 2,00,048 crore.
- Some amount of FII activity have shifted from the secondary markets to the primary markets as 2017 was a blockbuster year for Indian primary markets.
- Shareholdings of domestic institutions in listed companies rose to the highest in at least 25 quarters in the three months ended December, 2017 on the back of relentless buying by mutual funds and insurance firms. The financialization of savings after demonetisation led to a shift of flows from physical to financial assets and the trend is expected to continue. Consistent buying by domestic investors in Indian shares kept liquidity intact, driving equities to scale new records.
- In 2017, the Indian stock market regained its status as one of the most favoured destinations for foreign portfolio investors (FPIs), as they have taken their net investment position in equities so far in 2017 to ₹ 55,000 crore - the highest in three years after ₹ 20,500 crore in 2016 and ₹ 17,800 crore in 2015. However, this remains a far cry from the heady levels seen earlier - ₹ 97,000 crore in 2014, ₹ 1.13 lakh crore in 2013 and ₹ 1.28 lakh crore in 2012.
- Domestic MFs witnessed total inflows of ₹ 1.69-lakh crore in 2017. Total AUM of all the fund houses put together soared by over ₹ 5.4 lakh crore, or 32 %, to ₹ 22.35 lakh crore at the end of December 2017 from ₹ 16.93 lakh crore in December 2016.

M&A and PE Activity

- M&As as well as Private Equity, amounted to US\$ 60.5 bn driven by big ticket consolidation and the outlook remains

bullish for the year of 2018. There were 1,147 deals (M&A and PE) worth US\$ 60.54 bn in 2017 while in 2016, there were 1,485 such transactions worth US\$ 57.85 bn. This momentum was largely driven by big ticket consolidation across sectors as companies divested distressed assets in an effort to reduce debt. On the other hand, corporates with strong balance sheets drove acquisitions to capture the market share and increase competitiveness. On the merger and acquisition (M&A) front, the year saw 411 deals valued at US\$ 40 bn, continuing the declining trend after peaking in 2015.

- In terms of target industry, the communications sector witnessed 42.7% of deal activity followed by the energy sector with a 21.34% share. Industrial sector accounted for 10% of deal activity and financial services sector for 9.5%. In 2017, the top five M&A deals accounted for 57% share.
- Indian PE activities recorded a growth of over 45% over 2016, with deal values clocking US\$20.3 bn from 736 investments:

Deal Summary Year	Volume (Nos.)		Value (in US\$ bn)		Avg. deal value (in US\$ bn)	
	CY 2016	CY 2017	CY 2016	CY 2017	CY 2016	CY 2017
Domestic	358	664	7.2	13.1	0.02	0.02
Cross-Border	195	280	10.3	33.4	0.052	0.12
Total M&A	553	944	17.5	46.5	0.031	0.05

Debt Capital Markets

- Overseas investors poured in a staggering ₹ 1.5 lakh crore in the Indian debt markets in 2017 on the back of higher bond yields and stable currency, after pulling out massive funds in the preceding year. The overall net inflow has made 2017 the best period for debt markets in terms of overseas investment since 2014.

- Foreign Portfolio Investors (FPIs) bought net assets worth ₹ 1.49 lakh crore into the debt markets in 2017. This was in stark contrast to the pullout of ₹ 43,645 seen in 2016.
- As of 31-Jan-2018, the 5 year G-Sec increased by 46 basis points and 10 year G-Sec by 74 basis points respectively from 31-Mar-2017. The yields witnessed quite some volatility during the year and rose sharply on the back of projected fiscal deficit and the expectation that RBI may take a hawkish view going forward:

Particulars		FY 2015	FY 2016	FY 2017
Public Issues	Nos.	42	53	66
	Value	34,322	36,615	82,188
Debt Private Placements	Nos.	2,682	4,636	1,801
	Value	4,93,911	11,85,878	4,80,923
Commercial Papers	Nos.	6,135	6,688	4,997
	Value	8,59,367	10,60,409	9,06,302
Total	Nos.	8,859	11,377	6,864
	Value	13,87,600	22,82,902	14,69,413

**As on 31-Dec-2017, value in ₹ Crores*

ECONOMIC OUTLOOK

OVERVIEW

The global economy found its post-crisis footing in 2017, with most major economies surprising on the upside and stock markets around the world hitting record highs. The International Monetary Fund (IMF) said in October that "The outlook is strengthening, with a notable pickup in investment, trade and industrial production, together with rising confidence". The IMF added the caveat that "recovery is not yet complete". As per Expectation of IMF global economic growth averaged 3.7% in 2017 which is a 0.5% higher than 2016. The Eurozone particularly showed a surprising growth which was at a ten-year high and unemployment was at a nine-year low. The U.S. economy grew 3.3% in the third quarter of 2017, a three-year high, and unemployment is the lowest since 2000. US was successful in getting a massive corporate tax cut package which is expected to improve growth further. China looked to be beating its target of 6.5% growth in 2017, though it continues to face risks. Even Russia, which has struggled for several years because of low oil prices and sanctions over Ukraine, is seeing modest growth. First half of 2017 however saw emergence of geopolitical risks e.g., North Korea vs. US and spill over of surgical strike between India and Pakistan. Interestingly 2017 was a year of crypto currencies and emergence of blockchain technology which took the world by surprise.

Backing the reforms initiated by the Government in the last three years, in 2017 Moody's raised the rating for India from the lowest investment grade of Baa 3 to Baa 2, and changed the outlook from stable to positive. It's the first upgrade of India's rating in 14 years For India in the short run the change in outlook on crude oil, expected rise in global interest rates, faster tightening of US monetary policy and protectionist trade policy will pose a challenge. US President has been giving signals for depreciating dollar and Indian exports could well be facing some challenge again in 2018 due to strong rupee.

First half of 2017 saw India rapidly come out of demonetisation and adjust to changing regime of GST. Also, India saw an implementation of Bankruptcy code

which became law in 2016. So far, more than 500 cases have been admitted by the National Company Law Tribunal (NCLT) for resolution under the code. A pathbreaking PSU bank recapitalisation programme of ₹ 2.11 lakh crore was announced. Second half of 2017 saw turnaround in earnings of major corporates on the back of lower Base Created due to demonetisation last year and could see uptick in consumption across the sectors.

Inflation however saw a marginal uptick in 2017 and current account deficit also saw an increase on the back of rising imports and increasing crude prices. Both the indicators however are still in comfortable zone. Forex reserves surged to a record high of US\$ 409 bn. On the back of stable fundamentals Rupee has been one of the most stable currencies in the world for last two years compared to other emerging economies as well as developed economies.

On the fiscal front, India is expected to achieve 3.5% fiscal deficit in 2017-18 as compared to the 3.2% budgeted target last year. The impact was visible on the Government benchmark 10 year G-sec yield which surged by 100 bps in last one year signalling end of falling interest rates. The fiscal deficit target was achieved on the back of buoyant direct tax revenue, stabilising GST revenue and achievement of more than estimated disinvestment target on the back of buoyant equity markets. India has kept a modest target of 3.3% of fiscal deficit for next year which looks achievable on the back of continued recovery in GDP. Indian economy has now become a US\$ 2.5 trillion.

Government is making best efforts by making huge investments in roads, railways etc. It has set an ambitious target to ramp up road construction activity from 23 km per day to 40 km per day and has prepared a strong pipeline of road projects, which entails an investment of ₹ 7 trillion (center and state put together). India has embraced a lot of bold reforms in last two years and it is expected that these reforms will bear the fruits at accelerated pace in coming few years increased pace of expenditure on infrastructure by Government, affordable housing scheme will continue to keep economy buoyant but private capex is still a big challenge of Indian economy which needs to come back to accelerate the pace. GST will still pose a challenge and is expected to stabilise in coming one year.

Economic Growth Rate

The growth in GDP moderated in 2017-18 *vis-à-vis* 2016-17. However, FY 2017-18 was marked with strong macro-economic fundamentals with increase in global confidence in Indian economy as well as improvement in ease of doing business ranking.

As per the 1st Advanced Estimates released by the Central Statistics Office (CSO), the economy is expected to grow by 6.5% in 2017-18 in terms of GDP at constant (2011-12) market prices. The gross value added (GVA) at constant (2011-12) basic prices is expected to grow by 6.1% in 2017-18, as compared to the growth of 7.1% achieved in 2016-17. The growth in agriculture, industry and services is estimated at 2.1%, 4.4% and 8.3% respectively in 2017-18, as compared to 4.9%, 5.6% and 7.7% in 2016-17. Growth rate of industry sector declined in 2017-18, mainly on account of moderate growth in manufacturing sector. It was the services sector that contributed to more than half of the overall GVA growth rate of 6.1% in 2017-18. From the demand side, the final consumption expenditure has been the major driver of GDP growth. The growth of fixed investment at constant prices increased from 2.4% in 2016-17 to 4.5% in 2017-18. As per CSO, the exports of goods and services are estimated to grow by 4.5% in real terms in 2017-18 as was the case in 2016-17, whereas the imports are estimated to grow by 10% in 2017-18 as against 2.3% in 2016-17.

Contribution of components to real GDP growth

Final expenditures	Growth (%)				
	2013-14	2014-15	2015-16 (PE)	2016-17	2017-18 (AE)
Private final consumption	6.8	6.2	7.4	8.7	6.3
Government final consumption	0.4	12.8	2.2	20.8	8.5
Fixed capital formation	3.4	4.9	3.9	2.4	4.5
Change in stock	(18.6)	20.3	5.5	6.1	3.4
Valuables	(42.2)	15.4	0.3	(17.5)	71.3
Export of goods and services	7.8	1.7	(5.2)	4.5	4.5
Import of goods and services	(8.2)	0.8	(2.8)	2.3	10.0
GDP growth rate a constant market prices	6.6	7.2	7.6	7.1	6.5

Fiscal Developments:

In spite of significant headwinds like GST implementation resulting in shortfall in indirect tax collection, as also, general election scheduled in 2019, commitment to fiscal prudence led to just a minor slippage in fiscal deficit from a target of 3.2% in FY 18 to an estimate of 3.5% for the period.

Government is firm on its journey to achieve fiscal target of 3.3% of GDP in FY 2018-19. Fiscal Deficit target was brought down to 4.1% in 2014-15, to 3.9% in 2015-16 and to 3.2% in 2016-17.

The budget estimates (BE) for 2017-18 envisaged a tax to GDP ratio of 11.3% and total expenditure to GDP ratio 12.7%. The envisaged growth for gross tax revenue (GTR) was 12.2% over revised estimate (RE) of 2016-17. As per the data on Union Government finances for April-November, 2017 released by Comptroller General of Accounts, the GTR increased by 16.5% in comparison to the corresponding period of the previous year and was at 56.9% of BE of 2017-18. The non-tax revenue registered a decline of 39.7% over the corresponding period of the previous year. On the contrary, at the end of November, 2017, the non-debt capital receipts increased by 89.9% and stood at 73.3% of the BE of 2017-18.

Fiscal deficit and revenue deficit at 112% of BE and 152.2% of the BE respectively in the year 2017-18 (April-November) was higher than the five-year average of 89.2% and 97.8% respectively. The revised estimates place fiscal and revenue deficits at 3.5% of GDP and 2.6% of GDP respectively in 2017-18.

Prices

Consumer Price Index (combined) inflation (base 2012=100) for 2016-17 declined to 4.5% from 4.9% in 2015-16. It averaged 3.3% in April-December, 2017 and stood at 5.2% in December 2017. Food inflation based on Consumer Food Price Index (CFPI) declined to 4.2% in 2016-17 from 4.9% in 2015-16. It averaged 1.2% in April-December, 2017 and stood at 5.0% in December, 2017.

Inflation measured in terms of Wholesale Price Index (WPI), increased to 1.7% in 2016-17 from (-)3.7% in 2015-16 and 1.2% in 2014-15. It averaged 2.9% in April-December, 2017 and stood at 3.6% in December, 2017.

The Government, in consultation with RBI has fixed the inflation target of 4% with tolerance level of +/-2% for the period beginning from 5-Aug-2016 to 31-Mar-2021.

Monetary Management and Financial Intermediation

Monetary policy during 2017-18 has been conducted under the revised statutory framework, which became effective from 5-Aug-2016. In 2017-18, till December, 2017, five meetings of the Monetary Policy Committee (MPC) had been held. In the third bi-monthly Monetary Policy Statement for 2017-18 in August, 2017, the MPC decided to reduce the policy Repo Rate by 25 basis points to 6%. It kept the rates unchanged both in October and the latest meeting held in December. Accordingly, the reverse repo rate under the Liquidity Adjustment Facility (LAF) stands at 5.75%, Marginal Standing Facility (MSF) rate and the Bank Rate at 6.25%. In tandem with the remonetisation process, from 17-Nov-2017, as a favourable base effect set in, the Year on Year (YoY) growth of both Currency in Circulation (CIC) and Reserve Money (M0) turned sharply positive and higher than their respective growth rates in the previous year. As on 22-Dec-2017, M0 recorded an expansion of 54.8% over 23-Dec-2016, primarily on account of an increase in CIC which stood at 94.4% of its pre-demonetisation level.

The YoY growth of broad money (M3) had slackened post-demonetisation but remained positive– in contrast to the contraction in M0 – because the reduction in Currency with Public (CwP) was partially offset by an upsurge in aggregate deposits. During 2017-18, the YoY growth of M3 began picking up distinctly from end-September, 2017. After demonetisation in November, 2016, the Reserve Bank had scaled up its liquidity absorption operations using a mix of both conventional and unconventional instruments. Liquidity conditions remain in surplus mode even as its magnitude moderated gradually with progressive remonetisation. Weighted Average Call Rate in recent months has drifted to the middle of the policy corridor.

Balance of Payments

Current Account - India's current account deficit (CAD) increased from US\$ 3.8 bn (0.4% of GDP) in H1 of 2016-17 to US\$ 22.2 bn (1.8% of GDP) in H1 of 2017-18.

Capital / Finance Account

Foreign Direct Investment (FDI) into the country grew by 37% to US\$ 10.4 bn during the first quarter of the fiscal Year of 2017-18. The capital account surplus, which includes FDI and portfolio inflows, was at US\$6.9 bn in the September quarter compared with US\$4.3 bn a year ago.

Foreign Exchange Reserves

On BoP basis, there was net accretion to India's foreign exchange reserves by US\$ 20.9 bn in 2017-18 (April-September), while it increased by US\$ 30.3 bn including valuation changes. This resulted in increase in the stock of foreign exchange reserves, which stood at US\$ 400.2 bn at end September, 2017. The stock of foreign exchange reserves was US\$ 409.4 bn as on 29-Dec-2017. While trade deficit widened in 2017-18 H1 as compared to 2016-17 H1, the improvement in invisibles balance and the net capital flows dominated by foreign investment and banking capital was more than sufficient to finance the CAD, leading to accretion in foreign exchange reserves in 2017-18 H1.

Appreciation of major Currencies against US\$ during April-December, 2017			
Indian Rupee	Mexican Peso	Chinese Renminbi	South African Rand
1.47%	-5.06%	5.54%	7.84%

External Debt

At end-September, 2017, India's external debt stock stood at US\$ 496 bn, recording an increase of US\$ 23.9 bn (5.1%) over the level at end-March, 2017. The rise in external debt during the period was primarily due to the increase in foreign portfolio investment (FPI) in the debt segment of domestic capital market included under commercial borrowings. Some increase in short-term debt primarily due to trade related credit also contributed to the overall increase in total external debt. On a sequential basis, total external debt at end-September, 2017 increased by US\$ 10 bn (2.1%) from the end June, 2017 level.

Sectoral Developments

Industry and Services

The performance of the industrial sectors based on the Index of Industrial Production (IIP) comprising mining, manufacturing and electricity reveals the industrial sector registered a growth of 3.2% during April-November, 2017, as compared to 5.5% during the corresponding period of previous year. As per the sectoral classification, mining, manufacturing and electricity sectors registered 3.0%, 3.1% and 5.2% growth during April-November, 2017 over the corresponding period of previous year respectively. Among the use-based categories, primary goods, capital goods, intermediate goods, infrastructure/construction goods, consumer non-durables goods attained positive growth during April-November, 2017.

Banking Sector

The performance of the banking sector, Public Sector Banks (PSBs) in particular, continued to be subdued in the current financial year. The gross non-performing advances (GNPA) ratio of Scheduled Commercial Banks (SCBs) increased from 9.6% in March 2017 to 10.2% in September, 2017. Capital to risk-weighted asset ratio of SCBs increased from 13.6% to 13.9% between March and September, 2017. Non-Food Credit (NFC) grew at 8.9% YoY in November, 2017 as compared to 4.8% in November 2016. Bank credit lending to services and personal loans segments continue to be the major contributor to overall NFC growth. Credit growth finally picked up in industrial sector after remaining persistently negative from October, 2016 to October, 2017. However, growth of credit in Medium industries has remained negative since June, 2015.

Agriculture

As per the Fourth Advance Estimates released by Department of Agriculture, Co-operation and Farmer's Welfare, the country achieved a record production of food grains estimated at 275.7 mn tonnes in 2016-17, which is higher by 10.7 mn tonnes than the previous record production of food grains achieved in 2013-14. The production of rice is estimated at 110.2 mn tonnes during 2016-17 which is also a new record. Similarly, the production of wheat, estimated at 98.4 mn tonnes is higher by 2.6% than the previous record production

achieved during 2013-14. Another significant achievement is the production of pulses, which is estimated at 23 mn tonnes during 2016-17, higher by 3.7 mn tonnes than the previous record production achieved during 2013-14. The production of oilseeds and cotton registered a growth of 27% and 10.3% respectively in 2016-17. Agricultural credit in India has been growing consistently at above 17 % annually during the last decade. During 2017-18, banks have disbursed ₹ 5.88 lakh crore (provisional as on 30-Sep-2017) against the annual agriculture credit target of ₹ 10 lakh crore for 2017-18.

External Sector

The value of India's merchandise exports (customs basis) increased by 5.2% to US\$ 275.9 bn in 2016-17. In April-December, 2017, exports increased by 12.1% to US\$ 223.5 bn from US\$ 199.5 bn in the corresponding period of the previous year. Imports had also increased by 0.9% in 2016-17. Imports at US\$ 338.4 bn in April-December, 2017 showed an increase of 21.8% from US\$ 277.9 bn in the corresponding period of the previous year. Imports of petroleum, oil and lubricants (POL) increased by 24.2% in April- December, 2017 to US\$ 76.1 bn from US\$ 61.3 bn in the corresponding period of the previous year, mainly due to the rise in international crude oil prices. Non-POL imports for April-December, 2017 increased by 21.1% to US\$ 262.2 bn from US\$ 216.6 bn in the corresponding period of the previous year.

Outlook

Indian economy, post demonetisation and implementation of GST showed lot of resilience and growth came back faster than anticipated. Some credit needs to be given to improved global sentiment as well. Improved tax buoyancy and increased number of taxpayers clearly shows a rising trend. Rationalisation of GST, PSU Bank recapitalisation, Bankruptcy code are expected to put Indian growth story on accelerated mode. A much-needed boost to infrastructure and rural economy seems to be in place, expected normal monsoon would improve the domestic consumption manifolds. Reduced tax rate for SMEs could push employment further. Private capex may improve in coming year. Coupled with global recovery India as well could be basking on global growth bandwagon.

While some risks are still lurking on the horizon e.g., rising crude prices, increasing fiscal deficit, increasing interest rates, unresolved NPAs, protectionist trade policies of developed economies, depreciating dollar, struggling exports etc. India will have to balance these major risks with rising geopolitical fears.

There is a high likelihood that India will manage these risks comfortably and grow at 7 to 7.5% in 2018 and become the fastest growing economy of the world.

□□

SECTORAL ANALYSIS

Financial Services Sector

Positive

Budget Proposals

- Finance Minister urged all regulators to move from 'AA' to 'A' rating for investment eligibility of companies
- No change in corporate tax rate for Life Insurance companies: to be taken up by the Direct tax Committee
- Crop Insurance outlay increased to ₹ 13,000 crore from ₹ 9,000 crore
- Merger of weaker state general insurers
- Mudra Target for financial companies increased to ₹ 3 lakh crore (from ₹ 2.4 lakh crore)
- SEBI to discuss with large corporates to borrow 25% of total from the corporate bond market

Impact

- Merging of state insurers will reduce competitive intensity and benefit existing players
- Further development/promotion of corporate bond markets in India by urging corporates to use the bond markets for borrowing
- Enhancement of the investible universe from 'AA' to 'A' is expected to provide better pricing in high yield instruments and larger volumes of trade

Infrastructure

Positive

Budget Proposals

- Budgetary allocation on infrastructure for FY 2018-19 to ₹ 5.97 lakh crore against estimated expenditure of ₹ 4.94 lakh crore in FY 2017-18
- Outlay towards the Bharatmala project to develop 35,000 km roads to the tune of ₹ 5.35 lakh crore
- Agri-market Infrastructure Fund with a corpus of ₹ 2,000 crore to be set up for developing and upgrading

agricultural marketing infrastructure in the 22000 Grameen Agricultural Markets (GrAMs) and 585 APMCs

- Mumbai's local train network will have 90 kilometers of double line tracks at a cost of over ₹ 11,000 crore

Impact

- Infra spending is at an all-time high and annually increased by 20% with boosted spending on social & physical infrastructure
- Other marginal increases in allocations to Mumbai local train network and agriculture marketing initiatives may seem tepid but important nonetheless
- Strong thrust on new capacity building with growth of 29% in new lines, 35% in gauge conversion, 33% in track renewals and 176% in metropolitan projects. Rail electrification targeted at 4000 kms during FY 2018-19.

Agriculture

Positive

Budget Proposals

- MSP hiked to 1.5x of production cost for all unannounced kharif crops after declaring the same for the majority of rabi crops
- Setting up of a Fisheries and Aqua culture Infrastructure Development Fund (FAIDF) for fisheries sector and an Animal Husbandry Infrastructure Development Fund (AHIDF) for financing infrastructure requirement of animal husbandry sector with a total corpus of ₹ 10,000 crore for the two new funds
- Total fertilizer subsidy allocated is ₹ 70,000 crore (₹ 45,000 crore for urea and ₹ 25,000 crore for complex fertilizers).
- Allocation of Ministry of Food Processing has been doubled from ₹ 715 crore in 2017-18 to ₹ 1400 crore in 2018-19
- Pradhan Mantri Fasal Bima Yojna (PMFBY) – budget provision of ₹ 13,000 crore in FY 2019 against ₹ 9,000 crore in FY 2018
- Irrigation - Pradhan Mantri Krishi Sinchai Yojana (PMKSY)- Per Drop More Crop, allocation has been increased to ₹ 9,400 crores from earlier budget of ₹ 7,400 crores

- Proposed 100% deduction to companies registered as Farmer Producer Companies with an annual turnover up to ₹ 100 crore on profit derived from such activities, for a period of five years from FY 2018-19

Impact

- Fertilizer subsidy increment positive for fertilizer companies. This will decrease their working capital requirements and improve the RoCE for the business
- Step up in agricultural credit and crop insurance can help improve demand for agricultural inputs

Telecom

Neutral

Budget Proposals

- Overall allocation of around ₹ 14,500 crore for 2018-19 to augment telecom infrastructure projects, which include an alternate communication network for defence services.
- Allocated ₹ 10,000 crore for expansion of telecom infrastructure managed by the Department of Telecom
- Proposed to allocate ₹ 8,000 crore for Bharat Net project for providing broadband services in 1.5 lakh gram panchayats
- Proceeds from License fee and spectrum charges from telecom service providers at ₹ 4,860 crores against ₹ 3,070 crore in FY17 RE

Impact

- As per expectation, Government is not planning for spectrum auction in FY 2019. ₹ 4,830 crore comprise only recurring charges and deferred payments from earlier spectrum auctions. However actual revenues may undershoot as telecom sector revenues are declining due intense competition

Education and Healthcare

Positive

Budget Proposals

- Estimated budgetary expenditure on health, education and social protection for 2018-19 is ₹ 1.38 lakh crore against estimated expenditure of ₹ 1.22 lakh crore in 2017-18

- Proposed to launch 'Revitalising Infrastructure and Systems in Education (RISE) by 2022' with a total investment of ₹ 1 lakh crore in next four years, to step up investments in research and related infrastructure in premier educational institutions, including health institutions
- World's largest Health Protection Scheme covering over 10 crore poor and vulnerable families launched with a family limit up to ₹ 5 lakh for secondary and tertiary treatment
- To allocate additional ₹ 600 crore to provide nutritional support to all TB patients at the rate of ₹ 500 per 10 month for the duration of their treatment
- Allocation on National Social Assistance Programme this year has been kept at ₹ 9,975 crore

Impact

- Focus on research and related infrastructure in premier educational institutions, including health institutions
- India's overall allocation to this important sector in the last decade has hovered between 3.5-4% of total expenditure. Last year, the figure was 3.7% and is estimated to be 3.84% in the coming year, portraying a steady rise in allocations
- The National Health Policy 2017 indicated that health expenditure would increase to 2.5% of GDP, but the goal is still far (it is 1.2% of the GDP right now). The increase in allocation towards healthcare is a minuscule 2.76% compared to last year's budget. In fact, just 2.2% of the total spending in budget is towards healthcare

Auto

Positive

Budget Proposals

- Increase in customs duty on Completely Knocked Down (CKDs)/Completely Built Units (CBUs)
- Truck and Bus radial tyres - customs duty raised to 15% from 10%
- Customs Duty on specified parts/accessories of motor vehicles, motor cars, motor cycles parts raised from 7.5%/10% to 15%

- Lithium-ion batteries customs duty revised to 20% from 10%

Impact

- Positive for domestic OEMs farm equipment, two-wheeler manufacturers and truck & bus operators and radial tyre manufacturers in India
- Tax hike in motor vehicle parts will help improve demand for domestic manufacturers in auto ancillary space
- Custom duty revision in lithium-ion batteries will delay EV implementation in India giving time for domestic battery manufacturers to set up capacities for Li-ion.

□□