Website: forbesindia.com	Date: February 02, 2018
Link: http://www.forbesindia.com/article/budget-2018/budget-2018-private-capex-got-less-focus/49291/1	

Budget 2018: Private capex got less focus

LTCG tax move disappointed the markets; there could be a slowdown

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PUBLISHED: Feb 1, 2018

After a pause on the fiscal consolidation path where the fiscal deficit for the current year was the same as the previous year, the government has again embarked on the fiscal consolidation path and pegged the fiscal deficit at 3.3 percent for FY19.
There was a clear focus in this budget on the rural economy, on farmers and the poor. The government has announced that minimum support prices will be one and a half times the cost. The government will launch a flagship National Health Protection Scheme to cover over 10 crore poor and vulnerable families (approximately 50 crore beneficiaries) providing coverage up to Rs 5 lakh per family per year for secondary and tertiary care hospitalisation. This will be the world's largest government-funded health care programme.

Capex seems to have got a little less focus in this budget. The previous year's budgeted capex was Rs 3 lakh crore against which Rs 2.8 lakh crore is likely to be achieved this year. The provision for next year is Rs 3.09 lakh crore, which doesn't seem to be much of an increase.

The government has taken steps to improve the corporate bond markets. Sebi will consider mandating corporates to meet about one-fourth of their financing needs from the bond market. In India, most regulators permit bonds with 'AA' rating only as eligible for investment. It is now proposed to move from 'AA' to 'A' grade ratings which would bring in more players and reduce the spreads on these bonds.

A key tax change has been the reduction in corporate tax rate of 25 percent to companies with turnover less than Rs 2.5 billion. In the last budget, this reduced tax rate was allowed for companies with turnover of less than Rs 0.5 billion. Unfortunately, the other corporates actually end up spending a bit more on tax as a result