

Budget 2018 : Banks left with only small gifts from FM Arun Jaitley

With no big bang announcements on the Budget day, the banking sector had to be satisfied with what they already have. In fact, were given a bigger task to provide incremental loans worth Rs 5 lakh crore in Fy19.

“Bank recapitalisation program has been launched with bonds of Rs 80,000 crore being issued this year. The programme has been integrated with an ambitious reform agenda, under the rubric of an Enhanced Access and Service Excellence (EASE) programme. This recapitalisation will pave the way for the public sector banks to lend additional credit of Rs 5 lakh crore,” Finance Minister Arun Jaitley said in his Budget speech.

Banking stocks fell 197.74 points to end the day's trade weaker by 0.64 percent on the BSE.

Lauding the Budget, Indian Banks' Association (IBA) Chairman Usha Ananthasubramanian said: “Some measures to address the stressed assets problems of MSMEs, increased MUDRA loans to the tune of Rs. 3,00,000 crores, tax concessions to MSMEs are big positives for this sector and would help the banks to lend more to this sector.”

Jaitley said government will soon announce measures for effectively addressing non-performing assets and stressed accounts of MSMEs (micro, small and medium enterprises). This will enable larger financing of MSMEs and also considerably ease cash flow challenges faced by them, he said.

He also proposed to extend the facility of Kisan Credit Cards to fisheries and animal husbandry farmers to help them meet their working capital needs.

There were also no new big announcements with regards to the resolution of non-performing assets (NPAs) which the banking sector is currently struggling to deal with.

The Economic Survey 2018-19, released two days back had said: “Gross NPA ratio of Scheduled Commercial Banks (SCBs) increased from 9.6 percent to 10.2 percent between March 2017 and September 2017.”

The government will also establish a dedicated Affordable Housing Fund in National Housing Bank, funded from priority sector lending shortfall and fully serviced bonds authorised by the government.

RA Sankara Narayanan, CEO and Managing Director of Vijaya Bank, said: "The boost to the affordable housing segment has an impact on other sectors too."

On credit growth, he said only government guaranteed projects are growing and the improvement in the MSME and other sectors will be followed by country's economic movement.

Insolvency benefits

Jaitley, however, reiterated the benefits of IBC by saying it "has changed the lender-debtor relationship".

"The recapitalised banks will now have a greater ability to support growth. All these structural reforms in the medium and long run will help Indian economy achieve stronger growth for a long time," Jaitley added.

Apart from providing a marginal relief on tax arising due to book profit (MAT) on account of write back of debt of companies undergoing insolvency proceedings under the Insolvency and Bankruptcy Code (IBC).

"Currently in case of unlisted company any change of majority voting rights leads to lapse of carry forward losses. Budget has provided relief to allow carry forward of losses by companies under insolvency resolution process even if majority voting rights undergo change. Realignment of structure through transfer of securities between parent and its wholly owned subsidiary ('WOS') possible without tax implications," said Jinesh Shah, Partner, Tax, Deal Advisory, KPMG India.

Regional Rural Banks

The Budget also proposed to allow strong Regional Rural Banks (RRBs) to raise capital from the market to enable them increase their credit to rural economy.

Set up in 1975, RRBs are local level banks operating in different States of India. They have been created with a view to serve primarily the rural areas of India with basic banking and financial services.

Country's largest lender, State Bank of India (SBI) is planning initial public offerings (IPOs) of two of its 14 RRBs in the next one year.

Digital Economy

On some other benefits, the Budget announced distributed ledger system or the block chain technology to allow organization of any chain of records or transactions without the need of intermediaries.

Despite dismissing the consideration of crypto-currencies as legal tender or coin and warning of all measures to eliminate use of these crypto-assets in financing illegitimate activities or as part of the payment system, the Government will explore use of block chain technology proactively for ushering in digital economy.

It also propagated to replace the system of toll payments physically by cash at road toll plazas with Fastags and other electronic payment systems to make road travel seamless.

“Number of Fastags has gone up from about 60,000 in December, 2016 to more than 10 lakh now. From December, 2017 all class ‘M’ and ‘N’ vehicles are being sold only with the Fastags. The Government will come out with a policy to introduce toll system on ‘pay as you use’ basis,” the minister said.