UNION BUDGET 2019-20

05 July 2019

A budget for US$ 5tn economy

The Budget aims to catapult India to a US$ 5tn economy led by private sector and infra investments. In order to kick start growth cycle, PSB recap of Rs 700bn has been announced. Revenue estimates are in-line with growth outlook and thus credible. Higher excise collections and non-tax revenues have given room to stick to glide path of fiscal deficit of 3% in FY21/22. This will bring cost of capital down and thus set path for investment led recovery.

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KEY HIGHLIGHTS

- Fiscal deficit lowered to 3.3% in FY20 from 3.4% in FY20IB.
- GST, income tax estimates revised lower; excise and non-tax revenues revised upwards.
- Government to stick to fiscal glide path of 3% in FY21/22.

Investment focused Budget: The Finance Minister has laid the roadmap for an investment led recovery through focus on labour reforms, Make in India, infrastructure spending (roads, rail, airports and housing) and financing through setting up of Credit Guarantee Enhancement Corporation in 2019-20.

PSB recap to drive growth: In order to kick start the growth cycle, the Finance Minister has allocated Rs 700bn to recapitalise PSBs so as to ensure higher credit availability in the economy. PSBs are also being incentivised to purchase NBFC assets so as to provide liquidity to them. This along with changes in regulation for debenture redemption reserve for NBFCs should change the growth outlook for NBFCs and thus the economy.

Revenue estimates are credible: Compared with Interim Budget, income tax and GST revenue estimates for FY20 have been revised lower by Rs 510bn and Rs 979bn respectively. The new estimates are in-line with consumption and income outlook in the near-term. However, compared with Interim Budget estimates, customs and excise revenue collections have been increased by Rs 105bn and Rs 404bn respectively on the back of higher duties/ taxes/ cess.

Non-tax revenues revised upwards: Non-tax revenues under dividends, railways and 5G auction have been revised upwards from the Interim Budget levels. Higher dividend is now expected from PSUs (led by banks) and RBI. Disinvestment receipts are also expected to increase as government is looking at diluting stake below 51% on case-by-case basis.

Fiscal deficit at 3.3% in FY20: Higher non-tax revenues and disinvestment assumptions along with prudent expenditure management has allowed a lower fiscal deficit of 3.3% in FY20 (3.4% Interim Budget). Notably, government will follow the glide path of 3% in FY21/22 which implies lower issuances and cost of capital for the economy and thus ties-in with boosting private investments.

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Budget for a US$ 5tn economy

Investment emerges as a key theme

In her first Budget, Nirmala Sitharaman has put focus on stimulating investment demand so as to achieve the target of US$ 5tn economy by 2025. This requires GDP growth of 8% per year led by investments of Rs 20tn/year for the next 5 years led by roads, railways, airports, inland waterways and affordable housing. For financing the same, a start has been made with setting up of Credit Guarantee Enhancement Corporation in 2019-20. In addition, the government will continue to spend on infrastructure sector. Labour reforms and opening up of sectors/ limits for higher FDI and FPI inflows will give a boost to make in India. Higher custom duties is also a step in the same direction.

An important element in driving investment rate in the economy is reducing the cost of capital. For this, the government has decided to stick to the fiscal glide path of 3% of GDP in 2020-21 and 2021-22. A part of the government borrowings will also be now raised in international markets thus reducing the domestic issuances. Hence, not only will the savings rate increase, but domestic interest rates should also fall in the medium-term.

In the near-term, the government will be recapitalising PSBs to the tune of Rs 700bn to kick-start the growth and credit cycle. Issues related to NBFCs have also been addressed with PSBs being encouraged to buy NBFC assets so as to provide them with liquidity through partial credit guarantee.

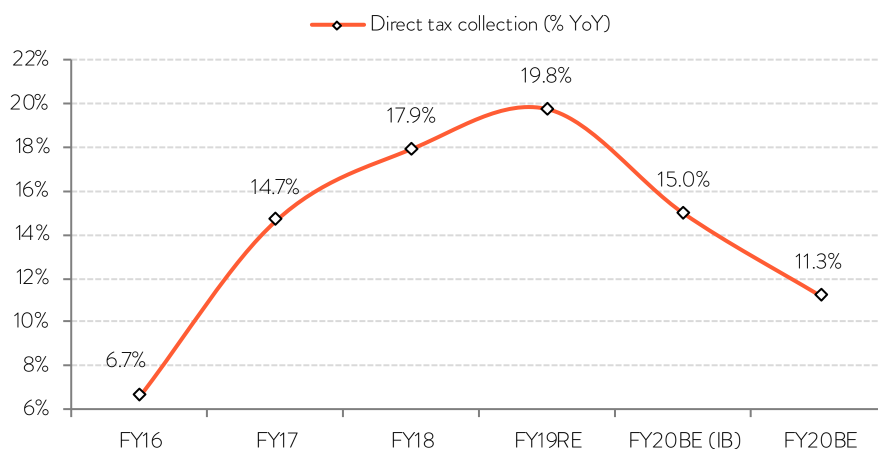
Excise, customs and corporate taxes to drive revenues in FY20

The Budget has made substantial revisions to tax assumptions for 2019-20 starting with personal income taxes and GST collections. Personal income taxes are now estimated to increase only by 7.6% to Rs 5.69tn compared with estimate of Rs 6.2tn in the Interim Budget. In case of GST, the estimate has been pared down to Rs 6.63tn (an increase of 3% in FY20BE) compared with Rs 7.61tn in Interim Budget. The decline is led by CGST collections which have been revised downward by Rs 840bn, in-line with collections seen in Apr-May'19.

While GST collections will be muted, customs and excise collections are likely to see a large increase. Custom duties have been increased on gold, PVC, auto parts, synthetic rubbers and engineering goods which will drive a 19.9% increase in collections to Rs 1.55tn. Excise collections will increase by 15.6% after excise and cess on petrol and diesel has been raised by Rs 2/ litre.

Hence, the estimates are much more realistic with direct tax revenues likely to increase by 11.3% in FY20 led by corporate taxes which are estimated to increase by 14.2% on the back of higher earnings by Banks. Indirect taxes are estimated to increase by 7.3% which ties-in with reduction in GST rates and consumption slowdown.

FIG 1 – DIRECT TAX COLLECTIONS LOWER DUE TO INCOME TAX



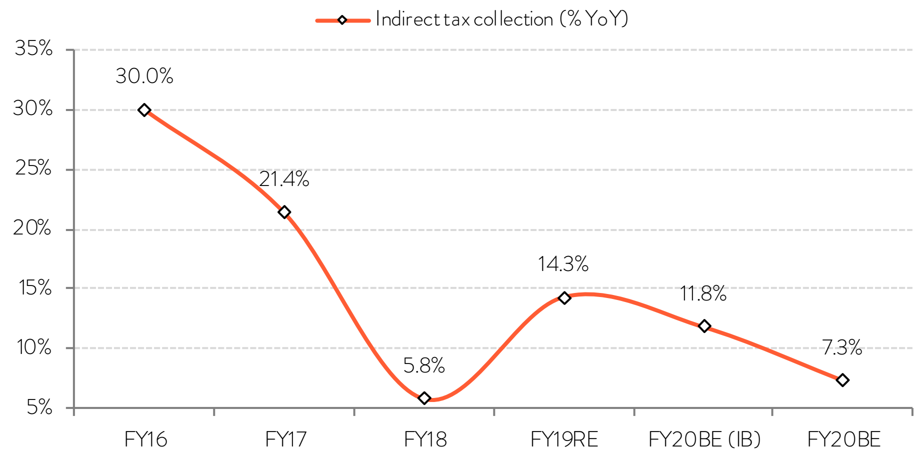
Source: Budget Documents, Bank of Baroda Research | Note: BE-Budget Estimates; RE-Revised Estimates; IB-Interim Budget estimates

FIG 2 – INDIRECT TAX COLLECTIONS

(Rs bn)	FY18	FY19RE	FY20IB	FY20BE
Customs	**1,290**	**1,300**	**1,454**	**1,559**
Change (%)	(42.7)	0.8	11.8	19.9
Union excise duties	**2,594**	**2,596**	**2,596**	**3,000**
Change (%)	(32.1)	0.1	0	15.6
CGST	2,033	5,039	6,100	5,260
Change (%)		147.9	21.1	4.4
IGST	1,767	500	500	280
Change (%)		(71.7)	0	(44)
Cess	626	900	1,012	1,093
Change (%)		43.7	12.4	21.5
Total GST	**4426**	**6,439**	**7,612**	**6,633**
Change (%)		45.2	18.2	3

Source: Budget Documents, Bank of Baroda Research | Note: BE-Budget Estimates; RE-Revised Estimates; IB-Interim Budget estimates

FIG 3 – INDIRECT TAX COLLECTIONS GROWTH TO REMAIN LOW



Source: Budget Documents, Bank of Baroda Research | Note: BE-Budget Estimates; RE-Revised Estimates; IB-Interim Budget estimates

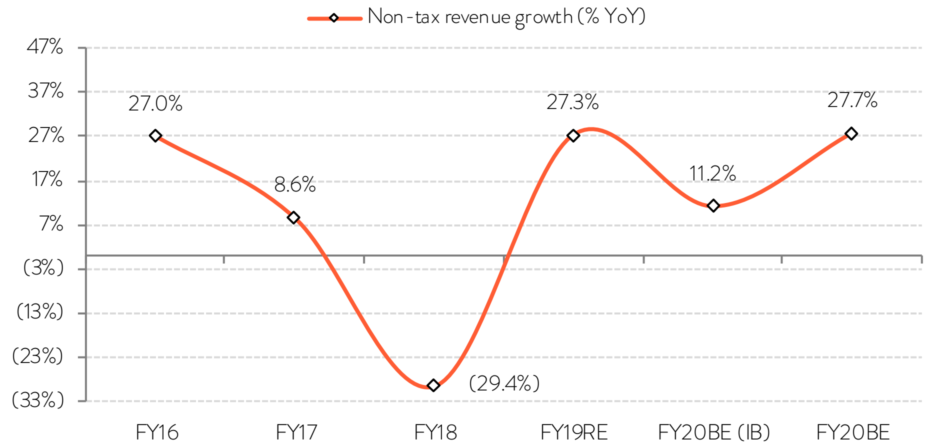
Non-tax revenues to see a large increase

While tax revenues are likely to increase only by 9.5%, indirect tax revenues are estimated to increase by 27.7% to Rs 3.13tn. This is Rs 405bn higher than Interim Budget estimate. So what is driving this increase?

First, dividends from Public Sector Institutions and RBI are now estimated at Rs 1.63tn in FY20, an upward revision of Rs 275bn from Interim Budget. Higher RBI dividend and improved profitability of banks explains this. Second, railway earning are estimated to be higher by Rs 112bn compared with Interim Budget. Third, revenues from communication services, essentially 5G auction, is also estimated to be higher by Rs 90bn from projection in the Interim Budget.

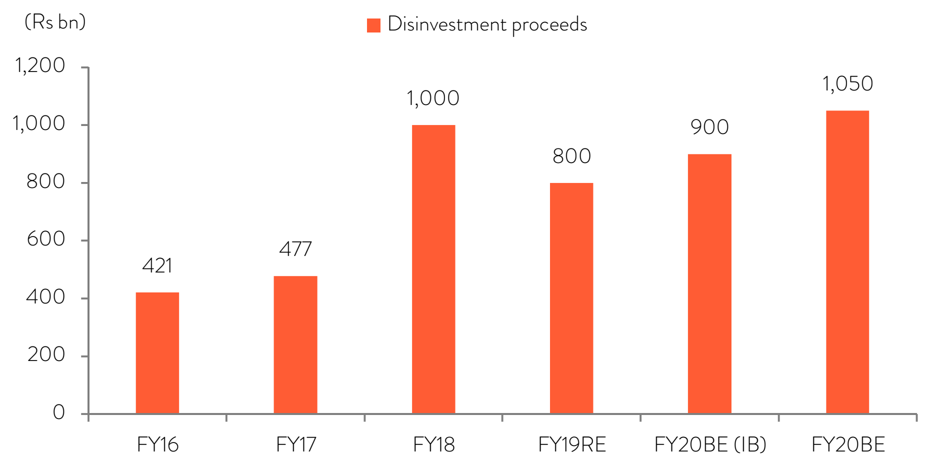
In addition, capital receipts are expected to increase to Rs 8.23tn in FY20 from Rs 8.06tn projected in the Interim Budget due to higher disinvestment receipts at Rs 1.05tn compared with Rs 900bn in Interim Budget. The government's plan to bring its shareholding below 51% in certain non-financial PSEs can also help to deliver this target.

FIG 4 – NON-TAX REVENUE GROWTH TO PICK UP



Source: Budget Documents, Bank of Baroda Research | Note: BE-Budget Estimates; RE-Revised Estimates; IB-Interim Budget estimates

FIG 5 – DISINVESTMENT PROCEEDS TO RISE



Source: Budget Documents, Bank of Baroda Research | Note: BE-Budget Estimates; RE-Revised Estimates; IB-Interim Budget estimates

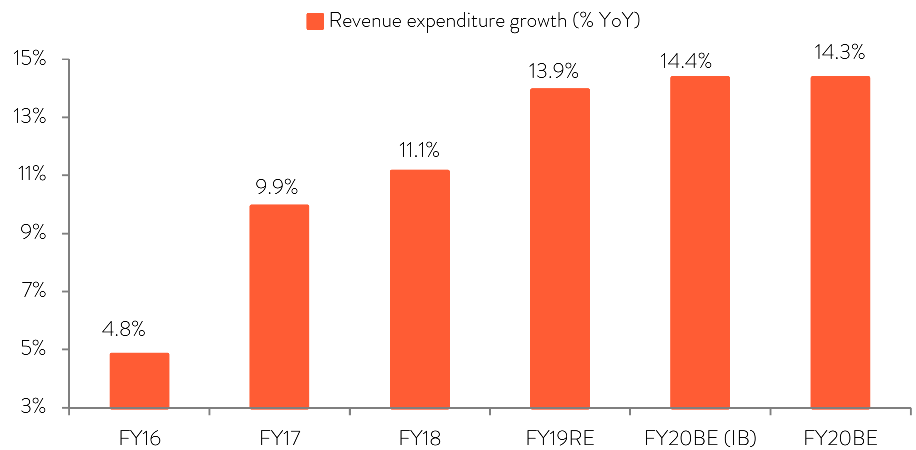
Recap of Rs 700bn is the big change from Interim Budget

Recapitalisation of Public Sector Banks to the tune of Rs 700bn emerged as a big departure from the Interim Budget. This is expected to stimulate credit demand of the economy and spur growth in the near term.

Otherwise, the Budget has maintained revenue and capital spending level of the Interim Budget at Rs 24.5tn (an increase of 14.3%) and Rs 3.4tn (6.9% increase) respectively. Not much change has been made to Ministry wise allocations. Spending is led by agriculture at Rs 1.51tn (75% increase), health at Rs 650bn (16.2% increase) and education at Rs 949bn (13.4% increase). Within agriculture, the spending is for implementation of PM-KISAN.

However, reliance towards IEBR would continue at Rs 5.4tn in FY20 or 2.5% of GDP in FY20BE as against Rs 6.1tn seen in FY19RE. While this is lower than FY19RE, it is significantly higher than level seen in FY17 at Rs 3.4tn. The maximum allocation under the IEBR has been kept for FCI (16.8% share in IEBR), railways (17.5%), petroleum (17.4%) and NHAI (13.9%).

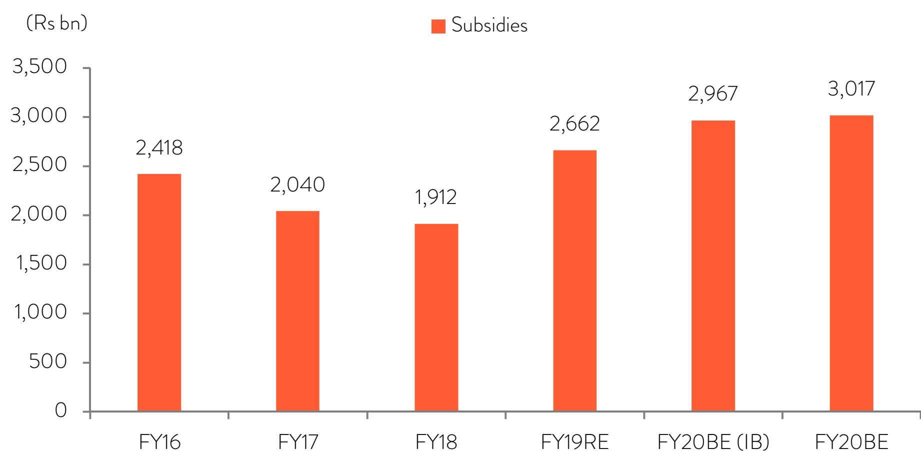
FIG 6 – REVENUE EXPENDITURE TO REMAIN HIGH



Source: Budget Documents, Bank of Baroda Research | Note: BE-Budget Estimates; RE-Revised Estimates; IB-Interim Budget estimates

Subsidies continue to increase and now are estimated at Rs 3.01tn (an increase of 13.3%) compared with Interim Budget estimate of Rs 2.96tn. The increase is led by fertiliser subsidy (up by Rs 50bn) for clearing some of the arrears.

FIG 7 – SUBSIDIES INCREASING STEADILY



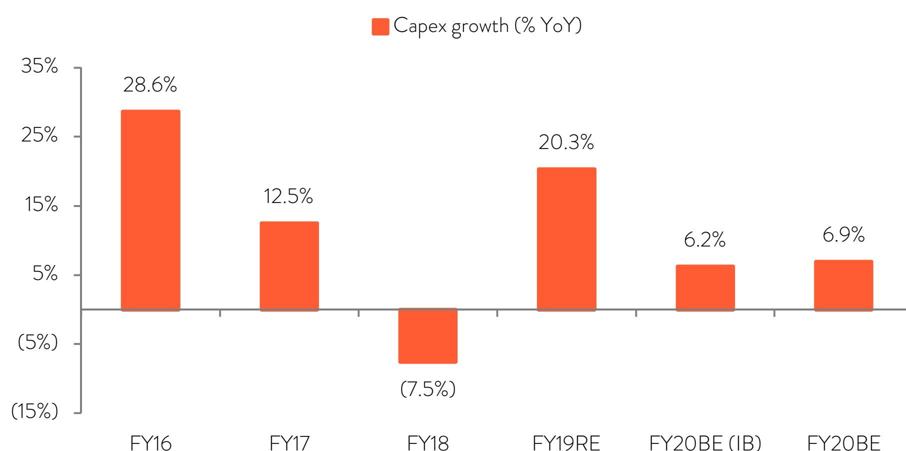
Source: Budget Documents, Bank of Baroda Research | Note: BE-Budget Estimates; RE-Revised Estimates; IB-Interim Budget estimates

FIG 8 – MINISTRY-WISE IEBR

(Ministry wise IEBR, Rs bn)	Share (%)	FY18	FY19RE	FY20BE
Consumer affairs	16.8	2,112	1,643	905
Petroleum	17.4	1,320	944	936
Railways	17.5	586	858	941
Roads	13.9	505	620	750
Others	34.3	1,584	2,060	1,844
Total IEBR	**100**	**6,107**	**6,126**	**5,376**

Source: Budget Documents, Bank of Baroda Research | Note: BE-Budget Estimates; RE-Revised Estimates

FIG 9 – CAPEX SPENDING TO MODERATE IN FY20

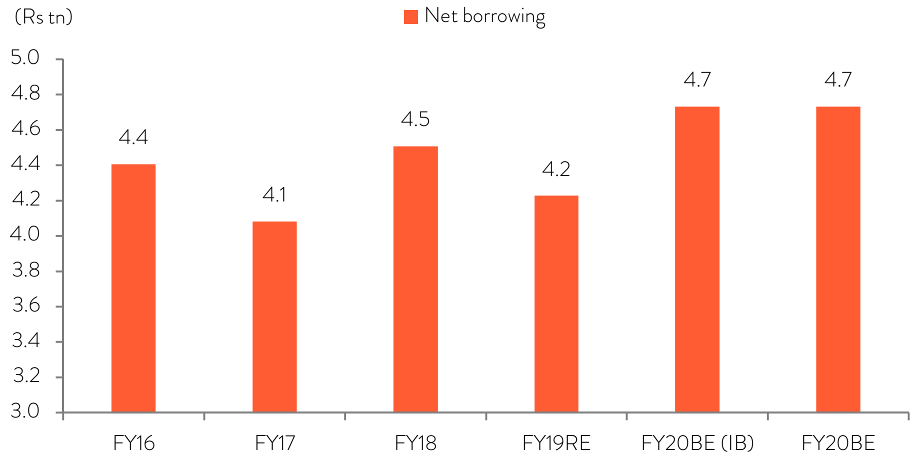


Source: Budget Documents, Bank of Baroda Research | Note: BE-Budget Estimates; RE-Revised Estimates; IB-Interim Budget estimates

Fiscal deficit at 3.3% in FY20, 3% in FY21/ 22

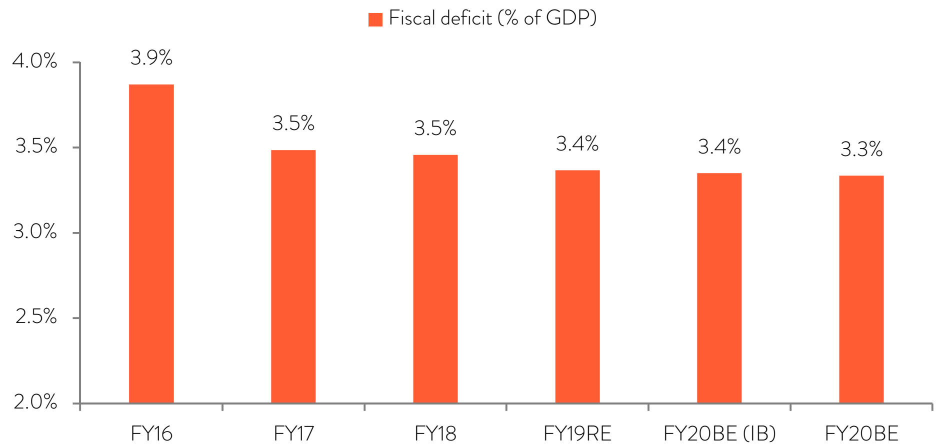
The Finance Minister retained the gross and net borrowing target of Rs 7.1tn and Rs 4.73tn respectively. The government is also looking at buyback to the tune of Rs 500bn in FY20, as was the case in Interim Budget. Additionally, the government is also looking at raising resources from the international market in external currencies which will reduce the domestic issuances. This and the fiscal glide path of 3% for FY21/ 22 is a big positive for fiscal consolidation and thus ties-in with government's effort of reducing cost of borrowing to kick start a capex led virtuous cycle.

FIG 10 – NET BORROWING IN FY20 HIGHER THAN FY19



Source: Budget Documents, Bank of Baroda Research | Note: BE-Budget Estimates; RE-Revised Estimates; IB-Interim Budget estimates

FIG 11 – FISCAL DEFICIT LOWERED TO 3.3% OF GDP



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Key Highlights of Budget 2019-20

Investments

- With an overarching objective of enabling India to become a US$ 5tn economy by 2025 (US$ 2.7tn presently), the Union Budget has laid emphasis on investment to be the key driver of growth. This requires investments of upto Rs 20tn each year.
- Several steps have been proposed to increase the sources of capital infrastructure financing. These include: 1) setting up of a Credit Guarantee Enhancement Corporation by 2019-20, 2) an action plan to deepen the market for long term bonds with specific focus on infrastructure sector will be set up, 3) the government will work with RBI/SEBI to enable stock exchanges to allow AA rated bonds as collaterals, 4) it is also proposed to increase the minimum public shareholding in listed companies from 25% to 35%
- In order to improve and facilitate foreign capital flows into India the Budget proposes the following: 1) rationalizing and streamlining the existing KYC norms for FPIs, 2) allowing FIIs and FPIs to invest in debt securities issued by NBFCs, 3) merging NRI portfolio route with FPI route, 4) allowing FPIs to invest in REITs and InVits.
- To further augment FDI inflows into India, the government has allowed 100% FDI for insurance intermediaries, eased local sourcing norms for single brand retail sector and also proposed to examine the possibility of opening up FDI in aviation, media and insurance sectors.
- The government has also raised its disinvestment target from Rs 800bn in FY19 to Rs 1.05tn in FY20. Also, the government is considering reducing its stake in non-financial PSUs to below 51% to an appropriate level on case to case basis. Government will also offer an investment option in ETFs on the lines of Equity Linked Savings Scheme (ELSS) to enable long-term investments in CPSEs.
- Further, the government also plans to raise a part of its gross borrowing programme in external markets in external currencies.
- In order to enable retail investors to invest in treasury bills and government securities, the government has proposed to introduce inter-operability of RBI depositories and SEBI depositories which will enable a seamless transfer of treasury bills and government securities between RBI and depository ledgers.

Rural India

- Through government's Ujjawala and Saubhagaya yojana schemes, every rural family in the country is expected to have an electricity connection and clean cooking facility. Over 1.95cr houses have been proposed to be constructed in the second phase of Pradhan Mantri Awas Yojana-Gramin (PMAY-G). The outlay for Pradhan Mantri Gram Sadak Yojana (PMGSY) has already been enhanced by 22.6% with its completion date advanced from the year 2022 to 2019. Under phase-3 over 1.25 lakh km of roads will be upgraded with an investment of Rs 80,250cr in the next 5 years.

- In order to boost agro-rural industries under SFURTI scheme, government has proposed to set up over 100 new clusters with focus on bamboo, honey and Khadi. This will benefit over 50,000 artisans in FY20. To ensure farmers benefit from economies of scale, government has suggested the creation of 10,000 new farmer producer organisation (FPOs).

- The government has introduced Pradhan Mantri Matsya Sampada Yojana for fisheries with the objective to strengthen value chain including infrastructure, modernisation, production, productivity and quality control.

- With the objective to ensure 'Har Ghar Jal' to all rural households by 2024, a separate Jal Shakti Mantralaya has been created. The focus of which will be towards demand and supply side management at local level, creation of local infrastructure for rainwater harvesting and household waste management.

Infra

- In order to boost connectivity, government has proposed a slew of measures by creating a network of grid across gas, water, highway and airports which will be referred to as 'one nation one grid', a blueprint of which is likely to come out this year.

- Government has proposed public-private partnership in railways, as an investment of over Rs 50tn between 2018-2030 is needed towards railway infrastructure.

Banking and NBFCs

- Government has further proposed bank recap of Rs 700bn to boost the credit demand. It has also proposed to move regulation of Housing Finance Companies (HFCs) from National Housing Bank to RBI.

- Government has also suggested to provide on-time 6 month partial credit guarantee to PSBs to buy pooled assets of NBFCs amounting to Rs 1tn with first loss cover of up to 10%.

- Government has also allowed interest on doubtful debts from NBFCs to be taxed in the same year in which the interest is received. This will bring NBFCs on par with banks. The government has also removed the need of creating a Debenture Redemption Reserve (DRR) for NBFCs to raise funds in public issues. It has proposed steps to allow all NBFCs including those not registered as NBFCs-factor to directly participate on the TReDS platform.

MSME sector

- Over 30mn retail traders and small shopkeepers with annual turnover of less than Rs 15mn will be provided pension benefit under the new Pradhan Mantri Karam Yogi Maandhan Scheme.
- Under the Interest Subvention Scheme for MSMEs, Rs 3.5bn has been allocated for FY20 for 2% interest subvention for all GST registered MSMEs, on fresh or incremental loans.
- Government has also proposed to set up a payment platform for MSMEs to enable filing of bills and payment thereof on the platform itself.

Taxation

- The tax net for lower corporate tax rate of 25% has been widened to include all companies having annual turnover up to Rs 4bn from Rs 2.5bn earlier. This will cover 99.3% of the companies.

- Surcharge on individuals with taxable income between Rs 20mn to Rs 50mn and Rs 50mn and above has been raised. As a result, the effective tax rates for these two categories will increase by about 3% and 7% respectively.

- In order to simplify GST filing, taxpayers with annual turnover of less than Rs 50mn can file quarterly returns. To eliminate the need of e-bill, electronic invoice system has been proposed. Further, fully automated GST refund module is also expected to be implemented. GST council has also been asked to reduce rates on electronic vehicles from 12% to 5%.

Custom duties

- Defence equipment not being produced in India is exempted from basic custom duty for greater national security
- To curtail imports of non-essential items, the government raised customs duty on items such as cashew kernels, PVC, auto parts, certain synthetic rubbers and other engineering goods.
- Further, exemptions from custom duty on certain electronic items which are now being manufactured in India are being withdrawn. End-use based exemptions on palm stearin, fatty oils, and exemptions to various kinds of papers are also being withdrawn.
- To further promote domestic manufacturing, customs duty reductions are being proposed on certain raw materials and capital goods such as certain inputs of CRGO sheets, amorphous alloy ribbon, ethylene di-chloride, propylene oxide, cobalt matte, naphtha, wool fibres, inputs for manufacture of artificial kidney and disposable sterilised dialyser, and fuels for nuclear power plants. Customs duty is also being exempted on capital goods required for manufacture of specified electronic goods.
- To further incentivise e-mobility, customs duty is being exempted on certain parts of electric vehicles.
- Keeping in mind the recent decline in oil prices, the government has proposed to impose Special Additional Excise duty and Road and Infrastructure Cess of Rs 2/ltr on both petrol and diesel.
- Custom duty on gold and other precious metals has also been increased from 10% to 12.5%. To promote domestic printing industry. A 5% custom duty is being imposed on imported books. Further, a nominal basic excise duty is being imposed on tobacco products and crude.
- For promoting leather exports, the government has rationalised exports duty on raw and semi-finished leather.

Digital payments

- To discourage business payments in cash, TDS of 2% on cash withdrawal exceeding Rs 10mn in a year from a bank account will be levied.
- Further, business establishments with annual turnover of more than Rs 500mn are instructed to accept payments through low cost digital modes of payment such as BHIM-UPI, Aadhar pay etc. at no extra costs or Merchant Discount Rate (MDR).

Human Capital

- For labor reforms, government has proposed to rationalise labour laws into 4 labour codes and also extend the pension benefits to retail traders and shopkeepers with annual turnover less than Rs 1.5cr.
- Establishment of National Research Foundation to promote R&D has been proposed. In addition, over Rs 400cr has also been provided for 'World Class Institutions' for FY20.
- The benefit of interest subvention scheme to women Self Help Group (SHG) members to be expanded to all the districts with Rs 1 lakh loan to be provided under MUDRA scheme to one woman in every SHG.

FIG 12 – FISCAL ESTIMATES

(Rs bn)	FY17	FY18	FY19RE	FY20BE (IB)	FY20BE	Increase (%)		
						FY9RE	FY20BE (IB)	FY20BE
Tax Revenue								
Corporation Tax	4,849	5,712	6,710	7,600	7,660	17.5	13.3	14.2
Taxes on Income	3,646	4,308	5,290	6,200	5,690	22.8	17.2	7.6
Indirect Taxes	8,620	9,123	10,428	11,662	11,192	14.3	11.8	7.3
Total - Tax Revenue	17,158	19,189	22,482	25,521	24,612	17.2	13.5	9.5
Less: State's Share	6,080	6,730	7,369	8,446	8,091	9.5	10.9	9.8
Centre's Tax Revenue	11,014	12,425	14,844	17,050	16,496	19.5	14.9	11.1
Total Non-Tax Revenue	2,728	1,927	2,453	2,726	3,132	27.3	11.2	27.7
Centre's Revenue (net)	13,742	14,352	17,297	19,777	19,628	20.5	14.3	13.5
Capital Receipts								
Internal Debt Market Borrowing	4,082	4,507	4,227	4,731	4,731	(6.2)	11.9	11.9
Disinvestment	477	1,000	800	900	1,050	(20.0)	12.5	31.3
Others	1,450	1,560	2,248	2,434	2,455	44.1	8.3	9.2
Total Capital Receipts	**6,010**	**7,067**	**7,276**	**8,065**	**8,236**	**2.9**	**10.9**	**13.2**
Draw-down of Cash Balances	**(89)**	**41**	**412**	**513**	**511**	**-**	**-**	**23.9**
Total Receipts	**19,752**	**21,420**	**24,572**	**27,842**	**27,863**	**14.7**	**13.3**	**13.4**
Expenditure								
Interest Payments	4,807	5,290	5,876	6,651	6,605	11.1	13.2	12.4
Defence Expenditure	2,518	2,766	2,854	3,053	3,053	3.2	7.0	7.0
Subsidies	2,040	1,912	2,662	2,967	3,017	39.2	11.4	13.3
Transfer to States	1,327	1,075	1,414	1,669	1,554	31.5	18.1	10.0
Rural Development	1,139	1,350	1,351	1,390	1,408	0.1	2.9	4.2
Transport	1,022	1,104	1,454	1,562	1,574	31.7	7.4	8.3
Home Affairs	784	875	990	1,039	1,039	13.1	4.9	4.9
Education	720	802	836	938	949	4.3	12.2	13.4
Agriculture	502	526	866	1,500	1,515	64.6	73.2	75.0
Others	4,893	5,720	6,269	7,074	7,149	9.6	12.8	14.0
Total Expenditure	**19,752**	**21,419**	**24,572**	**27,842**	**27,864**	**14.7**	**13.3**	**13.4**
Revenue	16,906	18,788	21,406	24,479	24,478	13.9	14.4	14.3
Capital	2,846	2,631	3,166	3,363	3,386	20.3	6.2	6.9
Revenue Deficit	3,164	4,436	4,109	4,702	4,850	(7.4)	14.4	18.0
Fiscal Deficit	**5,356**	**5,911**	**6,344**	**7,040**	**7,038**	**7.3**	**11.0**	**10.9**
% of GDP	3.5	3.5	3.4	3.4	3.3	-	-	-

Source: Union Budget Documents, Bank of Baroda Research; BE- Budget Estimates; RE- Revised Estimate; IB- Interim Budget

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