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Budget 2019: Juggling populism with pragmatism

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The challenge in any election year Budget before every finance minister is how to give sops to the electorate without straining the fiscal deficit. In that light, the finance minister has been able to balance populism with pragmatism. Let's first look at the key constituents the finance minister has given sops to followed by whether he has achieved the fiscal consolidation objective.

The first constituent the Budget was addressing was the rural poor, given the distress in the agriculture sector. With the buzz of a Universal Basic Income (UBI) scheme being loud before the Budget, the actual amount of Rs 75,000 crore is in some sense is lower than what was generally expected. The Prime Minister Kisan Samman Nidhi (PM-Kisaan), aims at benefitting 12 crore poor farmer families and seeks to provide Rs 6,000 per year to farmers with less than 2 hectares of cultivable land. With a focus on the poor, unorganised labourers, the Budget has launched a pension scheme which is a laudable beginning to provide a social security net.

The second constituent which the Budget addressed was the middle class through a tax rebate scheme for those who earn up to Rs 5 lakh annually. This will help save tax of Rs 18,500 crore for around 3 crore tax payers. Another Rs 4,700 crore tax-saving comes to the salaried class through an increase in standard deduction. The above measures together constitute a Rs 1 trillion fiscal stimulus.

The third constituent that the Budget addressed was the real estate sector that has been seeing a lot of strain over the past few years. There were 4 specific measures to help the sector. Of these, two measures were aimed at increasing housing demand by giving tax concessions for owning a second house. The other measures were aimed at improving the profitability of the real estate company through tax breaks.

While providing these subsidy measures and tax concessions, how much has fiscal consolidation suffered? Thankfully, the answer is not much with the fiscal deficit target of 3.4 per cent for FY19 being a marginal miss over the Budget Estimates. The forecasts for FY20 of 3.4 per cent are not out of whack though, of course, the glide path towards 3 per cent keeps getting extended. The good news is that we have managed to reduce the fiscal deficit to 3.4 per cent from 4.4 per cent five years ago. Critics may argue that this is led by an oil bonanza with a drastic fall in oil prices globally and taking loans off the balance sheet, especially of Food Corporation of India. But from a government point of view, this is balanced by the fact that a big reform like GST was in an implementation phase.

The other question that arises in every Budget is the credibility of the assumptions in terms of revenue and expenditure and hence the probability of slippage in the fiscal deficit targets. First, if we look at the tax revenue, there is an assumption of around 13.5 per cent increase in tax revenues, which may not be very aggressive if the assumed 11.5 per cent nominal GDP growth is achieved. Within the tax break-up, it is possible that the GST revenues lag (especially if the rates are cut further) but are made up by stronger than estimated direct tax collections. The worry could be more on the disinvestment target of Rs 90,000 crore that is aggressive and may force the government to resort to passing on the burden to other public sector undertakings. The second reason of concern is the ask on dividend from banks, where the burden may fall on RBI. But overall, we are not too concerned on the revenue side. It is on the expenditure side that the government needs to keep a tight leash on all expenditure other than the UBI scheme. The negative aspect is that the capital expenditure has been marginally cut to achieve the fiscal deficit target assumptions.

In terms of implications, first on the bond market. The concern is on the larger than expected size of gross borrowings at Rs7.04 trillion. While the net borrowings at Rs4.48 trillion is in line with estimates, a much greater reliance has been placed on the National Small Savings Schemes and draw-down of cash balances which poses a risk. Secondly, the other risk factor is that the OMO by the RBI may not be as high as in FY19. These risks are balanced by likely low inflation which will likely help keep bond yields stable.

The second is the implication on growth. The Budget helps consumption over investment with a fiscal stimulus of around Rs 100,000 crore to the section of population whose propensity to consume is very high. The onus of sustaining investment demand till private capex revives continues to vest with the public sector enterprises (PSUs). The PSUs have led the investment thrust over the past five years too with their borrowings having doubled as they embark on capex plans. Also, the measures for the real estate sector could help improve demand that provides relief to not just the sector but also the banking and NBFC space where real estate is one area of stress.

Finally, from the equity markets point of view, we think the importance of Budgets have waned considerably and this Budget is no different. The equity markets are not cheap at nearly 18x 1-year forward earnings. Hence, the long awaited acceleration in earnings is the key to driving markets. We think FY20 will be a year of strong earnings growth that will provide a support to markets. The other key positive for the markets has been the dovish Fed that could help trigger a move from developed markets to emerging markets.

Table 1: Budget at a Glance (Rs. Crore)

Particulars	2017-18 Actuals	2018-19 Budget Estimates	2018-19 Revised Estimates	2019-20 Budget Estimates	BEFY19 vs Actuals	REFY19 vs Actuals	BE20 vs RE19
1. Revenue Receipts	**1435233**	**1725738**	**1729682**	**1977693**	**20.2%**	**20.5%**	**14.3%**
2. Tax Revenue (Net to Centre)	1242488	1480649	1484406	1705046	19.2%	19%	14.9%
3. Non Tax Revenue	192745	245089	245276	272647	27.2%	27%	11.2%
4. Capital Receipts [1]	**706742**	**716475**	**727553**	**806507**	**1.4%**	**2.9%**	**10.9%**
5. Recovery of Loans	15633	12199	13155	12508	-22.0%	-16%	-4.9%
6. Other Receipts	100045	80000	80000	90000	-20.0%	-20%	12.5%
7. Borrowings and Other Liabilities[2]	591064	624276	634398	703999	5.6%	7%	11.0%
8. Total Receipts (1+4)	**2141975**	**2442213**	**2457235**	**2784200**	**14.0%**	**14.7%**	**13.3%**
9. Total Expenditure (10+13)	**2141975**	**2442213**	**2457235**	**2784200**	**14.0%**	**14.7%**	**13.3%**
10. On Revenue Account	1878835	2141772	2140612	2447907	14.0%	14%	14.4%
of which							
11. Interest Payments	528952	575795	587570	665061	8.9%	11%	13.2%
12. Grants in Aid for creation of capital assets	191034	195345	200300	200740	2.3%	5%	0.2%
13. On Capital Account	263140	300441	316623	336293	14.2%	20%	6.2%
14. Revenue Deficit (10-1)	**443602**	**416034**	**410930**	**470214**	**-6.2%**	**-7.4%**	**14.4%**
	-2.6	**-2.2**	**-2.2**	**-2.2**	**-15.4%**	**-15.4%**	**0.0%**
15. Effective Revenue Deficit (14-12)	**252568**	**220689**	**210630**	**269474**	**-12.6%**	**-16.6%**	**27.9%**
	-1.5	**-1.2**	**-1.1**	**-1.3**	**-20.0%**	**-26.7%**	**18.2%**
16. Fiscal Deficit [9-(1+5+6)]	**591064**	**624276**	**634398**	**703999**	**5.6%**	**7.3%**	**11.0%**
	-3.5	**-3.3**	**-3.4**	**-3.4**	**-5.7%**	**-2.9%**	**0.0%**
17. Primary Deficit (16-11)	**62112**	**48481**	**46828**	**38938**	**-21.9%**	**-24.6%**	**-16.8%**
	-0.4	**-0.3**	**-0.2**	**-0.2**	**-25.0%**	**-50.0%**	**0.0%**

[1] Excluding receipts under Market Stabilisation Scheme

[2] Includes drawdown of Cash Balance

Notes:

(i) GDP for BE 2019-2020 has been projected at ` 21007439 crore assuming 11.5% growth over the estimated GDP of ` 18840731 crore for 2018-19 (RE).

(ii) Individual items in this document may not sum up to the totals due to rounding off

(iii) Figures in parenthesis are as a percentage of GDP

Table 2: Receipts (Rs. Crore)

	2017-18 Actuals	2018-19 Budget Estimates	2018-19 Revised Estimates	2019-20 Budget Estimates	BEFY19 vs actuals	REFY19 vs actuals	BE20 vs RE19
REVENUE RECEIPTS							
1. Tax Revenue							
Gross Tax Revenue	**1919009**	**2271242**	**2248175**	**2552131**	**18.4%**	**17.2%**	**13.5%**
a. Corporation Tax	571202	621000	671000	760000	8.7%	17.5%	13.3%
b. Taxes on Income	430772	529000	529000	620000	22.8%	22.8%	17.2%
c. Wealth Tax	63						
d. Customs	129030	112500	130038	145388	-12.8%	0.8%	11.8%
e. Union Excise Duties	259431	259600	259612	259600	0.1%	0.1%	0.0%
f. Service Tax	81228		9283				
g. GST	442562	743900	643900	761200	68.1%	45.5%	18.2%
- CGST	203262	603900	503900	610000	197.1%	147.9%	21.1%
- IGST	176688	50000	50000	50000	-71.7%	-71.7%	0.0%
- GST Compensation Cess	62612	90000	90000	101200	43.7%	43.7%	12.4%
h. Taxes of Union Territories	4721	5242	5342	5943	11.0%	13.2%	11.3%
Less - NCCD transferred to the NCCF/NDRF	**3515**	**2500**	**2315**	**2480**	**-28.9%**	**-34.1%**	**7.1%**
Less - State's share	**673006**	**788093**	**761454**	**844605**	**17.1%**	**13.1%**	**10.9%**
1a Centre's Net Tax Revenue	**1242488**	**1480649**	**1484406**	**1705046**	**19.2%**	**19.5%**	**14.9%**
2. Non-Tax Revenue	**192745**	**245089**	**245276**	**272647**	**27.2%**	**27.3%**	**11.2%**
Interest receipts	13574	15162	12047	12911	11.7%	-11.2%	7.2%
Dividends and Profits	91361	107312	119264	136072	17.5%	30.5%	14.1%
External Grants	3582	2667	1270	1006	-25.5%	-64.5%	-20.8%
Other Non Tax Revenue	82338	117886	110619	120509	43.2%	34.3%	8.9%
Receipts of Union Territories	1890	2062	2076	2149	9.1%	9.8%	3.5%
Total- Revenue Receipts (1a + 2)	**1435233**	**1725738**	**1729682**	**1977693**	**20.2%**	**20.5%**	**14.3%**
3. CAPITAL RECEIPTS							
A. Non-debt Receipts	**115678**	**92199**	**93155**	**102508**	**-20.3%**	**-19.5%**	**10.0%**
(i) Recoveries of loans and advances@	15633	12199	13155	12508	-22.0%	-15.9%	-4.9%
(ii) Disinvestment Receipts	100045	80000	80000	90000	-20.0%	-20.0%	12.5%
B. Debt Receipts*	**586971**	**581210**	**593197**	**652702**	**-1.0%**	**1.1%**	**10.0%**
Total Capital Receipts (A+B)	**702649**	**673409**	**686352**	**755210**	**-4.2%**	**-2.3%**	**10.0%**
4. Draw-Down of Cash Balance	**4093**	**43066**	**41201**	**51297**	**952.2%**	**906.6%**	**24.5%**
Total Receipts (1a+2+3)	**2137882**	**2399147**	**2416034**	**2732903**	**12.2%**	**13.0%**	**13.1%**

** The receipts are net of payment.*

@ Excludes recoveries of short term loans and advances.

Table 3: Deficit Statistics (Rs. Crore)

	2017-18 Actuals	2018-19 Budget Estimates	2018-19 Revised Estimates	2019-20 Budget Estimates
1. Fiscal Deficit	**591064**	**624276**	**634398**	**703999**
	-3.5	-3.3	-3.4	-3.4
2. Revenue Deficit	**443602**	**416034**	**410930**	**470214**
	-2.6	-2.2	-2.2	-2.2
3. Effective Revenue Deficit	**252568**	**220689**	**210630**	**269474**
	-1.5	-1.2	-1.1	-1.3
4. Primary Deficit	**62112**	**48481**	**46828**	**38938**
	-0.4	-0.3	-0.2	-0.2

Note: Figures in parenthesis are as a percentage of GDP

Table 4: Sources of Financing Fiscal Deficit (Rs. Crore)

	2017-18 Actuals	2018-19 Budget Estimates	2018-19 Revised Estimates	2019-20 Budget Estimates
1. Debt Receipts (Net)				
2. Market Borrowings (G-Sec + T Bills)	455207	407120	447737	448122
3. Securities Against Small Savings	102628	75000	125000	130000
4. State Provident Funds	15799	17000	17000	18000
5. Other Receipts (Internal Debt and Public Account)	5406	84679	8353	59532
6. External Debt	7931	(-) 2589	(-) 4893	(-) 2952
7. Draw Down of Cash Balance	**4093**	**43066**	**41201**	**51297**
8. Grand Total	**591064**	**624276**	**634398**	**703999**

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