UNION BUDGET 2020-21-INCLUSIVE GROWTH

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I. PERSPECTIVE

Under Article 112 of the Constitution, a statement of estimated receipts and expenditure of the Government of India has to be laid before Parliament in respect of every financial year from 1st April to 31st March. This statement titled "Annual Financial Statement" is the main Budget document. The Annual Financial Statement shows the receipts and payments of Government under the three parts in which Government accounts are kept: (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account. Hence, in this sense the budget is routine. But the budget provides an indication of the state of the economy, priorities of the Government and the use of instruments to realize identified objectives, influence direction and pace of the economy. Hence, the budget, which is a document of estimates based on assumptions and strategies to achieve those estimates, is much more than a public statement of expected government revenues and scheme expenditures over a period of one year.

II. BACKDROP

The FM's Rs. 30.42 lakh crore budget is 12.7 per cent higher than Rs. 26.99 lakh crore, revised estimates for previous year. The Government's thrust is on providing growth stimulus, boosting domestic demand, continuing with the pace of economic reforms and policy initiatives to improve the lives of our people by thrust on core schemes and major central sector.

This budget was formulated in the context of difficult domestic and global conditions. To be sure, the long-term Indian growth story is intact and India continues to be identified as a bright spot in the global economy. But the Indian economy is in the midst of a pronounced slowdown clearly discernible in the 5 per cent growth, marking six consecutive quarters of slow growth reflected across segments and sectors.

Some such indicators are the slump in the automobile, real estate, fast-moving consumer goods (FMCGs), first fall in direct taxes in at least two decades, GST collections unable to reach the budgeted levels and investments, both private and public, steeply declined to a 15-year low in quarter ended June 2019. There are also important issues of boosting

employment and growth; advancing education, skills and job creation; providing a renewed thrust on infrastructure and investment; promoting agriculture and farmers welfare; developing the rural sector; meeting the needs of the social sector including health care; developing financial sector reforms; streamlining governance and ease of doing business; and resource mobilization for agriculture and rural economy.

In this grim macro-economic scenario of surplus capacity, depressed consumer sentiment, heightened risk aversion and complex global geo-political environment, breaking the vicious cycle of slowdown and promoting the virtuous cycle of steady growth and development is, by no means, easy. The choices are difficult and involve trade-offs, reconciling claims of competing sections and segments and grappling with the issue of expanding expenditure or not breaching the mandated fiscal deficit numbers. All these factors complicate the task of economic management for India.

The thrust areas, choice of policy instruments, tax and expenditure measures to achieve the goal of making India a $5 trillion economy by 2024 have evoked considerable debates and discussions. The justifiable thrust of the Budget proposals is on aspirational India (a better life for all), economic development (yielding more space for the private sector) and a caring society. This is contextually significant because of the disconcerting fact that all important levers of growth, viz., private investments, private consumption and exports are not faring well.

III. NOMINAL GDP GROWTH

The budget has forecasted nominal GDP to be 10 per cent in FY21BE as compared to 7.8 per cent for FY20RE. This year's low base could enhance GDP growth in FY21. In absolute terms the nominal GDP at market prices is expected to be Rs.204 trillion in FY20 and Rs.224 trillion in FY21.

IV. AGRICULTURE

Indian agriculture accounts for about 18 per cent of GDP but still employs about 50 per cent of the workforce. The agriculture credit target has been set at an ambitious Rs 15 lakh crore for FY21. Stepping up production and productivity in agriculture requires greater investment in connectivity through rail and air to expand and diversify the agriculture market. In an attempt to provide impetus to agriculture and allied activities, the budget proposed several wide-ranging measures. Some such measures included farmers' sovereignty over seeds through *Dhaanya Lakshmi* and augmenting allied activities, particularly horticulture and dairy. The Budget proposed to create warehousing, in line with Warehouse Development and Regulatory Authority (WDRA) norms. It also proposed to provide Viability Gap Funding for setting up such efficient warehouses at the block/taluka level. NABARD is to take up an exercise of mapping and geo tagging agricultural warehouses, cold storage and other inventory storages. These and other

measures (16 action points for Agriculture, Irrigation and Rural Development) will improve the productivity of the sector significantly and help, in a modest way, to replicate the success of the Chinese experience.

In view of India's latent potential, demographic dividend and transforming economy, there has to be an accent on providing right skills and domain knowledge. Towards this end, the Budget's renewed thrust on skill development and education is particularly welcome at India's present stage of development. Technology has been recognized as an important enabler across initiatives.
Textile, infrastructure and digital infrastructure emerge as the focus areas. Salubrious developments include the proposed formulation of a National Logistics Policy and digital refund of duties and taxes levied at the Central, State and local levels. To drive manufacturing, a scheme focused on encouraging manufacture of mobile phones, electronic equipment and semiconductor packaging would be introduced; private sector encouraged to build Data Centre Parks throughout the country; INR 80 billion to be provided over five years for quantum technologies and applications; and doubling of milk processing capacity by 2025.

V. BANKING AND FINANCIAL SECTOR

There are several measures of interest to the banking sector. The budgetary allocation for the banking, insurance, financial market and infrastructure finance sectors has significantly increased to INR 404.3 bn in FY21 from INR 236.9 billion (RE) in FY20. In view of the expected fiscal consolidation in FY 21, net market borrowings have been estimated at INR 5.4 trillion. The new tax regime could discentivise financial savings in investments because of the option for new lower tax rates by foregoing exemption/deduction.
The Government would follow up capital infusion of Public Sector Banks (PSBs) done over the past few years with governance reforms to make them more competitive. PSBs are encouraged to raise additional capital from the capital markets.

The Government has proposed to increase the deposit insurance coverage to INR 5 lakh per depositor from INR 1 lakh previously to reassure depositors about the safety of their deposits. But under the provisions of the Banking Regulations Act, 1949, the deposits of the banks enjoy the guarantee and no bank can be closed down. By increasing the insurance cover, the cost will go up for banks, which will ultimately be passed on to the banking public through hike in service charges. As on 31 March 2019, the deposit insurance fund at DICGC is INR 97,350 crore, including a surplus of INR 87,890 crore. The claims settled by DICGC so far since 1962 are only INR 5,120 crore and that too for the cooperative banks.

Out of 2,098 banks covered by the DICGC, 1,941 banks are cooperative banks. Only these banks are facing problems of closure and liquidation and the deposits of these banks need

to be covered by DICGC. In FY18-19, commercial banks, including PSBs, paid a deposit insurance of INR 11,190 crore while cooperative banks paid INR 850 crore, taking the total premium paid to DICGC at INR 12,040 crore. During the same year, DICGC received claims worth INR 37 crore from cooperative banks. However, none of the claims was settled.

DICGC has been almost entirely settling dues of cooperative banks. Most cooperative banks are not only under dual regulation (RBI and the Registrar of Cooperatives), but are regularly controlled and exploited by politicians.
The aggregate deposits of PSBs are INR 72 lakh crore, of which only INR 22 lakh crore are covered by insurance, but premium is collected on the entire amount. In 2018-19, DICGC collected a premium on INR 120 lakh crore of deposits, although only 28 per cent of them (INR 33.70 lakh crore) were insured. The safety of the savings of common man requires regulatory accountability and strict supervision of all intermediaries that are entrusted with a fiduciary responsibility to protect depositors' money.

There is also a proposal to amend the Banking Regulation Act to strengthen cooperative banks in terms of increased professionalism, better access to capital, improved governance and sound banking practices. Measures would be taken to bring in transparency and greater professionalism in public sector banks.

The disinvestment in Life Insurance Corporation of India (LIC) and tax exemption to tap on investment from Sovereign Wealth Funds (SWF) will help mobilie funds for infrastructure investment and is also expected to bring about greater operational efficiency of the LIC. The listing of the LIC could catapult it to the top of market capitaliation in the domestic bourses, outpacing even the traditional heavyweights, such as, Reliance Industries or TCS.

The enhancement of agriculture lending target to at INR 15.4 trillion would help to step up agriculture lending in the country. There are also welcome developments, such as, recapitalisation of INR 69 billion for state-owned insurance companies (GIC, New India Assurance), tax benefit for amalgamating state-owned banks with respect to loss absorption to Punjab National Bank, Bank of Baroda, Canara Bank and Indian Bank and IDBI stake sale will release capital for the Government and also give an option to the retail investors.

VI. MICRO, SMALL AND MEDIUM INDUSTRIES (MSMEs)

MSMEs are crucial because 31 million MSME units account for 9 per cent of GDP, 45 per cent of manufacturing output, 40 per cent of exports and employ over 70 million people, next only to agriculture. They also provide the feeder line for the large corporate and are the driver of growth and distributive equity globally. The steady rise in GNPAs in this sector has caused the bankers to go slow over adequately meeting the genuine needs of this sector. Several measures of considerable contemporary significance to the sector include the proposal to introduce a scheme to allow banks to provide subordinate debt, which would be considered as quasi-equity and would be guaranteed through the Credit Guarantee Trust for Medium and Small Entrepreneurs (CGTMSE), to entrepreneurs of MSMEs; proposal to extend the existing debt restructuring window for MSMEs which is due to end on March 31, 2020 by another year; proposal to launch an app-based invoice financing loan product to alleviate the problem of delayed payments and resulting cash flow mismatches for MSMEs; proposal to extend handholding support (for technology upgradations, R&D, business strategy, etc.) for mid-sized companies from selected sectors such as pharmaceuticals, auto components, etc., through INR 10 billion scheme; proposal to make amendments to the Factor Regulation Act 2011 to enable NBFCs to extend invoice financing to MSMEs through Trade Receivables electronic Discount System (TReDS).

Incentives for Start-ups include early life funding, including seed funding, to support ideation and development of early stage start-ups; deferred tax payment on Employee Stock Option Plans (ESOPs) of start-up employees by five years, or till they left the company or till the time they sold their shares; proposal to provide early life funding, including seed funding to support ideation and development of early stage start-ups; and proposal to defer the tax payment on Employee Stock Option Plans (ESOPs) of start-up employees. The Government also proposed to revise the turnover limit of the startups from INR 250 million to INR 1000 million for availing tax deduction of 100 per cent of their profits for three consecutive assessment years. Further, the period of eligibility for claim of deduction was proposed to be raised from 7 years to 10 years.

VII. TOURISM

The tourism industry, which has high employment intensity (second largest employer in India), can provide an impetus to the growth and development process in India with large number of places with tourist attraction. The major components of the tourism industry in India are medical tourism, eco-tourism, heritage tourism and adventure tourism. Tourism can be boosted by transport, accommodation, amenities, restaurant, shopping and entertainment facilities. Creation of more hotels, motels, reduced taxes on room tariff and disinvestment of government hotels would provide a fillip to this industry.

The World Travel and Tourism Council calculated that tourism generated INR 16.91 lakh crore and constituted 9.2% of India's GDP in 2018 and supported 42.673 million jobs, 8.1% of its total employment. Given that the sector is predicted to grow at an annual rate of 6.9% to INR 32.05 lakh crore by 2028 (9.9% of GDP) and it has multiplier effect on other sectors, such as, horticulture, handicrafts, agriculture, construction and even poultry, there are several welcome measures. Some welcome measures include improving accessibility through additional Tejas type trains to iconic tourist destinations, developing 100 more airports by 2024 for greater regional connectivity in future. The allocation of INR 1.7 trillion for transport infrastructure and a roadmap for certain selected tourist destinations and formulating the financial plans for which the government will provide specified grants are well conceived and would help India to move up the Travel & Tourism Competitive Index.

VIII. FISCAL DEFICIT

Fiscal deficit is regarded as the best available summary indicator of the macro-economic impact of the budget. As Shankar Acharya has stressed: "*Such deficits tend to crowd out private investment, increase inflationary potential, weaken the balance of payments, render financial sector reforms more difficult and impose a serious burden on future generations*". Of late, there has been deterioration in all key deficit indicators-revenue deficit, gross fiscal deficit and gross primary deficit as a per cent of GDP.

The objective of the Fiscal Responsibility and Budget Management (FRBM) Act was: "*To provide for the responsibility of the central government to ensure inter-generational equity in fiscal management and long-term macroeconomic stability by achieving sufficient revenue surplus, eliminating fiscal deficit and removing fiscal impediments in the effective conduct of monetary policy and prudential debt management consistent with fiscal sustainability through limits on the central government borrowings, debt and deficits, greater transparency in fiscal operation of the central government and conducting fiscal policy in a medium-term framework and for matters connected therewith or incidental thereto*".

Given the overarching macro-economic environment and the steady deceleration in growth to 4.5 per cent in the second quarter of the current fiscal — the lowest in the last 26 quarters, the containment of fiscal deficit to 3.8 per cent for this year (deviating from the target of 3.3 per cent) and the gradual reduction of fiscal deficit to 3.5 per cent for 2020-21, 3.3 per cent in 2021-22 and 3.1 per cent in 2022-23 is welcome. These elements of the fiscal consolidation are expected to provide macro-economic stability and are, therefore, welcome because they provide a sense of direction to all the stakeholders and the budget strikes a fine balance between fiscal prudence and growth despite the compelling need of pump-priming of the economy. But it is sobering to note that this is the third successive

year of exceeding the mandated fiscal deficit level. Against a BE of 3.3 per cent, the fiscal deficit will be 3.8 per cent in 2019-20 and is projected to be 3.5 per cent in 2020-21.

FISCAL DEFICIT

Particulars	Estimates (2021)	Revised (2020)	Revised (2019)	Revised (2018)	Revised (2017)	Revised (2016)	Revised (2015)
Fiscal Deficit (In Crores)	7,96,337	7,66,846	6,34,398	5,94,850	5,34,273	535,090	512,628
Fiscal Deficit as a % of GDP	3.5	3.8	3.4	3.54	3.54	3.94	4.05

IX. REVENUE COLLECTIONS-HOW REALISTIC?

Given the massive inadequacy in the realisation of revenue projections by a whopping by INR 3 lakh crore for FY 20, the FM did well to reduce the revenue projections for 2020-21. But in the light of shortfall in revenue collections of both direct and indirect taxes, inadequate realization of disinvestment proceeds and steadily rising expenditure, the sharp drop in tax buoyancy this fiscal year, and persisting uncertainty about the strength and robustness of the Indian economy, the revenue projections seem to be unrealistic. This thesis can be substantiated by assumed growth of 12 per cent increase in gross tax revenue for FY 21 with direct taxes growing by 12.7 per cent. But growth in direct taxes by only by only 2.9 per cent this year (largely because of the drastic fall in corporate tax collections by almost Rs 1.5 lakh crore because of hefty tax cuts in the tax rate, and slowdown in macroeconomic growth) strikes a discordant note in the narrative.

The Budget expects income tax collections to grow at 14 per cent next fiscal. But this could be difficult because of realigned tax rates and the projected revenue forgone of INR 40,000 crore. The revenue collections from GST have fallen far short of expectations with indirect tax collections dipping from 5 per cent of GDP in 2018-19 to 4.9 per cent in 2019-20. In view of the volatility in GST collections and the difficult economic landscape, it is doubtful if the monthly GST collections could grow by 17 per cent.
With the uncertainty surrounding tax revenues, the Centre banked heavily on non-tax revenues and disinvestment proceeds with the expected collections from the telecom sector being INR 1.33 lakh crore. The steep increase in the disinvestment target next year, despite the wide shortage this year, to Rs 2.1 lakh crore by divesting in the LIC, Air India and BPCL, causes concern because the disinvestment exercise will yield only Rs 65,000 crore this financial year vis-à-vis the disinvestment target of Rs 1,05,000 crore. The Department of Investment and Public Asset Management (DIPAM) is, however, confident of achieving the Rs 2.1 lakh crore target in FY21 with big-ticket strategic stake sales in Air India, BPCL and Concor lined up.

X. BORROWING PROGRAMME

Some of the salient features of the borrowing programme are 2020-21 gross market borrowing at INR 7.8 trillion, 2020-21 net market borrowing at INR 5.36 trillion), Government to buy back INR 300 billion of government bonds and Government to switch bonds worth INR 2.7 trillion in FY21.

XI. REVIVAL OF INVESTMENT CLIMATE AND GROWTH

The issue of collapse of investment and revival of the investment climate and growth is a key element of the India growth story. The Economic Survey's detailed analysis identified the causal factors as follows: "*a sharp decline in real fixed investment induced by a sluggish growth of real consumption has weighed down GDP growth from H2 of 2018-19 to H1 of 2019-20*". But the FM in her Budget speech maintained, "*the fundamentals of the economy are strong and that ensured macroeconomic stability*". Gross budgetary allocation for the government capex indicates 18 per cent year on year growth for FY21. But internal and extra budgetary Resources, which forms 53 per cent of government capex spend, has declined by 5 per cent year on year. This has led to 2.4 per cent growth in Government capex spend for FY21. However, measures, such as, 100 per cent tax exemption to interest, dividend and capital gains income for investment made in infrastructure by the Sovereign Wealth Fund of foreign governments before 31st March 2024 together with lower corporate tax rate can boost the private capex cycle. The budgetary allocation for capital expenditure for the current year, which is estimated at 1.7 per cent of GDP this year, is budgeted at 1.8 per cent in 2020-21.

A key element of the growth calculus is that the worst seems to be behind us and growth is likely to gain traction with nominal GDP growth in 2020-21 estimated at 10 per cent. The higher GDP growth is likely to be a function of improved ability to benefit from strong global growth as domestic headwinds from demonetisation and implementation of the Goods and Services Tax (GST) dissipate; enhanced ability of banks to lend following recapitalization; and normal monsoon.

XII. EXPENDITURE

There is a consensus across the development spectrum that in these difficult times, the government expenditure has to be a key driver of economic growth. Revised expenditure for FY 20 is placed at INR 26.99 trillion rupees. Of the total expenditure for FY 21 estimated at 30.42 trillion rupees, some important components are defence (INR 3.23 trillion), healthcare spending (INR 690 billion), agriculture and allied activities (INR 2.83 trillion), federal water scheme (INR 3.6 trillion), education sector (INR 993 billion and federal schemes for women (INR 286 billion).

For FY2020-21, the revenue expenditure growth is pegged at 11.9 per cent while the Capital expenditure is estimated to grow at 18.1 per cent. As capital expenditure growth exceeds the revenue expenditure FY2020-21BE, this should give economy a push towards revival. Total expenditure for FY2020-21 translates to a growth at 12.7 per cent compared to FY2019-20RE growth at 16.6 per cent.

With food subsidy of 1.15 trillion rupees ($16.18 billion) in 2020/21 and petroleum subsidy seen at 409.15 billion rupees ($5.76 billion) in 2020, the outgo on subsidy continues to significantly influence the budget arithmetic.

XIII. TAX REFORMS

Higher income tax limit without most deductions and exemptions (exemptions like tax benefits at the time of retirement, such as, gratuity, employees' PF and NPS accumulations; employer' contribution to EPFO, the National Pension System or superannuation payments upto INR 7.5 lakh and amounts received on VRS upto INR 5 lakh) is a welcome step. The new personal income tax rates will entail estimated revenue forgone of INR 40,000 crore per year. Assuming a marginal propensity to consume of 0.70, the proposed revenue foregone of Rs 40,000 crore (because of exclusion of leave travel allowance; housing loan repayments; savings instruments), could boost consumption by INR 1.33 lakh crore. But if the anticipated migration to the new tax regime does not take place, the consumption boost may not occur.

In most countries in Europe and America, there is the system of a consolidated pay cheque and no deductions are allowed for tax purposes. This is the global norm and aligns with benchmarks accepted across countries. But there are issues of varying levels of development across countries, which do not make for a level playing field and creation of six brackets in individual income tax. What is ultimately required is simplification, rationalisation, broad-basing and diversification of the tax base and gradual reduction of the tax rate. Lower rates with a higher degree of compliance would help to raise revenue. It might have been better for the government to phase out the tax concessions, indexed the brackets for inflation and reduced the rates of tax with appropriate calibration.

The hike in customs duties could have been avoided because of its distributive implications.

The progressively greater use of technology in assessment and in appeal will further reduce the nexus of the assesse and the revenue department.

The Union Budget has removed the Dividend Distribution Tax (DDT) to increase the attractiveness of the Indian Equity Market, to provide relief to a large class of investors and to make India an attractive destination for investment. Further, in order to remove the

cascading effect, Budget has proposed to allow deduction for the dividend received by holding company from its subsidiary. The removal of DDT will lead to estimated annual revenue forgone of INR 25,000 crore.

The formulation of the 'Amnesty Scheme' on lines similar to the indirect tax would induce tax payers to avail of this important development.

The tax system requires trust between tax payers and administrators. Therefore, the FM's decision to adopt a Taxpayer's Charter is welcome.

XIV. CONCLUDING OBSERVATIONS

This is a good Budget, with emphasis on aspiration, economic development and caring society to revive demand while maintaining fiscal prudence. But the budget proposals need to be effectively executed. The Union Budget can be characterised as pragmatic, wide-ranging and inclusive with thrust on fiscal discipline. The steps taken to rationalize the tax system and boost the basic infrastructure will reinforce the government's resolve to make India a $ 5 trillion economy.

While carrying forward the process of economic reforms, considerable emphasis has been placed on inclusive economic growth with wide-ranging measures. Such measures include the 16-point action plan for agriculture sector points toward the government's commitment to revive the agriculture sector and double farmers' incomes by 2022; using farmers' barren land for setting up solar power plant to supplement their income; incentivising states for implementing three model laws related to agriculture land leasing, marketing and contract farming, encouragement to MSMEs and mass consumption boost by simplification of the personal income tax by introducing an alternative optional lower income tax slabs for income upto INR 1.5mn (but need to forego 70 out of the existing 100 exemptions). Important steps to facilitate the development of the social sector include steps to enable sourcing external commercial borrowings and FDI in higher education. Further, the Centre is to provide viability gap funding to set up hospitals in PPP mode under Ayushman Bharat and promote affordable housing. Hence, it is a fiscally prudent and socially redistributive Budget.

The limitations of the monetary policy measures also need to be realized for a comprehensive assessment and perspective. For, despite the cumulative cut of 135 basis points effected by the RBI in the Policy rate in calendar year 2019, the lending rate has declined by only about 50-bps. It has to be realized that in the ultimate analysis, monetary policy must move in tandem with fiscal policy to perceptibly alter the ground realities.

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