



# **UNION BUDGET 2019-20 PREVIEW**

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## Fiscal Slippage a necessity to boost growth

As this is an election year, the government will be presenting an interim Budget instead of a regular Budget on February 01, 2019. Convention dictates the government to seek a Vote on Account with a new government presenting the regular annual Budget in July 2019. While convention also dictates that there are no major policy announcements and changes on the taxation front during the interim Budget, there could be departure from convention this time around given recent losses by the ruling party in key assembly elections in November 2018 on account of rising rural distress.

Tight fiscal and monetary policy over the past few years coupled with major structural changes have taken a toll on growth. Given current growth inflation dynamics, some amount of fiscal slippage is unlikely to stoke inflation. On the contrary we believe that some amount of fiscal slippage directed towards addressing rural distress will go a long way to boost growth.

The Budget, this year, is likely to be unique as it presents the government an opportunity to bring in few measures to support growth just before elections. Overall, we expect (1) Schemes to address rural distress (2) providing some /relaxation in income tax slabs / tax rates to boost consumption and sentiments.

## Markets already factoring in a fiscal slippage

While the government has generally kept a tight leash on expenditure and fiscal deficit during the past Budgets, there could be some slippages in fiscal deficit this time around. Against Budget estimates of 3.3% fiscal deficit target, markets are already factoring in a slippage of ~20bps to 3.5%. Fiscal slippage would predominantly be on account of shortfall on the revenue side given that GST collections have been lower than estimates. Average monthly GST collection till date has been ₹ 97,000cr against required run rate of ₹ 108,000cr.

Shortfall in GST revenues could be partially explained by continuous rate cuts by the GST council to stimulate growth. The government would try and make up for the shortfall in tax revenues by the following steps:

- 1) Seeking large interim dividend from the RBI in addition to the final dividend for FY18 already received from RBI during the year
- 2) Accessing the unutilized portion of the compensation cess
- 3) Rollover of some FY19 expenditure to FY20
- 4) Cut back in plan expenditure
- 5) Increase in off balance sheet expenditure with portion of food subsidy being transferred to FCI balance sheet

## Marginal changes in personal taxation likely

While the government has so far refrained from providing any populist sops in the direct taxation policies, this interim Budget may be used to introduce marginal tax sops to woo the general public to help improve sentiments. Moreover, there could be some announcements like direct income support, though funding the same would be a daunting challenge before the government considering the tight fiscal situation.

## Rural economy to be in focus

The interim Budget is expected to be rural focused given the recent loss by the incumbent government in some of the key states like Rajasthan, Madhya Pradesh and Chhattisgarh. One of the primary reasons for the losses in the assembly elections was anger against the incumbent government for failing to address agri distress effectively. We believe that the government would leave no stone unturned to convey its intent to ease rural distress given the importance of rural constituencies in the general elections.

The Central government, until now, has been focusing on increasing MSPs, which is not very effective in addressing the issue of farmers receiving adequate compensation for their produce. MSP typically benefits larger farmers who have adequate produce to sell in the market, while it has the negative effect of distorting market prices.

State governments have also been announcing loan waivers, as the central government has steered clear of it. Loan waiver only benefits a select group of farmers who have taken loan from banks and it also spoils the credit culture. Smaller and marginal farmers who take loan from informal sources do not benefit from loan waivers.

There are talks about moving from price support to income support modeled on Telengana's Rythu Bandhu scheme, wherein the government directly provides ₹ 4,000 per acre per season for purchasing agri inputs to all farmers irrespective of their land holdings.

Post the results of the state elections in November 2018, Odisha and Jharkhand have announced similar income support schemes for farmers, however it is restricted to small and marginal farmers with land holdings of less than 5 acres. It is expected that in case the government does announce an income support scheme, it may be only for small & marginal farmers and states will be asked to share the cost along with the centre.

## Our take

In the last few years, the government has chosen to make the Budget a non-event by focusing on fiscal discipline rather than populism. With the general elections impending in the next four months, it is expected that the government will present some populist measures this time. Markets would be keenly watching the interim Budget given the government's focus on alleviating rural distress in the run up to the general elections.

It would be interesting to see how the government will account for any such major income support scheme, if announced, given the significant fiscal costs involved. It also remains to be seen whether the income support scheme is over and above existing schemes or subsumes some of the existing schemes.

Tight fiscal and monetary policy over the past four years has taken a toll on growth, and hence, some fiscal relaxation by the government will actually be a good thing and go a long way in boosting growth given very low inflation rates of ~2%.

## Budget 2018-19 at a glance

	FY17RE	FY18BE	FY18RE	Budget (₹ crore)	YOY (%)	
	FY17RE	FY18BE	FY18RE	FY19BE	FY18RE	FY19BE
<b>(A) Revenue Receipts (1+2)</b>	<b>14,23,562</b>	<b>15,15,771</b>	<b>15,05,428</b>	<b>17,25,738</b>	<b>5.8</b>	<b>14.6</b>
Gross Tax Revenue (a+b)	17,03,243	19,11,579	19,46,119	22,71,242	14.3	16.7
Devolution to States/Trf to NCCD	6,14,451	6,84,565	6,73,005	7,88,093	9.5	17.1
<b>1) Tax Revenue (Net to Centre)</b>	<b>10,88,792</b>	<b>12,27,014</b>	<b>12,69,454</b>	<b>14,80,649</b>	<b>16.6</b>	<b>16.6</b>
a) Direct Taxes	8,47,097	9,80,000	10,05,000	11,50,000	18.6	14.4
Income Tax	3,53,174	4,41,255	4,41,255	5,29,000	24.9	19.9
Corporate Tax	4,93,924	5,38,745	5,63,745	6,21,000	14.1	10.2
b) Indirect taxes	<b>8,56,146</b>	<b>9,31,579</b>	<b>9,41,119</b>	<b>11,21,242</b>	<b>9.9</b>	<b>19.1</b>
Custom Duties	2,17,000	2,45,000	1,35,242	1,12,500	-37.7	-16.8
Excise Duties	3,87,369	4,06,900	2,76,995	2,59,600	-28.5	-6.3
Service Tax	2,47,500	2,75,000	79,507	0	-67.9	-100.0
GST			4,44,631	7,43,900		
Others	4,277	4,679	4,744	5,242	10.9	10.5
<b>2) Non Tax Revenue</b>	<b>3,34,770</b>	<b>2,88,757</b>	<b>2,35,974</b>	<b>2,45,089</b>	<b>-29.5</b>	<b>3.9</b>
			35,997			
Interest receipt	18,149	19,021	13,551	15,162	-25.3	11.9
Dividend and profits receipts	1,53,222	1,42,430	1,06,433	1,07,312	-30.5	0.8
Others	1,63,399	1,27,306	1,15,990	1,22,615	-29.0	5.7
<b>(B) Capital Receipts (3+4+5)</b>	<b>5,90,845</b>	<b>6,30,964</b>	<b>7,51,702</b>	<b>6,73,409</b>	<b>27.2</b>	<b>-10.4</b>
3) Recovery of Loans	11,071	11,932	17,473	12,199	57.8	-30.2
4) Disinvestment	45,500	72,500	1,00,000	80,000	119.8	-20.0
5) Borrowings and Other Liabilities	5,34,274	5,46,532	6,34,229	5,81,210	18.7	-8.4
<b>Total Receipt(A+B)</b>	<b>20,14,407</b>	<b>21,46,735</b>	<b>22,57,130</b>	<b>23,99,147</b>	<b>12.0</b>	<b>6.3</b>
<b>Revenue expenditure</b>	17,34,560	18,36,934	19,44,305	21,41,772	12.1	10.2
<b>Capital expenditure</b>	2,79,847	3,09,801	2,73,445	3,00,441	-2.3	9.9
<b>Total Expenditure (C+D)</b>	<b>20,14,407</b>	<b>21,46,735</b>	<b>22,17,750</b>	<b>24,42,213</b>	<b>10.1</b>	<b>10.1</b>
<b>(E) Fiscal Deficit (C+D-A-3-4)</b>	<b>5,34,274</b>	<b>5,46,532</b>	<b>5,94,849</b>	<b>6,24,276</b>	<b>11.3</b>	<b>4.9</b>
<b>(F) Revenue Deficit (6+8-A)</b>	<b>3,10,998</b>	<b>3,21,163</b>	<b>4,38,877</b>	<b>4,16,034</b>	<b>41.1</b>	<b>-5.2</b>
<b>(G) Primary Deficit (E -6a)</b>	<b>51,205</b>	<b>23,454</b>	<b>64,006</b>	<b>48,481</b>	<b>25.0</b>	<b>-24.3</b>
<b>GDP</b>	<b>1,50,75,429</b>	<b>1,68,47,455</b>	<b>1,69,95,686</b>	<b>1,89,17,455</b>	<b>12.7</b>	<b>11.3</b>
<b>Fiscal Deficit (% of GDP)</b>	3.54%	3.24%	3.5%	3.3%		

Source: Budget documents, Angel Research

**Exhibit 1: Key Fiscal indicators ( % of GDP)**

As a % of GDP	FY17RE	FY18BE	FY18RE	FY19BE
Gross Tax Revenue	11.3	11.3	11.5	12.0
Devolution to State	4.1	4.1	4.0	4.2
Net Tax to Centre	7.2	7.3	7.5	7.8
Direct Tax	5.6	5.8	5.9	6.1
Indirect Tax	5.7	5.5	5.5	5.9
Capital Receipt (ex borrowing)	0.4	0.5	0.7	0.5
Revenue expenditure	11.5	10.9	11.4	11.3
Subsidies	1.7	1.5	1.5	1.5
Total Capital Expenditure	1.9	1.8	1.6	1.6
Total Expenditure	13.4	12.7	13.0	12.9
Revenue Deficit	2.1	1.9	2.6	2.2
Fiscal Deficit	3.5	3.2	3.5	3.3
Primary Deficit	0.3	0.1	0.4	0.3

Source: Budget documents, Angel Research

**Exhibit 2: Bond Yields have started rising**


Source: RBI

**Exhibit 3: CPI inflation has fallen in recent times**


Source: Bloomberg

