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Budget 2019: A Progressive Budget

By FPJ Bureau

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The first Budget by India's first full-time woman Finance Minister reflects the finesse and the prudence of a woman in charge of financial management.

In terms of the overall Budget arithmetic, there isn't much deviation from the interim budget, as the fiscal deficit number has been marginally lowered from 3.35% in the interim budget to 3.34% now.

But a higher reliance on tax revenues from high net-worth individuals (HNIs), increase in basic custom duty on precious metals (gold & silver) and increase in excise on petrol & diesel, on the one hand, and substantial discount in taxes on affordable housing, startups and electric vehicles, on the other hand, clearly indicate the "progressive" direction of the Budget.

Responding to the ongoing slowdown in the industrial sector, the Finance Minister has also increased the coverage of companies that will now pay corporate tax at 25% (from the earlier 30%), which should boost their profitability.

The revenue arithmetic of the Budget is quite conservative. Factoring in the protracted slow-down phase and a shortfall in personal income tax revenue and GST receipts, the “gross tax revenue” projections have been lowered from their level in the interim budget.

However, the projections of “non tax revenue receipts” and “capital receipts” have been increased from the interim budget cashing in on the likely higher disinvestment receipts (strategic sales), new asset monetisation programme and the 5G spectrum auction proposed to be held in October, 2019.

However, as in the interim budget, the quality of expenditure remains weak as the proposed growth in current expenditure at 14.3% in FY20 exceeds that in capital expenditure (at 6.9%) by a wide margin. What is worrisome is the drastic reduction in allocations to the sectors like road transport, highways and civil aviation during FY20 versus in FY19.

On the positive side, the Budget has paid special attention to highly stressed sectors like real estate, construction finance and the broader financial system.

Many notable announcements are made for the real estate sector, which has reached a near stagnancy level on account of several factors, the major one being the ongoing funding crunch in the financial system.

The Budget has announced an additional Rs 1.5 lakh deduction in income-tax on home loans up to Rs 3.5 lakh for affordable housing to drive the stagnant sales in this segment and bring new participants into the market.

It has proposed a Model Tenancy Law (new reforms for rental housing) to give a big boost to the sector, as the current high cost of houses and high levels of property taxes have made renting out an un-remunerative proposition.

It has also proposed the use of government’s land parcels for public infrastructure and affordable housing to narrow the demand-supply gap. Furthermore, it has given permission to FPIs to subscribe to listed debt papers of REITs and INVITs, which will increase the flow of funds to the real estate sector.

The Budget has taken excellent measures to re-energize credit intermediaries like PSBs and NBFCs. Re-capitalisation of PSBs by Rs 70,000 crore will not just give these banks a provision cover but also growth capital for on-lending. This will indirectly benefit NBFCs, as “bank-borrowings” is one of their major funding avenues.

There are a few corrective measures for NBFCs too. For example, the government has decided to grant a one-time six months’ partial credit guarantee to PSBs to buy high-rated pooled assets of financially sound NBFCs, amounting to a total of Rs 1 trillion during FY20.

It has also proposed to further strengthen regulatory control of RBI over NBFCs and return regulation of HFCs back to RBI from the NHB. On balance, these measures should help reduce risk aversion and improve funds-flow to the NBFC sector.

It has also been proposed to allow investments made by FIIs/FPIs in debt securities issued by Infrastructure Debt Fund (IDF-NBFCs) to be transferred and/or sold to any domestic investor within the specified lock-in period.

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(Views are personal)