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# A prudent and progressive Budget: FM steps up to the challenge

Once and for all, the FM will have to undertake a massive fiscal cleansing operation to restore the credibility of our Budget exercise

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The Budget unveiled by the first full-time woman Finance Minister of India reminded me of a recent quote of Joseph Stiglitz from his article on progressive capitalism.

Stiglitz has said: “Reversing the malaise (of neoliberal policies) requires that we figure out what went wrong and chart a new course forward, by embracing progressive capitalism, which, while acknowledging the virtues of the market, also recognises its limitations and ensures that the economy works for the benefit of everyone.”

Nirmala Sitharaman’s Budget has been a step in this direction. I will call this a prudent and progressive Budget. By placing a greater reliance on tax revenues from high net-worth individuals (HNIs), increasing basic Customs duty on precious metals and raising excise on petrol and diesel, on the one hand, and granting substantial discount in taxes on affordable housing, startups and electric vehicles, on the other hand, she indeed has given a progressive Budget.

Her “revenue arithmetic” is also conservative. By factoring in the economic slowdown and the consequent shortfall in personal income tax receipts and GST collections during FY19, she has realistically revised downwards the expected tax revenue numbers of the interim Budget for FY20. To offset this, she has relied heavily on non-tax revenue as well as capital receipts expected from disinvestment of PSUs (strategic sales), new asset remonetisation, 5G spectrum auction, etc. Market participants will now keenly watch the incoming trends for these receipts to validate the budgeted numbers.

However, she couldn’t help much with the credibility of fiscal deficit figure, which is significantly understated due to ever increasing levels of off-budgetary borrowings by the lead public sector organizations like FCI, NABARD, HUDCO, PFC, REC, IRFC, NHAI, NTPC, Power Grid and the like.

Once for all, she will have to undertake this massive fiscal cleansing operation to restore the credibility of our Budget exercise. Also, she could not do much to improve the quality of expenditure (current versus capital) that was projected by the interim Budget against the backdrop of increased public debt.

But she has taken several materially important measures to boost highly stressed sectors like real estate, agriculture, MSMEs and a broader financial system.

While the tax incentives for buyers of affordable housing and the proposed Model Tenancy Law will increase activity in the stagnant real estate sector, the proposed payment platform for MSMEs would reduce delays in payments to MSMEs. A permission to FPIs to subscribe to listed debt papers of REITs and INVITs would attract more funds to the real estate sector.

A boost is given to agriculture, allied activities and also to rural infrastructure. Around 1.25 lakh km of road length is proposed to be upgraded over the next five years and national grids planned for distribution of electricity, water and gas.

She has taken excellent measures to re-energise credit intermediaries like PSBs and NBFCs. Re-capitalisation of PSBs by Rs 70,000 crore will not just give PSBs a provision cover, but also growth capital. This will benefit NBFCs too, as “bank-borrowings” is one of their major funding avenues.

There are a few corrective measures for NBFCs also. Measures like one-time partial 6-month guarantee to public-sector banks to buy sound NBFCs' loans and higher regulatory powers to the RBI over NBFCs and return of regulation of HFCs back to the RBI will go a long way in reducing risk aversion towards NBFCs. She has expressed commitment to deepen markets for corporate bond repos, credit default swaps and the like with a specific focus on infrastructure sector, which is the need of the hour.

On the negative side, the Budget has announced a plan to raise foreign-exchange denominated bonds in overseas market, which involves an exchange rate risk and hence, has a potential to hamper India's financial stability in the present phase of heightened global uncertainty.

From the medium-term perspective, the FM will have to work hard on stepping up our domestic savings rate and facilitating investments out of our own savings rather than the borrowings -- both domestic and overseas -- to make the growth process sustainable.

*(The writer is Group Chief Economist, L&T Financial Services. Views expressed are personal)*