Union Budget Report 2020 - 2021

CONTENT

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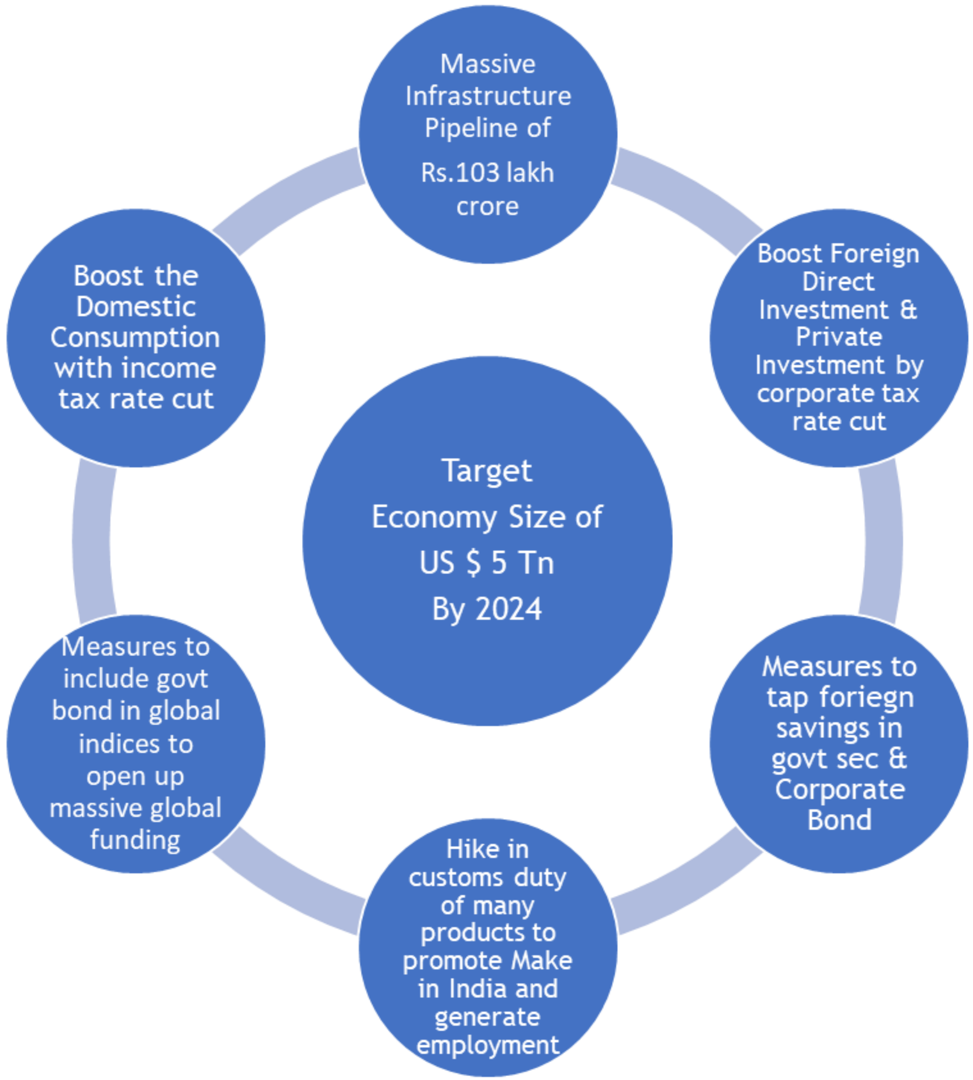
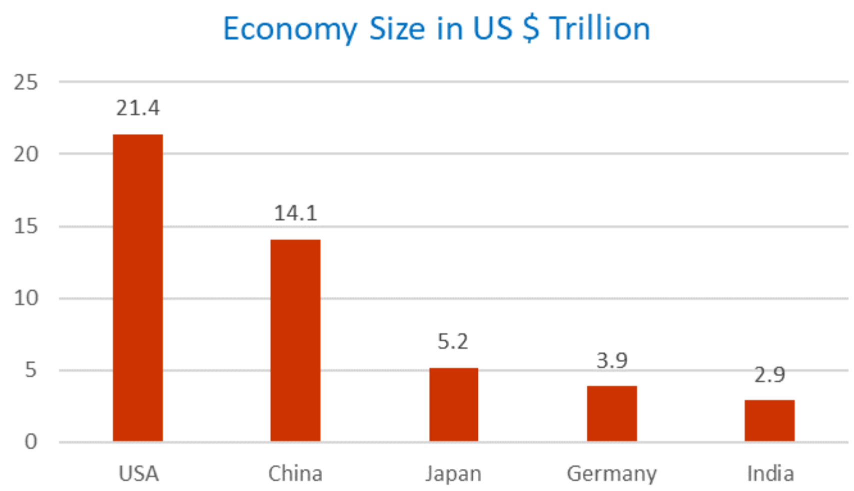
Broad Framework of the Government to boost investment and consumption and generate employment



After having brought basic reforms like Banking reforms, Solvency and Bancruptcy Bill, RERA (Real Estate Regulatory Authority), GST, Direct Benefit Transfer, Banking Culture among the poor and rural population and curbs on black money transactions, the second budget in the second term of the government lists the followings for focus and implementation.

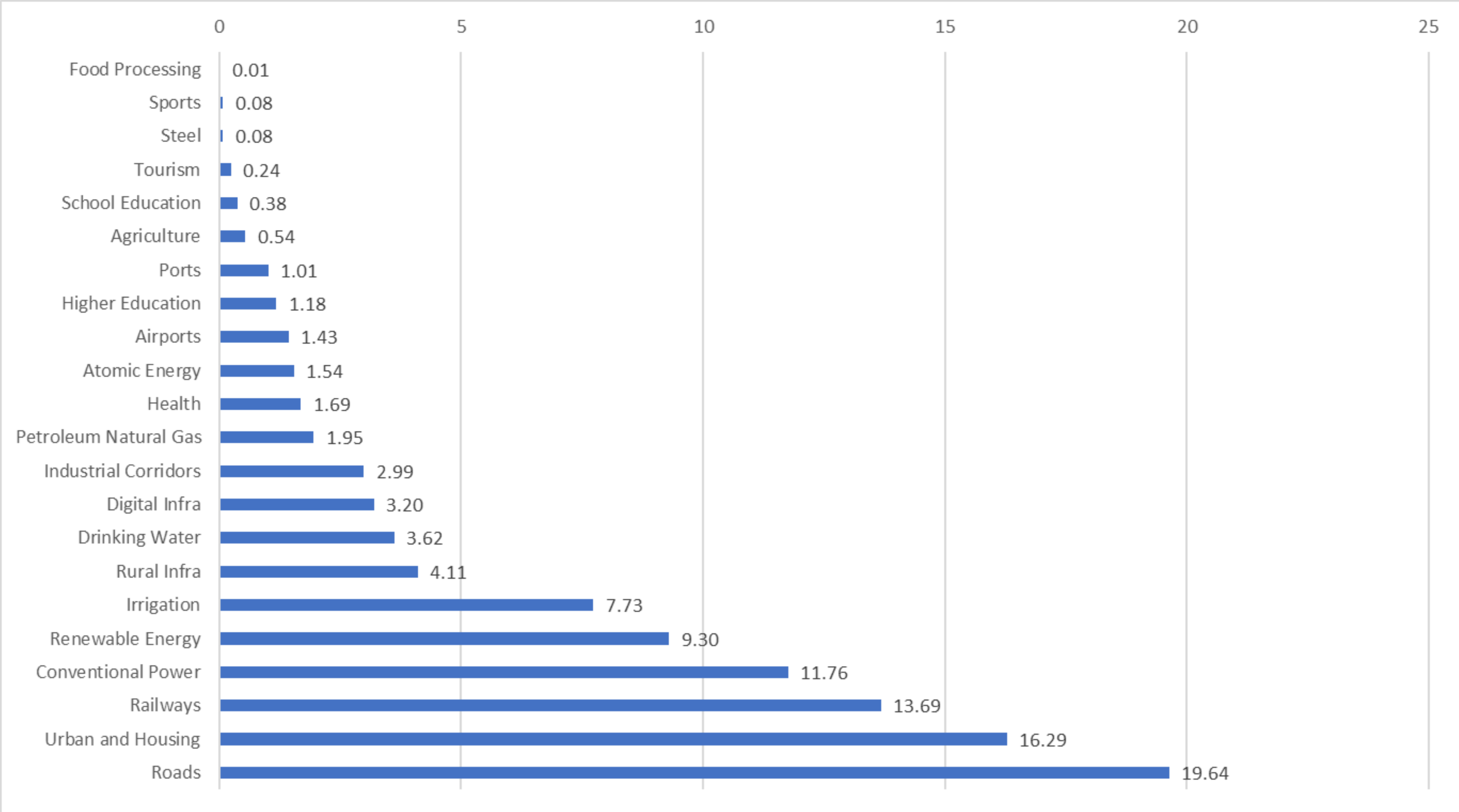
Clearly the focus is on boosting domestic consumption, Infrastructure building, Attracting Global capital for infra building and Employment generation through private investment.Domestic Savings is grossly insufficient to meet the infrastructure demand. Total Public Sector Borrowing itself is said to be around 9% of GDP. Massive flow of foreign savings is the only way to maintain the interest rate at a lower level and boost investment. We think, budget is clearly sending the message that the government is focused to boost flow of foreign capital and encourage domestic consumption. Fiscal Prudence has been adhered to and at the same time record capital expenditure is financed through higher disinvestment, more dividend from PSUs, Reasonable dividend from RBI and More mobilisation from small savings. Any misadventurism on fiscal prudence would amount to risking downgrading of country credit rating.

1) Earlier Reduction of corporate tax to 15% for manufacturing companies and 22% for other companies provides the launch pad for attracting more investment from existing companies and new companies which will boost employment.
2) India becomes the fifth largest economy with US $ 2.9 tn. Size of the top 4 countries economy size in US $ trillion is given below:

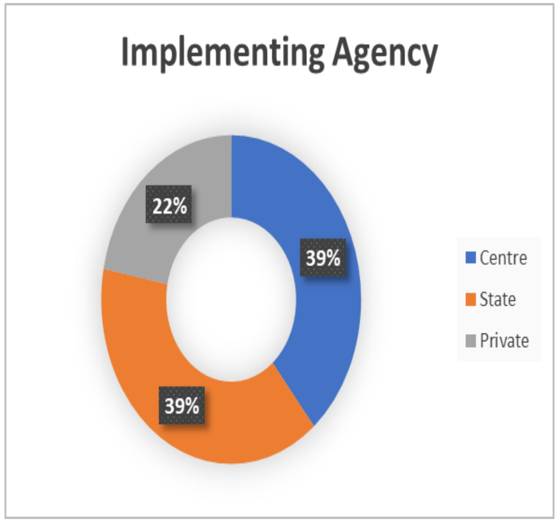


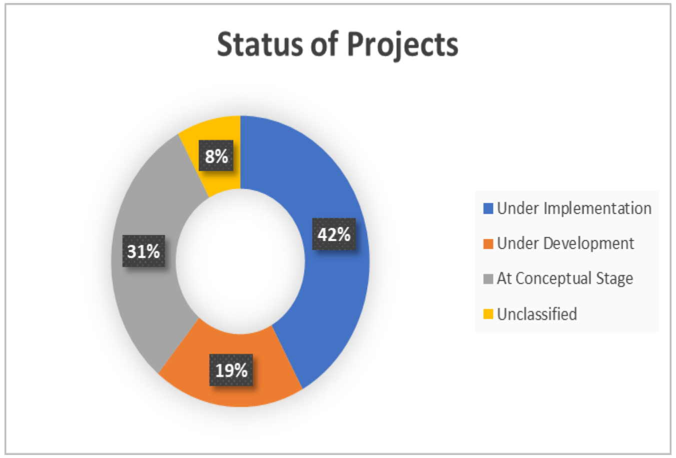
3) As per the first advance estimates of annual national income, the real GDP growth is estimated at 5.0 percent in 2019-20, as compared to the provisional estimates of 6.8 percent in 2018-19

4) Rs.103 lakh crore National Infrastructure Pipeline projects announced



Overview of the National Investment Pipeline





5) Fiscal Deficit slips to 3.8% on the back of poor tax revenue.
6) Gross tax revenue grows by 4% against the budgeted target of 9.48%. The tax revenue target for FY 2020-21 is 11.86%.
7) Gross market borrowings is at Rs.7,80,000 cr and Net Market Borrowings is at Rs.5,44,869 cr.
8) Nominal GDP growth slips to 8.5% for FY 2019-20 against the budgeted growth of 12%. The revised GDP size for FY 2019-20 is Rs.2,04,42,233 cr against the budgeted size of Rs.2,11,00,607 cr.
9) Nominal budgeted GDP growth rate for FY 2020-21 is at 10%, with a targe size of Rs.2,24,89,420 cr.
10) Many tax concessions announced to attract foreign capital like investment by the Sovereign Wealth Fund of foreign governments in the priority sectors will get 100% tax exemption to their interest, dividend and capital gains income in respect of investment made in infrastructure and other notified sectors before 31st March, 2024 and with a minimum lock-in period of 3 years

11) Certain specified categories of Government securities would be opened fully for non-resident investors, apart from being available to domestic investors as well
12) The limit for FPI in corporate bonds, currently at 9% of outstanding stock, will be increased to 15% of the outstanding stock of corporate bonds.
13) To improve investors' confidence and to expand the scope of credit default swaps, it is proposed to formulate a legislation, for laying down a mechanism for netting of financial contracts.
14) The Debt-based Exchange Traded Fund (ETF) recently floated by the government was a big success. Government proposes to expand this by floating a new Debt-ETF consisting primarily of government securities
15) Measures to make sure that Indian Government Bonds included in global indices to tap foreign savings. As the net household financial savings has dropped to eight-year low of 6.5% of GDP and this is not sufficient to meet the massive credit demand.
16) Abolishing Dividend Distribution Tax to avoid double taxation for foreign investors and benefits mutual funds and insurance companies and retail investors by saving the dividend distribution tax.
17) Increase in customs duty for many imports to protect domestic industries and to facilitate Make in India initiative. This will have a massive positive impact on employment generation.
18) Various measures to boost MSMEs
19) Investment of around Rs.45,000 cr electronics goods manufacturing in India.
20) It is proposed to attach a medical college to an existing district hospital in PPP mode. Those states that fully allow the facilities of the hospital to the medical college and wish to provide land at a concession, would be able to receive Viability Gap Funding. This is a major step to enhance the healthcare infrastructure and increase the no of medical colleges.

Understanding the Budget better:

Where the additional resource comes from?

Particulars	2019-20	2019-20	2020-21		
Particulars	Budget Estimates in Rs. Cr	Revised Estimates in Rs. Cr	Budget Estimate in Rs. Cr	Excess / Reduction in Rs. Cr	Increase / Decrease in %age
Gross Receipts	3595482	3351870	3821248	469378	
Net Receipts	2399147	2578137	3037067	458930	**17.80**
Where the additional Revenue comes from					
Tax Revenue	2458715	2163423	2420090	256667	**11.86**
Corporation Tax	766000	610500	681000	70500	**11.55**
Taxes on Income	569000	559500	638000	78500	**14.03**
Customs Duty	155904	125000	138000	13000	**10.40**
Union Excise Duty	300000	248012	267000	18988	**7.66**
Service Tax	0	1200	1020	-180	**-15.00**
Taxes on Union Territories	6948	6884	7500	616	**8.95**
GST	663343	612327	690500	78173	**12.77**
Net Tax Revenue(Gross tax-state share)	1649582	1504587	1635909	131322	**8.73**
Non Tax Revenue	313179	345513	385017	39504	**11.43**
Capital Receipts + Drawdown	823588	848450	1021304	172854	**20.37**
Of Which					
Disinvestment Receipts	105000	65000	210000	145000	**223.08**
Gross Govt Borrowings	710000	710000	780000	70000	**9.86**
Net Govt Borrowings	473122	473972	544870	70898	**14.96**

Where the additional budgetary expenditure goes to?

Particulars	2019-20	2020-21		
	Revised Estimates in Rs. Cr	Budget Estimate in Rs. Cr	Excess / Reduction in Rs. Cr	Increase / Decrease in %age
Interest Payments	625105	708203	83098	**13.29**
Grants in aid to state govt	446958	514788	67830	**15.18**
Capital Expenditure excluding Defence & Communications	233807	272452	38645	**16.53**
Agriculture and Allied activities	234616	264994	30378	**12.95**
Pensions	184147	210682	26535	**14.41**
Communications	20649	65514	44865	**217.27**
Defence	316296	323053	6757	**2.14**
Relief on account of natural calamities	18301	23197	4896	**26.75**
Census, Survey and Statistics	3007	6659	3652	**121.45**
Police	90625	93597	2972	**3.28**
Medical & Public Health	25587	29774	4187	**16.36**
Rural Employment	71002	61500	-9502	**-13.38**
Other Expenditure	428452	467817	39365	**9.19**
Total	**2698552**	3042230	343678	**12.74**

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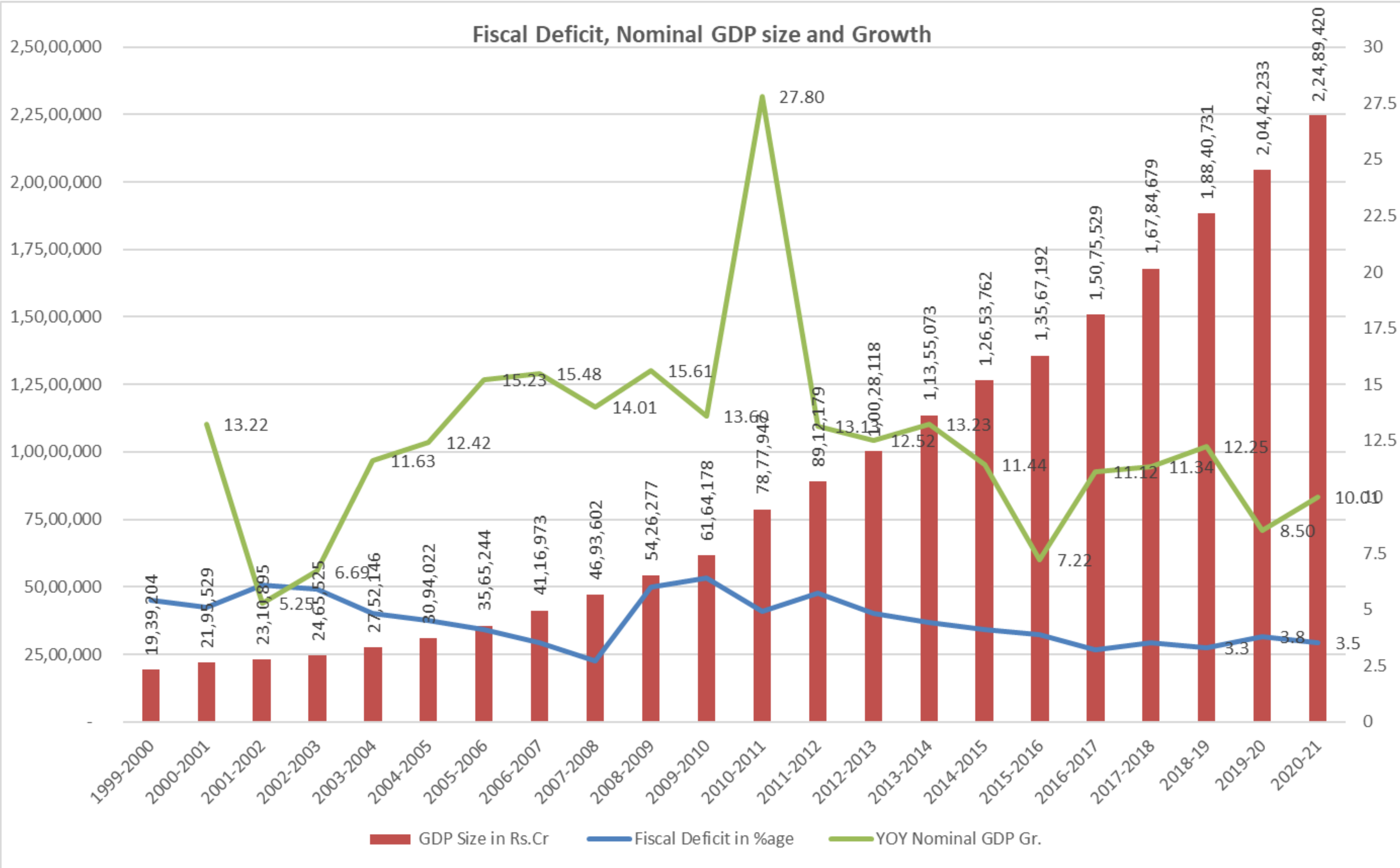
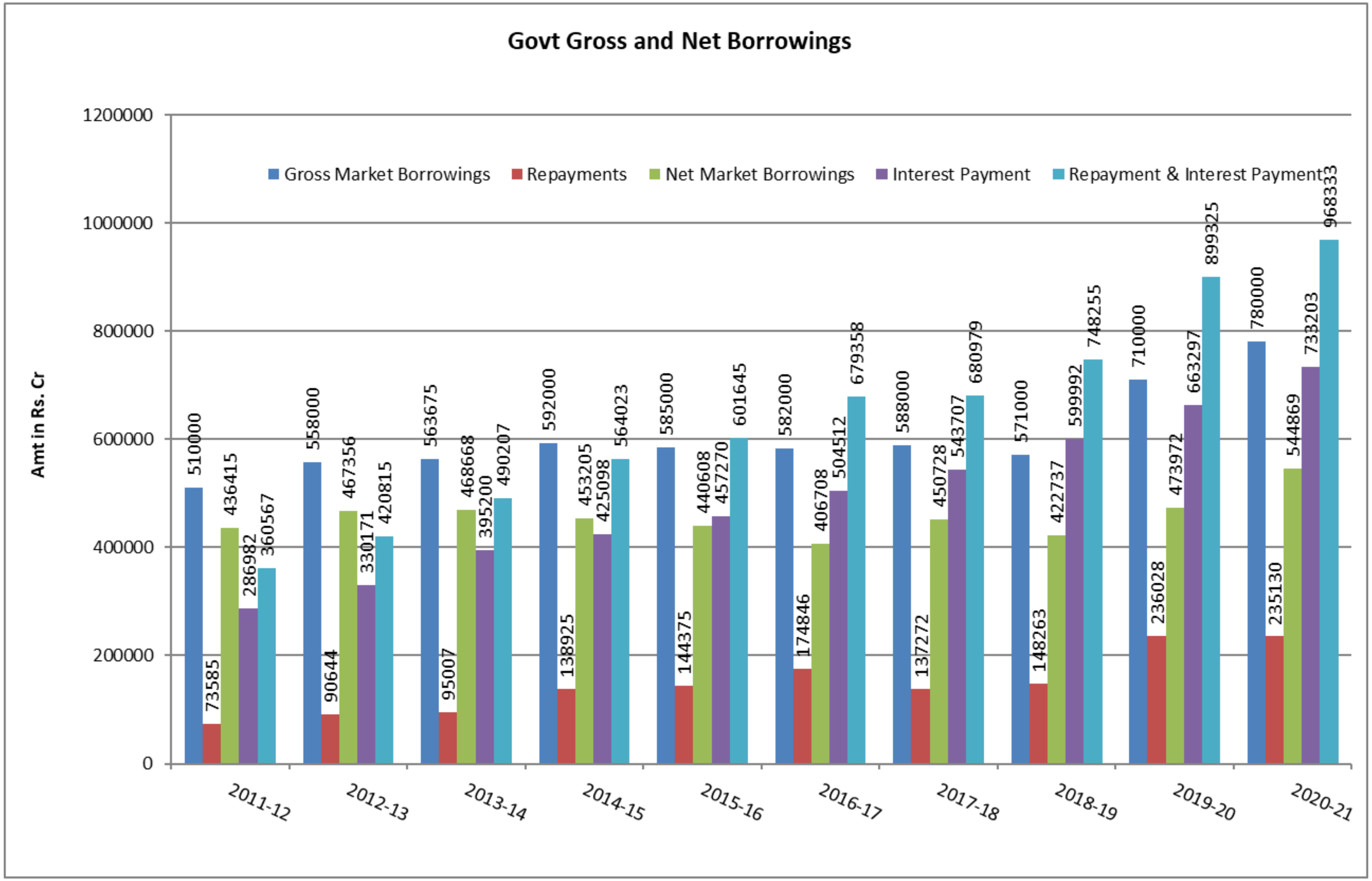
Declining Nominal GDP size makes the fiscal management more difficult



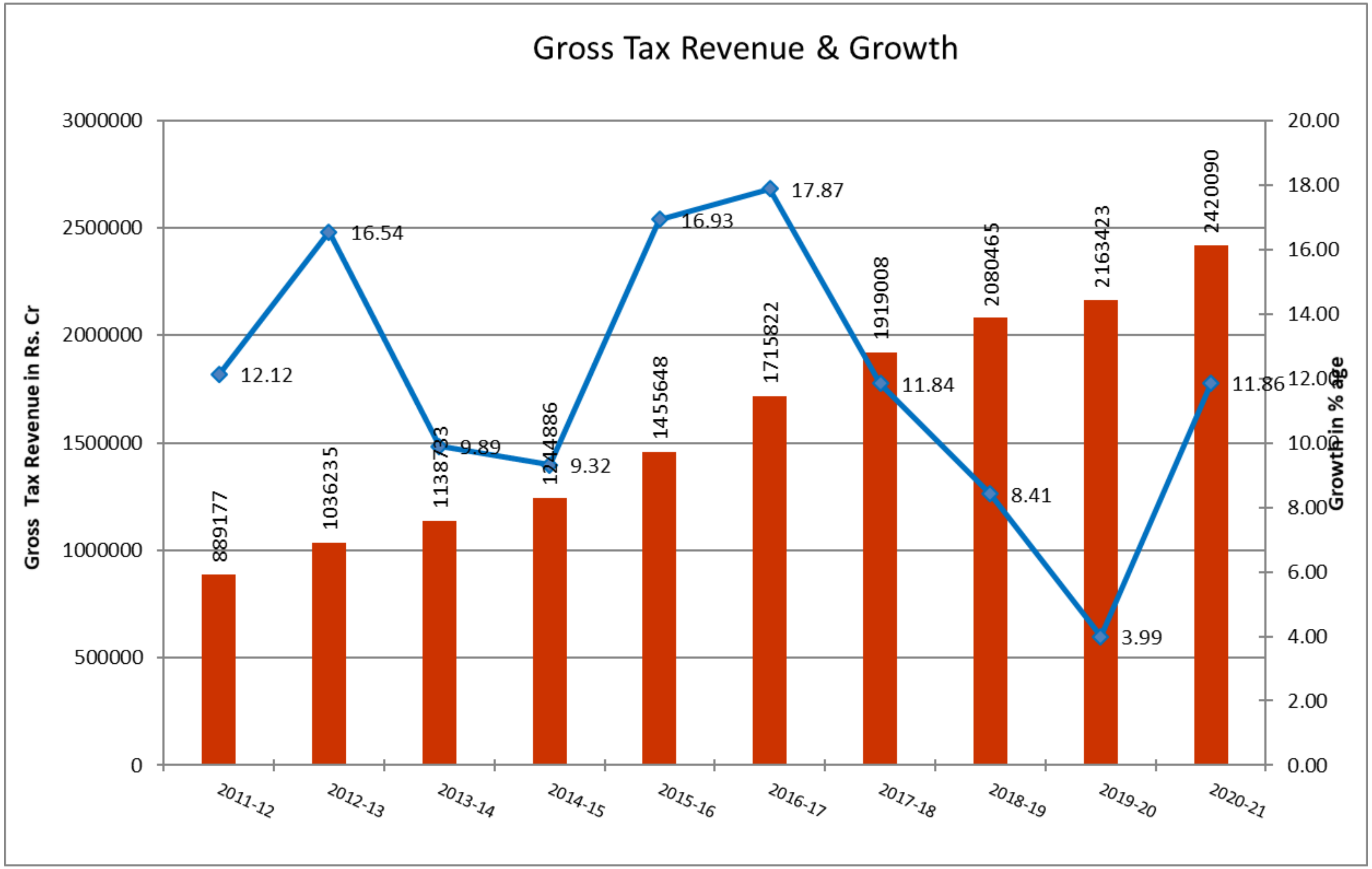
Rising interest burden on existing government debt

Almost 59% of Central Government Tax revenue goes back for repaying the principal and interest.



Tax Revenue is the key for budget implementation

Gross tax revenue for FY 2019-20 is expected to grow at only 4% against the budgeted figure of 9.48%. For FY 2020-21, the budgeted target is around 11.86%. We hope with various measures to boost housing, auto, Infrastructure,MSME and with better tax complaince, the government will be able to achieve this.



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