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UNION BUDGET 2019-20 (FINAL)
Budget for next decade Infrastructure growth

CONTENT

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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 first budget in the second term of the government lists the followings for focus and implementation during next 10 years. Clearly the focus for next 10 years is Infrastructure building and Long term funds raising for infrastructure.

1) Building physical and social infrastructure
2) Digital India reaching every sector of the economy
3) Pollution free India with green Mother Earth and Blue Skies
4) Make in India with particular emphasis on MSMEs, Start-ups, defence manufacturing, automobiles, electronics, fabs and batteries, and medical devices
5) Water, water management, clean Rivers
6) Blue Economy
7) Space programmes, Gaganyan, Chandrayan and Satellite Programmes
8) Self-sufficiency and export of food-grains, pulses, oilseeds, fruits and vegetables
9) Healthy society – Ayushman Bharat, well-nourished women & children. Safety of citizens
10) Team India with Jan Bhagidari. Minimum Government Maximum Governance

<u>The focus has clearly shifted to Infrastructure building and clean energy, Mobilising massive funds to implement these during next 10 years. The key highlights are :</u>

1) Fiscal Deficit maintained at 3.3%
2) Growing from US $ 3 trillion economy to US $ 5 trillion economy in next 5 years. India has now become 6th largest economy from 11th largest economy during 2014.
3) Estimated investment in Railways between 2018-30 is around 50 lakh crores. Proposal to use Public-Private partnership to unleash faster development
4) Launch of massive Railway Station Modernisation Program
5) Estimation of 20 lakh crores of yearly investment to drive growth with access to low cost capital and measures to enhance infrastructure funding
6) To form expert committee to explore investment of Rs.100 lack crores in infrastructure during next 5 years and recommending structure and required flow of funds through Development Finance Institutions.
7) Measures to widen and deepen corporate bond market, on line debt platform and retail participation in govt securities

8) Plan to raise part of govt borrowings in external markets in external currencies which will reduce burden in domestic market (India's sovereign external debt to GDP at 5% is among the lowest globally)
9) Focus on Electric vehicles to have major impact on auto industry and Focus on affordable housing
10) Minimum Public share holding to be increased from 25% to 35%
11) More powers to RBI to regulate NBFC
12) Regulation of Housing Finance Companies to shift from NHB to RBI
13) Liquidity window to troubled NBFC sector
14) Nominal GDP for 2019-20 is projected at Rs.2,11,00,607 cr, assuming a growth of 12%.
15) Nominal GDP for 2018-19 has grown at 12.25%
16) Growth in gross tax revenue for 2018-19 is at 17.15% against the budgeted growth of 16.71%
17) Budgeted growth in gross tax revenue for 2019-20 is 9.48%
18) Budgeted Gross Govt borrowings for 2019-20 is Rs.7,10,000 cr and net govt borrowings is at Rs.4,73,122 cr, which is Rs.50,385 cr higher than last year.

The budget has clearly focused on the debt market with recognition of all around infrastructure development and required funding requirements. Mobilisation of Rs.50 lac crs for Railway, Rs.100 lac crs for infrastructure is a daunting task for the country. This requires efficient channelisation of the domestic savings and foreing funds in to appropriate instruments to fund the infrastructure development. Relook at the Infrastructure Development Institutions is the main highlight of the budget which clearly recognise that developing infrastructure is the only way to have all round growth.

Since our Sovereign Debt to GDP ratio is less than 5% and one of the lowest globally, tapping foreign investments is the only option to mobilise funds of such large quantum and build infrastructure. So, the government is in the right direction in tapping foreign resources.

Housing Finance Companies and NBFCs are raising huge capital from both wholesale market and retail markets. Shifting the regulation to RBI is the much needed measure.

Where the additional resource comes from?

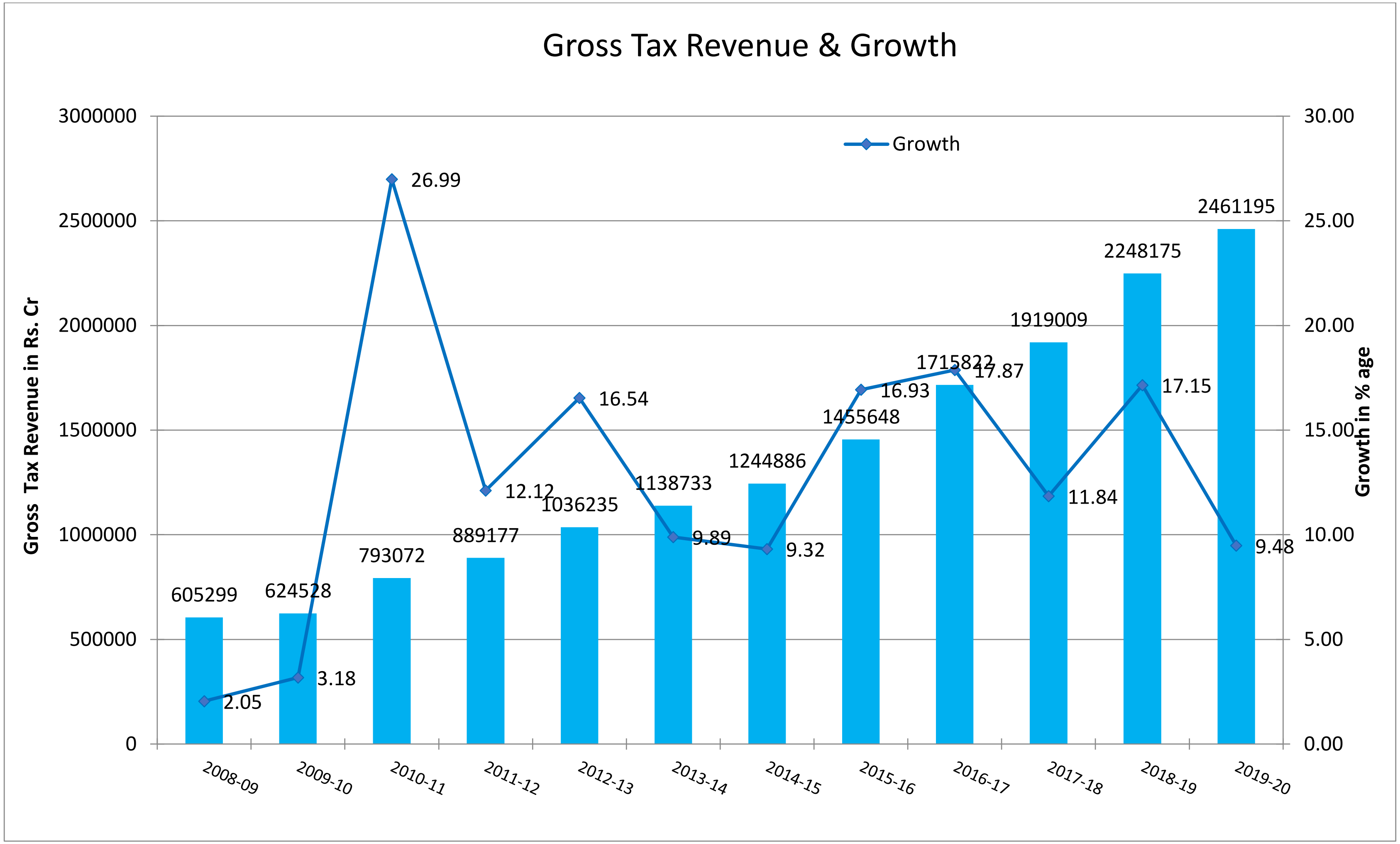
Where the additional resource comes from?					
	2018-19	2018-19	2019-20		
Particulars	Budget Estimates in Rs. Cr	Revised Estimates in Rs. Cr	Budget Estimate in Rs. Cr	Excess / Reduction in Rs. Cr	Increase / Decrease in % age
Gross Receipts	3187240	3177488	3544423	366935	11.55
Net Receipts	2399147	2416034	2735290	319256	13.21
Where the additional Revenue comes from					
Tax Revenue	**2271242**	**2248175**	**2461195**	**213020**	**9.48**
Corporation Tax	**621000**	**671000**	**766000**	**95000**	**14.16**
Taxes on Income	**529000**	**529000**	**569000**	**40000**	**7.56**
Customs Duty	112500	130038	155904	25866	19.89
Union Excise Duty	259600	259612	300000	40388	15.56
Service Tax	0	9283	0	-9283	-100.00
Taxes on Union Territories	5242	5342	6948	1606	30.06
GST	**743900**	**643900**	**663343**	**19443**	**3.02**
Net Tax Revenue (Gross tax-state share)	1480649	1484406	1649582	165176	11.13
Non-Tax Revenue	245089	245276	313179	67903	27.68
Capital Receipts + Drawdown	716475	727553	823588	96035	13.20
Of Which					
Disinvestment Receipts	80000	80000	105000	25000	31.25
Gross Govt Borrowings	605539	571000	710000	139000	24.34
Net Govt Borrowings	**462061**	**422737**	**473122**	**50385**	**11.92**

Where the additional budgetary expenditure goes to?

Where the additional budgetary expenditure goes to?					
	2018-19	2018-19	2019-20		
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**
Grants & Loans to States	420133	391128	465091	73963	18.91
Interest Payment	575795	587570	660471	72901	12.41
Food Subsidy	169323	171298	184220	12922	7.54
Other Subsidies	108834	109136	131829	22693	20.79
Pensions	168466	166618	174300	7682	4.61
Capital Outlay excluding Defence	184681	193105	207388	14283	7.40
Defence	282733	285423	305296	19873	6.96
Police	74866	80739	85115	4376	5.42
Education	40612	41211	45013	3802	9.23
Health and Family Welfare	19163	21318	28104	6786	31.83
Grants and Loans to UT Govt	6500	8310	10028	1718	20.67
Dpt of Agri, co-op and Farmers welfare	46700	67800	130485	62685	92.46
Other Expenditure	344407	333579	359009	25430	7.62
Total Expenditure	**2442213**	**2457235**	**2786349**	**329114**	**13.39**

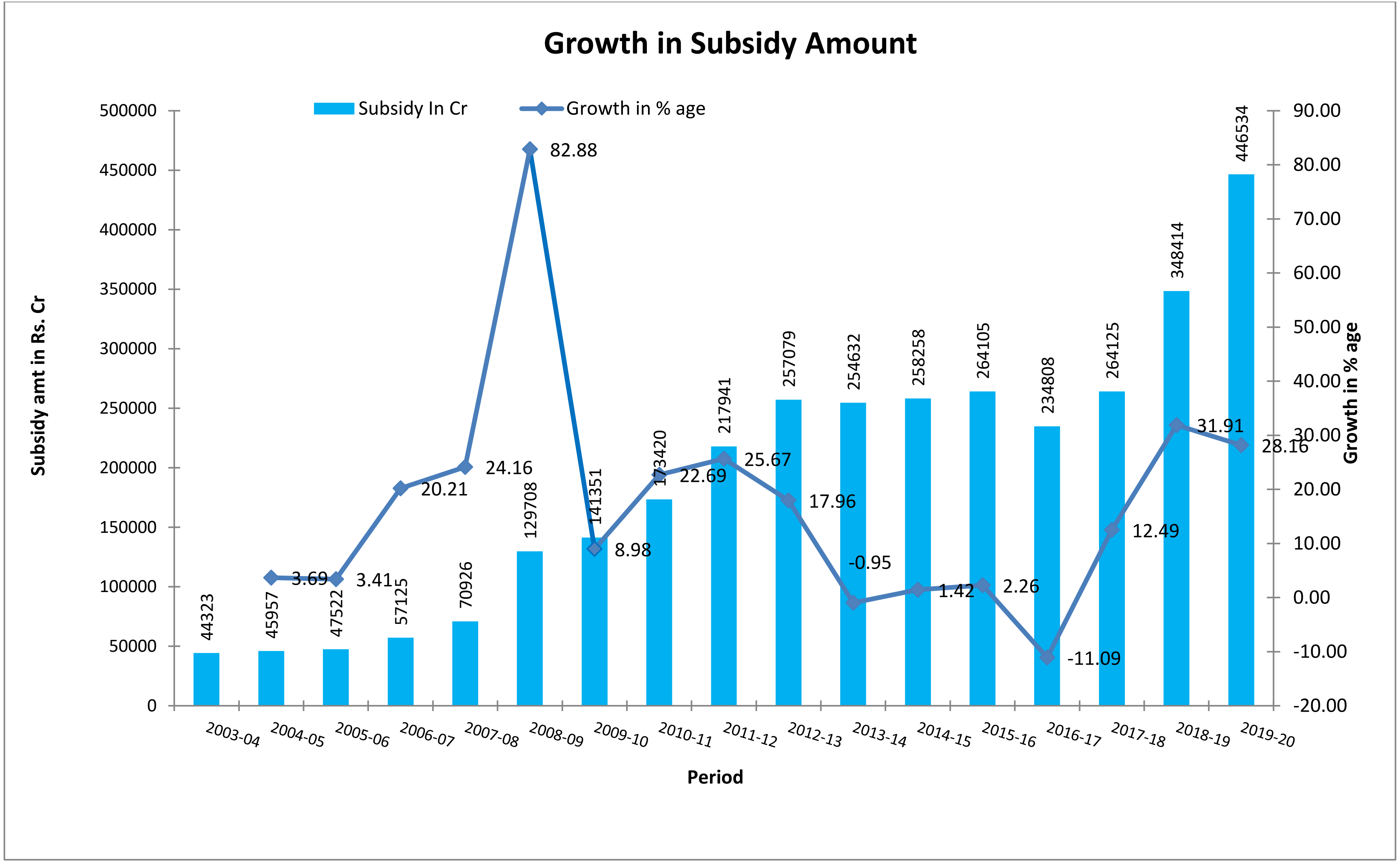
Key factors in successful implementation of the budget are

The overall budgeted tax revenue growth is 9.48% which is achievable. The growth in GST collection is kept at a low of 3%.



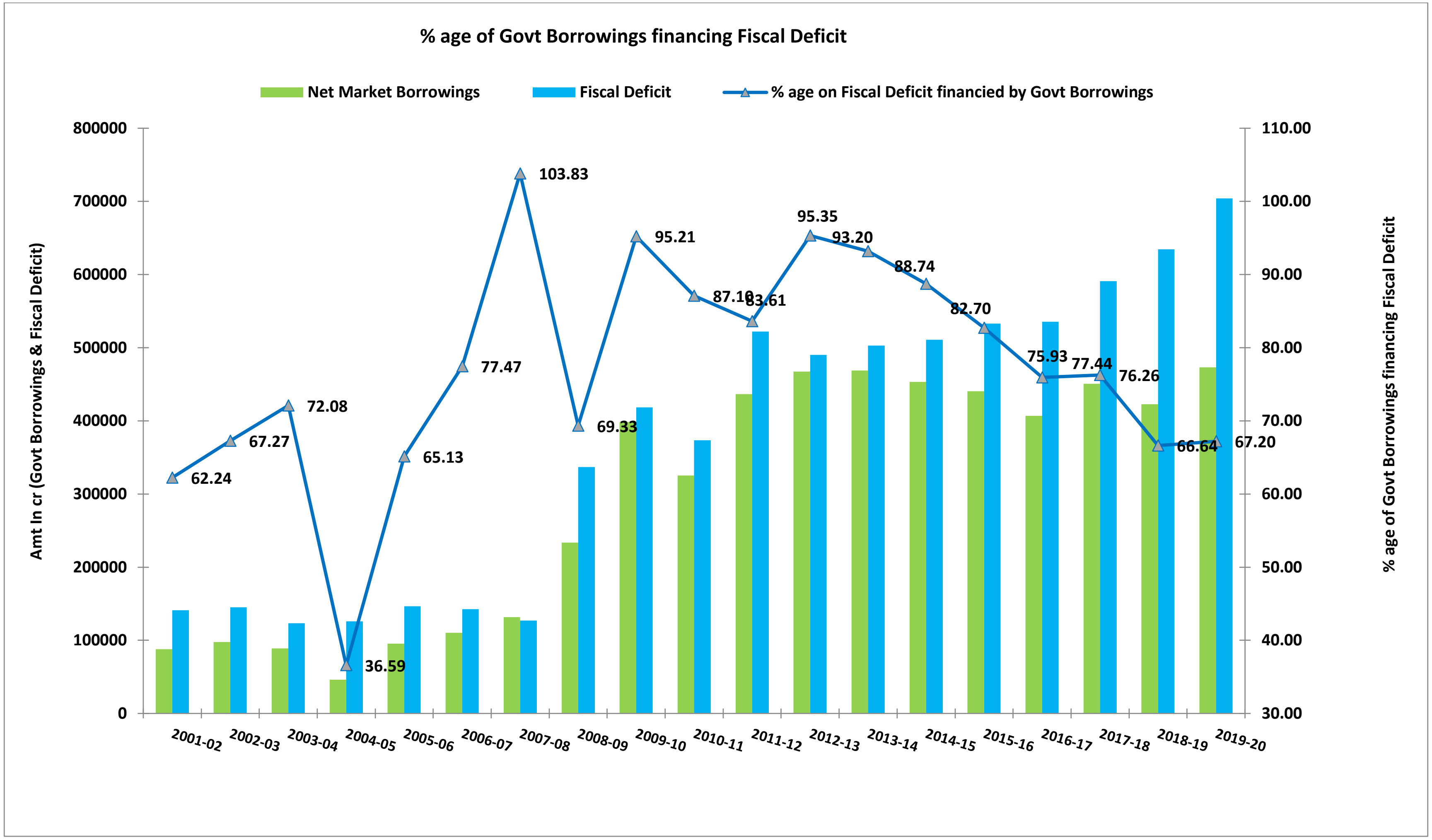
Subsidy eats major portion of the revenues:

Overall subsidy amount has gone substantially by 28.16%.



Increasing subsidies and servicing accumulated debt are the main reason for higher fiscal deficit:

Large portion of fiscal deficit is financed by government borrowings which stands at 67%. Buoyant tax collection is dented by increase in subsidies. Interest payment (Rs.6,60,471 cr) and principal repayment of Rs.2,36,878 cr alone accounts for 40% and 14.35% of the total tax revenue of the centre.



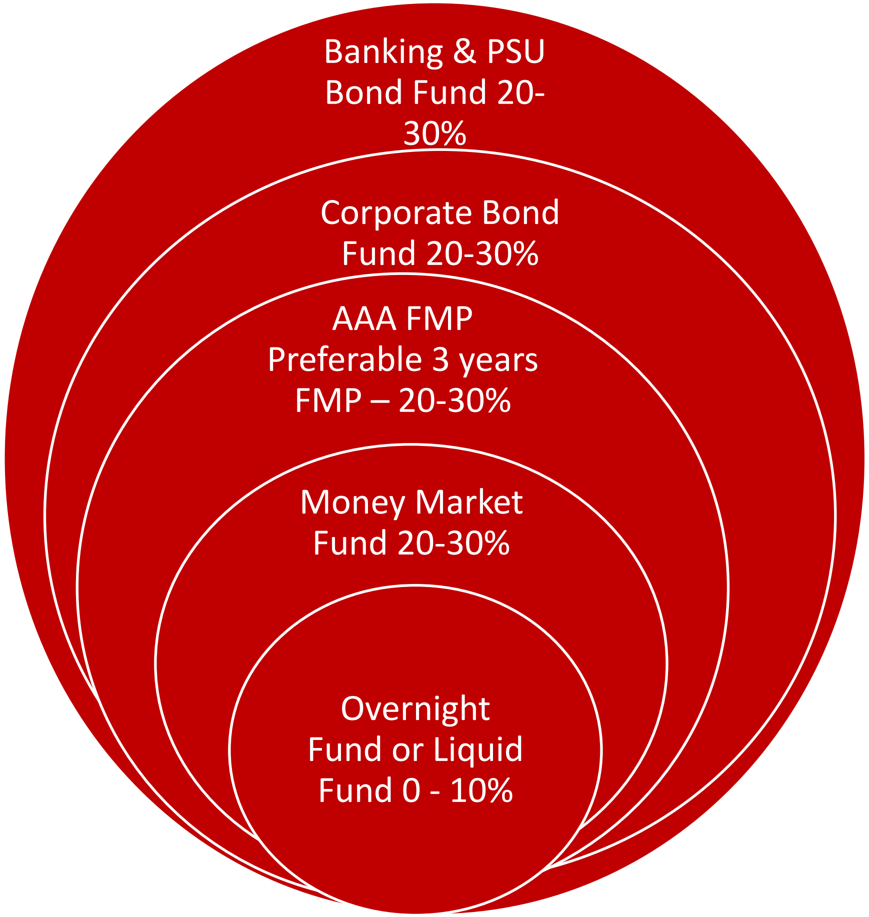
Critical Parameters which the Government strives to improve:

Tax/GDP ratio has been rising steadily which is budgeted at 11.66% for FY 2019-20.

Year	Consumer Price Inflation in %age (CPI)	Fiscal Deficit in % age	Gross Tax in Rs. Cr	GDP in Rs. Cr	Tax/GDP Ratio	YOY Nominal GDP Gr. In % age
1999-2000	4.84	5.4	169979	1939204	8.77%	
2000-2001	4.02	5.1	198321	2195529	9.03%	13.22
2001-2002	3.77	6.1	196693	2310895	8.51%	5.25
2002-2003	4.31	5.9	221918	2465525	9.00%	6.69
2003-2004	3.81	4.8	254923	2752146	9.26%	11.63
2004-2005	3.77	4.5	306021	3094022	9.89%	12.42
2005-2006	4.25	4.1	370141	3565244	10.38%	15.23
2006-2007	5.79	3.5	467848	4116973	11.36%	15.48
2007-2008	6.39	2.7	585410	4693602	12.47%	14.01
2008-2009	10.83	6	627949	5426277	11.57%	15.61
2009-2010	12.11	6.4	633095	6164178	10.27%	13.60
2010-2011	8.87	4.9	786888	7877947	9.99%	27.80
2011-2012	9.3	5.7	901664	8912179	10.12%	13.13
2012-2013	10.92	4.8	1038037	10028118	10.35%	12.52
2013-2014	6.37	4.4	1158906	11355073	10.21%	13.23
2014-2015	5.88	4.1	1251391	12653762	9.89%	11.44
2015-2016	4.97	3.9	1459611	13567192	10.76%	7.22
2016-2017	2.49	3.2	1715822	15075529	11.38%	11.12
2017-2018	3.6	3.5	1946119	16784679	11.59%	11.34
2018-2019	3.4	3.4	2248175	18840731	11.93%	12.25
2019-2020		3.3	2461195	21100607	11.66%	11.99

Model Portfolio for Debt Schemes:

Considering the revised valuation guidelines from SEBI on liquid funds, trouble in the NBFC segment and Aggressive investments from mutual fund managers, there is a strong need to be more watchful and cautious in building the debt portfolio. The compulsion to stay for 3 years to enjoy lower long-term capital gain tax make the task of shifting out from debt investments difficult. Insulating the portfolio from major future unforeseen shocks is difficult, but possible by investing in the schemes which cannot deviate from the mandate. We furnish below the model portfolio for a 3 years and above investment horizon.



the fourth time

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