UNION BUDGET 2020-21

01 February 2020

Counter cyclical Budget

With a 3.8% and 3.5% fiscal deficit in FY20 and FY21, the FM delivered a counter cyclical Budget to boost consumption and investment. Private sector participation is encouraged through higher disinvestments and strategic sales. Effort is to reduce tax litigation. Lower tax slabs will boost consumption. The higher deficit has not resulted in any extra borrowing this year. Next year's net borrowing at Rs 5.45tn will be taken well by the bond market. We believe this will open room for RBI to cut rates when inflation cools later in the year.

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Fiscal deficit at 3.8%: Amidst slowing global and domestic economy, Centre opted for 0.5% expansion in its FY20 fiscal deficit to 3.8% of GDP. While gross tax revenues are estimated to increase only by 4% (FY20BE: 18.2%), expenditure is estimated to increase by 16.6%. However, gross and net market borrowings have been left unchanged due to higher non-tax revenues and inflows into small saving schemes. Bond markets will take it positively.

FY21 revenue estimates are credible: Centre's revenues are expected to increase by 12% in FY21 on the back of 11.5% increase in corporate tax (-8% in FY20) and 14% increase in income tax (18.3% increase in FY20). Indirect taxes will too see an increase of 11.1% (5.3% in FY20), led by GST and higher custom duties. Disinvestment receipts at 0.9% of GDP in FY21 to boost spending.

Buoyant spending to support growth in FY21: Centre's expenditure is estimated to increase by 12.7% to Rs 30.4tn in FY21 led by 11.9% increase in revenue expenditure to Rs 26.3tn and 18.1% increase in capital expenditure to Rs 4.1tn. IEBR is also expected to remain elevated at Rs 6.7tn, with major allocation towards railways, road, transport and highways.

Fiscal Deficit at 3.5% in FY21: Bond markets are likely to take the Budget favourably as gross borrowing in FY21 is estimated at Rs 7.8tn, Rs 700bn more than FY20 and net borrowing is at Rs 5.45tn (Rs 4.74tn in FY20).

Push for consumption and investment: The new tax slabs proposed in the Budget will result in more income at the hands of consumer and thus higher consumption. At the same time, investments have been given an additional push through sustained capex by Centre (18% increase) and increase of FPI limit in corporate bonds, 100% tax exemptions to SWFs for investments in infrastructure sector and creation of an investment clearance cell.

KEY HIGHLIGHTS

- Agriculture, infrastructure and asset monetisation to be key focus areas of FY21 Budget
- Fiscal deficit for FY20/FY21 estimated at 3.6%/3.3% of GDP
- Gross/net borrowings in FY21 estimated at Rs 8.2tn/Rs 5.1tn

Counter cyclical Budget

Push for consumption and investment

Given the backdrop of muted global demand, and a domestic slowdown in consumption and investment, the FM presented a counter cyclical budget to prop consumption and investment in the economy. As against a nominal GDP growth of 7.5% and 10% in FY20 and FY21 respectively, Centre's expenditure is estimated to increase by 16.6% and 12.7% respectively.

In order to increase consumption demand, the FM has announced a new and simplified personal income tax regime which will result in lower taxes for individuals and thus boost consumption demand. At the same time, capital spending by the Centre is estimated to increase by 13.4% and 18.1% in FY20 and FY21 respectively. In addition to this, the investment budget of CPSEs (including railways) is estimated at Rs 7.1tn in FY20 and Rs 6.3tn in FY21 which will go a long way in crowding-in private investments.

For providing resources for private sector, the FM has raised the limit of FPI investment to 15% of outstanding stock from 9% currently. This will provide additional resources for domestic companies to grow.

The Budget also focuses on strategic sales and listing of India's largest insurance company: LIC to prop disinvestment receipts to Rs 2.1tn (0.9% of GDP) as against Rs 650bn in FY20 (0.3% of GDP). This will give the FM room to bring down fiscal deficit to 3.5% of GDP in FY21 from 3.8% of GDP in FY20.

Corporate tax, GST and customs to drive revenues in FY21

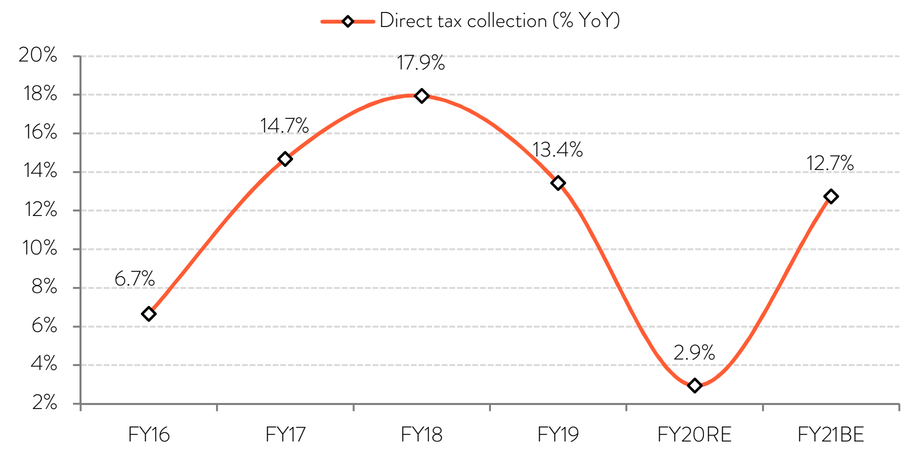
The Budget assumes sharp revival in direct tax collections at Rs 13.2tn (+12.7%) in FY21BE compared with Rs 11.7tn (+2.9%) in FY20RE. The reversal in trend will be driven by bounce back in corporate tax collections to Rs 6.8tn (+11.5%) from Rs 6.1tn in (-8%) FY20RE. However, on account of reduction in personal income tax rates [Fig 12 page 13], the jump collections will be only 14% (Rs 6.4tn) versus 18.3% in FY20RE (Rs 5.6tn). These estimates are after taking into account ~Rs 440bn of revenue foregone owing to tax cuts.

The second avenue of revenue generation in FY21BE will be higher indirect tax collections at Rs 11tn (+11.1%) compared with Rs 9.9tn (+5.3%) in FY20RE. This will be mostly on account of stabilization of GST and improved compliance and higher custom duties which have been duly increased. GST collections are expected to increase by 12.8% to Rs 6.9tn from Rs 6.1tn in FY20RE (5.3%). Within this, both CGST and Cess will be the key drivers with collections in FY21BE rising by 12.8% and 12.4% respectively. Custom duties have been increased on mobile phone parts, electric vehicles, medical devices and footwear.

This will help collections to rise by 10.4% to Rs 1.4tn from Rs 1.3tn (+6.1%) in FY20RE. Excise collections will increase by 7.7% from an increase of 7.3% in FY20E as tax incidence on tobacco and cigarettes has been increased.

As a result of higher direct and indirect tax collections, centre's tax revenues are expected to rise by 12% to Rs 24.2tn in FY21BE from Rs 21.6tn in FY20RE (4%). However, centre's net tax collections will ease to 8.7% (Rs 16.4tn) from 14.2% (Rs 15tn) in FY20RE, on account of higher transfers to states (9.7% versus -6.1%).

FIG 1 – DIRECT TAX COLLECTIONS TO BOUNCE BACK



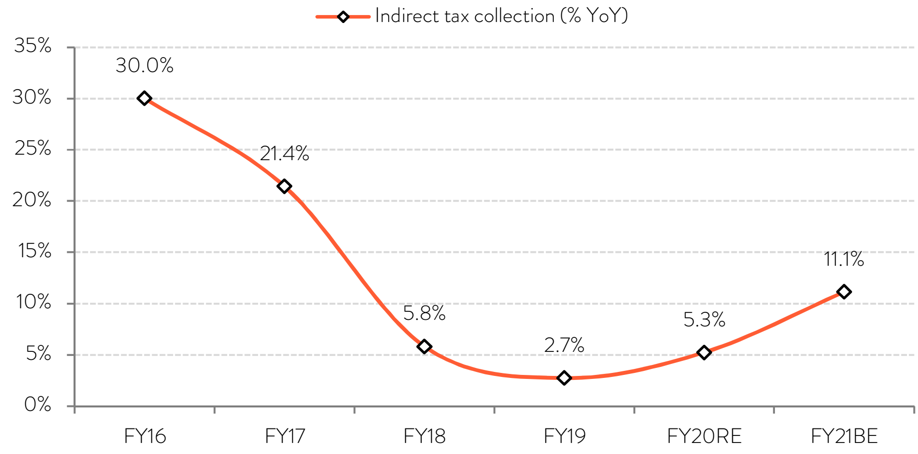
Source: Budget Documents, Bank of Baroda Research | Note: BE-Budget Estimates; RE-Revised Estimates

FIG 2 – INDIRECT TAX COLLECTIONS

(Rs bn)	FY18	FY19	FY20RE	FY21BE
Customs	**1,290**	**1,178**	**1,250**	**1,380**
Change (%)	(42.7)	(8.7)	6.1	10.4
Union excise duties	**2,594**	**2310**	**2,480**	**2,670**
Change (%)	(32.1)	(10.9)	7.3	7.7
CGST	2,033	4,575	5,140	5,800
Change (%)		125.1	12.3	12.8
IGST	1,767	289	-	-
Change (%)		(83.6)	-	-
Cess	626	951	983	1,105
Change (%)		51.9	3.4	12.4
Total GST	**4,426**	**5,816**	**6,123**	**6,905**
Change (%)		31.4	5.3	12.8

Source: Budget Documents, Bank of Baroda Research | Note: BE-Budget Estimates; RE-Revised Estimates

FIG 3 – INDIRECT TAX COLLECTIONS TO ALSO SEE REVIVAL IN FY21



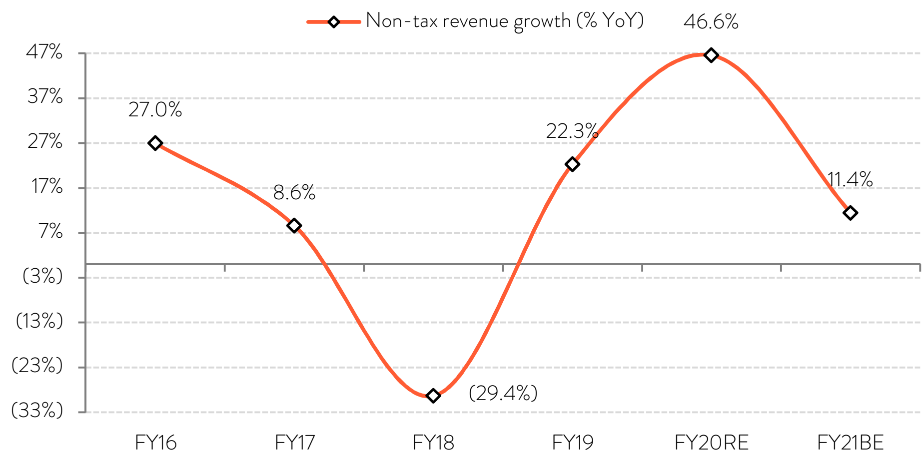
Source: Budget Documents, Bank of Baroda Research | Note: BE-Budget Estimates; RE-Revised Estimates

Non-tax revenues to stabilize, Disinvestment target high

While centre's net tax revenue is estimated to rise by 8.7% in FY21BE compared with 14.2% in FY20RE, non-tax collections are likely to normalise in FY21BE at 11.4% versus an increase of 46.6% seen in FY20RE. In FY20, centre received Rs 1.76tn from RBI after it accepted Jalan committee's recommendation to transfer surplus to central government. However, given that such large transfer was a one-off event, overall dividend receipts have been rightly trimmed to Rs 1.6tn in FY21BE from Rs 2tn in FY20RE. The growth in non-tax revenues will be driven by communication services, essentially 5G auction and Adjusted Gross Revenue (AGR) from telecoms, an increase of Rs 740bn over FY20RE.

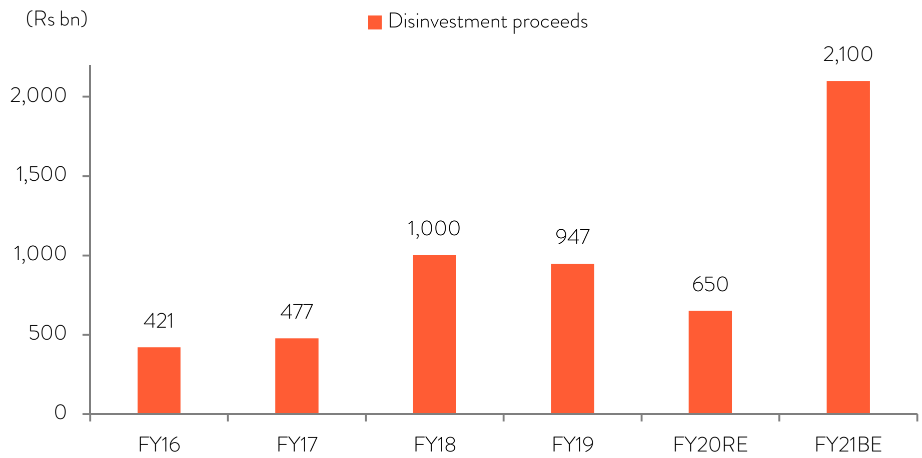
In addition, capital receipts are expected to increase to Rs 10.2tn in FY21BE from Rs 8.5tn in FY20RE. Out of the Rs 1.7tn projected increase, Rs 1.5tn will come from higher disinvestment. While government expects disinvestment of equity in PSUs to rise by Rs 1.2tn, additional Rs 900bn will come from stake sale in PSBs and financial institution, primarily IDBI and LIC, taking the total disinvestment target to Rs 2.1tn compared with Rs 650bn in FY20RE.

FIG 4 – NON-TAX REVENUE GROWTH TO RETURN TO NORMAL



Source: Budget Documents, Bank of Baroda Research | Note: BE-Budget Estimates; RE-Revised Estimates

FIG 5 – DISINVESTMENT PROCEEDS TO RISE SHARPLY



Source: Budget Documents, Bank of Baroda Research | Note: BE-Budget Estimates; RE-Revised Estimates

Counter-cyclical fiscal policy

The Centre has executed a counter-cyclical fiscal policy by maintaining relatively buoyant level of spending when private sector spending is muted. For instance, Centre's expenditure in FY20RE is likely to increase by 16.6% to Rs 27.0tn as against FY20BE of Rs 27.9tn when nominal GDP growth is estimated to increase by 7.5%.

The increase in FY20 is led by 17% increase in revenue expenditure (6.8% in FY19) led by implementation of PM-KISAN resulting in 91% increase in agriculture outlay to Rs 1.2tn, followed by 30.5% increase in transfer to states to Rs 1.55tn, 26.5% increase in home affairs to Rs 1.24tn, 15.5% increase in subsidies to Rs 2.3tn and 14.9% increase in pension outlay to Rs 1.84tn.

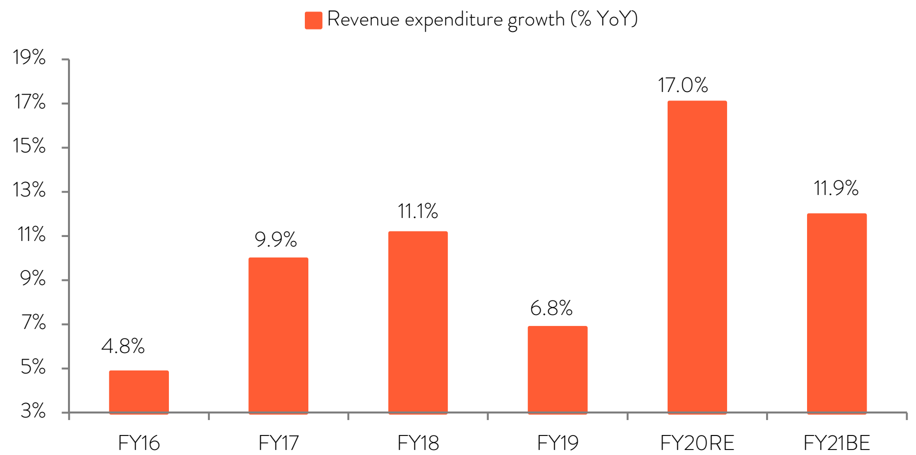
As part of its counter-cyclical fiscal policy, capital spending has been increased from FY20BE by Rs 100bn to Rs 3.5tn. Government ensured a large increase IEBR to Rs 7.1tn in FY20RE (3.5% of GDP) as against budget estimate of Rs 5.4tn.

The counter cyclical fiscal policy will be at work even next year despite fiscal consolidation as Centre's overall expenditure is estimated to increase by 12.7% to Rs 30.4tn compared with 10% increase in nominal GDP growth. This will be led by 11.9% increase in revenue expenditure to Rs 26.3tn in FY21BE (Rs 23.5tn in FY20RE) and 18.1% increase in capital expenditure to Rs 4.1tn in FY21BE.

Major increase in allocation in FY21BE is seen in agriculture and allied activities at 28.1% to Rs 1.5tn, IT and telecom at 270.9% to Rs 593bn, transfer to states at 28.9% to Rs 2tn, pension at 14.4% to Rs 2.1tn and interest payments at 13.3% to Rs 7.1tn.

Apart from the increase in capital outlay, IEBR is again estimated to remain elevated at Rs 6.7tn in order to crowd-in private sector capex.

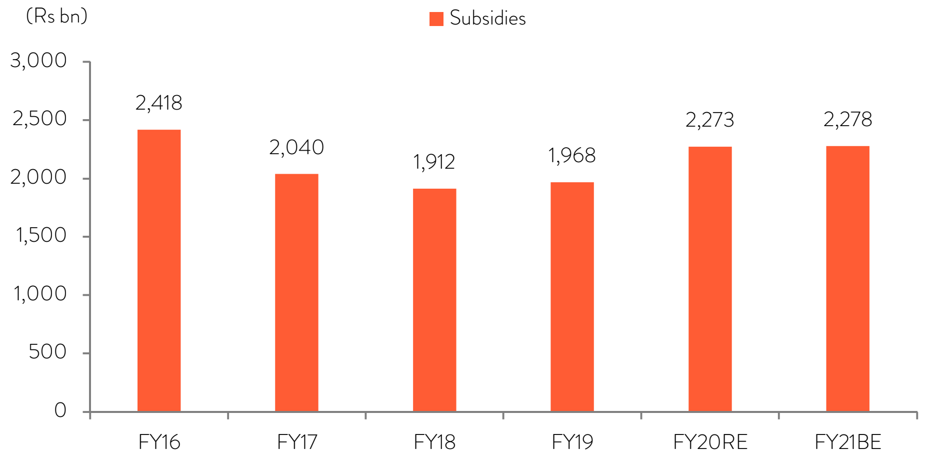
FIG 6 – REVENUE EXPENDITURE TO MODERATE



Source: Budget Documents, Bank of Baroda Research | Note: BE-Budget Estimates; RE-Revised Estimates

Notably, the government has rationalised subsidies which are estimated to increase by 0.2% to Rs 2.3tn in FY21BE after an increase of 15.5% in FY20RE led by higher petroleum subsidies.

FIG 7 – SUBSIDIES RATIONALISED



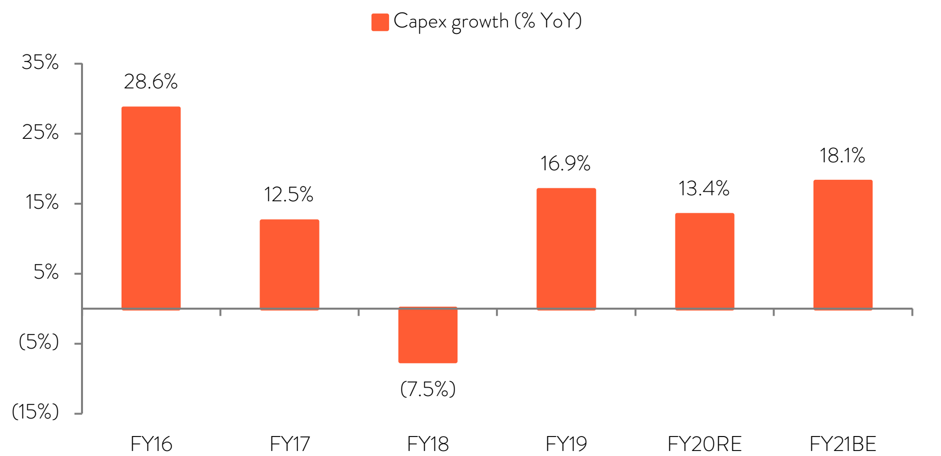
Source: Budget Documents, Bank of Baroda Research | Note: BE-Budget Estimates; RE-Revised Estimates

FIG 8 – MINISTRY-WISE IEBR

(Ministry wise IEBR, Rs bn)	FY18	FY19	FY20RE	FY21BE
Consumer affairs	2112	1643	2005	2223
Petroleum	1320	944	950	985
Railways	586	858	882	908
Roads	505	620	750	650
Others	1584	2060	2519	1960
Total IEBR	**6107**	**6126**	**7106**	**6727**

Source: Budget Documents, Bank of Baroda Research | Note: BE-Budget Estimates; RE-Revised Estimates

FIG 9 – CAPEX SPENDING TO JUMP IN FY21



Source: Budget Documents, Bank of Baroda Research | Note: BE-Budget Estimates; RE-Revised Estimates

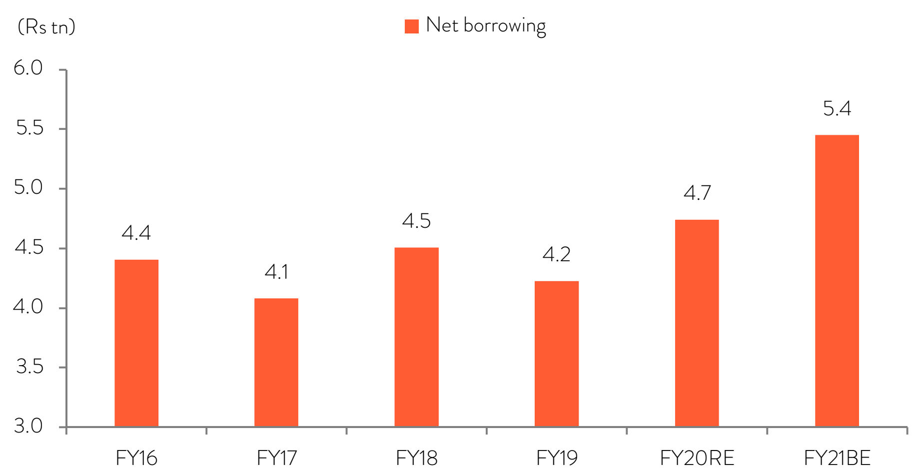
Fiscal deficit at 3.8% in FY20, 3.5% in FY21

Centre's gross tax collections have been adversely impacted in FY20 due to implementation of lower corporate tax rates announced in Sep'19. Hence, the Centre has invoked Section 4(2) of the FRBM Act and expanded fiscal deficit to 3.8% of GDP (FY20BE of 3.3%) and 3.5% of GDP in FY21 (FRBM estimate of 3%).

Even after expanding fiscal deficit by 0.5% of GDP, the Centre has maintained its net borrowing at Rs 4.74tn. At the same time, disinvestment receipts are also estimated to be lower at Rs 650bn in FY20 as against FY20BE of Rs 1.05tn. This has been possible as the Centre has increased its projection of inflow from small saving schemes to Rs 2.4tn as against FY20BE of Rs 1.3tn. Hence, capital receipts of the Centre are higher in FY20RE compared with FY20BE.

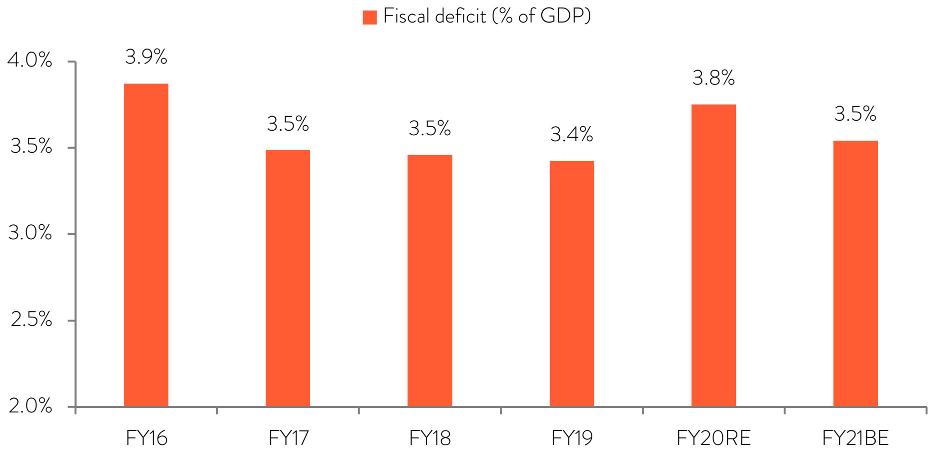
Capital receipts are expected to increase to Rs 10.2tn in FY21BE (20.4% increase) on the back of disinvestment target of Rs 2.1tn (explained earlier) and Rs 2.4tn inflow in small saving schemes. This will give Centre room to maintain its expenditure level at the FY21BE while restricting fiscal deficit to 3.5% of GDP. This will result in gross and net borrowing of Rs 7.8tn (9.9% increase) and Rs 5.45tn (14.9% increase).

FIG 10 – NET BORROWING TO SPIKE IN FY21



Source: Budget Documents, Bank of Baroda Research | Note: BE-Budget Estimates; RE-Revised Estimates

FIG 11 – FISCAL CONSOLIDATION TO BEGIN FROM FY21



Source: Budget Documents, Bank of Baroda Research | Note: BE-Budget Estimates; RE-Revised Estimates

Key Highlights of Budget 2019-20

The Budget laid out by the FM today has three key themes:

Aspirational India: For doubling farm incomes by 2022 by enhancing income in agriculture and related activities. It also aims to boost irrigation and incentivise optimal usage of fertilisers. The overall allocation for agriculture and rural development is at Rs 2.83tn.

Economic Development: Facilitating private sector investments through an investment clearance cell, encouraging electronic manufacturing in the country, promoting exports and textiles industry. Building infrastructure such as roads, railways, hospitals, electricity generation to improve ease of living and quality of life for which the government has already detailed Rs 103tn infra pipeline.

Caring Society: Focus on women and child care, social welfare, culture, tourism and environment and climate change. For nutrition the government has allocated Rs 356bn and for women welfare Rs 286bn.

The key measures announced under the three themes are as follows:

Agri Push and Rural Development

- Government committed to achieve goal of doubling farmer's income by 2022.
- In order to remove farmer's dependence on kerosene and diesel, the PM-KUSUM scheme has been expanded to provide stand-alone solar pump to 2mn farmers. In addition, over 1.5mn farmers will be part of grid connected pumps. Agriculture credit for FY21 has also been raised to Rs 15tn from Rs 10tn in FY20.
- The government will set up 'Kisan Rail' to run a national cold supply chain of perishables through PPP mode. Refrigerated coaches will also be included express and freight trains.
- With the objective to improve value realisation specially in North East and tribal districts, the government will launch 'Kisan Udaan' on international and national route to integrate Indian and global agri markets.
- Government has proposed to raise fish production to 20mn tonne by FY23 and also increase fishery exports to Rs 1tn by FY25, by engaging youth in fishery extension. It also announced doubling of milk processing capacity and viability gap funding for building warehouses to ensure stability in farm income.

Wellness and Sanitation

- With the objective to set up hospitals through the PPP mode, government has proposed to develop viability gap funding window especially in aspirational districts. This in turn will boost the health infra space and will also provide more employment opportunities for the youth.

- With the increased focus on solid waste collection, segregation at source and processing, the allocation towards Swachh Bharat Mission has been expanded to Rs 123bn in FY21 from Rs 96bn in FY20.

Infra

- Government had earlier announced a Rs 103tn National Infrastructure Pipeline covering more than 6,500 projects. This is expected to boost employment.

- The government has proposed the accelerated development of 2,500km access control highways; 9,000kms of economic corridors; 2,000kms of coastal and land port roads; and 2,000kms of strategic highways.

- One hundred more airports would be developed in the country by 2024 to support Udaan scheme.

- In railways, the following steps have been proposed: 1) constructing large solar power capacity alongside railways tracks, 2) station re-development and 150 passenger trains to be operated through PPP mode, 3) introduction of more Tejas trains and 4) construction of a 148kms long Bengaluru Suburban transport project at a cost of Rs 186bn.

Industry and investments

- The government has proposed the creation of five new smart cities in collaboration with states in PPP mode.

- Identifying the need for production of network products to enable India to effectively integrate into GSCs, the government has identified electronic goods. To enable this, it will soon launch a scheme to focussing on manufacture of mobile phones, electronic equipment and semi-conductor packaging. Medical devices too offer potential.

- A National Technical Textile Mission is proposed from FY21-FY24 with an estimated outlay of Rs 14.8bn to support domestic manufacturing of technical textiles.

- A new scheme NIRVIK has been launched to provide higher insurance coverage, lower premium for small exporters and simplified procedure for claim settlements.
- Further, addressing that late tax refunds squeezes the liquidity of exporters, FM has proposed to start a digital refund of state and central taxes to exporters.

NBFCs

- The eligibility limit for NBFCs under the SARFAESI, Act has been reduced from Rs 5bn asset size to Rs 1bn.
- Government has proposed a mechanism to provide liquidity support to NBFCs, similar to the partial credit guarantee scheme proposed in FY19.

MSMEs

- FM has also proposed extension of invoice financing to MSMEs through TReDs.
- The government has also introduced a scheme to provide subordinate debt to MSMEs which would be covered under the CGTMSE.
- A scheme worth Rs 10bn anchored by EXIM Bank and SIDBI will be launched to support MSMEs engaged in manufacturing of pharmaceuticals, auto parts etc to support exports.

Financial markets

- FPI limit in corporate bonds has been increased from 9% to 15% of the outstanding stock.
- Government has proposed to introduce a new Debt-ETF consisting primarily of government securities.
- In order to boost its disinvestment receipts, government will sell some of its stake in LIC through IPO.

Taxation

- In order to create a level playing field, concessional corporate tax rate of 15% has been passed to new domestic firms in the power sector also.
- The dividend distribution tax (DDT) has been abolished and the health cess towards the imports of medical equipment has been proposed.
- New and simple personal income tax regime has been proposed which is applicable (optional) if one does not avail any tax exemptions:

FIG 12 – NEW VS OLD INCOME TAX SCHEME

Income Tax Bracket	Old Regime (%)	New Regime (%)
Below 5 Lakh	Exempt	Exempt
5-7.5 Lakh	20	10
7.5-10 Lakh	20	15
10-12.5 Lakh	30	20
12.5-15 Lakh	30	25
Above 15 Lakh	30	30

Source: Budget Documents, Bank of Baroda Research

- Government has enhance the turnover threshold for audit from 1cr to 5cr, in order to reduce the compliance burden. To incentivise the affordable housing, time limit has been extended to provide tax benefits for one more year.
- Similar to 'Sabka Vishwas' scheme, the government has proposed the 'Vivad se Vishwas' scheme to reduce litigation in direct taxes. An estimated 483,000 tax disputes are pending.
- With the objective to incentivise investment by Sovereign Wealth Fund in priority sectors, government has proposed 100% tax exemption. This will be granted on investment made in infrastructure before 31 Mar 2024 with a minimum lock-in period of 3 years.
- In order to reduce the burden of taxation, government has announced to defer the tax payment on ESOP by 5 years or till the employees leave the firm.
- The government has also reduced the withholding tax rate on interest payments on bonds listed on the IFSC exchange from 5% to 4%. The move is expected to attract international investors to the IFSC exchange.

Indirect taxation

- GST framework to be further simplified from 1 April 2020. Refund process to be fully automated.
- To improve tax compliance, the government has introduced Aadhar based verification. Further, a dynamic QR-code for invoices has been proposed along with cash incentives to encourage customers to demand invoices.
- Government is also undertaking a comprehensive review of Rules of Origins to check the surge in imports through FTAs. Apart from this, it is also revamping provisions related to antidumping and safeguard duties to protect the domestic industry against imports.

- While removing exemption on basic customs duty on imports of certain items such as raw sugar, skimmed milk, precious stones etc, the government has stated that it would also review the remaining exemptions by Sep 2020.
- To support the MSME sector, government has raised the customs duty on furniture (from 20% to 25%) and footwear (25% to 35%).
- Government has introduced a 5% health cess on imports of medical devices to incentivise domestic manufacturing. The receipts of this cess will be used for health infrastructure in aspirational districts.
- Under the phased manufacturing plan, customs duties on parts of mobile phones and certain types of electric vehicles has been increased.
- Government has also rolled back the hike on customs duties on news print and light-weighted coated paper to 5% from 10% announced in FY19 Budget.
- Anti-dumping duty on imports of Purified Terephthalic Acid (TPA) from China, Indonesia etc., has been removed.
- Further, the government has introduced a National Calamity Contingent Duty on cigarettes and other tobacco products.

Education

- Government has proposed to set up Ind-SAT under the 'Study in India' programme for foreign students from Asian and African countries will receive scholarships for studying in Indian education centres. In addition, a national policy university and National Forensic Science University under the domain of forensic science and policing science has also been proposed.
- Government has also proposed to establish National Mission on Quantum Technologies with the proposed budget of Rs 80bn for a period of 5-years. Over Rs 60bn has been proposed towards the Bharatnet programme in FY21. Additionally, degree level online programme for deprived section of the society has been proposed. New Education policy too is expected.

FIG 13 – FISCAL ESTIMATES

(Rs bn)	FY17	FY18	FY19	FY20RE	FY21BE	Increase (%)	
						FY20RE	FY21BE
Tax Revenue							
Corporation Tax	4,849	5,712	6,636	6,105	6,810	(8.0)	11.5
Taxes on Income	3,646	4,308	4,730	5,595	6,380	18.3	14.0
Indirect Taxes	8,620	9,123	9,373	9,865	10,965	5.3	11.1
Total - Tax Revenue	17,158	19,189	20,795	21,634	24,230	4.0	12.0
Less: State's Share	6,080	6,730	7,615	7,149	7,842	(6.1)	9.7
Centre's Tax Revenue	11,014	12,425	13,172	15,046	16,359	14.2	8.7
Total Non-Tax Revenue	2,728	1,927	2,357	3,455	3,850	46.6	11.4
Centre's Revenue (net)	**13,742**	**14,352**	**15,529**	**18,501**	**20,209**	**19.1**	**9.2**
Capital Receipts							
Internal Debt Market Borrowing	4,082	4,507	4,227	4,740	5,449	12.1	15.0
Disinvestment	477	1,000	947	650	2,100	(31.4)	223.1
Others	1,450	1,560	2,447	3,095	2,664	26.5	(13.9)
Total Capital Receipts	**6,010**	**7,067**	**7,622**	**8,485**	**10,213**	**11.3**	**20.4**
Draw-down of Cash Balances	**(89)**	**41**	**-**	**-**	**-**	**-**	**-**
Total Receipts	**19,752**	**21,420**	**23,151**	**26,986**	**30,422**	**16.6**	**12.7**
Expenditure							
Interest Payments	4,807	5,290	5,826	6,251	7,082	7.3	13.3
Defence Expenditure	2,518	2,766	2,908	3,163	3,231	8.8	2.1
Subsidies	2,040	1,912	1,968	2,273	2,278	15.5	0.2
Transfer to States	1,327	1,075	1,191	1,554	2,004	30.5	28.9
Rural Development	1,139	1,350	1,328	1,434	1,448	8.0	1.0
Transport	1,022	1,104	1,436	1,582	1,696	10.2	7.2
Home Affairs	784	875	981	1,241	1,144	26.5	(7.8)
Education	720	802	803	949	993	18.1	4.7
Agriculture	502	526	633	1,208	1,548	91.0	28.1
Others	4,893	5,720	6,076	7,331	8,998	20.6	22.7
Total Expenditure	**19,752**	**21,419**	**23,151**	**26,986**	**30,422**	**16.6**	**12.7**
Revenue	16,906	18,788	20,074	23,496	26,301	17.0	11.9
Capital	2,846	2,631	3,077	3,489	4,121	13.4	18.1
Revenue Deficit	3,164	4,436	4,545	4,995	6,092	-	-
Fiscal Deficit	**5,356**	**5,911**	**6,494**	**7,668**	**7,963**	**-**	**-**
% of GDP	**3.5%**	**3.5%**	**3.4%**	**3.8%**	**3.5%**	**-**	**-**

Source: Union Budget Documents, Bank of Baroda Research; BE- Budget Estimates; RE- Revised Estimate

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