STCI
Primary Dealer Ltd

Union Budget 2020-21: A Review

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The Union Budget for FY2020-21 was presented in Parliament by the Hon'ble Finance Minister on February 1, 2020. The Budget did not bring much surprise to the market as it was mostly in line with expectations. Owing to the structural reforms and its unanticipated fiscal implications, the Government chose to invoke the escape clause under the FRBM Act and revised the fiscal deficit for FY2019-20 upwards to 3.8% of GDP as compared to 3.3% of GDP budgeted last year. Further, in FY2020-21, the Central Government aims to achieve a realistic nominal GDP growth rate of 10% and has pegged the fiscal deficit at 3.5% of GDP.

I. Revenue Side

Revenue from tax collections (net) comprise close to 80% of the total revenue receipts of the Government. For FY2020-21BE, the overall growth in net tax revenue is pegged at a rate of 8.7% and is comparable to revised growth of 14.2% in FY2019-20. While for the FY2019-20 corporation tax growth has been revised downwards by -8% considering the corporation tax rate cut announced last year, the FY2020-21BE growth rate is kept at 12%. Growth in taxes on income has been measured at 14% in FY2020-21 and is comparable to the revised growth of 18.3% in FY2019-20. GST collections for FY2020-21 are estimated to grow at 12.8% as compared to a revised growth rate of 5.3% in FY2019-20

Table 1: Government Receipts (in Rs Cr)

	Actual	BE	RE	BE
	FY2018-19	**FY2019-20**	**FY2019-20**	**FY2020-21**
Revenue Receipts	**15,52,916**	**19,62,761**	**18,50,101**	**20,20,926**
(Net) Tax Revenue	13,17,211	16,49,582	15,04,587	16,35,909
Non Tax Revenue	2,35,705	3,13,179	3,45,514	3,85,017
Capital Receipts	**7,62,197**	**8,23,588**	**8,48,451**	**10,21,304**
Recovery of loans	18,052	14,828	16,605	14,967
Other Receipts	94,727	1,05,000	65,000	2,10,000
Borrowings and Other Liabilities	6,49,418	7,03,760	7,66,846	7,96,337
Total Receipts	**23,15,113**	**27,86,349**	**26,98,552**	**30,42,230**

Source: Union Budget Documents, STCI PD Research

Non-tax revenue of the Centre includes interest receipts, dividends & profits and other receipts like proceeds from railways, communications etc. The Government expects a moderate rise in non-tax revenue as it estimates 11.4% growth in FY2020-21 compared to considerably higher revised growth of 46.6% growth in FY2019-20. Interest receipts, dividends and profits which comprise about 50% of the total non-tax revenue receipts, have been pegged noticeably lower at Rs 1,66,438 Cr in FY2020-21 from revised estimate of Rs 2,10,92 Cr in FY2019-20.

Non-Debt Capital receipts include recoveries of loans and advances and miscellaneous capital receipts which include proceeds from divestment of government's equity stake. The government which was working on a list of companies for divestment was somehow unsuccessful in closing out the transactions it had planned for the FY2019-20. It has therefore shifted the budgeting for the said pipeline amount to the next financial year. In view of the same, the government in FY2020-21, has budgeted a massive Rs 2,10,000 Cr to be raised through divestment and revised FY2019-20 divestment target downwards to Rs 65,000 Cr. The Extra Budgetary Resources (EBRs) are those financial liabilities that are raised by PSUs for which repayment of entire principal and interest is done from Government budget. For FY2019-20 revenue in the form of EBRs has been significantly revised upwards to Rs 6.22 Lac Cr from its budgeted estimates of FY2019-20 of Rs 4.44 Lac Cr.

In an effort to improve attractiveness of Indian Equity Market and to provide relief to larger investors, Dividend Distribution Tax (DDT) has been removed and therefore dividend income shall be taxed only to the investors at their applicable tax rates. Further, in order to provide some respite, tax slabs have been reduced for individuals and HUFs who do not avail specified exemptions/deductions.

Overall the growth in total receipts for FY2020-21 is estimated at 12.7% compared to the revised estimate of 16.6% for FY2019-20. The budgeted estimates seem to be realistic this year despite a massive divestment target of Rs 2,10,000 Cr which could pose a challenge for the Government.

Table 2: Tax Break - Up (In Rs Cr)

	Actual	BE	RE	BE
	FY2018-19	**FY2019-20**	**FY2019-20**	**FY2020-21**
Gross Tax Revenue	**20,80,465**	**24,61,195**	**22,81,109**	**24,23,020**
Corporation Tax	6,63,572	7,66,000	6,10,500	6,81,000
Taxes on Income	4,73,003	5,69,000	5,59,500	6,38,000
Wealth Tax	41			
Customs	1,17,813	1,55,904	1,25,000	1,38,000
Union Excise Duties	2,31,045	3,00,000	2,48,012	2,67,000
Service Tax	6,904		1,200	1,020
Goods and Services Tax	5,81,559	6,63,343	6,12,327	6,90,500
Taxes on Union Territories	5,592	6,948	6,884	7,500

Less - Transfers to Funds	1,800	2,480	2,790	2,930
Less - State's share	7,61,454	8,09,133	7,14,889	7,84,181
Less state's share adjustment	-	-	58,843	-
Centre's Net Tax Revenue	**13,17,211**	**16,49,582**	**15,04,587**	**16,35,909**
Source: Union Budget Documents				

II. Expenditure Side

The Union Budget was knit around three broad segments- "Aspirational India", "Economic Development" and "Caring Society". For FY2020-21, the Revenue expenditure growth is pegged at 11.9% while the Capital expenditure is estimated to grow at 18.1%. As capital expenditure growth is higher than revenue expenditure FY2020-21BE, this should give economy a push towards revival. Total expenditure for FY2020-21 translates to a growth at 12.7% compared to FY2019-20RE growth at 16.6%.

Table 3: Expenditure Break- Up (In Rs Cr)

	Actual	BE	RE	BE
	FY2018-19	**FY2019-20**	**FY2019-20**	**FY2020-21**
Revenue Expenditure	20,07,399	24,47,780	23,49,645	26,30,145
Capital Expenditure	3,07,714	3,38,569	3,48,907	4,12,085
Total Expenditure	**23,15,113**	**27,86,349**	**26,98,552**	**30,42,230**
Key Expenditure				
Interest payments		6,60,471	6,25,105	7,08,203
Defence		3,05,296	3,16,296	3,23,053
Food Subsidy		1,84,220	1,08,688	1,15,570
Pension		1,74,300	1,84,147	2,10,682
Rural Development		1,40,762	1,43,409	1,44,817
Transport		1,57,437	1,58,207	2,00,447
Source: Union Budget Documents				

Addressing farmer distress and the need of developing rural economy, Government has allocated a total sum of Rs 2.83 Lac Cr in FY2020-21 to agriculture & allied, irrigation & rural development under "Aspirational India". Under NABARD re-finance scheme, agriculture credit target for FY2020-21 has been kept at Rs 15 Lac Cr. Also, all the beneficiaries of PM-KISAN will be covered under the Kisan Credit Card Scehme.

In order to ensure safe piped drinking water to all households, Jal Jeevan Mission announced last year, aims at augmenting local water sources and recharging existing sources. Government has approved an amount of Rs 3.6 Lc Cr for the entire mission and allocated a sum of Rs 11,500 Cr in FY2020-21.

Table 4: Expenditure on Major Schemes (in Rs Cr)

	Actual	BE	RE	BE
	FY2018-19	**FY2019-20**	**FY2019-20**	**FY2020-21**
Core Schemes				
Pradhan Mantri Krishi Sinchai Yojana	8,143	9,682	7,896	11,127
Pradhan Mantri Gram Sadak Yojana	15,414	19,000	14,070	19,500
Pradhan Mantri Awas Yojna	25,443	25,853	25,328	27,500
Jal Jeevan Mission	5,484	10,001	10,001	11,500
Swatch Bharat Mission (Urban &Gramin)	15,375	12,644	9,638	12,294
National Health Mission	31,502	33,651	34,290	34,115
National Education Mission	30,830	38,547	37,672	39,161
Umbrella ICDS	21,642	27,584	24,955	28,557
National Livelihood Mission - Ajeevika	6,282	9,774	9,774	10,005
Major Central Sector Schemes				
Crop Insurance Scheme	11,937	14,000	13,641	15,695
Interest Subsidy for short term credit of farmers	11,496	18,000	17,863	21,175
Metro Projects	14,265	17,714	17,612	17,482
Source: Union Budget Documents				

III. Sources of Financing Fiscal Deficit

Fiscal deficit for FY2020-21 is pegged at Rs 7.96 Lac Cr compared to Rs 7.67 Lac Cr for FY2019-20RE. Revenue deficit has been estimated at 2.7% implying an amount of Rs. 6.09 Lac Cr which is higher than revised estimates of FY2019-20 at Rs 4.99 Lac Cr (2.4%).

Market borrowings including dated securities and T-bills amount to Rs 5.36 Lac Cr. This implies market borrowings forms nearly 67% of sources of financing the fiscal deficit. Within market borrowings, Rs 5.44 Lac Cr is borrowed to be raised via dated securities and Rs. 25,000 Cr via T-bills while Rs 30,000 Cr and Rs 4,000 Cr are budgeted for buy-back and repayment of post office life insurance respectively.

When analyzing the borrowing numbers for FY2019-20, it can be observed that the market borrowing number has been increased to Rs 4.99 Lac Cr from Rs 4.48 Lac Cr in FY2019-20BE. The excess amount of Rs 50,000 Cr is attributable to the amount of buyback budgeted last year which the Government decided to remove from the revised estimate in order to save that amount considering the strained economic position. This suggests that there will be no extra Government Borrowings for FY2019-20, thereby lifting off the market's burden to take in the extra supply of the dated securities.

Short-term borrowings did not see any rise in FY2019-20RE as well as FY2020-21BE and are kept at Rs 25,000 Cr for both the years.

Table 5: Sources of Financing the Fiscal Deficit

		FY19 (Actual)	FY20 (BE)	FY20 (RE)	FY21 (BE)
	Debt Receipts				
1	Market Borrowings	4,30,163	4,48,122	4,98,972	5,35,870
	Dated (net)	4,22,735	4,73,122	4,73,972	5,44,870
	T-Bills	6,897	25,000	25,000	25,000
	Buy-Back (Less)		-50,000		-30,000
	Net-Post Office Life Insurance				-4,000
2	Securities Against Small Savings	1,25,000	1,30,000	2,40,000	2,40,000
4	State Provident Funds	16,059	18,000	18,000	18,000
5	Other receipts	73,997	59,532	4,941	50,849
6	External Debt	5,519	-2,952	4,933	4,622
7	Cash Balance	-1,321	51,059	-	-53,003
8	Fiscal Deficit (Sum of 1 to 6)	**6,49,418**	**7,03,760**	**7,66,846**	**7,96,337**

Source: Union Budget Documents

In other sources, Government expects a larger inflow of funds through small saving accounts and therefore has estimated an amount of Rs 2.4 Lac Cr in FY2019-20RE and the same amount is budgeted for the year FY2020-21. External funds represent receipt of Rs 4,622 and Rs 4,933 in FY2020-21BE and FY2019-20RE. The Government expects a negative cash balance of Rs 53,003 Cr in FY2020-21 while a zero cash balance in revised estimate for FY2019-20.

IV. Market Borrowings

Gross market borrowing in dated securities for FY2020-21 is pegged at Rs 7.80 Lac Cr, higher than Rs 7.10 Lac Cr FY2019-20RE. The redemptions for FY2020-21 are Rs 2.35 Lac Cr which leads to net market borrowing of Rs 5.45 Lac Cr. The budgeted buyback of securities amounts to Rs 30,000 Cr in FY2020-21 and switching of securities amounts to Rs 2.70 Lac Cr in FY2020-21BE. For FY2019-20 the switch amount has been revised upwards to Rs 1.65 Lac Cr from Rs 50,000 budgeted earlier.

Table 6: Market Borrowings (in Rs Cr)			
	FY2019-20 (BE)	FY20 19-20 (RE)	FY2020-21 (BE)
Gross Market Borrowings (1+2)	7,10,000	7,10,000	7,80,000
1. Net Market Borrowings	4,73,122	4,73,972	5,44,870
2. Redemption	2,36,898	2,36,028	2,35,130
Source: Union Budget Documents			

The net T-bills issuance is pegged at Rs 25,000 Cr in FY2019-20RE and FY2020-21BE.

Table 7: T-Bills Issuances and Redemptions (in Rs Cr)			
	FY2019-20 (BE)	FY2019-20 (RE)	FY2020-21 (BE)
14 Day			
Gross	39,60,409	35,00,912	38,51,004
Redemptions	-39,60,409	-35,00,912	-38,51,004
Net	-	-	-
91 Day			
Gross	5,45,345	6,77,958	6,62,435
Redemptions	-5,24,343	-6,49,073	-6,59,276
Net	-21,006	28,886	3,159
182 Day			
Gross	3,12,169	2,95,037	3,22,175
Redemptions	-3,10,119	-2,83,336	-3,08519
Net	2,050	11,701	13,656
364 Day			
Gross	1,92,345	1,93,310	206494
Redemptions	-1,90,396	-2,08,896	-198310
Net	1,949	-15,587	8184
Total T-Bills			
Net	25,000	25,000	25,000
Source: Union Budget Documents			

Apart from T-Bill issuances, government has budgeted CMB issuance worth Rs. 2.50 Lac Cr (compared to Rs. 2,40,000 Cr in FY2019-20RE) and WMA Advances at Rs 1 Lac Cr unchanged from FY2019-20RE. No MSS transactions have been budgeted for FY2020-21.

As the gross market borrowing number came in line with market expectations, the budget would not bring any considerable negative jerk to the bond market. Moreover, as no additional borrowings were announced for current financial year, the market could be pleasantly surprised with yields softening a little. Based on these gross borrowing estimates, if Government borrows about 60% in H1 FY2020-21, the weekly auction size could be around Rs 16,000-18,000 Cr.

V. Conclusion

Central Government, as per market expectations gave growth stimulus priority over fiscal consolidation. Owing to structural reforms and their unanticipated implications, Government revised the fiscal deficit target upwards for FY2019-20 at 3.8% of GDP from 3.3% of GDP budgeted earlier. Also, expecting growth revival in FY2020-21, the Government pegged FY2020-21 fiscal deficit at 3.5% of GDP with a nominal GDP growth of 10%.

Economic growth has been slow since last quarter of FY2018-19. Various efforts have been taken through both fiscal and monetary route to reinvigorate the growth story. Measures announced in Union Budget like elimination of DDT, reduction in tax slabs for individuals and HUFs (without claiming any deductions/exemptions) along with reduction in corporate tax cut already announced would possibly increase disposable income and in turn lift the investment activity in the country.

As far as the bond market is concerned, the market would possibly not have a negative impact considering the gross borrowing and fiscal deficit estimates for FY2020-21 came in line with expectations and no extra borrowings were announced for the current year. No additional borrowing would possibly pleasantly surprise the market, considering the market had already factored in approximately Rs 40,000-50,000 Cr of extra supply. This would help the yields to soften by at least 7-9 bps.

The Monetary Policy Committee voted to keep the policy repo rate unchanged in December 2019 meeting sighting inflation concerns and to watch what Union Budget would bring for reviving economic conditions. While the Union Budget did announce some measures and considering that inflation still remains much above the RBI's medium-term target of 4%, we expect status quo on policy rates to continue at the February 2020 MPC meeting.

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