

The government's largesse for 120 million small farmers and about 30 million low-income taxpayers in an election year will make achieving the fiscal deficit target difficult, but the incentives are expected to boost consumption and lift the rural economy

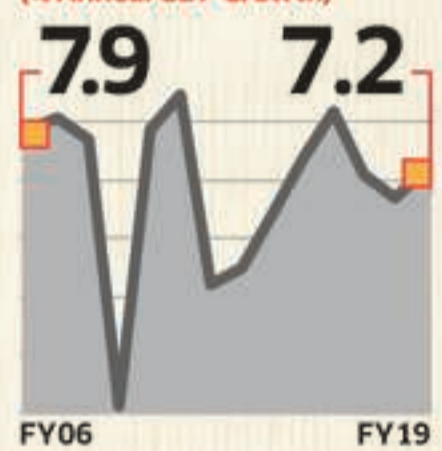
# Big Picture, Broad Strokes

### TEN ISSUES FACING THE ECONOMY

# 7/10

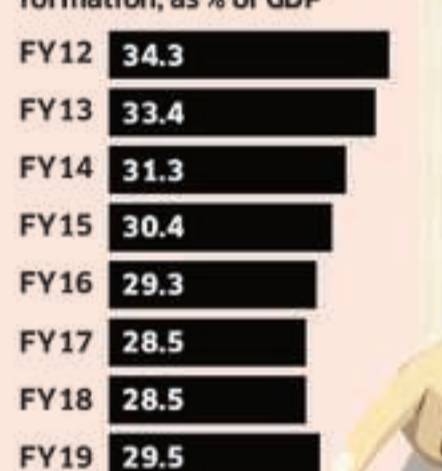
### Growth Peak

India's growth has been high in recent years, but it has not been able to grow beyond 8% on a sustainable basis (% Annual GDP Growth)



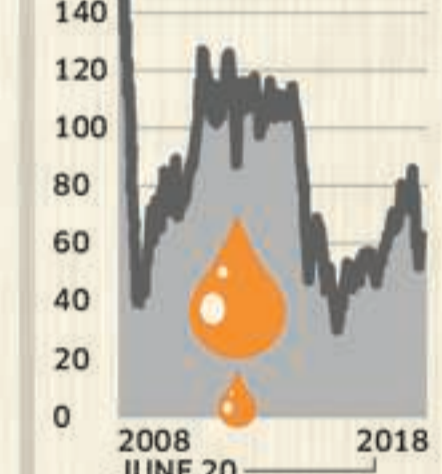
### Investments haven't recovered since financial crisis

Gross fixed capital formation, as % of GDP



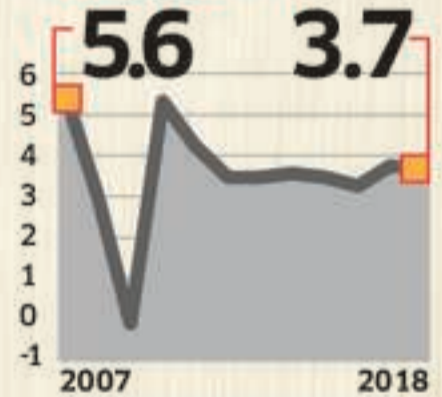
### Frequent crude shocks have derailed macros

(Brent Crude \$/Barrel)



### Global economy has not been supportive

(Global Growth, in %)



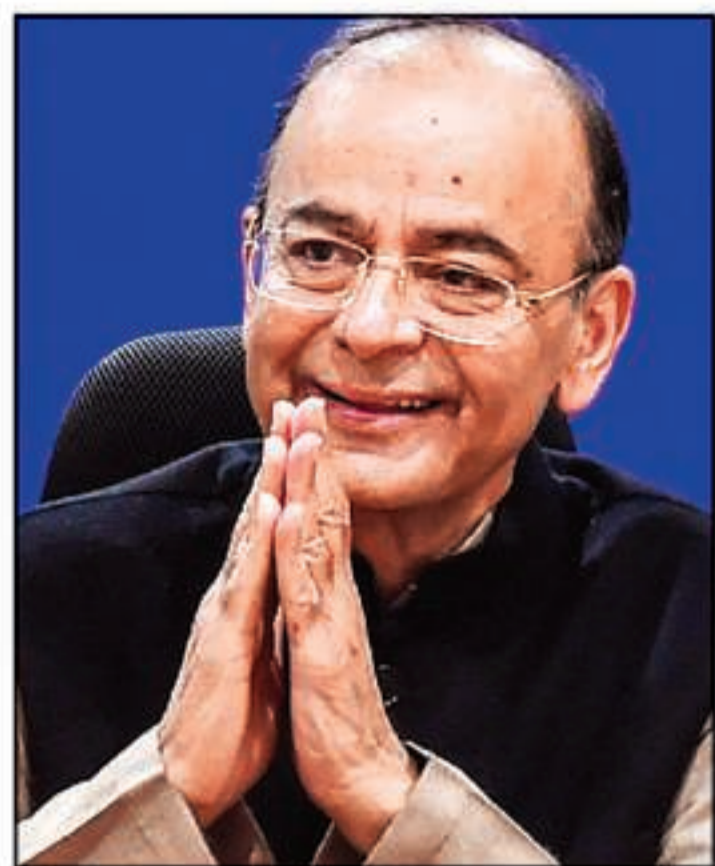
### ...which has muted exports growth

% Annual Change in Dollar Exports



### NPA crisis has undermined credit flow

(Gross Bank Credit) (% Growth)



## One for the Great Indian Middle-Class, says Jaitley

Our Bureau

Union minister Arun Jaitley said the government's decision to exempt income of up to ₹5 lakh from tax will benefit the "great Indian middle-class." The "significant announcement" made by interim finance minister Piyush Goyal in the interim budget will strengthen the purchasing power of the middle class, which holds the key to India's future, Jaitley wrote in a Facebook post on Friday.

Goyal, temporarily in charge of the finance ministry, presented the budget for 2019-20 in the absence of Jaitley, who is in New York for medical treatment. Commenting on the raging controversy over unemployment, Jaitley wondered how the Indian economy could have grown at an average of 7.5% in the past five years without any job creation.

Stating that several data points, including EPFO numbers, have given a "detailed indication" of job creation, Jaitley pointed out that if there was no employment generation as alleged, there should have logically been "a great social unrest" in the country. "Past five years have passed off without a single major protest movement," he asserted.

On the vision of making India a \$5-trillion economy, he said, "By the middle of the next decade we will achieve this and thereafter, target doubling that size of the economy." Jaitley said there were no globally established models on the immediate impact of demonetisation on GDP growth.

"The former Prime Minister's (Manmohan Singh's) statement that it will lead to a 2% drop in the GDP captured the imagination of the government's critics. Neither the original data for 2016-17 and 2017-18 nor the first revision proved that," he wrote.

Jaitley stressed that 2014-19 had perhaps been the best-performing period in terms of India's macro-economic stability. GDP growth during this five-year period will be about 7.5% and inflation will be in the range of 4%.

"It is, therefore, obvious that India is being hailed as a bright spot in the global economy," he said.

### KEY TAKEAWAYS

#### GST Falls Short

GST collections are budgeted to fall short by ₹1 lakh crore in FY19 but are expected to rebound sharply in FY20. They are budgeted at ₹6.43 lakh crore in FY19 in the revised estimates against ₹7.43 crore expected initially. They are seen at ₹7.61 crore in FY20

#### LEDs Save ₹50,000 cr

The scheme to provide LED bulbs to households across the country has led to annual savings of up to ₹50,000 crore in electricity bills. Till now, around 143 crore LED bulbs have been provided

#### Saving on Public Procurement

The government e-marketplace created two years ago has resulted in average savings of around 25-28% and the platform will now be extended to all CPSEs. Transactions of over ₹17,500 crore have taken place so far

#### Telecom Stress Shows

The government will realise ₹39,245 crore from telecom sector via fee and spectrum proceeds in FY19 against ₹48,661 crore budgeted. The collection is seen at ₹41,520 crore in FY20

# 39%

interest payments as percentage of net central tax revenue, which indicates both the debt problem India faces and the low level of tax collections



PIYUSH GOYAL, Interim FM

## 'We Have Maintained Fiscal Prudence'

Highlights from interim finance minister Piyush Goyal's media interaction

#### More relief for taxpayers in the main budget after polls

I had the constraint of this being an interim budget. However, there were many things which could not have waited for the final budget, particularly relief for small taxpayers, which I have passed on. The rest is for the then finance minister to decide in July 2019. I have already said thanks to the taxpayers who have honestly paid their taxes and helped create infrastructure and successfully run so many schemes such as Saubhagya.

#### Rationale for providing relief to taxpayers with annual income of ₹5 lakh

This neo-middle class required certainties about their future tax liabilities and save them from refund process, we have given benefit to this category.

#### Fiscal deficit

Given the new number of GDP coming out, the fiscal roadmap may not change very much. We have maintained fiscal prudence.

#### Faster and more tax-friendly structure

All returns will be processed in 24 hours and refunds issued simultaneously. The government has now approved a path-breaking, technology intensive project to transform the Income-Tax Department into a more assessee-friendly one.

#### Income support scheme for small farmers through direct benefit transfer

We are paying respect to our farmers who ensured that today we enjoy food security. Only record available right now is based on the land holding for farmers across the country. This scheme will be for the farmer having land holding of 5 acres. Also, no correlation of the income scheme with other subsidy.

#### Farm loan waiver

Congress in 2008 announced a loan waiver without any budgetary provision. Wrong people were given farm loan waivers and the CAG report points it out. We, however, in every budget have added value to the farmers' lives.

### BRIEF CASE



#### Growth Momentum

The budget sees strong growth to continue in FY20 as well with nominal GDP growth seen at 11.5% in FY20. Assuming an inflation of 3.5-4% in the next year, this yields a real GDP growth of 7.5% to 8%, which is higher than the 7.2% growth estimated for the current fiscal. This pick up is in line with IMF estimates that sees Indian economy growing 7.5% in FY20 and 7.7% in the year after. The government sees nominal growth rising to 12.1% in FY21 and 12.3% in FY22. Nominal growth measures rise in output at current prices without adjusting for the rise in prices. Real GDP growth is obtained by adjusting this for inflation.



Seshagiri Rao MVS, Joint MD, JSW Steel

"The assumption that overall tax base growth at 13.5% while estimated GDP growth for FY20 is kept at 11.5% shows a mismatch. Similarly, the assumption of CGST growing at 21% while 18% in the overall GST growth rate is an aggressive assumption."



Saugata Gupta, CEO, Marico

"The host of measures to boost the agrarian economy through minimum support price and increased investment in the farmer scheme is a welcome move as it will benefit small and marginal farmers."

It was not a Vote on Account. It was an Account for Votes

@PChidambaram\_IN

@arunjaitley

Financial support to farmers is a clear admission of Modi government's destruction of farm economy in last 5 years. Distortionary market policies & singleton import-export decisions have routed prices of farm produce. Redemption of ₹6000 per year is pittance

@prithvj

### VISION 2030

The government presents its 10-point agenda that sees India a \$5-trillion economy in next five years and \$10-trillion 8 years after

**1. Physical & Social Infrastructure:** Next generation roads, railways, seaports, airports, urban transport, gas and electric transmission and inland waterways

**2. Digital India:** Digital infrastructure and digital economy of 2030 to be built on successes of digitisation of government processes and private transactions

**3. Clean Rivers:** Go beyond the Ganga to include all rivers

**4. Space Programme:** Global launch-pad of satellites. Place Indian astronaut in space by 2022

**5. A healthy India:** Distress-free healthcare, a functional & comprehensive wellness system for all

**6. Energy security & Pollution control:** Through EVs and renewable energy

**7. Expanding rural industrialisation:** Use modern digital tech to generate employment. Build upon Make in India to develop grass-roots level clusters

**8. Food self sufficiency:** Making India self-sufficient in food, exporting to the world to meet their needs and producing food in the most organic way

**9. Minimum government, maximum governance:** A proactive and responsible bureaucracy which will be viewed as friendly to people

## Budget Makes Us Believe India Can Become a \$10-trillion Economy



AMITABH KANT, CEO, Niti Aayog

What we fear doing most is usually what we most need to do. Piyush Goyal encapsulated the spirit of these words aptly and presented the ambitious vision of the Indian economy in the next 10 years.

Setting a progressive and forward-looking tone, the interim budget took huge strides in making us believe that India can become and should strive towards a \$10-trillion economy,

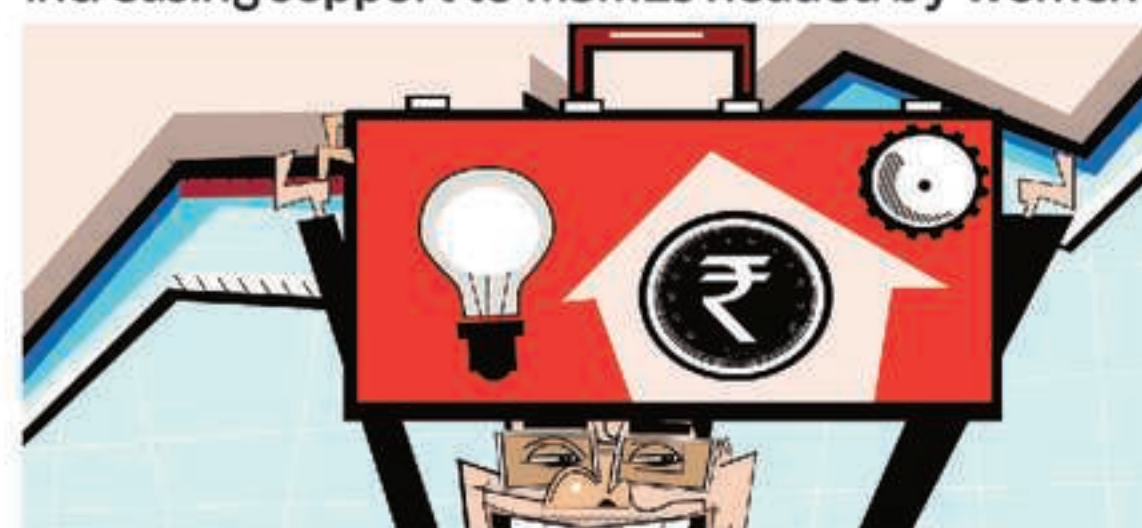
but also what that entails in the form of a 10-point vision for the economy. For the near term, the budget proposed game-changing reforms to increase the contribution of agriculture and specially the rural economy.

The proposal of income support to small and marginal farmers not only takes a different turn from the usual course of providing relief (loan waivers) but also sets the stage for large-scale direct transfers. This would give a huge impetus to making India digital and reduce costs of government schemes. Incentivising farmers to engage in fisheries would help reduce the burden on the agricultural sector.

States must play an important role in development of agriculture. The sector requires local and customised solutions on markets, cold storages, technology and backward and forward linkages, which is only possible through an increased role of the states. One way to encourage states is

to rank them according to an index of agriculture innovation/productivity. The budget brings relief from the consumers' side as well. The increase in minimum taxable income to ₹5 lakh, increase of TDS threshold on rental income and same relief

### Budget encourages women-led development by increasing support to MSMEs headed by women



for small deposit-holders in banks and post offices would encourage spending and boost growth.

The budget also outlined the employment scenario. Support to MSMEs by increasing government procurement, the proposal to set up a National

Centre for Artificial Intelligence and the vision to have a completely electric transport system lay the foundation for increased employment and its changing nature of employment. The budget encourages the vision of women-led development by increasing

#### IN A NUTSHELL

- Income support to small and marginal farmers sets stage for large-scale direct transfers
- This will help making India digital, reduce costs of govt schemes
- Incentives for farmers to engage in fisheries will reduce burden on land
- Budget increases support to women-led MSMEs
- Demographic dividend being realised by investing in human capital in form of health & education

support to women-led MSMEs. While we compare ourselves with China on growth metrics, it is important to note that India is 10 years younger, but reaching their level of infrastructural development would require us to strive for a similar growth trajectory. What we need for that vision to come true is a work plan to have a steady, strong growth for 20 years. The current government has taken positive steps towards leveraging the demographic dividend by investing heavily in human capital in the form of health and education. I am delighted that education and health sector together see an increased outlay of 17%. This government has not been afraid to take reforms that may entail some costs in the short term but are believed to have high long-term benefits. Now, the time is apt for galloping growth with equity accompanied by optimism and hope. (Views are personal)