Opinion

MONDAY, FEBRUARY 4, 2019

BOOST TO TRADE

Piyush Goyal, Union finance minister

Indian customs is introducing full and comprehensive digitalisation of export/import transactions and leveraging RFID (radio-frequency identification) technology to improve export logistics

Piyush bats for growth, RBI may have to play spoiler

High government borrowings, not all reflected in budget, will raise interest rates; that will dampen investment

THE GOVERNMENT'S EXPANSIONARY stance, reflected in the slippage of the fiscal deficit both in FY19 and FY20, may bring succour to some, but will drive up inflation and interest rates that will end up hurting growth. The extra fiscal impulse of 30 basis points in FY20 (the deficit was originally pegged at 3.1%) will most certainly compel RBI to not just stay put on rates, but could also prompt it to alter its current neutral stance to one of calibrated tightening. Going by the fairly sharp spike in yield on Friday, of 13 basis points, the bond markets are already very nervous. That is understandable, given the government plans to borrow around ₹50,000 crore more in FY20 in comparison with FY19, with the total net borrowing pegged at ₹4.73 lakh crore. Indeed, given the appetite in the markets, the government will most certainly crowd out private sector investments, while leaving the cost of money elevated.

It is not just the market borrowing that is worrying the bond market. The bigger concern is the huge extra-budgetary borrowing that the government has resorted to. If one added in the off-budgetary borrowings, the deficit would be significantly higher; what matters is not just central borrowings, but those of the states as well as central and state PSUs. Sajjid Chinoy of JPMorgan estimates India's total public sector borrowing requirement (excluding that of state PSUs since the data is incomplete) remains above a hefty 8.5% of GDP in both FY18 and FY19. Given how the growth in household savings has slowed sharply over the years, from 23% of GDP to 17%—net financial savings are just 7% of GDP—this is a big problem since private borrowers will now find themselves being crowded out of the market. The irony is that, despite this massive borrowing, there isn't enough capex happening. Indeed, the government expenditure itself may need to be pruned because many of the revenue-growth assumptions are quite optimistic.

For example, aggregate GST collections have grown at barely 7% over the last six months—the total collections have struggled to hit ₹1 lakh crore a month—but the CGST has been budgeted to grow at 21% next year. While there has been a fair bit of buoyancy in personal income tax collections—at a growth of 16%—the target for even this year looks difficult. Under the circumstances, given much of the benefits from better compliance would have kicked in, hitting next year's target of ₹6.2 lakh crore or a growth of 17% could be a tall ask. Should there be a shortfall in tax collections—or non-tax revenues for that matter—the government will be left with very little fiscal room and, therefore, will need to cut expenditure.

Since the scope to trim revenue expenditure is limited, it is capital expenditure that will take a hit. The current run rate for capex, as Chinoy points out, is a modest 4%, and could end the fiscal year at close to 1.5% of GDP. That is lower than the 1.6% seen last year and the expectations for the current year of 1.6% of GDP. The target for FY20 is 1.5% of GDP, but could slip to lower levels should the revenue assumptions not play out as planned. Consequently, overall capex could remain sluggish given the private sector is unlikely to make meaningful big-ticket investments in the next couple of years. While large companies will be able to cope with rising interest rates, smaller companies will feel the pinch. That is unfortunate because, while the revised GDP may show the economy is doing well, the reality on the ground and data from non-government sources suggests a very different picture.

Budget mysteries

If the economy is humming, why is so much stimulus needed?

MOST OF THE criticism of the CSO raising its estimates of GDP just the day before the Interim Budget, not surprisingly, was about the possibility that this was done to give the government more room to show a lower deficit number. This, however, didn't happen since, while the FY18 nominal GDP was raised to ₹171 lakh crore from ₹168 lakh crore earlier, the government retained the same advance estimate for FY19 GDP that was made in the first week of January; had it raised the GDP estimate for FY19, it would have been able to accommodate a higher fiscal deficit since the level is calculated as a proportion of GDP. Of course, it can still do this later and then show that the fiscal slippage was not as large as was earlier made out.

There are, however, several mysteries that arise from these—and earlier—GDP revisions such as the ones made while calculating the GDP back-series. If GDP during the NDA years is averaging around 7.7% over the last five years, why does it continue to need the kind of pump-priming that is being seen? Indeed, the 3.4% of GDP fiscal deficit number is not really what you need to look at, it is the combined public sector deficit—the Centre, the states and the PSUs—that matters. The extra-budgetary funding of the FY20 budget—via the PSUs—is around ₹6 lakh crore, an amount that is just slightly lower than the central fiscal deficit of ₹7 lakh crore. Add to this, the state government deficit and, according to a JPMorgan Chase research note, the total public sector borrowing was around 8.5% of GDP in both FY18 and FY19. If this is the kind of pump-priming required now, how much will it be when GDP really collapses?

The other mystery revolves around the relative efficiency in the use of capital. During the UPA-2 years, bank credit grew by around 16.3% on average every year and investment levels—as measured by Gross Fixed Capital Formation—were around 33.2% of GDP; the average GDP growth during this period was 6.7%. During the last five years, however, credit growth has around halved to 8.6% while investment levels have fallen to 29%. So, if a lower investment level and a much lower credit—partly due to the reduction in inflation, it is true—is yielding a higher GDP growth, this means the levels of productivity in the economy are up sharply. Is the GDP data incorrect, as many non-government economists suggest, or is it time to rewrite the investment-GDP playbook for the country?

BuniyaadSuccess

The Delhi govt's initiative to drive up learning levels in govt schools is a template other states can use

THE SUCCESS OF the Delhi government's Mission Buniyaad—that aimed to improve reading and maths abilities of students in Class III-IX at government and municipal corporation schools—is a lesson for other states. Prompted by the National Achievement Survey's dismal findings on science, maths and language learning levels in government schools, the Delhi government had initiated Mission Buniyaad—an intensive in-school coaching programme to bridge learning gaps amongst students—in April 2018. By December 2018, 62.5% of Class III students in Delhi government schools could read text in Hindi that was of their grade-level, while, in April, just 35.9% could. The corresponding jump at the Class VIII level, *The Indian Express* reports, was from 54.6% to 71.25%. Against the April numbers, students in Classes III and IV registered massive maths-abilities gains—from 18.6% to 53.9% and 27.9% to 64.3%, respectively. Though the number of students who demonstrate grade-level maths and language abilities is much lower than what the Delhi government unofficially targets, the progress is significant.

Under Mission Buniyaad, students were given learning support to bridge crucial gaps via "summer camps" organised at the school during the annual summer holidays. Parents—many of whom are likely migrants from other states—were persuaded to stay back in the city during the holidays to ensure that kids could attend the "summer camp" without disruption. Buniyaad complements another AAP government programme to improve learning levels—Chunauti—under which students from Class VI to Class IX were mapped for learning levels and the weaker students got special focus from teachers. The Centre has taken some steps to spur states into working on improving learning levels. Perhaps, the Delhi template could be one that could be of use to them.

BUDGET & MPC

THE INTERIM BUDGET TRIES TO STRIKE A BALANCE, BUT THE REAL STORY IS OFF-BALANCE SHEET; RBI IS A CLOSE-CALL NEXT WEEK

A delicate balancing act

SAJID Z CHINOY & TOSHI JAIN

Chinory is chief India economist & Jain is economist, JP Morgan

INDIAN POLICYMAKERS TRIED to strike a balance between fiscal prudence and responding to the agrarian distress in the Interim Budget. For starters, the fiscal deficit for the FY19 came in close to our expectations, narrowing to 3.4% of GDP (JP Morgan: 3.3%) from 3.5% of GDP in the previous year, thereby belying some market fears of a large fiscal slippage. In fact, net of asset sales, the Centre consolidated its deficit by 0.2% of GDP in FY19.

Furthermore, the FY20 budget included a new programme of cash-transfers for farmers, against a backdrop of rural distress. The cash-transfers turned out to be more targeted and less expansive than had been expected in some quarters, entailing an annual transfer of ₹6000 (~$85) for small and marginal farmers. Authorities estimate that this will cost ₹750 billion in FY20 or about 0.4% of GDP on an annualised basis, but the programme begins retrospectively from December 2018. However, this in conjunction with tax rebates for the middle-class—which are expected to cost 0.1% of GDP—meant that new budgetary commitments added up to about 0.5% of GDP. Consequently, the Centre's fiscal path going forward is less austere than markets had expected, with the government pegging the deficit for FY20 at the same level of 3.4% of GDP, even as we had expected some modest consolidation (0.2% of GDP), mainly as a signaling mechanism.

Furthermore, if one looks below the hood, the FY20 budget is not without risks. The entire 0.5% of GDP in new commitments is expected to be financed by assumed tax buoyancy in FY20. This is because we expect that when the actual numbers for this year print, tax collections will be lower than currently forecasted, resulting in expenditures having to be correspondingly curtailed. Therefore, the increase in Tax/GDP projected for FY20—over what eventually materialises this year—is expected to, de facto, bear most of the burden of financing the 0.5% of GDP in new commitments.

For example, aggregate GST collections have grown less than 7% over the last six months, but the Centre's GST collections are effectively budgeted (given where we think they end up this year) to grow at an aggressive 25% next year. Furthermore, even personal tax collections may be a challenge to achieve. They are growing at 16% a year thus far, and need to sharply re-accelerate in the next few months, just to meet this year's forecast. Even if that is achieved, personal taxes will need to grow over 20% next year (taking into account the rebates)—on a forecasted nominal GDP growth of 11.5%—to meet next year's budgeted target. If this year's forecast is not achieved, the asking rate is even higher.

> Expect RBI to cut rates by 25bps in 1H 2019. While our baseline call remains a cut, it will come down to how the MPC interprets the Interim Budget

In case this tax buoyancy is not realised, the worry is that expenditures—particularly capital expenditures—may again have to bear the brunt. Capex growth is currently running at just 4%, and we believe it will end the year close to or below 1.5% of GDP, below both where it printed last year (1.6% of GDP) and what authorities expect for this year (1.6% of GDP). Next year is already budgeted lower at 1.5% of GDP, and the risks are to the downside, given aggressive revenue assumptions. All that said, this is an interim budget. All of these assumptions could be revisited when the full budget is presented by the next administration in July.

However, looking at the Centre's deficit is to miss the fiscal forest for the trees. First, "off-balance borrowing" has been on the rise, something that was reaffirmed in today's Budget. For example, Food Corporation of India (FCI)—that should ordinarily be financed only from budgetary allocations—borrowed 1.3% of GDP from other sources in FY18, apart from what it received from the budget. Similarly in FY19, FCI borrowed 1% of GDP from other sources. This helps the Centre's fiscal math, but the "effective deficit" must include FCI borrowings, and therefore should be commensurately higher.

More generally, if one were to add the Centre, and the combined deficit of the states (which have expanded sharply in recent years), off-balance-sheet borrowing (e.g. FCI) and borrowing by all central public sector enterprises, India's total public sector borrowing requirement (PSBR) remains above a hefty 8.5% of GDP in both FY18 and FY19. Furthermore, this is likely a lower bound, because it does not include state public sector enterprises on account of data constraints.

To be sure, some of this borrowing—particularly by states and CPSEs—is to finance much-needed capex. But borrowing of this quantum constitutes a large claim on domestic household savings, which have fallen in recent years from 23% of GDP to 17% of GDP. In fact, net household financial savings are at just 7% of GDP, suggesting all of it—and more—is being absorbed by the public sector.

As previously discussed (*goo.gl/Xd4ztE*), against the backdrop of these borrowing pressures, it is no wonder India's yield curve steepened in recent years. In other words, for any given overnight policy rate, benchmark borrowing costs for the economy are higher now than in previous years. One can argue that large public sector borrowings are justifiable because private investment has been depressed. But what if private investments were to pick up, as is fervently hoped? It would need to be accommodated by the public sector reining itself in. Else, borrowing costs would rise further—and crowd out some private activity—or India's current account deficit would swell, and private investment would need to be financed by (more risky) foreign borrowing.

Unexpected extra borrowing for FY19 by ₹350 billion—to help finance the retrospective start to the cash transfer programme—and the lack of consolidation in FY19, meant that borrowing was higher than markets expected. As such, net borrowing for FY20 is pegged at ₹4.73 trillion and gross borrowing at ₹7.1 trillion, also reflecting the fact that the "maturity switches" that were expected this fiscal did not materialise either. Consequently, bonds sold off, with the yield on the benchmark bond firming by 13 bps.

The sustained downward surprise to food prices has meant that headline inflation has significantly undershot RBI's and market expectations in recent months, and is on course to undershooting their 4% medium-term target for at least the first half of 2019. At a minimum, this will induce the MPC to change its stance from "calibrated tightening" to "neutral" at next week's policy review.

Furthermore, despite growth holding up and a slightly-less austere fiscal path, we believe the headline undershoot will be too compelling for the MPC to ignore, given its mandate of keeping headline inflation close to 4% on a durable basis. We therefore expect RBI to cut rates by 25bps in the first half of this year. While our baseline call remains a cut for the next MPC meeting, it has become a toss-up between the February and April reviews and will come down to how the MPC interprets the Interim Budget.

Chaos on the jobs front

If the economy has been growing at 7% on average for five years, a 10% drop in employment would imply a 17% rise in labour productivity which would be the highest ever in the world

MEGHNAD DESAI

Prominent economist and labour peer

MY VERY FIRST published article, way back in 1962, threw doubt on NSS estimates of expenditure on food with official estimates of food-grains output. The two sides of the transaction—supply and demand—did not tally. Thus, despite its high reputation, NSS has not always got things right. The debates on measurement of consumption for poverty estimate has proved so controversial that further rounds of NSS surveys have been halted. But the contradictions in rival data estimates on the employment situation are just bizarre. The latest leak of NSSO data says unemployment was 6.4% in 2017-18, apparently the highest in 45 years! This is despite a fall in Labour force participation rate from 39.5 % in 2011-12 to 36.9 % in 2017-18. This would mean a 10% drop in employment.

If the economy has been growing at 7% on average for five years, a 10% drop in employment would imply a 17% rise in labour productivity which would be highest ever in the world. The data on jobs are just not making any sense. (The new estimate of GDP growth for 2016-17 as 8.2% is also hard to credit.)

Compare the CMIE estimates of the unemployment rate with those in the Annual Labour Force Survey. I list the CMIE first and the Labour Force survey second. The first is a point estimate. while the second is annual—September 2016 8.46%/ 2015-16 average 3.7% // December 2017 4.77% / 2016-17 3.9%. The gap between the two estimates is large, almost 2/1 and the direction of change is contradictory.

The situation is equally dire on jobs created. Surjit Bhalla and Tirthtanmoy Das have a paper on the website of the Prime Minister's Council of Economic Advisers where they have discussed all aspects of measurement. Compare their estimates of employment with that of CMIE and you feel they live in two different countries. Here are the estimates of employment (in millions), Bhalla-Das first and CMIE next: 2016 437/417.9 // 2017 449.8/ 407.9. Thus, the difference between the two is not merely in size but also in the direction of change. Between them the difference over the two years is 61 million jobs, equal to about 7% of the labour force. This is hard to credit.

Since both sources are respectable, the discrepancy must be about definitions or measurement techniques. But, it is too wide to be comfortable. One reason may be the way jobs are defined especially in a largely informal economy. Here, the *pakodawala* example is apt. The *pakodawala* has a livelihood—a *rojgar,* but not a *naukri*. Does an Ola driver count as doing a job or not? During the No Confidence debate last July, Narendra Modi talked of the jobs created in a variety of different ways. Formal sector jobs can be measured by looking at Employee Provident Fund subscribers. But, the prime minister also gave example of jobs created as a result number of three-wheelers bought. As these vehicles are driven round the clock, each could be providing jobs for two people. He also cited the number of new cars bought. A large proportion would require drivers. Newly qualified doctors would start practise and hire assistants. Thus, he pointed out that jobs come in various shapes and sizes.

> A lot of debate about job creation is about formal sector jobs and it is not clear whether flexible definitions of jobs are used in recent calculations or whether the formal sector definition of jobs dominates

It is not clear whether such flexible definitions are used in recent calculations or whether the formal sector definition of jobs dominates. A lot of the debate on job creation is about formal sector jobs.

Young people queue up for government jobs as they are lifelong employment till retirement. The salary gets upgraded with every Pay Commission. Then, there is a pension, also upgraded. This is why government jobs are at a premium and, furthermore, there are few unreserved jobs—each is a rare gem. No wonder thousands apply for a single opening.

Obviously, there is a problem with Indian statistics in the measurement of many variables. Sudipto Mundle chaired a commission on statistics, but his recommendations do not seem to have been accepted. After the elections are over, the new government should look at this issue of unreliable statistics. An international panel should be constituted to look at this issue. If India is to be the fastest growing economy for the next decade or two, it is time it got itself credible statistical services.

LETTERS TO THE EDITOR

Clarification

In *A dangerous and wasteful 'solution'* dated January 30, 2019, Isher Judge Ahluwalia and Almitra Patel made a statement that the WtE plant in Okhla bears no resemblance to the original EIA which was issued to IL&FS. The authors would like to add that, subsequently, the Okhla plant has been implemented and operated by another private company, and not IL&FS

Better implementation

Regulatory reforms in the recent past have increased relevant participation across various market segments, encouraged longer-term fund holdings at lower expenses and rendered greater portfolio diversification and segregation to mitigate investment risks. To generate visible results on the ground, producers must be provided greater financial resources, higher leverage and in-depth understanding of risk-hedging derivative instruments, especially when increased overlap or alignment with international markets is likely to promote institutional participation on an intraday basis

— Girish Lalwani, Delhi

Global trade slowdown

While individual nations would gladly tap into the advantages provided by globalisation, they show reluctance to share common problems of a unified economy. The popular theory that exports would provide an escape route from the crisis has failed. In good times, the trade generated by a country's growth bolsters global growth. But, in times of crisis, trade spillovers have the opposite effect. Trade imbalances influence global growth prospects.

— Janaki Narayanan, Mumbai

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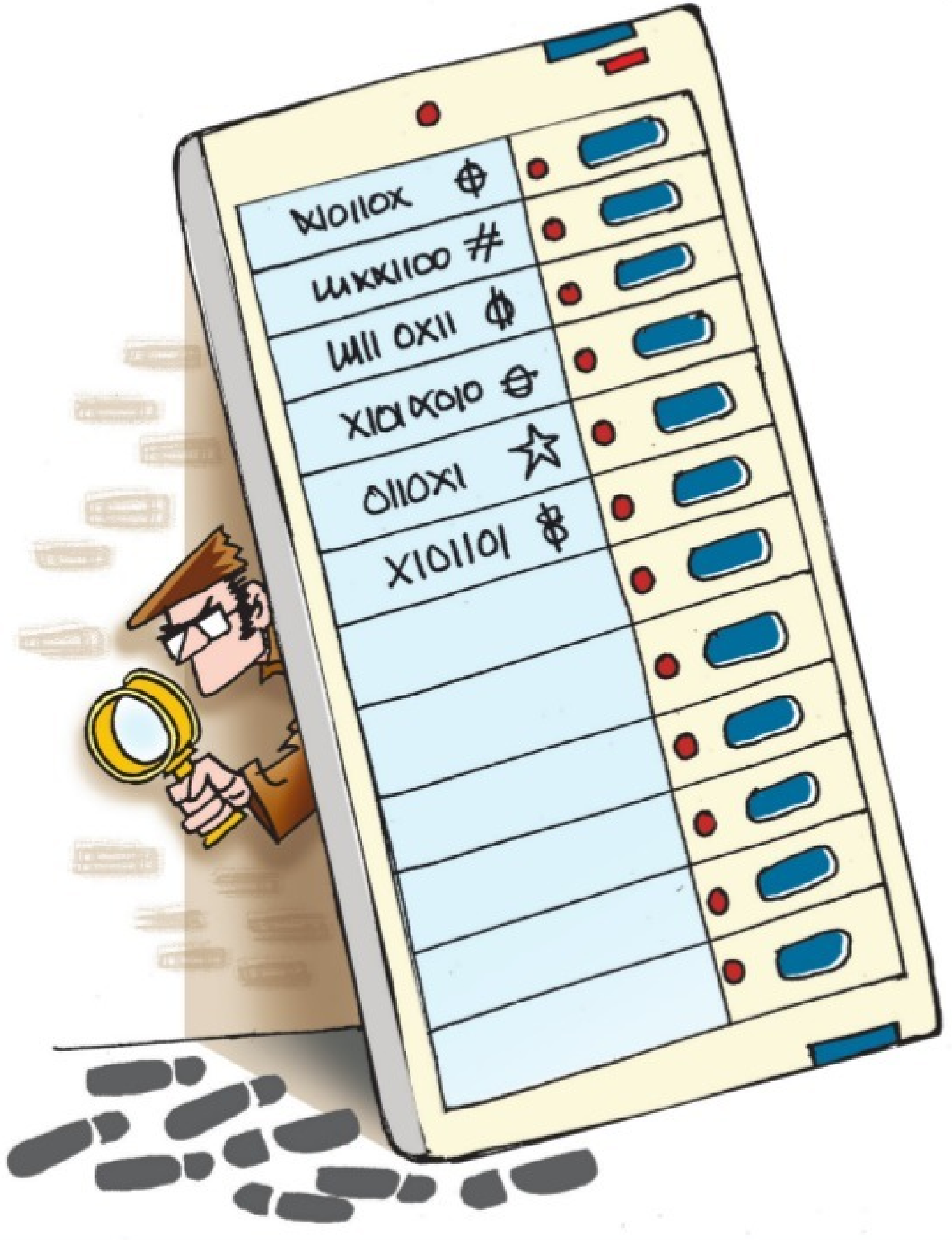

ILLUSTRATION: ROHNIT PHORE

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OVER THE BARREL

The tension between technocracy & democracy

The usage of EVMs has, no doubt, reduced the incidence of voter fraud, double-counting and strong-arm tactics, but that does not mean it has assuaged the concerns of the techno-illiterate that perhaps their votes might be misappropriated by an electronic intermediary

TWO FORMER CHIEF Election Commissioners (CEC) and the current CEC have verbally, and in writing, rebutted the suggestion that the electronic voting machine (EVM) is hackable and that the Election Commission (EC) should safeguard public franchise by reverting to a form of paper balloting.

This controversy is about the electoral process in India. It bears, however, upon a deeper issue—the tension between technocracy and democracy.

The disclosure that Facebook had allowed consultant firm Cambridge Analytica to access the private data of its users, which was then passed onto the Donald Trump election campaign, first raised concerns about data privacy and, more fundamentally, the power of the owners of data to abridge democratic rights. The most eloquent votary of this concern has been the historian Prof Yuval Noah Harari.

In a talk at Davos, Switzerland, in 2018, followed by other lectures and his latest book '21 Lessons for the 21st Century', Prof Harari spelt out the potential consequences of an algorithmic world. He acknowledged the huge benefits of the digital age, but forewarned of a scenario in which human beings acquire the potential to "hack into the bodies, minds and brains of other human beings" and where algorithms "know individuals better than the individual knows himself." This scenario is imaginable because of the advancement in computing power (infotech) and the agglomeration of biometric and biological data (biotech). When the two 'tech' revolutions merge, the handful of companies that own data will fashion the greatest revolution ever, overturning the laws of Darwinian selection with the "laws of intelligent design." They will have the power to "control the fate of humanity" and possibly "that of life itself." Democracy could be replaced by "digital dictatorship."

> We must ponder what institutional structures have to be created and what regulatory checks imposed to ensure the algorithmic world does not abridge our democratic rights

Fascinating, science fiction, alarmist ... one may use any one or a combination of these words to describe Prof Harari's prognostications, but there is no ignoring the many questions that his description of an alternative future have raised.

Practical questions: What regulatory checks and balances should be imposed on companies that monopolise data (Amazon, Google, Tencent, Alibaba, Facebook)? Should these companies be broken up? And if so, who should be given the authority to keep data and to decide how and in what manner this asset should be given away? Surely, not the politicians!

Philosophic questions: How does one control phenomena (technology and data) that is "everywhere but nowhere," and that recognises no physical or political barriers and is universal in scope and impact? Can an algorithmic world be managed through institutional structures of governance built on the bedrock of Westphalian principles? The treaties of Westphalia (between 1644 and 1648) brought to an end the religious wars in Europe. They established three principles that still define the nature of international affairs today—the principle of state sovereignty, the principle of non-interference in the affairs of other states, and the principle of the equality (legal) of states.

Prof Harari admits he does not have the answers to these questions. He believes that a collective of poets, philosophers and statesmen should be tasked to develop the answers.

Whether that should be the way forward or not can be debated. But what is becoming clear is that questions like those posed above cannot be answered by drawing on the past or projecting from the present. An "out of the box" approach is required that recognises that technology and innovation have not been an unmixed blessing, and that the current rules, institutions and structures of governance will need to be refashioned to address the emergent challenges.

The Industrial Revolution laid the foundations for decades of sustained development and economic prosperity. But it also led to the planetary crisis of global warming. Nuclear scientists generated the prospects of clean, affordable and abundant energy, but they also raised the spectre of a thermonuclear holocaust. The digital revolution opened up phenomenal vistas of knowledge and information, but, as suggested by Prof Harari, created the potential of digital dictatorship. The issue is that whilst humanity has harnessed the benefits of technology and innovation, it has not yet created the institutions for managing its consequences.

I am reminded of a rhetorical question that Robert Kennedy asked in his short memoir 'Thirteen Days' on the Cuban missile crisis. "What if any circumstance or justification gives this government or any government the moral right to bring its people and possibly all people under the shadow of total destruction." To remind, in October 1962, the US discovered that the Soviets were placing offensive nuclear missiles in Cuba. President John F Kennedy gathered together his advisers and for 13 days these people deliberated on the US response. The military advocated a pre-emptive air strike; others, a blockade. Whatever the response, the risk existed of a nuclear fallout with global consequences. In the end, the crisis was averted, but it did remind everyone of the paradox of democratic governance. Elected leaders are subject to checks and balances to prevent absolutism of power. And yet, on one occasion, the world came to the edge of a nuclear conflict, and the fate of the humanity (in a sense) rested in the hands of a few people. President Kennedy and his advisers decided on how to respond. No one else. More than 60 years on, the world is still struggling to contain the exercise of plenipotentiary powers. Except that now, in addition to limiting the power of individuals, it has to find a way of limiting the 'power of data'.

I have no doubt that the usage of EVMs has reduced the incidence of voter fraud, double counting and strong-arm tactics, but that does not mean it has assuaged the concerns of the techno-illiterate that perhaps their votes might be misappropriated by an electronic intermediary. We must not, therefore, duck the question: What institutional structures must be created and what regulatory checks imposed to ensure the algorithmic world does not abridge our democratic rights? This is the same question that Prof Harari and others are asking in the context of the impact of the digital age on humanity.

INTERIM BUDGET

Sets the stage for real estate revival

ANUJ PURI

The author is chairman, Anarock Property Consultants

Banking on the initiatives undertaken so far, the government scripts the next chapter for real estate growth

AS ANTICIPATED, THE Interim Budget did turn out to be a vote bank-facing exercise, predominantly cheering farmers and labourers. But the government kept the best for the last—a pleasing boost to the housing sector in more ways than anticipated. The provisions made will certainly boost consumer sentiment, stimulate affordable housing demand and incentivise investors hoping for rental returns.

The major positives included a full tax rebate for income up to Rs 6.5 lakh (including investment under Section 80C), which is likely to push demand for affordable homes, though not much in mid-income segment. There was an extension of Section 80IBA for an additional year; it will push affordable housing and cheer developers active in this segment.

The Budget increased the tax exemption limit for rents earned to Rs 2.4 lakh from the previous Rs 1.8 lakh limit. This will make property investment more attractive and help boost housing sales. Another positive for investors was the rollover of capital gains tax on the sale of residential property. This benefit now applies to two houses instead of the previous single one. Importantly, the Budget provided tax exemption on notional rent of a second home, which again makes property investment more attractive and also gives a fillip to the second home segment.

The period for taxing unsold inventory held by developers has been extended up to two years. As per Anarock data, this will benefit nearly 85,000 ready units that are unsold on the market, of the total 6.73 lakh units across top seven cities. The Budget put a clear onus on boosting infrastructure by allocating more funds for development of airports, railways, etc. While infrastructure deployment doubtlessly benefits real estate industry, it remains to be seen how much of it is actually implemented.

> While real estate braved GST and demonetisation and will reap the due long-term rewards, they had dealt the industry a hard blow, from which it has not fully recovered yet

All in all, the real estate sector received its due share of consideration in this balanced Budget, despite the massive electoral pitch. To be fair, the incumbent government has certainly invested heavily into the real estate sector.

Among its achievements, the Narendra Modi government has aptly set the stage for Indian real estate to become a healthy, flourishing industry in the long-term. However, the proviso is 'long-term'. This government has definitely tightened its grip on real estate, which was the single-largest dumping ground for black money hoarders in previous years.

It has also introduced some high-impact schemes to benefit genuine end-users of real estate. There have been major policy overhauls, amendments in Acts, a visible impetus to infrastructure development, and slightly over-ambitious visions like 100 Smart Cities and Housing for All by 2022.

The triple-policy tsunami of demonetisation, RERA and GST brought about a paradigm shift in the way real estate business is carried out in the country, resulting in vastly improved transparency and efficiency. The confidence of property buyers and investor confidence is now being restored, albeit gradually, and real estate is beginning to look more favourable as an asset class.

That said, the Centre's aim to enforce RERA in each state is still way behind schedule. As of today, quite a few states have not notified their respective RERA rules as yet, while in others buyers are fretting over the dilution of the rules that have been notified. Also, while the real estate sector braved both GST and demonetisation and will reap the due long-term rewards, they dealt the industry a very hard blow, from which it has not fully recovered yet. In fact, the arrival of a flat 12% of GST on under-construction was not exactly an improvement for buyers.

Certainly, this government has done a lot for the real estate sector, not least of all with its latest Budget. However, the stage that has been set is for long-term growth and not short-term firework displays. Will the momentum that has been infused into the real estate sector continue long enough for a real revival to take place? All eyes are on the forthcoming general elections.

INTERIM BUDGET

Betting big on mainstays

This is a credible Budget; it takes a practical approach

RUPEN JHAVERI

MD, Private Equity, KKR India

AGAINST THE BACKDROP of the current economic environment, the Interim Budget lends credible impetus to the economy's two big mainstays: farmers and the middle class. This will potentially lead to higher household savings, thereby setting the stage for consumption-led growth in the months to come.

Ahead of the elections and conversations around farm distress, a special package for farmers was largely expected. The government also announced a 5% interest rate subvention on timely repayment of farm loans. Over and beyond its widely targeted approach, the Budget stands out in its attempt of striking equilibrium between the immediate needs of the middle-income class and the agenda of driving large-scale rural reforms. This is evident in the suite of initiatives to alleviate farmers' distress, complete tax rebate on an annual income of Rs 5 lakh and below, hike in TDS exemption limit from Rs 10,000 to Rs 40,000 on post office savings, to name a few.

A notable highlight is the focus on reducing taxation on MSMEs. The Budget has a sharply-defined focus on empowering the MSME sector, with faster turnaround times for loan approvals and a 2% interest subvention for loans up to Rs 1 crore.

The government continues to have a significant thrust on the rural economy, infrastructure and affordable housing. These factors will continue to drive domestic demand, and have a multiplier effect on employment, construction equipment, taxation and revenues.

The affordable housing sector will benefit tremendously in wake of sops announced with regards to exemption of TDS on house rent of up to Rs 2.4 lakh a year, exemption of tax on notional rent of second self-occupied home, and capital gains available on two house properties. Also, notional rent-free period on ready inventory having been increased to two years and greater incentivisation to MSMEs will render the industry poised for growth.

India attracted good FDI in the previous year. This, along with the government's focus on debt consolidation and fiscal consolidation, sets the stage for a strong economic outlook. Fiscal deficit for the next year is projected to be 3.4%, assuming 15% hike in direct taxes and 13% rise in indirect taxes. These numbers look a bit ambitious given the current trajectory of economic growth. The cumulative effect of cash transfer to farmers and the middle-income class will be a boost to consumption.

Overall, it's a credible Budget; it takes a practical approach that is notable, against the backdrop of elections and low inflation. The government focused on better tax collection. The rebates will potentially bring about a structural change in consumption, thereby driving growth.

Balances prudence & aspiration

May have a far-reaching effect on farmers, the poor and the needy

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AHEAD OF THE Budget, market participants were debating whether it's a Vote on Account or an Interim Budget or a full Budget. There was some sense of disinterest, given the Street wasn't expecting anything major. However, this turned around quickly, as the finance minister began his speech. By the end, it was an eventful Budget with far-reaching implications.

It has been a judicious mix of populism and careful allocation of resources. While expectations of populism were largely prevalent, big-bang announcements like the PM Kisan Samman Nidhi and a rebate in income tax for an assessee with up to Rs 5 lakh of income came as a surprise. What it effectively does is puts money in the hands of people, which may boost consumption. With the measures announced, the Budget is likely to have a far-reaching and broad-based effect on farmers, the poor and the needy.

In terms of important macro numbers the markets watch closely, the data is mixed. On the positives, fiscal deficit is budgeted at 3.4% for FY20, which is comfortable, given there is an additional allocation for compensating farmers, under the PM Kisan scheme. The debt-to-GDP number is also comfortable at 48%. The total expenditure is based on the assumptions of overall growth in tax revenues at 14%, which again is reasonable. Revenue from non-tax sources is what will need some monitoring. Since resources are limited, there has been minor growth on capital expenditure. Also, the gross borrowing number is relatively high, which has led to a rise in 10-year benchmark rate. However, I do not expect inflation to rise meaningfully.

On the corporate side, while there wasn't any major announcement, the measures taken to revive the real estate sector are heartening. Announcements on treatment of capital gains, house property tax and affordable housing incrementally lends support to the ailing sector.

What it means for markets? It is clear that the biggest beneficiary is the consumer sector (staples and discretionary). The Budget is likely to provide a material push to GDP, and higher borrowings may have some pressure temporarily on bond prices, which can affect financials. The Budget is indifferent to industries, IT and pharma. I believe the Budget would be discounted very quickly, and markets would again start looking at global economies, where the action is.

The Budget has tried to address income inequality. I consider it as a very big and long-term positive. It is a fine balance of support, prudence and aspiration, though limited by the nature.