The debt that has been the bane of our economy got reduced in March 2019 to 48.7% of GDP, from 52.2% in March 2014

271 million raised out of poverty between 2006 and 2016

"Given the constraints, the FM seemed to have been able to only partially meet some of the high expectations the market had. This could imply near-term market volatility for retail investors

MOTILAL OSWAL, *managing director & chief executive officer, Motilal Oswal Financial Services*

"Data centre parks, huge national gas grid, fibre to the home, IPR-related announcements and quantum technologies are key initiatives

KESHAV MURUGESH, *global CEO, WNS Global Services & chairman, Nasscom*

ADDRESSING THE SLOWDOWN

Small steps to boost consumption

Efforts to put economy on fast track will need to be supplemented by other measures

ABHISHEK WAGHMARE

Union Budget 2020-21 was presented at a time when India is experiencing the worst economic slump in years. The indicators on all fronts — consumption, investments, and exports — have been the weakest in a decade.

At a broad level, the Budget, along with some steps taken earlier, tried to address the issues. The biggest move — income tax cuts — it is hoped would boost consumption, and the corporate tax cuts would address investments. However, there are key limitations to these efforts, which, unless supplemented by other measures, would fail to give intended results.

Take consumption, which makes for the largest share of the economy, at about 60 per cent of gross domestic product (GDP). Finance Minister Nirmala Sitharaman cut income tax and introduced new slabs to give a relief of ₹40,000 crore to individuals.

This is likely to nudge salaried people to revisit their spending preferences and make those decisions that they have held off due to slowing incomes, especially in terms of auto and consumer durables. However, to think that the tax cuts would boost consumption immediately would be over-optimistic.

"While millennials would benefit and are more likely to increase their spending, the older generation would in general refrain from doing so," said Neeru Ahuja, partner at Deloitte.

Growth in consumer spending has dropped to a multi-year low of 5 per cent in 2019-20, according to Advance Estimates. But there is a worry that the consonant increase in Customs duties would do harm to the potential consumption spree. The Budget fine print shows that import duties have been increased on about 400 items, and mostly on consumer goods.

Though the reason for this decision is to encourage Make In India, it can have the opposite impact when it comes to consumption. Imports have contracted by 8 per cent this year — fastest in almost a decade.

Avinash Tripathi, who teaches economics at the Takshashila Institution, said that the impact of tax cuts looks uncertain. "This Budget had two objectives. First, to put money in the pockets of individuals. Second, to simplify the taxation system in order to reduce compliance cost, confusion, and uncertainty. At first glance, neither objective has been achieved, and the net effect is ambiguous," he said.

In terms of investments, capital expenditure (capex) has been ramped up by 18 per cent, to ₹4.1 trillion. Spending on roads and railways has been increased, or kept steady, to help raise capex. This is likely to nudge private players to initiate new projects, but with a time lag.

Automobiles is one sector that is going through a record slump, with sales falling, and a drop in new plants and investments. The Society of Indian Automobile Manufacturers (Siam) expected more. "Our demands for incentives-based vehicle scrapping scheme, allocation for diesel buses procurement, and zero Customs duty for lithium-ion batteries doesn't seem to have been considered," said Rajan Wadhera, president, Siam.

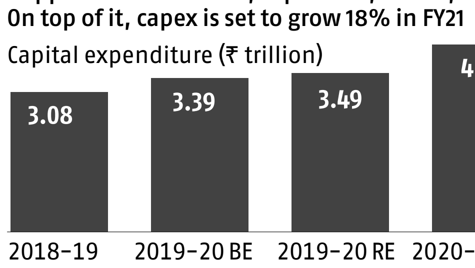
Though some concerns of exporters were addressed in the Budget (*see box*), most of them had expected a support from the R&D industry, which has not yet taken off.

"We had pushed for marketing support, in the form of an export development fund, but it was not addressed. If you look at the initiatives in agriculture and fisheries, they will take shape in the medium term," said Ajay Sahai, director general and chief executive officer at Federation of Indian Export Organisations.

With the efforts for consumption potentially able to cancel each other out, investment and exports to take time, a lot depends on the confluence of all these measures to revive the slowdown sentiment, said experts.

CAPEX NOT COMPROMISED

Though spending was compressed in FY20, it happened in subsidies; capex was, in fact, raised. On top of it, capex is set to grow 18% in FY21



BE: Budget Estimates; RE: Revised Estimates

WHERE'S THE SLOWDOWN

The slump has manifested across all sectors of the economy, making it a difficult terrain to address all of these

Parameter	Growth engine	Current state
Growth in imports	Consumption	-8%
Growth in exports	Exports	–
Investment rate	Investments	28%
Capacity utilisation	Manufacturing	69%

Sources: RBI, NSO, Union Budget

BIG SPENDS THAT PROMISE CONSUMPTION BOOST

Scheme/Measure	Spending in FY21 (₹ crore)
PM-KISAN (farmer income support)	75,000
MGNREGA (rural employment guarantee)	61,500
Tax forgone by income tax cut	40,000

Some hand-holding for exports

The Budget did not come up with big-ticket spending schemes for exporters, though exports were a top highlight of the Economic Survey. However, it lays down the direction of reforms. A new scheme, NIRVIK (NIR for *niryat*, which means exports, and VIK for *vikas*, meaning development) would give easier credit, higher insurance coverage, and reduction in premium for small exporters.

Exporters would get tax refunds for all taxes they pay — GST, VAT, petroleum — online, on a single portal, under a new scheme to be launched later this year. Exporters in select areas where India has an edge, such as auto and pharma, would get hand-holding support in technology, research and business strategy under a new scheme. These measures, though progressive, would take time to show results.

THE FINE PRINT

Much sound signifying nothing

OMKAR GOSWAMI

THINK OF A one-man play where the stage is set for a superlative performance. The script is brilliant. The theme is powerful. The auditorium is filled to the brim.

Shortly after the curtain rises, the actor flubs his early lines; flubs these yet again; and again. Then lines are being recited from a completely different script, which has nothing to do with that evening's play. This agony continues for two hours and forty minutes. The loyal audience claps every once in a while, more out of allegiance to the actor and the drama company than for any thespian content. Finally, the actor loses his voice and hastily the curtains come down.

Watching and listening to Finance Minister Nirmala Sitharaman present her second Union Budget was an eerily similar experience. Here's a sharply abridged version of what it could have been, had she chosen to be fiscally professional and focused.

"Mr Speaker, these are difficult times. Our country's growth has dropped to its lowest in the last 11 years. Several sectors of the economy are suffering from stress. Consumption has fallen, the more so in rural India and among the vulnerable and poor. Millions of young — the sinews of our nation — are bereft of job opportunities. Despite rate cuts by the Reserve Bank of India, there is insufficient growth in credit. Though better than earlier, the banking sector is still facing problems of bad loans. And many infrastructure sectors, especially housing, are in the red".

Shortly after the curtain rises, the actor flubs his early lines. The lines are being recited from a completely different script, which has nothing to do with that evening's play... Watching and listening to FM Nirmala Sitharaman present her second Budget was an eerily similar experience

"This is a time for decisiveness, to pull out our essentially dynamic economy from its present morass. Decisiveness requires focusing on a few key proposals, which have to be adequately funded, so that these initiatives can quickly reach out to the common citizens of India, give them succour and, by doing so, create income and consumption that can lift us out of this low growth trap. The prime minister entirely agrees with this approach. It is about depth, not width".

"It is not surprising that we have overshot the fiscal deficit by 50 basis points. Revenues were down and there were limits to which we could cut expenditure. But that's behind us. Where do we go from here?"

"First, on the revenue side, we are being modest. We believe 10 per cent nominal gross domestic product growth is feasible and have pegged overall revenue growth at that level. If we do better, let us be pleasantly surprised. Goods and services tax (GST) needs strengthening. This involves lower number of rates, better implementation, and greater cooperation with the GST Council. This is my primary task for the year on the revenue side".

"On the expenditure side, we will focus on MNREGA and a few other key projects. We will fund these more than adequately. And we are setting up a special ministerial group to track their implementation on a fortnightly basis. The monies for these projects will reach the needy, at a speed hitherto not seen in India. This I promise to the House. Other relatively inessential projects are being phased down; some are being eliminated."

"I also commit to recapitalising our public sector banks to ensure that they get back to what they are there for — lending".

"With acute resource constraints, I cannot give tax incentives, either for individuals or corporates. I promise a transparent, hassle-free tax regime, but there cannot be any more sops. Nor can there be additional relief in indirect taxes, barring correcting instances of inverted structures".

"This is the time for consolidation. We must create an exchequer that is healthy for the next generation without forfeiting on growth. Mr Speaker, it will be a difficult and occasionally painful task. But such a task was undertaken in July 1991, which set the stage for India being as dynamic as it is today".

"We have two choices. Spend our way without care, and land in even greater trouble in the years ahead. Or grit our teeth and focus only on the essentials to create a better tomorrow. Bear with us as we eschew the former for the latter. We shall overcome".

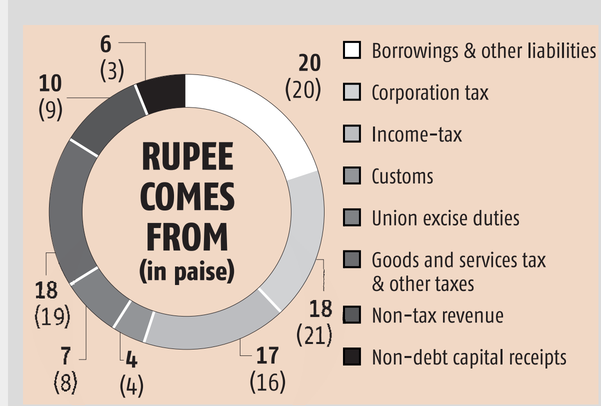
If only it were this...

The author is chairman, CERG Advisory Private Limited

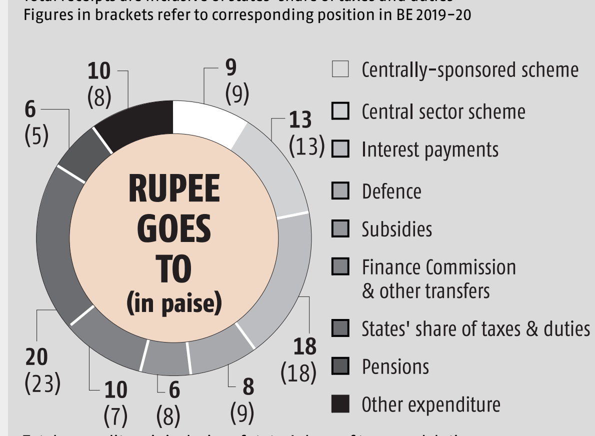
BUDGET AT A GLANCE

(₹ billion)	2018-2019 Actuals	2019-2020 Budget Estimates	2019-2020 Revised Estimates	2020-2021 Budget Estimates
1 Revenue receipts	**15,52,916**	**19,62,761**	**18,50,101**	**20,20,926**
2. Tax revenue (net to Centre)	13,17,211	16,49,582	15,04,587	16,35,909
3. Non-tax revenue	2,35,705	3,13,179	3,45,514	3,85,017
4 Capital receipts [1]	**7,62,197**	**8,23,588**	**8,48,451**	**10,21,304**
5. Recoveries of loans	18,052	14,828	16,605	14,967
6. Other receipts	94,727	1,05,000	65,000	2,10,000
7. Borrowings and other liabilities [2]	6,49,418	7,03,760	7,66,846	7,96,337
8. Total receipts (1+4)	**23,15,113**	**27,86,349**	**26,98,552**	**30,42,230**
9. Total expenditure (10+13)	**23,15,113**	**27,86,349**	**26,98,552**	**30,42,230**
10. On revenue account of which	20,07,399	24,47,780	23,49,645	26,30,145
11. Interest payments	5,82,648	6,60,471	6,25,105	7,08,203
12. Grants in aid for creation of capital assets	1,91,781	2,07,333	1,91,737	2,06,500
13. On capital account	3,07,714	3,38,569	3,48,907	4,12,085
14. Revenue deficit (10-1)	**4,54,483**	**4,85,019**	**4,99,544**	**6,09,219**
	(2.4)	(2.3)	(2.4)	(2.7)
15. Effective revenue deficit (14-12)	**2,62,702**	**2,77,686**	**3,07,807**	**4,02,719**
	(1.4)	(1.3)	(1.5)	(1.8)
16. Fiscal deficit [9-(1+5+6)]	**6,49,418**	**7,03,760**	**7,66,846**	**7,96,337**
	(3.4)	(3.3)	(3.8)	(3.5)
17 Primary deficit (16-11)	**66,770**	**43,289**	**1,41,741**	**88,134**
	(0.4)	**(0.2)**	**(0.7)**	**(0.4)**

(i) GDP for BE 2020-2021 has been projected at ₹22,489,420 crore, assuming 10% growth over the estimated GDP of ₹20,442,233 crore for 2019-20 (RE)
(ii) Individual items in this document may not sum up to the totals due to rounding off
(iii) Figures in parentheses are as a percentage of GDP



Total receipts are inclusive of states' share of taxes and duties
Figures in brackets refer to corresponding position in BE 2019-20



Total expenditure is inclusive of states' share of taxes and duties, which have been netted against receipts
Figures in brackets refer to corresponding position in BE 2019-20

Easier credit payment and compliance spell relief for MSMEs

ARNAB DUTTA

Finance Minister Nirmala Sitharaman announced a bunch of measures to give further impetus to micro, small and medium enterprises (MSMEs) that are struggling to meet stringent compliance norms and secure payments. Lowering the threshold for availing of invoice credit, extending easier compliance norms to majority of the micro and small firms, and waiving dividend distribution tax will help the entities from the next fiscal year.

To reduce the crunch in working capital for MSMEs, the minister proposed to amend the Factoring Regulation Act, 2011. The new rules will allow non-banking financial companies (NBFCs) to offer invoice credits to MSMEs against their supplies to larger firms. The move will enhance "their economic and financial sustainability," said Sitharaman.

According to Animesh Saxena, president of industry body Federation of Indian Micro and Small & Medium Enterprises (FISME), opening doors for NBFCs to finance invoices uploaded by MSMEs at Trade Receivables Discounting System (TReDS) will give a big boost to these platforms. Industry bodies like FISME have been seeking such a measure for long. According to its estimates, this will increase the cumulative turnover of these platforms to over ₹1 trillion in the next 18 months.

Further, identifying the working capital credit as a major issue for the MSMEs, the minister proposed to introduce a scheme to provide subordinate debt for entrepreneurs of MSMEs. "This subordinate debt to be provided by banks would count as quasi-equity and would be fully guaranteed through the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE). The corpus of the CGTMSE would accordingly be augmented by the government," she said.

According to the government's estimates, more than 500,000 MSMEs have benefited from the restructuring of debt permitted by the Reserve Bank of India in the last year. In the Budget for 2020-21, the window for such restructuring that was supposed to end on March 31 has been extended by a year.

To ease the restructuring process, the minister on Saturday announced the launch of an app-based invoice financing loans product. The application will reduce tethering issues such as delayed payments and consequential cash flow mismatches for the MSMEs.

To help mid-size companies, which are successful in the domestic market but fail to compete internationally, in select sectors like pharmaceuticals, auto components and others, the Budget proposed to extend hand-holding support — for technology upgradations, research and development, and business strategy. A ₹1,000-crore scheme, which will be anchored by EXIM Bank together with Sidbi, has been proposed for the same. While both these institutions would contribute ₹50 crore each, ₹900 crore debt funding will be made available from banks.

"The scheme will help the component sector to remain relevant and competitive. This has also been a long-standing request of Automotive Component Manufacturers Association (ACMA)," said Deepak Jain, president, ACMA, the largest lobby group of automotive component manufacturers.

According to Jain, enabling measures to extend invoice financing to MSMEs and creating access to working capital through a new scheme will be helpful.

Reducing compliance burden on MSMEs, the Budget has also proposed to raise the ceiling of annual revenue to ₹5 crore — from ₹1 crore — for firms that need to undergo financial audit. However, the raised limit will be applicable only to firms that carry out less than 5 per cent of their business transactions in cash. According to Sitharaman, this will promote digital transaction and benefit small retailers, traders and shopkeepers. "Enhancing the turnover threshold for audit of MSMEs will facilitate 'ease of doing business'," said Jain.

According to Govind Lele, general secretary of Laghu Udyog Bharati, this will cover over 80 per cent of the micro and small enterprises. "Removing the burden of dividend distribution tax from firms will increase the amount of dividend for most MSMEs," he said.

With inputs from Arindam Majumder