HIGHLIGHTS OF UNION BUDGET FY 2019-20 *1st Feb, 2019*

The interim Union Budget 2019-20 was presented today before the house of the people. After sharing the score card of the budgetary allocations in the previous budget by the government, the budget highlighted how India looks forward to becoming a USD 5 trillion economy in the next five years and a USD 10 trillion economy in next eight years. With path breaking structural reforms like introducing Goods and Services Tax (GST) and others, the interim budget clearly was seen to be a people pro budget which is expected to spur Consumer Spending & Economy's Growth. The current government's last pre-poll Budget addressed made sure that most of the social spending will make a long-term impact on the well-being of the economy.

Some of the key points highlighted in the interim budget under the respective sectors are as follows:

✓ **Fiscal Health:**
- From the high of almost 6% seven years ago, the fiscal deficit has been brought down to 3.4% in 2018-19 RE. The trend of fiscal deficit being flat to down has continued.
- India witnessed a rapid liberalisation policy for FDI whereby they allowed most FDI to come through automatic route. India could attract $239bn of FDI in 5 years because of strong fundamentals.
- Defence Budget will be crossing Rs. 3,00,000 crores for the first time in 2019-20.
- For securing the borders and to maintain preparedness of the highest order, if necessary, additional funds would be provided.

✓ **Banking Reforms**
- A number of measures have been undertaken for clean banking in recent years such as through the Insolvency and Bankruptcy Code (IBC). Re-capitalisation of PSU banks was done.
- Recently, the Prompt Corrective Action (PCA) restriction was removed from three banks, namely - Bank of India, Maharashtra Bank, and Oriental Bank of Commerce (OBC).

✓ **Agriculture sector**
- Pradhan Mantri KIsan SAmman Nidhi (PM-KISAN) to support farmer's income and will transfer Rs. 6,000 per year to small farmers which will be transferred in 3 equal instalments.
- Announcing & setting up of "Rashtriya Kamdhenu Aayog" to upscale sustainable genetic up-gradation of cow resources and to enhance production and productivity of cows.
- Increase in allocation for Rashtriya Gokul Mission to Rs. 750 crores in the current year itself for Animal Husbandry and Fisheries sector.
- 2% interest subvention for animal husbandry, fisheries.

✓ **Benefit for low income group**
- Gratuity Limit Increased to Rs. 30 Lacs from Rs. 10 Lacs
- Min. Pension limit for workers / labourers increased to Rs. 1000/-
- Ceiling of ESI's Eligibility increased to Rs. 21,000/-.
- Death of worker at spot EPFO will provide Rs. 6 Lacs.

✓ **Taxation:**
- No Tax for people with income upto Rs. 5 Lakhs for Individuals/HUF (Net Taxable Income-Considering 80C full Limit & Other some Exemptions).
- 3 Crore Taxpayers will be benefitted. Standard Deduction increased to Rs. 50,000/- from Rs. 40,000/- existing.
- Limit of TDS on Interest from Bank/Post Office raised to Rs. 40,000/- and limit of TDS on Rent increased to Rs. 2,40,000/- from Rs. 1,80,000/-.
- Sec 50 Amended: Two Residential House can be purchased.

- ✓ **Youth & Women development**
  - Various scheme of the government has led to the youth development in the country. These schemes are Pradhan Mantri Mudra Yojana, Startup India, and Stand Up India.
  - The 16.53 crore loans have been disbursed under Pradhan Mantri Mudra Yojana and Rs 7.23 lakh crore have been disbursed through the scheme.
  - The government stood up to into manifesto and provided the promised clean fuel for cooking under the Ujjwala Yojana. The government has already given 6 crore free LPG connection.
  - More than 70 percent of beneficiaries of Pradhan Mantri Mudra Yojana are women.
  - Pradhan Mantri Matru Vandana Yojana for pregnant women has provided financial support to women while empowering them to participate in work.

OUTLOOK:

Equity Market

- ✓ The interim budget for FY2020 was broadly in line with the expectations in equity markets. The broad path of FRBM was maintained while paying attention to the need for boosting growth. Overall, the budget is tilted towards consumption (urban as well as rural) vis a vis infrastructure.

- ✓ The Budget has provided more money in hands of consumers with the aim of spurring consumption via;
  - A reduction in tax outgo for people with taxable income of upto 5 lakhs (Rs. 12500 per person)
  - A direct money transfer to farmers (Rs 6000 to each farmer having less than 2-hectare land)
  - Marginal increase of Rs. 10000 in standard deduction (saving of 2000 to 3000 per person)
  - Tax exemption for notional rent income on 2nd home

- ✓ On the infrastructure growth front, budget has increased allocation for Railway capex to 1,55,000 crores as it seeks to modernise railways. Defence too has been allocated Rs. 3,00,000 crores. We expect details of spend to be available in near future that will help identify companies likely to benefit by way of getting orders.

- ✓ The Budget also announced a Pension scheme for lower income workers. The worker in organised sector with monthly income of upto INR15000, would be entitled to a pension income of Rs. 3,000 per month after they achieve age of 60 years. The contribution from workers will be based on their age. The investment of the corpus so created could become a good source of flows in the equity markets depending upon the investment pattern that would be decided by government.

- ✓ Markets were volatile on the budget day with a sharp rise in stock prices for consumer and auto companies while a fall in banking (more specifically PSU banks as recapitalization was not covered in budget). Markets are likely to remain range bound in next 2-3 months as multiple events, global (US-China trade war, US Fed policy stance) and domestic (result season, elections outcome) dominate the investor sentiments.

Debt Market

- ✓ The interim budget for FY2020 was slightly worse than market expectations as there was increase of net borrowing for the current fiscal FY2019 as well as higher than expected gross borrowing for FY2020 @ INR 7.1 trillion. As expected the budget targeted the agrarian crisis by announcing direct transfer of Rs.6000/annum for marginal farmers holding land upto 2 acres (estimated to be ~12 crore farmers) and some tax rebate sops for the middle class. The extra cost of farmer income is pegged at Rs.20000cr for the current fiscal year and Rs.75000cr in FY2020 whilst the tax rebates will cost the government around Rs. 18500cr in FY2020.

- ✓ The additional benefits is likely to increase the current year borrowing by Rs.36000, out of which the dated issuance is likely to be Rs.20000 cr. The gross borrowing for next year is substantially higher than the revised Rs.5.71 trillion for current year. The fiscal deficit for FY2019 is pegged at 3.4% (budget estimate 3.3%) and for FY2020 it is estimated to be 3.4% (against FRBM target of 3.1%).

- ✓ The rise in government fiscal is likely to have impact on the monetary policy scheduled to be released on 7th February. While it is widely expected that the monetary policy committee (MPC) is likely to change stance to "neutral" in light of low inflation, the MPC may flag of risks to inflation from higher fiscal in the next fiscal, with risks to the upside in an election year. Hence the MPC may be cautious for calling for a rate cut immediately and may go in for an extended pause through the elections.

- ✓ Markets were extremely volatile with the old 10Y gyrating between 7.42%-7.65% (new 10Y range 7.24%-7.40%). The initial reaction to 3.4% fiscal deficit for FY2019 was positive with yields dropping but as the new hit the markets on the gross borrowings the market yield rose sharply. Further extra borrowing news added further selling pressure taking yields higher to around 7.65% level before recovering a little. The next event for the market is the monetary policy review and how the MPC is going to perceive the government fiscal largesse in an election year. Market is likely to remain cautious in light of the large than expected gross borrowing numbers and would look forward to see whether continuing support is there from the RBI in terms of OMO purchases (to the extent done/to be done in FY2019). Going forward the old 10Y is likely to trade 7.40%-7.70% in the short term.

Source: **www.indiabudget.nic.in**