MIRAE ASSET
Mutual Fund

Just a few months remain before the term of the current NDA government ends, the Finance Minister presented the interim budget today. An outgoing government presents only an interim budget or seeks a vote on account. The govt. seeks parliament's nod for incurring expenditure for part of a fiscal year. It leaves it to the next government to present the full budget. Hence the market expectations were already muted for this budget.

The budget speech mainly reflected on the key achievements of the present government over the past 5 years and their vision for India. The government refrained from announcing big-ticket changes in this budget. The budget maintained good balance between populism and fiscal prudence (this was expected being an election budget).

Economy in FY 2019:

- The government missed its FY19 fiscal deficit target (3.3% of GDP) and instead pegged it at 3.4%.Market had expected that considering the elections, that the government might overshoot the fiscal deficit by 20-30 bps.
- The current account deficit (CAD) is likely to be only 2.5% of GDP in F.Y. 2018-19.
- Average monthly GST collection is at Rs 97,100 crore per month so far this year, lower than Rs 1 Lakh crore expected by the government.
- On a positive note, inflation has been under control and in December 2018 was down to 2.19% only.
- India's Debt to GDP ratio was 46.5% in year 2017-18. The Fiscal Responsibility and Budget Management Act prescribe that the Debt to GDP ratio of the Government of India should be brought down to 40% by 2024-25.

Fiscal Deficit in FY 2020:

Government estimates the FY2020 fiscal deficit target at 3.4% of GDP, missing the glide path target of 3.1%. The budget poses tough challenge for fiscal situation for FY2020 given the aggressive assumptions for tax revenue growth.

Total expenditure is expected to rises from Rs. 24,57,235 crore in 2018-19 to Rs. 27,84,200 crore in 2019-20, a rise of approximately 13.30%.This reflects a high increase considering low inflation.

Financial Sector:

The Insolvency and Bankruptcy Code has institutionalized a resolution-friendly mechanism, which is helping in recovery of non-performing loans. An amount close to Rs. 3 lakh crore has already been recovered in favour of banks and creditors against non-performing assets.

The Government has also spent Rs. 2.6 trillion so far on bank recapitalization and has merged several banks to achieve economies of scale. These steps have improved the health of several PSU banks and 3 of the PSU Banks have moved out of PCA framework. Government expects other banks to soon exit prompt corrective action.

Rural Economy:

Given the impending elections and the political narrative of farm distress, a special package aimed at farmers was largely expected from the budget. As expected, in order to raise rural income, Government has launched a new program which will provide direct income support of Rs. 6,000 per year, to farmer families, having cultivable land up to 2 hectares. This program will entail an annual expenditure of Rs. 75,000 crore by the government in FY 2020. The estimate for this program in FY19 has been pegged at Rs 20,000 crore.

Additionally, Rs. 60,000 crore has been allocated for MGNREGA (Employment Guarantee Scheme) in 2019-20. The government has provided Minimum Support Price (MSP) in this fiscal year for all 22 crops (at minimum 50% more than the cost).

Further to boost the rural economy, Rs 19,000 crore has been allocated for the construction of roads in rural areas in 2019-20 as against Rs 15,500 crore in 2018-19. Additionally, government announced interest subvention of 2% (additional 3 %, if loan is repaid on time) for farmers pursuing animal husbandry or fisheries.

Pension and Health Benefits

The government also took steps to increase pension, gratuity benefits and health benefits. Main highlights are

- New Pension Scheme (NPS) was liberalized and the Government contribution is increased by 4% making it 14%.
- The ceiling of payment of gratuity has been enhanced from Rs 10 lakhs to Rs. 20 lakhs.
- The unorganized sector workers with monthly income up to Rs 15,000, shall be provided an assured monthly pension of Rs 3,000.
- The government has allocated Rs 6,400 crore towards the implementation of "Ayushman Bharat" in the upcoming financial year which aims to provide health coverage to 500 million people

Tax Benefits:

The other focus of the budget was on increasing disposable income in the hands of middle class, and initiatives like tax rebate for individuals earning up to Rs.5 lakh (3 crore beneficiaries as per Government estimates), higher standard deduction for salary income from 40,000 to 50,000, no TDS on interest earned up to Rs.40,000 per annum from savings bank account and post office savings schemes were announced.

Additionally, individuals having unoccupied second house will not be required to pay tax on such a property. The benefit of rollover of capital gains tax has been increased from one residential house to two houses and this roll over on capital gains up to Rs 2 crore can be exercised once in a lifetime

Debt Market Outlook:

The budget maintained good balance between populism and fiscal prudence. Though it poses tough challenge for fiscal situation for FY2020 given the aggressive assumptions for tax revenue growth, it however, is expected to boost consumption. This growth mix may prove to be neutral for overall macro situation. In development of this budget in the upcoming monetary policy it is expected RBI will turn cautious and keep the repo rate unchanged, however the stance and the tone of Monetary Policy Committee will be watched closely for the future course of rates.

Market Reaction - The Government net borrowing of 4.73 trillion rupees in 2019/20 and gross market borrowing of 7.1 trillion INR were higher than expected. Debt market reacted slightly negative with yields spiking by 8-10 bps on 10 year G-Sec.

Equity Market Outlook:

We believe that the government focus on increasing income in the hands of middle class and farmers may be a boost for consumption sector (auto, FMCG, consumer discretionary and retail). Additionally, some tax benefits on housing is positive for large families that are aimed to generate demand in housing which will benefit real estate developers. Similar to prior years, it has rolled over some oil subsidy to the next year.

Also, despite some populist announcements (0.45% of GDP impact from income support to farmer and direct tax measures) it has managed to keep fiscal deficit at 3.4% for FY19/FY20, though much depends on fruition of its tax growth assumptions. Since, this is an interim budget before elections, government has accelerated revenue expenditure over capital expenditure. As growth in capital expenditure is lower versus over last few years, capital formation may take a backseat in the economy, however the full picture will emerge in the final budget.

We would watch out for the continued normalization of the economy and trend in GST revenue, interest rates and oil prices. We believe that the earnings revival will be the most important driver for the markets during CY2019, despite several global and local events.

To Summarise

Every year when the FM presents the Union Budget, there are hopes and fears of the changes one needs to make in their investment and savings portfolio to get tax benefits. Our advice to investors is that it is best to stay focused on their goals and follow a disciplined asset allocation path and not be perturbed by market noises. Events like the Budget remain mere events when seen from a long term Wealth Creation journey. The achievement of long term goals is what the retail investors should endeavor to achieve.
Happy Investing!!!

*Source: www.indiabudget.gov.in