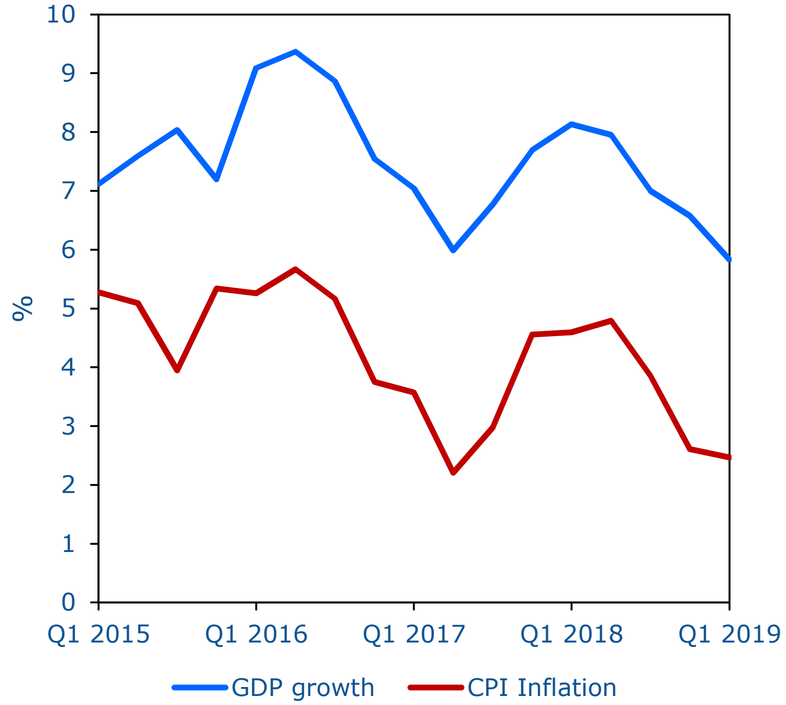
# India: Union Budget FY 2019-20

July ,2019

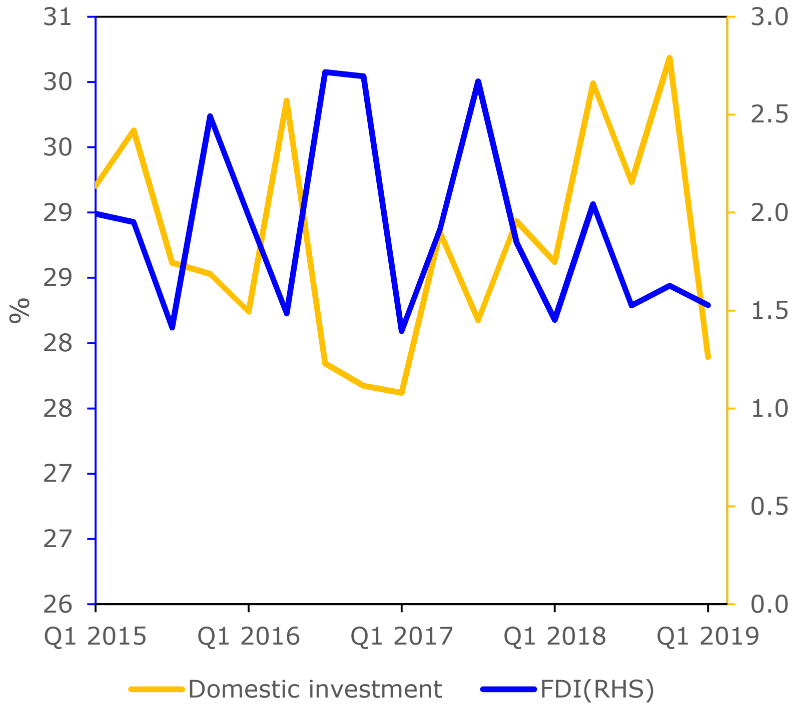
# The economy Sitharaman inherited

**Low inflation, but slow growth..**




- Growth slowed down rapidly in 2018-19
- Low inflation is due to an over-tight monetary policy and low commodity prices

**.....& Missing investments**




- In 2018-19, FDI inflows into India declined for the first time in the last six years
- GFCF fell sharply in Q1 2019

# The Budget focus: policy continuity

**Government refrains from providing fiscal stimulus to boost near-term growth**

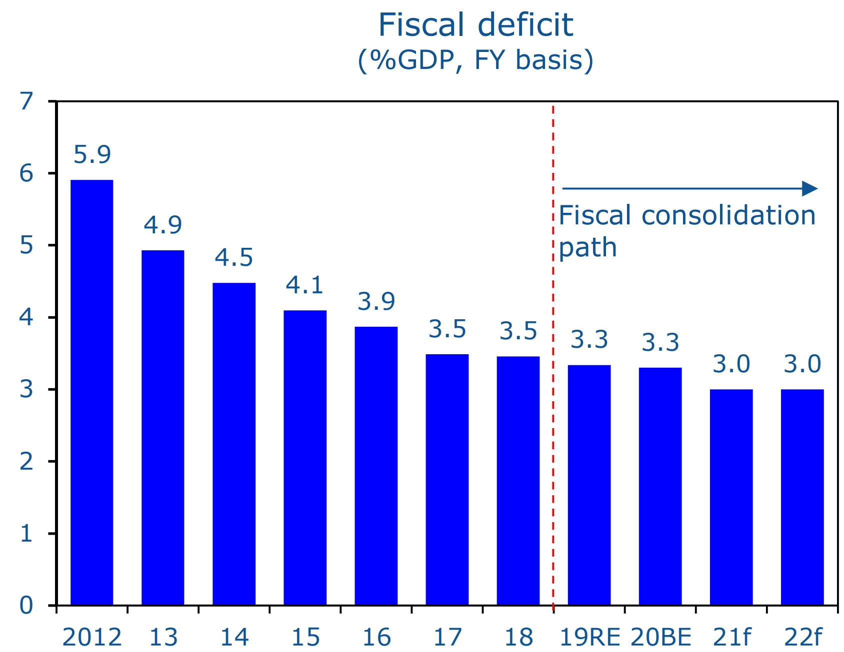
| Focus remains on policy continuity- no "big bang" reforms | Government remains committed to revitalising the financial sector | "Make in India" remains a key objective of the government | Attempt to move away from a consumption driven growth model to an investment driven one |
|---|---|---|---|
| Emphasis on boosting infrastructure spending, incentivising affordable housing, rural and agriculture sector reforms etc. | Providing for public sector banks' recapitalisation and supporting financially sound Non-Banking Financial Companies (NBFCs) | Government has proposed a number of changes in basic customs duties to encourage manufacturing in the country | Government recognizes the primary role of private sector investment- but no concrete plan as yet! Measures undertaken to encourage foreign investment participation. |

# Fiscal deficit target: a positive signal; but is it feasible?

**Is the fiscal deficit target feasible?**

- **Revenue collection assumption appear optimistic** at the moment
- **The Goods and Services Tax (GST) and income tax collection have been revised down** to more realistic levels- the revenue numbers still appear on the high side
- **Shortfalls are likely in excise, customs and non-tax** collection (disinvestments, dividends etc.)
- **Government spending may thus be scaled down** later or readjusted to meet the deficit targets!

**Minister Sitharaman positively surprised markets by narrowing the FY2019-20 fiscal deficit target to 3.3% of GDP**

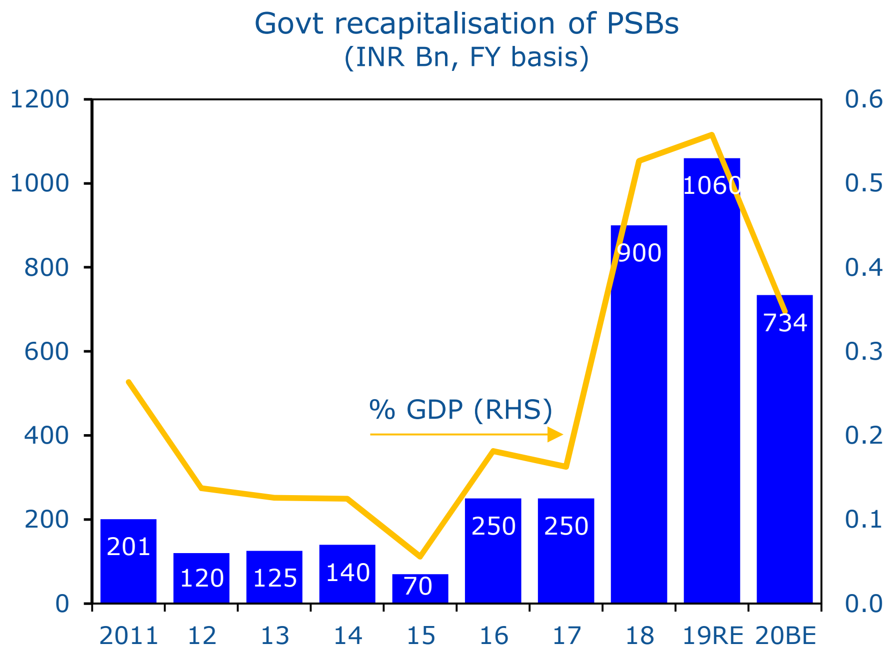


# Revitalising the financial sector remains a priority

## Rising infusions of funds in PSUs

- **Government has announced recapitalisation** of INR 734bn for public-sector banks(PSBs) in FY2019-20
- **A one-time government guarantee** for the purchase of high-rated assets of financially sound NBFCs
- **Enhancing the RBI's regulatory powers over shadow banks**
- **Transfer of regulation of Housing Finance Companies**

**Recapitalisation bill since FY2017-18 has been higher than in the first 45 years**



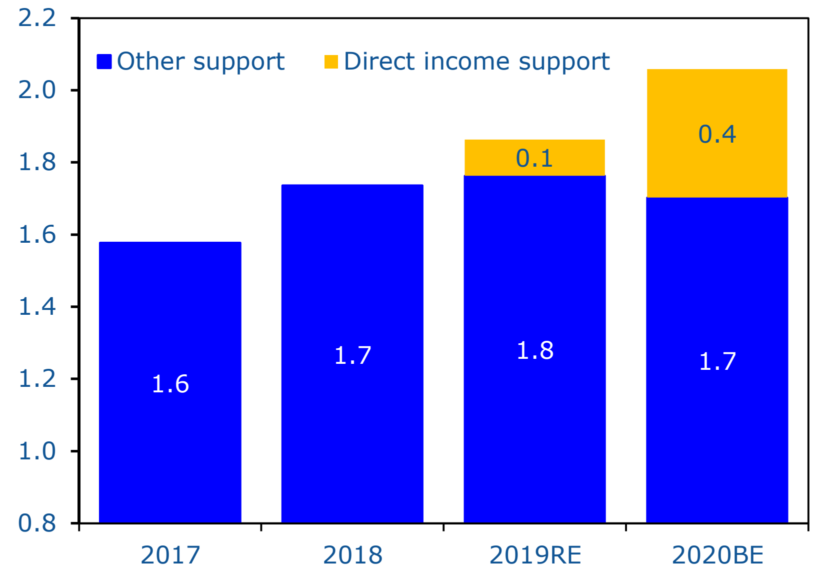
# Government emphasises its commitment to economic & social development of the rural sector

## Direct income support for rural India

- **Increasing rural spending by 22%** under various central government schemes to INR4.3tn (~€55.9bn)
- **The outlay for the "PM-KISAN" (farm income support) scheme is INR750bn (~€9.75bn)-** same as in the FY2019-20 interim budget
- **Government is seeking to provide water to all rural households** under 'Har Ghar Jal' scheme by 2024
- **Housing for all by 2022: 19.5mn houses are to be provided** to eligible beneficiary with facilities like toilet and LPG connection

## Rural direct cash transfers could have a positive impact on consumption

A thrust on rural spending
(% GDP, FY basis)



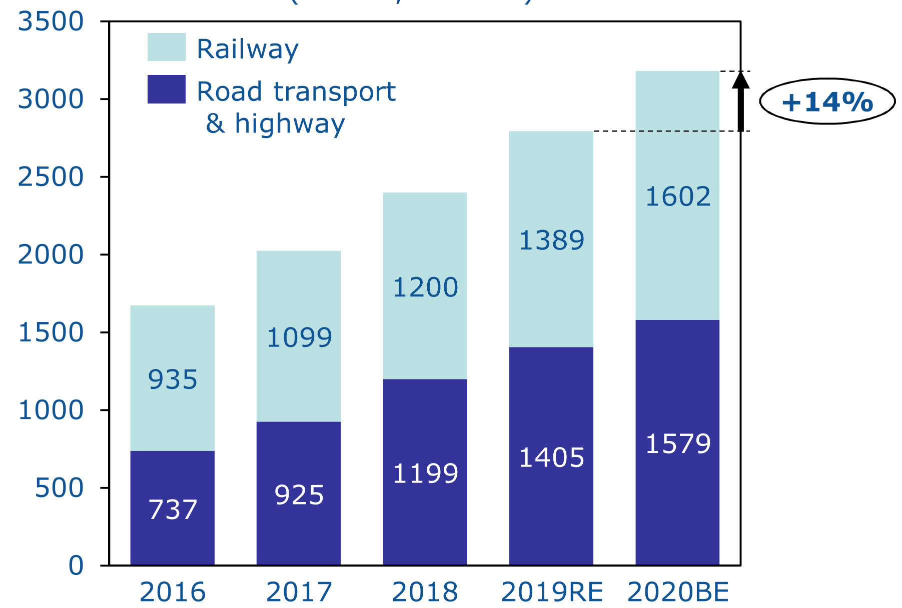
# Focus on public infrastructure investments is maintained

**Continued focus on road and railways**

- **Railway, Road ministries have received the bulk of the increased allocation** (these two constitute 30% of total infrastructure investment in India in FY 2018)
- **Proposal to use PPP to unleash faster development and completion of railway infrastructure,** which would need an investment of INR 50tn between 2018 and 2030.
- **Dedication of INR 803bn** to building 125,000 km of roads in the next 5 years
- **"One Nation, One Grid"** for power availability to states at affordable rates.

**The focus on public infrastructure investments is maintained with total public infra capex at 2.3% of GDP in FY 2020**

Spends on rail and road up 14%
(INR Bn, FY basis)

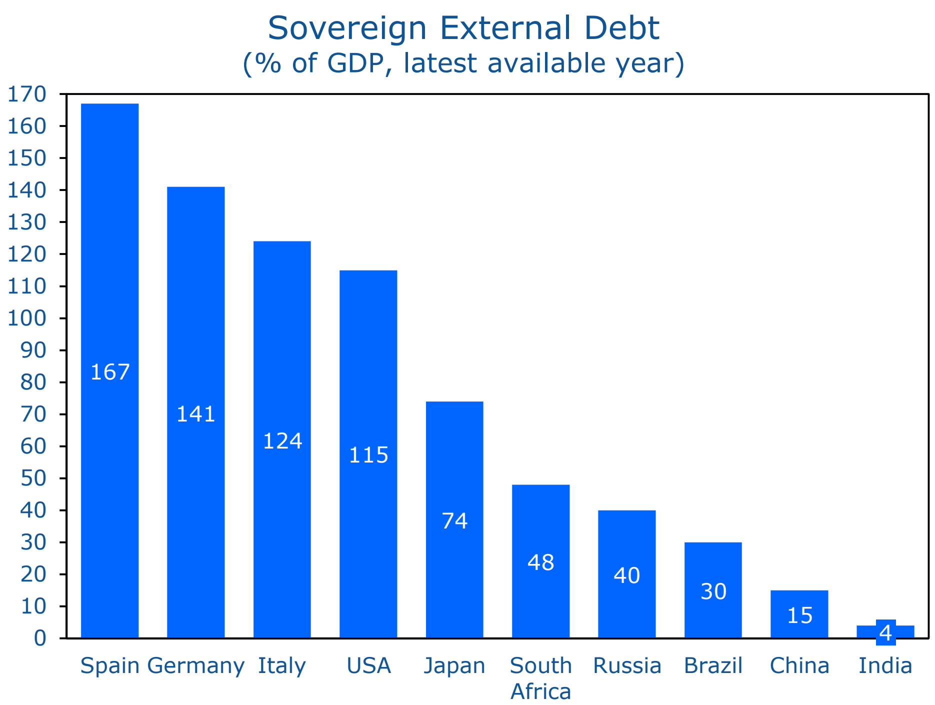


# Encouraging foreign investor participation

## The Case for Tapping Foreign Saving

- **Further relaxation of some FDI regulations-** opening up of FDI in aviation, media and insurance sectors.
- **100% FDI is now to be permitted for insurance intermediaries.**
- **Easing of local sourcing norms for FDI in single brand retail (details awaited)**
- **Increase participation of FPIs** in real estate investment trusts and infrastructure investment trusts**.**
- **Sovereign debt to be raised externally** for the first time, and government has outlined its aim to deepen corporate bond markets

**Sovereign external debt to GDP ratio shows that India is at a significantly comfortable position**



# Other announcements

- **Corporate Tax:** The government retained the basic corporate tax rate (for larger companies) at 30%. The government did extend the scope of the lower corporate tax rate of 25% to companies with a turnover of up to INR4 bn (~€0.5bn) from INR2.5 bn (~€0.3bn) earlier.

- **Customs Duty:** Customs duty on gold and other precious metals from 10% to 12.5% has been proposed. Basic customs duty on certain items to be increased to promote Make In India.

- **Special duty:** Special additional duty and road and infrastructure cess on diesel and gasoline hiked by INR 2/L

- **Additional tax:** Tax deducted at source (TDS) of 2% on cash withdrawal exceeding INR 10mn in a year from a bank account to disincentivise use of cash

- **Labour Laws:** Rationalising of labour laws into 4 labour codes proposed

# Sectoral implications for the EU (1)

| Sector | Budget announcement |
|---|---|
| Automobile | • An increase in the customs duty on certain auto parts such as rear-view mirrors, oil filters, air filters, horns, etc. – based on initial reactions of EU businesses, the impact of these increases appears rather limited<br><br>• Customs duty has also been increased from 25% to 30% (HS code 8702, 8704), on Completely Built Units (CBU) and from 10% to 15% on chassis fitted with engines<br><br>• The GST rate on Electric Vehicles will be reduced from 12% to 5%.<br><br>• Further there will be an exemption from customs duty on parts for the exclusive use in electric vehicles (includes components such as e-drive assembly, on-board charger, e-compressor and a charging gun) |
| Steel | • Customs duty on stainless steel has been increased from 5% to 7.5%. |

# Sectoral implications for the EU (2)

| Sector | Budget announcement |
|---|---|
| ICT | • Customs duty hike on optical fibres from 10% to 15 %. Customs duties have also been increased on digital video recorders, network video recorders, CCTV and IP cameras from 15% to 20%.<br><br>• While the increase in duties on optical fibres will have an impact on the telecom industries, duties on DVR, NVR, CCTV and IP Cameras do not concern the telecom industry.<br><br>• Duties have been reduced from applicable rate to zero on Populated PCBA, Camera modules of cellular mobile phones, Charger/Adapter of cellular mobile phones, Lithium Ion Cell, Display Module, Set Top Box and Compact Camera Module (could be seen as an incentive to increase domestic manufacturing of mobile phones) |
| Leather goods | • Export duty has been reduced from 15% to NIL on EI tanned leather , while export duty has been reduced from 60% to 40% on hides, skins and leather, tanned and untanned, all sorts<br><br>• Positive development both for the domestic leather industry as well as the EU leather industry |

# Thank you

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