India’s fiscal deficit for FY20 is expected at 3.8% of GDP (but excluding AGR dues, that could change the entire maths!) on the back of reduced revenue receipts and low GDP growth. However, this assumes a Rs 2 lakh crore expenditure compression that we believe must be strictly avoided at any cost if we envision a growth recovery. Hence for us, we will be glad if the expenditure cut is restricted to not more than Rs 1.5 lakh crore and that could push fiscal deficit to 4% of GDP in current fiscal (Rs 1 lakh crore for fiscal deficit of 4.3% of GDP). For next year fiscal deficit is projected at 3.8% of GDP. Again, we should not strictly target fiscal deficit at 3.5-3.6% levels for FY21, as such number would imply a lower amount of absolute fiscal deficit for FY21 that would again be non-transparent and non-credible to markets! Net borrowing and gross market borrowing for FY21 are expected to be around Rs 5.5 lakh crore and Rs 7.85 lakh crore respectively.

If more shifts happen in the run up to budget, gross market borrowing can reduce further. We propose a uniform fiscal consolidation path beginning FY22 that would reduce fiscal deficit by 20 bps every year till FY25. There is always the option in the interregnum of undershooting our deficit target as growth comes back to the system and this would be a market delight.

For Agriculture, the Government must take advantage of 92% digitization of land records and ensure that the PM KISAN scheme reaches all the 14.6 crore farmers. Simultaneously, the Government could provide a glass of milk in mid-day meal income for 100 million children by engaging 16 million daily farmers with additional income and ensure a Poushkt Bharat. Finally, the Government must ensure that tenant farmers are registered with a tenancy certificate so that they can also access the formal sources of money.

For NBFCs, RBI could seriously think of being the lender of last resort by providing liquidity against assets of NBFCs. A formal arrange ment could be made with Government of India of adjusting any haircut in the process with dividend transfers. Secondly, there could be deferment of principal repayments by systematically Important 50 NBFCs and HFCs for a specified period. This would be adequate to reinstate cash flows and ensure PM’s vision of Housing for All by 2022.

There are around 41 million Senior Citizens term deposits accounts in the country with total deposit of Rs 14 lakh crores / 7% of India’s GDP. The average deposit size per account is around Rs 3.3 lakh and interest income from such deposits forms 5.5% of Private Final Consumption Expenditure in FY19. It is imperative that Government exempts such interest income from taxes / or increase the threshold limit.

For MSME sector, the immediate requirement is simplification of GST returns.

For the Salaried Class, it might be a myth of not proving tax relief to 4% of people paying taxes since they contribute a significant part to overall consumption and in FY19 overall their gross taxable income is estimated at Rs 46 lakh crore, 41% of the overall private final consumption expenditure. It might also be a better idea to incentivise savings for the Salaried Class with hike in Section 80C that could generate at least 5 trillion of savings on retirement corpus than revenue foregone by the Government!

Overall, we also expect the Budget to provide a roadmap for aggressive monetisation of assets and ensure an end to amount of fund stuck in litigation. Our estimates suggest that the total stock of such Government assets that could be monetised could be at least Rs 28 lakh crore or 15% of GDP! Additionally, it is now high time that the rules across Income Taxes and regulators are streamlined that has resulted in spiraling of litigation cases. For example, the Income-tax Act (Rule 6EA) continues to recognize bad and doubtful debts on the basis of 6-months overdue delinquency norms. However, the RBI guidelines provide for a period of 90 days of overdue delinquency norms to recognise bad and doubtful debts.

Meanwhile, there seems to be renewed policy uncertainty in telecom sector after Supreme Court judgement. This means that around Rs 92,473 crores will have to paid to the Government within 90 days by 2 largest players. This could however result in significant financial market disruptions if any of the telecom players makes a decision to discontinue. This could then clearly act as a drag on consumption growth that was supposed to see a reversal in FY21.

**UNION BUDGET 2020-21**

- The Union Budget 2020-21 will be presented in difficult and challenging environment. The global growth is not so encouraging and India’s GDP growth is expected to grow by merely 4.6% in FY20 (SBI estimates).

**ASSESSMENT OF CURRENT FISCAL SITUATION**

- The Government has estimated that the total revenue foregone for the reduction in corporate tax rate and other relief estimated at Rs 1.45 lakh crore. The slowdown in economy will further reduce the corporate tax collection thereby leading to a shortfall in corporate tax of around Rs 2 lakh crore. The personal income tax also will have a shortfall to the tune of Rs 0.88 lakh crore. Furthermore, GST collections till December are not very promising and it is expected that around Rs 85,000 crore will be the overall revenue loss to the Centre.

- Excise and Custom duty in Apr-Nov’19 have grown negatively as compared to Apr-Nov’18. Thus these segments could also see revenue shortfall. Also, disinvestment receipts will not meet the budgeted target of Rs 10,5000. Considering the revenue surplus of Rs 10,000 crore or other relief estimated at Rs 1.45 lakh crore. The slowdown in economy will further reduce the corporate tax collection thereby leading to a shortfall in corporate tax of around Rs 2 lakh crore. The personal income tax also will have a shortfall to the tune of Rs 0.88 lakh crore. Furthermore, GST collections till December are not very promising and it is expected that around Rs 85,000 crore will be the overall revenue loss to the Centre.

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**BUDGET 2020-21: SBI PROJECTIONS**

- Given the increased growth concerns that the country is facing, and given that India has embarked on a new indirect tax regime and slowdown in direct taxes we believe the Government must chase growth.
The first issue in Budget is removing the complexities in GST. Among the major issues in GST are inadequate allocation of IGST to states and non-compliance of GSTR-1 and GSTR-3B. This mainly happens in case of Business to Consumers transactions as IGST is collected in the state producing the good while the input tax credit will be collected in the state where consumption takes place. As per the CAG report for the year ended Mar’18, up to 31% of the GSTR-3B filers didn’t file GSTR-1. Thus, better compliance and monitoring is possible if the GST filing is simplified for businesses and this will automatically lead to higher revenues.

We believe that Government can keep the fiscal deficit at 4% of GDP for which expenditure cut of Rs 1.5 lakh crore will be required, as the huge expenditure cut of Rs 2 lakh crore to achieve fiscal deficit of 3.8% of GDP could be significantly detrimental to future growth prospects. The value of the capital expenditure multiplier is always higher and expansion in capital expenditure would actually result in debt declining.

Market borrowing of current fiscal is budgeted at Rs 7.1 lakh crore. The Government has so far done only switch worth Rs 73,000 crore and no buy-back yet. Further switch of Rs 67,000 crore using FY20 securities has been announced recently. Switch is cash neutral in which the Government buys short term and lends long term, due to this the duration goes up and thus appetite of market players will decline. The net borrowing is Rs 4.7 lakh crore in FY20.

In FY21, assuming 10% GDP nominal GDP growth, net Government borrowings are likely to be around Rs 5.5 lakh crore if fiscal deficit is taken at estimated 3.8% of GDP. With repayment around Rs 2.35 lakh crore, gross borrowings of the Centre are expected to come at Rs 7.85 lakh crore. In addition, states are expected to borrow Rs 7 lakh crore, thus taking the total borrowing for FY21 to be closer Rs 15 lakh crore.

Higher fiscal deficit might push use the increase securities issued against the small savings. The Government has already raised Rs 1 lakh crore through small savings and will be able to meet their BE target of Rs 1.30 lakh crore. In FY21 again it might increase further to Rs 1.5 lakh crore. This increased reliance on small savings in turn would make it difficult for the Government to cut small savings interest rate and thus bank deposit rates are unlikely to witness a material decline.

FISCAL POLICY SUGGESTIONS

The Government should clearly explain the way of growth. It could decide to keep the fiscal deficit at 4.0% for this year and next year and go down slowly post FY21 as growth comes back to system. Otherwise, it can choose to pursue fiscal consolidation, but keep its off-balance sheet growing. Here it’s not clear how much scope the Government has. For instance, FCI borrowings from NSSF (small savings) may already be more than Rs 2 trillion or 2% of GDP.

There is no harm, if we don’t reach 3% target in a hurry! By emphasizing that we will stick to the mandated fiscal target during a year when growth is a serious challenge makes us prone to non-transparent and non-credible fiscal rules that markets will not believe in.

Aggressive monetisation of Government assets: According to OECD statistics, in 2010 government financial assets had amounted to 33-43% of GDP in Eurozone countries like Greece, Ireland, Portugal, Spain, France, Germany and so on. In 2018, these countries have aggressively used such enormous wealth to their own advantage. There are various ways of doing this. An obvious one is the privatisation of some of the state’s assets, and using the proceeds to reduce the stock of government debt. Disposing government assets has no effect on the fiscal position and can also address liquidity problems. We did a dipstick analysis in the Indian context and found that for 212 CPSE/state government entities, the total stock of such wealth could be at least Rs 28 lakh crore or 15% of GDP. Interestingly, the government can even securitise such assets and use them to offer protection to bond holders or to guarantee the backstop for the financial sector in case it wants to avoid market volatility and does not want to dispose of public assets that are strategic in nature — such as telecom, energy and so on.

The Government should target higher fiscal deficit with explicit fiscal monetary coordination. Household leverage is at high levels. It is always a much better option to use fiscal policy because fiscal channel is more direct and quicker and also because Indian financial system may be in need of some serious repair to set right the plumbing. Till then the efficacy of easier monetary conditions is questionable.

Settle Tax litigations: As of March 2018, a total of Rs 7.8 lakh crore of tax revenue is under dispute and is pending before various tax appellate authorities i.e. the Commissioner of Income Tax (Appeals), Income Tax Appellate Tribunal, High Court and the Supreme Court of India. Some of these are because of non-synchronization in rules across regulators and needs to be changed.

For example, the Income-tax Act (Rule 66A) continues to recognize bad and doubtful debts on the basis of 6-months overdue delinquency norms. However, the RBI guidelines provide for a period of 90 days of overdue delinquency norms to recognize bad and doubtful debts.

Similarly, the Banks are eligible to avail deduction in respect of provision made for bad and doubtful debts as under: (A) 7.5% of total taxable income; and (B)10% of the aggregate average advances made by the rural branches of the bank. As Banks are bound to make provision for bad and doubtful debts in accordance with RBI guidelines (provision to be made depending on the classification of the debt and the period for which it is overdue). Bank should be ideally allowed deduction for full provision made for NPAs as per RBI Guidelines irrespective of any ceiling.

Memo:

1. Revenue Receipts
2. Total Receipts
3. Total Expenditure
4. Fiscal Deficit
5. Fiscal Deficit (% of GDP)

Market Borrowings (Rs lakh crore)

<table>
<thead>
<tr>
<th>Item</th>
<th>FY19 (Rs)</th>
<th>FY20 (BE)</th>
<th>FY21 (SBI)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Borrowing</td>
<td>5.7</td>
<td>7.1</td>
<td>7.85</td>
</tr>
<tr>
<td>Repayments</td>
<td>1.5</td>
<td>2.4</td>
<td>2.35</td>
</tr>
<tr>
<td>Net Borrowing</td>
<td>4.2</td>
<td>4.7</td>
<td>5.5</td>
</tr>
</tbody>
</table>

State

<table>
<thead>
<tr>
<th>Item</th>
<th>FY19 (Rs)</th>
<th>FY20 (BE)</th>
<th>FY21 (SBI)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Borrowing</td>
<td>5.4</td>
<td>6.3</td>
<td>7.0</td>
</tr>
<tr>
<td>Repayments</td>
<td>1.3</td>
<td>1.5</td>
<td>1.4</td>
</tr>
<tr>
<td>Net Borrowing</td>
<td>4.1</td>
<td>4.9</td>
<td>5.6</td>
</tr>
</tbody>
</table>

Proposed Fiscal Deficit Glide Path (% of GDP)

<table>
<thead>
<tr>
<th>Fiscal Deficit (Expected)</th>
<th>FY20</th>
<th>FY21</th>
<th>FY22</th>
<th>FY23</th>
<th>FY24</th>
<th>FY25</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decline</td>
<td>-</td>
<td>0.2%</td>
<td>0.2%</td>
<td>0.2%</td>
<td>0.2%</td>
<td>0.2%</td>
</tr>
</tbody>
</table>
MONETARY POLICY

- There is clamor for more rate cuts in the market. However, in the next three months inflation is expected to remain high, above 7% with annual average of 4.8% in FY20. Also, another point to be kept in mind is the household sector, whose leverage ratios are high just like other sectors is now deleveraging then rate cut is unlikely to work.
- The fall in the rate of interest would probably tend to stimulate consumption mainly through inflating capital values of the existing assets; feeling richer, the owners might consume more out of their income. This effect would be significant, most probably, only if the fall in the rate of interest were considerable.

POLICY UNCERTAINTY MUST BE REMOVED

- Currently, policy uncertainty surrounding spectrum auction, higher AGR issue increased the woes of the telecom sector. Even other sectors as real estate are reeling under pressure. Thus it is imperative that policies should be clear in the so that these sectors do not suffer.
- Meanwhile, the Supreme Court judgement on dismissing the review petition on AGR judgment could now result in big disruptions in telecom sector. This means that around Rs 92,473 crores will have to paid to the Government within 90 days by 2 largest players. This could result in job loss, less investments in India and financial market disruption if any of the telecom players makes a decision to discontinue.

SUGGESTIONS FOR SALARIED CLASS

1. **Personal Income tax rate cut vs. Exemptions**
   - **(a) Cut in Income Tax Rate:**
     - Analysts are contemplating that cutting personal income tax will not help in propelling economic growth as only 4% of the population pay taxes. However, they contribute a significant part to overall consumption and in FY19 overall estimated gross taxable income of this 4% population is Rs 46 lakh crore, which is 40.8% of the overall private final consumption expenditure. Hence it is inevitable to tweak both the slabs and rates to increase consumption, which is key to the growth.
     - We believe that in order to boost the consumption through increase in personal disposable income there is a need to change the tax rate in slab of Rs 5-10 lakh and more than Rs 10 lakh. For example, a 5% cut will impact around 30 million tax payers and cost Rs 75,000 crore to the exchequer.
   - **(b) Increase in 80C Tax Exemption Limits:**
     - Given the high cost of revenue loss because of tax rationalization, the alternative is to incentivize savings. When the Government had notified increase in PPF limit by Rs 50,000 to Rs 1,50,000 in Aug’14, its impact on household savings was enormous. During FY15 over FY14, Provident and Pension Funds increased by merely Rs 13,000 crore but during FY16 over FY15, it increased by more than Rs 1 lakh crore. We believe that an increase in PPF limit by Rs 1 lakh to Rs 2.5 lakh for individual households under 80C will lead to additional savings of more than Rs 2 lakhs compared to the revenue foregone of Rs 23,000 crore. Even we add up the extra interest burden of around Rs 17,000 crore (@ 8.5% on Rs 2 lakh crore), the total revenue foregone is only Rs 40,000 crore compared to Rs 2.5 lakh crore jump in savings (incentive saving multiplier is at least 5 times more!).
   - **(c) Increase in Home Loan Interest Deductions**
     - Government may also increase the exemption limit of interest payments under housing loan by Rs 1 lakh to Rs 3.0 lakh for existing home loan buyers. There are around 75 lakh home loan buyers in the country, so the increase in home loan interest deduction from Rs 2 lakh to Rs 3.0 lakh will benefit them. This will cost Government around Rs 15000 crore.

### Proposed Income Tax Rates

<table>
<thead>
<tr>
<th>Slab (Rs Lakh)</th>
<th>Proposed Tax Rate (%)</th>
<th>Current Slab (Rs Lakh)</th>
<th>Current Tax Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-2.5</td>
<td>No Tax</td>
<td>0-2.5</td>
<td>No Tax</td>
</tr>
<tr>
<td>2.5-5.0</td>
<td>5</td>
<td>2.5-5.0</td>
<td>5</td>
</tr>
<tr>
<td>5.0-10.0</td>
<td>20</td>
<td>5.0-10.0</td>
<td>15</td>
</tr>
<tr>
<td>10+</td>
<td>30</td>
<td>10+</td>
<td>25</td>
</tr>
</tbody>
</table>

**Impact on Revenue**

- Rs 75,000 crore

Source: SBI Research

### Various Options to Boost Consumption and Revenue Foregone

- **Income Tax rate cut**
  - Rs 75,000 crore
- **Increase in 80C Tax Exemption Limits by Rs 1 lakh to Rs 2.5 lakh**
  - Rs 40,000 crore
- **Increase in Home Loan Interest Deductions by Rs 1 lakh to Rs 3 lakh**
  - Rs 15,000 crore
- **Full tax rebate on Senior Citizens Savings Scheme**
  - Rs 3,000 crore

Source: SBI Research

### Estimation of Gross Taxable Income (FY19)

<table>
<thead>
<tr>
<th>Total Returns filed</th>
<th>in crore</th>
<th>6.65</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Taxable Income</td>
<td>in crore</td>
<td>4607057</td>
</tr>
<tr>
<td>of which in the range of, upto 2.5 lakhs</td>
<td>in crore</td>
<td>178712</td>
</tr>
<tr>
<td>2.5-5.0 lakhs</td>
<td>in crore</td>
<td>1320833</td>
</tr>
<tr>
<td>5-10 lakhs</td>
<td>in crore</td>
<td>1352800</td>
</tr>
<tr>
<td>Above 10 lakhs</td>
<td>in crore</td>
<td>1754712</td>
</tr>
<tr>
<td>Estimated income tax collection</td>
<td>in crore</td>
<td>575882</td>
</tr>
<tr>
<td>FY20 Budgeted Income tax collection</td>
<td>in crore</td>
<td>569000</td>
</tr>
</tbody>
</table>

Memo:

- Total PFCE: 11290029
- Taxable income as % of PFCE: 40.8%

Source: SBI Research

1. **(d) Full tax rebate on Senior Citizens Savings Scheme**

- Government has an excellent scheme for senior citizens. Under Senior Citizens Savings Scheme (SCSS), a senior citizen can deposit Rs 15 lakhs and the current interest rate is 8.6%. However, the interest on SCSS is fully taxable which is a major drawback of this scheme (the interest amount for Rs 1 lakh deposit for 5 years is around Rs 51,000 which is taxable). The Mar’18 outstanding under SCSS was Rs 38,662 crore. It will be fair if such amount is given full tax rebate as the revenue foregone by the Government could be only Rs 3092 crores, that will have the minimal impact on Government fiscal deficit.

2. **Digital India**

- India today has become digital colony of China & US. Our digital India programme is critically dependent on China for hardware and on the US for software. With ongoing trade wars, India must indigenize its digital economy. The Budget must provide a 5-year tax holiday to any Indian software company that develops an India search engine, or a social media platform or AI application to cater to specific India issues. The budget should envisage seamless listing of such companies on Indian stock exchanges.
**3. Agriculture**

Agriculture has been one of the focus areas of the NDA Government and various reforms were initiated. Despite these various efforts, Agri-GVA is declining in recent periods and the share of investment to Agri-GVA is also falling. In order to double farmers’ income by 2022, there is a need to make some structural changes in Agriculture starting from marketing to exports. Some suggestions are:

- **Expansion of PM-KISAN:** Currently Government is providing Rs 6000 per annum to around 8 crore small and marginal farmers out of total beneficiaries of 12.5 crore. It is quite puzzling that despite the fact that digitization of land records is almost complete (around 92%) why the PM-KISAN installment is given to half of the eligible beneficiaries.

- **Generate additional income for farmers.** Our estimate suggest that, if Government provide milk in Mid-day meals for 100 million children then it will create additional demand of 2.7 million tonnes over the existing production of 155.5 million tonnes per year. The cost to Government exchequer will be Rs 11,000 crore only per year. Further, this will provide additional income of at least Rs 7000 for 15.83 million farmers.

- **Credit to tenant farmers:** The increase in rural indebtedness is because around 70% of the farm land is being cultivated by tenant farmers in India and hence is not entitled to getting any benefit, as being not the owner of the land. Kerala is the only State that enacted the Money Lending Act protecting borrowers from usurious rates of interest that incidentally protected tenants from excesses in private debt, both Andhra Pradesh and Telangana have addressed this issue in two different ways. We are not sure what has happened to the suggestion of providing a tenancy certificate to tenant farmers as was promised in the Budget 2018. This should be addressed on a war footing. Further, direct cash transfer to tenant farmers following an affidavit of self-declared tenancy conditions and crops grown and insurance of the tenant farmers and their assets would be a much better option to free the tenant farmers from the clutches of money lenders. Additionally, NABARD can setup a fund for tenant farmers to refinance short-term credit, assist JLGs, SHGs, FPOs and pay crop insurance premium in case of natural calamity.

- **Enable Agri term Loans for investment purpose.**

- **Set up an Agri-marketing Reforms Council (AMRC) in lines with the GST Council.**

**4. NBFC**

- **NBFCs are important growth engines for Indian economy and it is imperative that we address the issues that the sector is currently facing.** The revival of NBFC is a two-step process, i.e., Short Term and Long Term. The recent measures announced by Regulators – RBI, SEBI, NHB are mostly for long term strengthening of NBFC Sector.

- The Government co-sponsored Real Estate Fund launched for last mile funding to stuck projects should co-lend with NBFCs for better underwriting such projects.

- Incentivizing NBFC maintaining healthy Capital Adequacy Ratio by categorizing them in various bands based on Capital Adequacy and permitting higher leverage to avoid ceiling of TOL/NOF restricting borrowing ability of the NBFC.

- Long term lending to meet mismatches – if possible aligning tenors with the residual tenor of underlying assets.

- Deferment of principal repayments by Systematically Important SO NBFCs and HFCs may be allowed. These NBFCs and HFCs may allow similar deferments to their clients. Since, interest would be paid during this period, lenders would not make a loss. This would be adequate to reinstate cash flows from stuck projects and ensure PM’s vision of Housing for All by 2022.

- Given the crisis of confidence in the financial markets it is imperative that central banks don’t forget their primary function of being the lender of the last resort. Alternatively, it is imperative that the RBI backstops against good quality collateral. They must be identified to ensure the stability of NBFCs so that they can meaningfully withstand any worsening of the situation, both in terms of access to liquidity and in terms of absorbing potential losses.

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