

The Great Indian Budget “Tamasha”

“*Tamasha*” is a Hindi word that can mean either a “grand show” or alternatively a “fuss” or a “commotion”.

Every year, on February 1st, the central government presents the Union Budget. It is just an account of the receipts and expenditure for the current year and the Budget for next year. Ceremoniously, market participants and the business world line up a plethora of sops and incentives that they desire from the Finance Minister. This year expectations centred on “fiscal compromise” (i.e. a higher fiscal deficit), either through measures to reignite demand (personal tax cuts) or higher spending.

Expectations failed with the BSE Sensex falling 1.8% (US\$) over the last two days, including a special session on Saturday.

Since the Budget is little more than a *tamasha* its relevance should recede from the capital market perspective going forward for two reasons.

- 1) Economic reforms are increasingly carried out any time of the year outside the Budget
- 2) Changes in Goods and Services Tax (GST) rates are no longer part of the Budget

In spite of this, we are impressed by some aspects, highlighted below.

Budget Assumptions

The assumption of a nominal GDP growth rate of 10% for FY20 in the Budget seems reasonable, considering a real GDP growth of ~6% and inflation at ~4%. Revenue receipts are expected to rise 9%, led by a rise of 9% in net tax revenues and telecom receipts from the sale of spectrum for 5G. Disinvestment receipts are expected to rise threefold to circa \$28bn, (FY20 run rate of \$9bn) garnered by the upcoming privatization of BPCL, Air India, Shipping Corporation, Container Corporation and the part sale of secondary stock in Life Insurance Company of India. On the expenditure side, the government has budgeted an 18% increase in capital expenditure (mainly roads and housing) which will continue to support growth. Revenue expenditure is set to rise by 12%.

No short term pump priming

Having slipped on the fiscal deficit front from a budgeted 3.3% of GDP and knowing in reality there is precious little wiggle room, the Finance Minister budgeted for a fiscal deficit of 3.5% in FY21. As has been the case since BJP came to power the government continues to focus on macro-economic stability, the key pillar for achieving long-term sustainable economic growth, and steering clear of short-term fixes, rightly so.

Unwillingness to provide stimulus also stems from the confidence the government appears to have in a gradual economic recovery. Much of the slowdown has been caused by structural but short term disruptive reforms aimed at resetting the Indian economy for the long haul. As the disruptive impact of these reforms wane and the benefits of looser liquidity emerge, we share the government's confidence in a gradual economic recovery over 2020, *ceteris paribus*.

Government focus

- 1) GST revenue collection
- 2) Low inflation
- 3) Developing a broader, stronger bond market

Further steps to encourage investment

- 1) 100% tax exemption for Sovereign Wealth Funds on income from investments in infrastructure
- 2) Increase in the Foreign Portfolio Investor (FPI) limit in corporate bonds to 15% from 9%
- 3) Lower corporate tax rate of 15% for new domestic companies in power generation
- 4) Full privatisation of IDBI, a public sector bank
- 5) Interestingly, further recapitalisation of public sector banks was missing, leaving them to raise capital from the markets where possible.

As is usual, markets will move on and the Budget will soon be forgotten. Indian equities have so far been reasonably resilient to the 2019-nCoV crisis which we hope will prove to be a short term phenomena.

It is business as usual at Ocean Dial, as we stay focused on bottom-up stock selection.

3rd February 2020

Ocean Dial Asset Management

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