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Indian Budget 2019: A Change from the Normal

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Summary

On 5 July 2019, India's Finance Minister Nirmala Sitharaman presented the first full Budget of the second term of the Narendra Modi government. There are several new ideas in the budget, especially for the financial sector and for new technology which are welcome. The concern is whether the old economy has received sufficient attention in the budget.

India's Finance Minister Nirmala Sitharaman presented the first budget of the newly-elected government in Parliament on 5 July 2019. Analysts and the media have been decoding the economic strategies and developmental goals that are imbedded in the budget numbers, and the initial consensus is one of cautious optimism.

There were several constraints facing the Finance Minister this time. She was India's first woman finance minister. She had a very short time after taking on her responsibilities to understand the complexities of the Indian economy and the issues at hand. There were indications that the economy was slowing down, and the consumer confidence as well as investment sentiments were low. The monsoon, which defines the survival, livelihood and prosperity of close to 400 million people, was, as yet, below normal, and likely to add to the existing distress of the farmers. Most importantly, the new government had been voted in with a huge mandate for the ruling Bharatiya Janata Party, and it was important that the election promises should be reflected in actionable policy and programmes. In particular, the promises to the farmers and small businesses, and the simplification of tax processes had to be incorporated into the budget.

There were other practical concerns as well. Revenue collections had been short of expectations, with the Goods and Services Tax collections flat over several months. The disinvestment of public sector undertakings had been possible only through the transfer of government holdings to other undertakings, not through raising capital in the market. Subsidies were increasing, resulting in a higher revenue deficit, and fiscal deficit was under pressure. The shortage of resources acted as a constraint against bold innovative measures.

Given the limitations, Sitharaman has attempted to adroitly address several of these concerns through some innovative measures. There have been several initiatives announced in the financial sector. The opening up foreign direct investment in the aviation and tourism sectors, integrating non-resident Indian and foreign institutional investor investments into India into a single stream, raising the float of listed companies from 25 per cent to 35 per cent by reducing promoter holdings, opening up and deepening bond markets, and supporting non-banking financial companies through a guarantee scheme up to ₹1 trillion (S$19.9 billion) are some of these which will help provide depth and momentum in the markets. There is a promise to recapitalise the public sector banks, with a large allocation for the purpose. Most importantly, for the very first time, there is an announcement that the government is prepared to access external bond markets for budgetary borrowings. This has never happened before, and the government has been always cautious about seeking overseas debt for its internal development, except with multilateral institutions or through project specific debt. This move reflects a confidence on maintaining the exchange rate and the ability to repay, which is a positive statement on the growth and stability of the economy.

There is a focus on technology and development. Large incentives in terms of funding as well as tax incentives for electric vehicles and renewable energy, a promise to bring in large foreign manufacturing facility through a transparent bidding mechanism in areas like semiconductor chip fabrication, solar panels manufacture and lithium battery storage devices are an attempt to leapfrog the economy into a new technological paradigm. This initiative is backed up by announcements of financial and technological assistance to new startups and small and medium enterprises (SMEs). These enterprises in India have been constrained for growth due to a large number of regulations, which act as a disincentive to growth. She announced that this will change so that micro, small and medium enterprises of today would move to being the large players of tomorrow. A large infrastructure programme for roads, airports, ports and railway was also announced.

There is focused attention to the poorer sections. There is an increase in the minimum support price for some crops, where market prices were causing farmer distress, a focus on providing drinking water to all by 2024, additional investment in rural infrastructure, renewed emphasis on health coverage and a new education initiative to take care of early learning problems.

While comprehensive in coverage, some doubts remain on the budget. There is little to address the problem of unemployment, which is looming large as a major economic issue. There is also not enough for the farmers and the rural sector, and there is no road map on how the distress in this sector will be addressed. There is also little for large industries, for labour reforms or on the ease of doing business. The English media and the business chambers appear a little disappointed with this. There is an expectation that private sector investment and public-private partnerships will provide investment momentum for the growth. However, in the absence of clear signals on reforms favouring these, it is difficult to visualise how it will happen.

There is also the uncertainty of global economic headwinds and a resource crunch at home. Even if half the promises made in the budget are realised, it would be a considerable achievement.

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