

## ECONOMY & GILT WATCH

### Union Budget 2020: Review

#### *Longest ever but short of expectations*

The Union Budget for FY 21 was set in dire economic backdrop of continued deceleration in growth, fragile investment & consumption demand and high unemployment. To say that expectations from this year's budget were high would be an understatement. Given the state of the economy and no signs of recovery seen whatsoever, there was considerable pressure on the FM to deliver the much needed booster shot to the ailing economy. However, the task as unenviable as it could be, was made difficult as faltering revenues limited the spending capacity of the government, forcing it to refrain from announcing any big bang measures and structural reforms for the economy. Instead, the FM chose to provide a modest stimulus through reduction in personal income tax rates, moderate increase in spending on rural and infrastructure sectors and some long overdue reforms such as abolishment of dividend distribution tax.

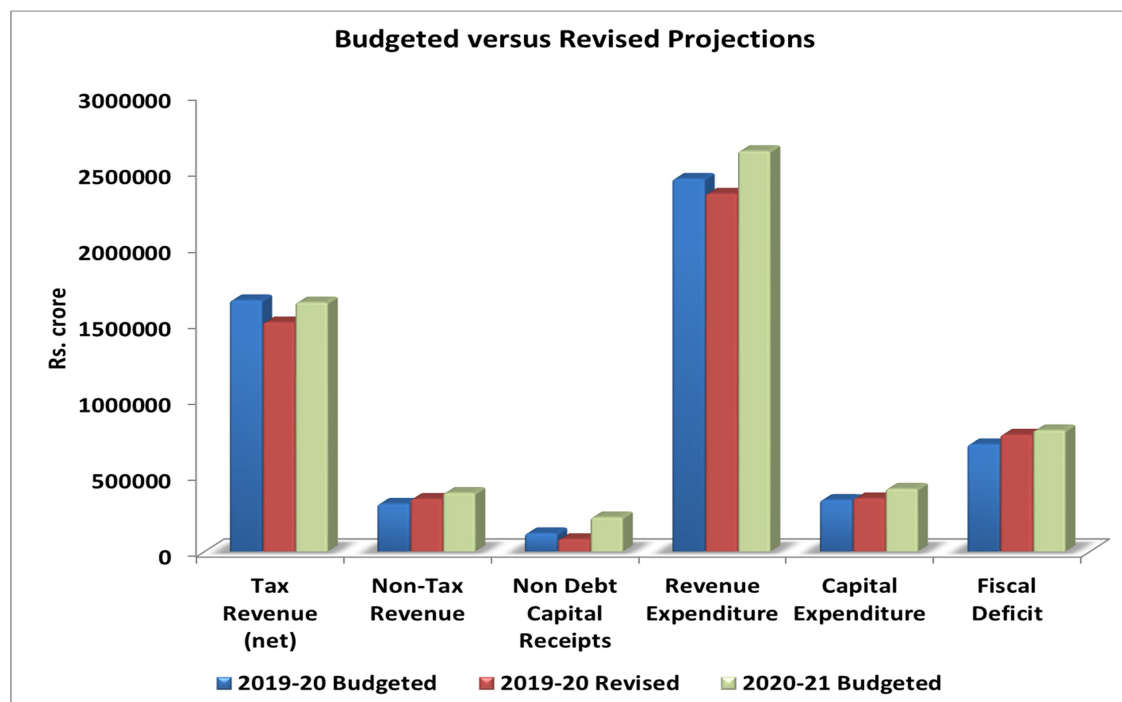
#### **Walking the fiscal tightrope**

As largely expected, government had to bite the fiscal bullet, deviating from the fiscal glide path in the current financial year, allowing a 50 bps slippage in the fiscal deficit to 3.8% vis-à-vis the initial target of 3.5% of the GDP. However, instead of funding additional spending, the deficit target was relaxed to compensate for less than expected revenue growth. The slippage was mainly on account of (i) nominal GDP growth being revised downwards to 7.5% as against expected growth of 12%, (ii) dismal growth in tax collections and (iii) poor progress in the disinvestment plan (Rs. 18,000 crore achieved vis a vis Rs. 1,05,000 crore target for FY21). The current year's revised fiscal deficit target still faces risks as 40% of the revised net tax revenue target will have to be met in the last quarter of the fiscal, which seems rather far-fetched in the current scenario. Additionally, the government is also targeting disinvestment proceeds of Rs. 65,000 crore in the current fiscal, out of which only Rs. 18,000 crore have been garnered so far. For FY 2020-21, the fiscal deficit is projected to revert back to 3.5%. The government has attempted to make realistic tax revenue projections (gross tax revenue projected to grow at 12% over the FY20 RE), but the calculations may go awry if we see the current year's tax revenue target not being realised. Government has also set an aggressive disinvestment target of Rs. 2,10,000 crore which will be taken with a pinch of salt, given the tardy manner in which disinvestment this year has progressed so far. Overall, the fiscal deficit scenario for the

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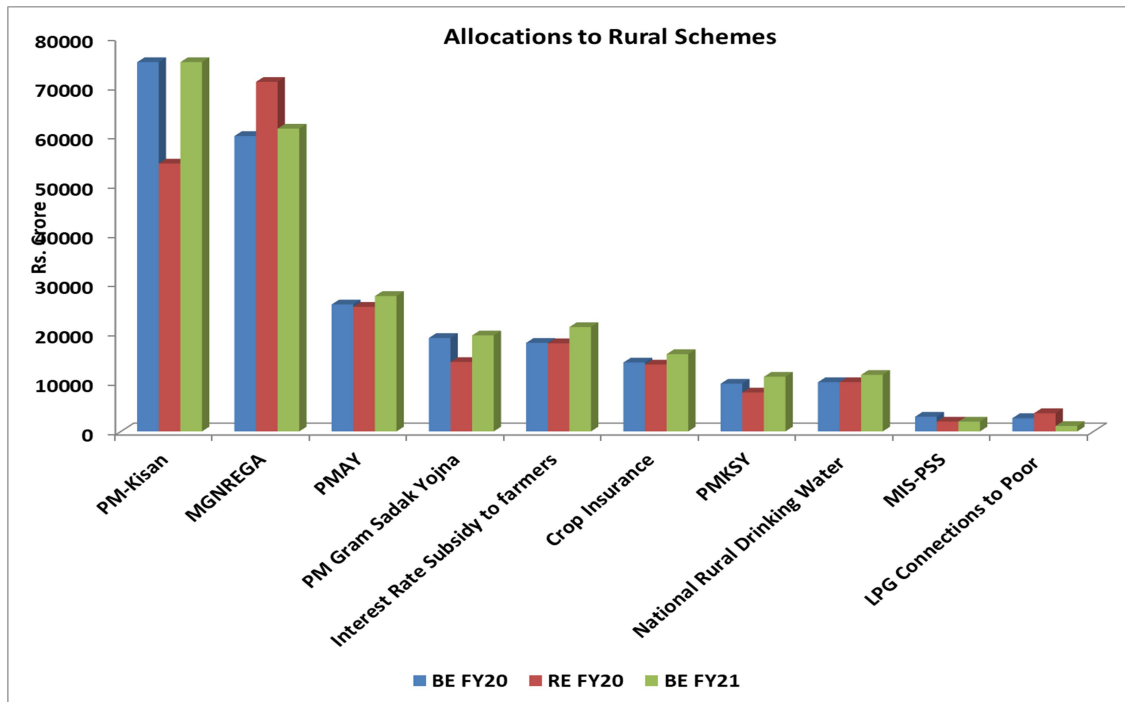
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next fiscal is also fraught with risk as the underlying assumptions of recovery in growth (10% nominal GDP growth projection for FY21), a sharp increase in non-tax revenue (which includes receipts of Rs. 1,33,000 crore from telecom players in form of license, spectrum fees and part of AGR dues) and the disinvestment target seems a bit optimistic.



### Tightfisted on Expenditure

On the expenditure side, the axe fell on the revenue side, with revenue expenditure (Rev-ex) being slashed by 4% as per RE for FY20 over the BE. On the other hand, capital expenditure (Cap-ex) was higher by around 3% (RE over BE for FY 20). For FY 2020-21, the Rev-ex and Cap-ex are estimated to grow by 12% and 18% respectively over the RE for FY20 while the total expenditure is estimated to grow by 13% (over RE) during the next fiscal (Rs. 30,42,230 crore). Though, the share of Cap-ex in total expenditure has risen moderately to 13.5% in FY21 vis-à-vis 12.9% in FY20, the same includes the impact of capital infusion in BSNL & MTNL to the tune of Rs. 20,400 crore and Rs. 20,000 crore allocation towards National infrastructure pipeline. On the Rev-ex front, the y-o-y growth projection may seem considerable on the surface, however, allocations to social sector schemes have remained largely unchanged from previous year's levels. The rural sector schemes allocations have been pegged at Rs. 3,76,600 crore (11% increase over RE FY20) largely buoyed by 38% growth in PM-Kisan allocation in FY21. The sharp surge in PM-Kisan allocation in FY 21 is however on account of the partial spend in the scheme (Rs. 54,370 crore as per RE FY20 vis-à-vis initial outlay of Rs. 75,000 crore) in the last fiscal. On the other hand, MGNREGA, which had seen higher demand for funds in the current fiscal (Rs. 71,002 crore RE as against initial outlay of Rs. 60,000 crore), largely owing to widespread rural distress, has surprisingly seen lower allocation of Rs. 61,500 crore (fall of 13% over RE FY20). The Rev-ex has also seen subsidies staying stagnant at Rs. 2,27,800 crore as against Rs. 2,27,300 crore as per RE for FY21.

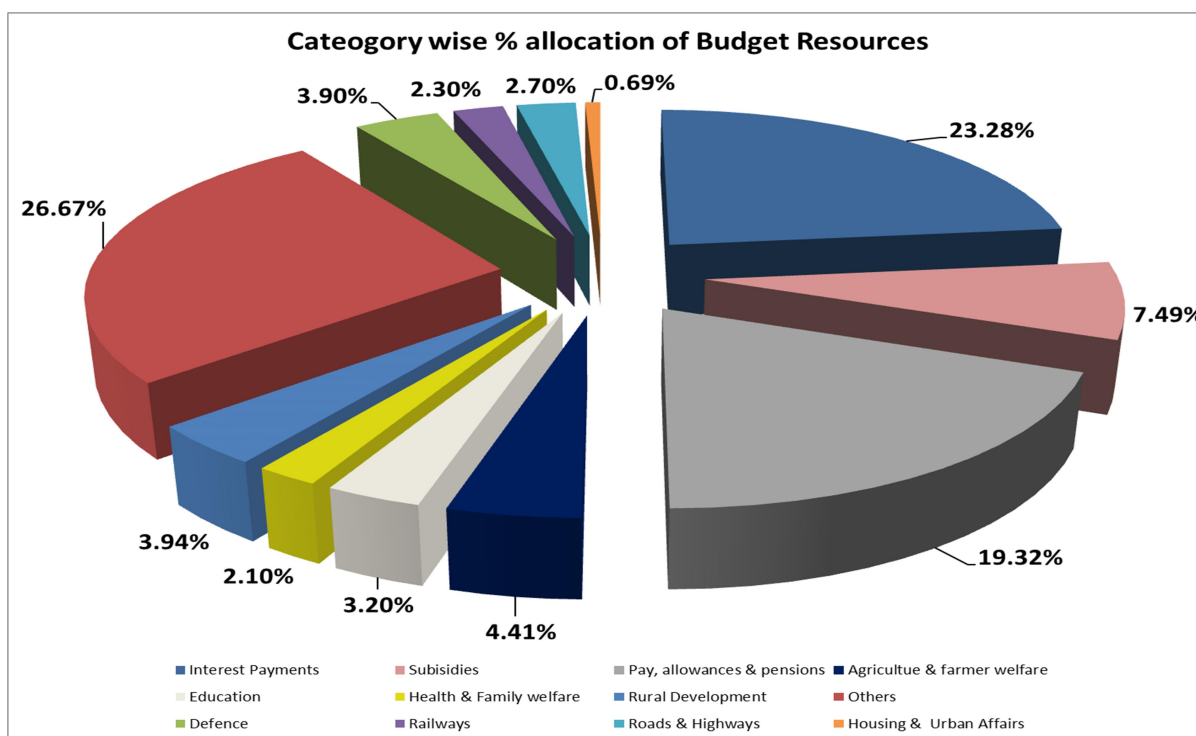


***Funding the Deficit***

Fears of additional borrowings in the current financial year have been taken care of as the deficit over shoot of Rs. 63,000 crore for FY 2019-20 will be met by resorting to borrowings through small savings. The borrowings through small savings now stand at Rs. 2,40,000 crore as against BE of Rs. 1,30,000 crore for FY 2019-20 (which is almost 31% of the overall deficit). For FY 2020-21, the fiscal deficit is pegged at Rs. 7,96,337 crore which would be financed by market borrowings of Rs. 5,35,870 crore (67% of FD) and borrowings through small savings at Rs. 2,40,000 crore (30% of FD).

***Mostly repetitive interspersed with some reforms***

The budget would be a disappointment for those clamouring for a fiscal stimulus as the government has clearly chosen fiscal prudence over fiscal pro-activeness. Nevertheless, there were some important reforms announced such as abolishing the DDT, an optional personal income tax scheme, increase in deposit insurance cover from Rs. 1 lakh to Rs. 5 lakh, higher FPI limits in corporate bond investment (from 9% to 15%) etc. Whether the budget delivers or remains a missed opportunity, will only be seen in the days to come as we see further developments in the economy.



3<sup>rd</sup> February 2020

**Budget Snapshot (Rs. Crore)**

Particulars	2019-20	2019-20	2020-21	%change BE21 over RE20
	Budgeted	Revised	Budgeted	
<b>Revenue Receipts</b>	1962761	1850100	2020926	9
Tax Revenue (net)	1649582	1504587	1635909	9
Non-Tax Revenue	313179	345513	385017	11
<b>Non Debt Capital Receipts</b>	119828	81604	224967	176
<b>TOTAL RECEIPTS</b>	<b>2082589</b>	<b>1931705</b>	<b>2245893</b>	<b>16</b>
<b>Revenue Expenditure</b>	2447780	2349645	2630145	12
<b>Capital Expenditure</b>	338569	348907	412085	18
<b>Total Expenditure</b>	<b>2786349</b>	<b>2698552</b>	<b>3042230</b>	<b>13</b>
<b>Fiscal Deficit</b>	<b>703760</b>	<b>766847</b>	<b>796337</b>	<b>4</b>
<b>FD IN %</b>	<b>3.3</b>	<b>3.8</b>	<b>3.5</b>	
<b>Revenue Deficit</b>	<b>485019</b>	<b>499545</b>	<b>609219</b>	<b>22</b>
<b>RD IN %</b>	<b>2.3</b>	<b>2.4</b>	<b>2.7</b>	
<b>GDP (Rs. Crore)</b>	<b>21100607</b>	<b>20442233</b>	<b>22489420</b>	
<b>Nominal GDP growth (%)</b>	<b>12.0</b>	<b>7.5</b>	<b>10.0</b>	

**Financing the Deficit**

S.No.	Source	Budgeted (2019-20)	Revised (2019-20)	Budgeted (2020-21)
1	External Finance	-2952	4933	4622
2	Domestic Finance	706713	761913	791715
a	Market Borrowings (incl. buyback & short term borrowing)	448122	498972	535870
b	Net Securities against small savings	130000	240000	240000
c	State Provident Fund	18000	18000	18000
d	Special Deposit	0	0	0
e	NSSF	0	0	0
	Saving Deposits & certificates	142658	191818	206618
	PPF	62337	84770	89319
	Investment in securities	-208528	-275353	-286577
	Income/Expenditure of NSSF	3533	-1234	-9359
f	Others	59532	4941	50849
g	Cash balance (decrease +/increase -)	51059	0	-53003
h	Investment (-) / Disinvestment(+) of Surplus Cash			
i	Ways & Means Advances			
3	Total Financing	703761	766846	796337
4	Fiscal Deficit	703760	766847	796337
5	Market borrowings as % of FD	64	65	67
6	Small savings borrowings as % of FD	18	31	30

3<sup>rd</sup> February 2020

## Fixed Income Outlook

### Fundamental View

The budget was awaited with bated breath by the bond markets with extreme negatives priced in, in the run up to the budget. As the budget came and also went by largely as a non-event with no untoward negative surprises thrown in, the markets have heaved a huge sigh of relief. If at all, there are few positive take away for the bond markets (no additional borrowings in current fiscal, further relaxation of FPI limits in corporate bonds etc). Having seen the budget and the global gloom over the last two weeks, we expect RBI to remain pro-active in supporting growth. We believe that RBI in its forthcoming meet on 6<sup>th</sup> February, will re assure the markets that RBI is firmly backing growth. The upside in yields from here on look limited and the continued spread of 125-150 bps over the repo rate makes a good case for holding the bonds and buying more at corrections. We expect the 10-year paper trade in the range of 6.45% to 6.58%.

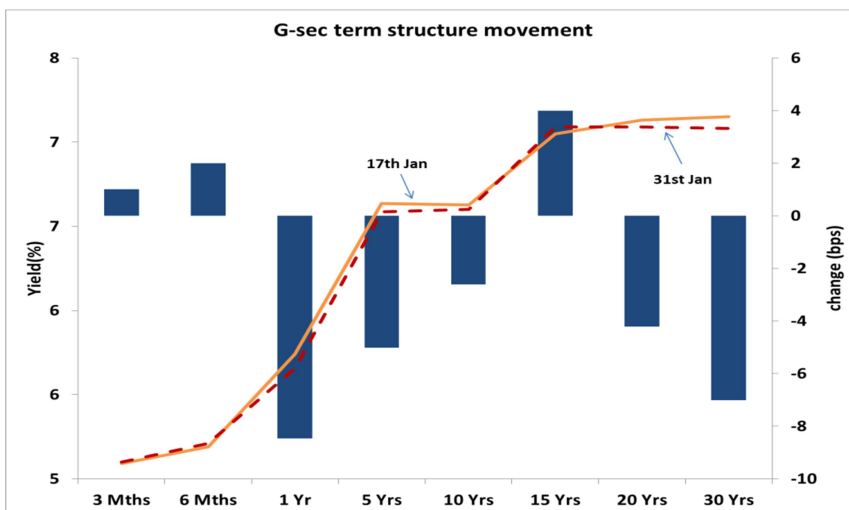
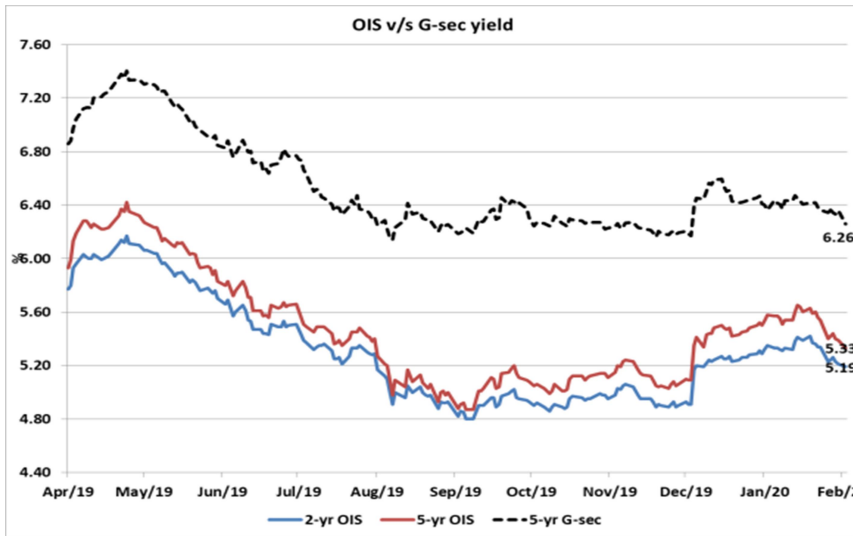
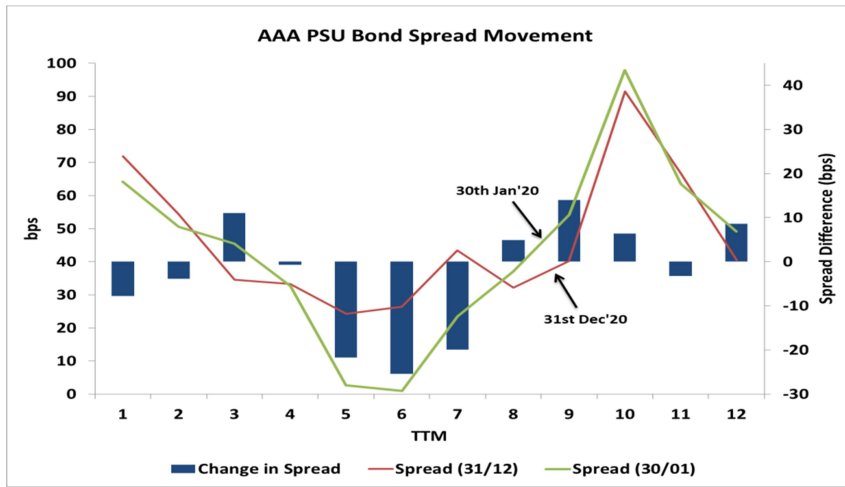
### Technical View

Last fortnight benchmark yield traded range bound between 6.65%/6.55% zone. However, it opened gap down on Monday (03.02.20), taking cues from Union Budget and global markets. Currently it is trading near to its crucial support level of 6.50-6.51% which also coincide with lower band of the Bollinger Band and rising trend line (as indicated in the chart). Momentum indicator RSI is placed at 41, near to its major support of 39-40. Going forward, closing below 6.48% could attract further weakness and may take benchmark yield below 6.40%. On higher side 6.56% will act as an important resistance zone from hereon.

Chart source: Tickerplant



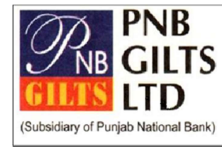
**SPREAD MONITOR**



*Host of bond positive news such increase in FPI limit on investment in corporate bonds and greater intent of the government towards inclusion of domestic bonds in global indices will keep up the demand for corporate bonds.*

*With allaying of fears of additional borrowings in the current year and government capping the fiscal deficit target for the next year, G-sec yields are expected to tread downwards. The G-sec OIS spread is expected to narrow going forward.*

3<sup>rd</sup> February 2020



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