MEDIA RELEASE | Reaction to the Union Budget 2020-21

M M Murugappan, Executive Chairman, Murugappa Group

An act of walking the tight rope

Chennai, 1st February 2020:

**Limited fiscal room constraining any outright fiscal stimulus** - While the Government is walking a tight rope with respect to fiscal deficit, especially due to corporate tax cuts (despite higher receipts from RBI), there was a case for a fiscal stimulus expected in the budget, as the RBI has called for in the recent policy statement. The Government acknowledged its fiscal challenges, resorting to the escape clause in the FRBM (pushing up the deficit to 3.8% in FY 20 & 3.5% in FY21) with total expenditure increase by 13% (higher increase in capex) resulting in incremental improvements across sectors.

**Holding on to the agenda of doubling farmers’ income** - While continuing to remain committed to the doubling of farmer’s income, the Government has laid out a longer term plan for the agricultural sector, detailing 16 broad initiatives that would help achieve Government’s objective. The Government’s move to make the sector market oriented through contract farming, land leases etc., provides a positive push to this sector. The Government’s recognition of importance of non-farm activities and their role in enhancing farmer’s income is a welcome move. However, the lower allocation for the MNREGA compared to the Revised Estimates may not be par for the course.

**Speedier debt recovery for NBFCs** - The change in SARFAESI norms for debt recovery for the NBFC sector could aid in improving recoveries and help ease some of the stress in this sector. With the recent challenges in the co-operative banking sector and increasing uncertainty amongst the depositor community, the Government’s move to increase deposit guarantee to Rs. 5 lakhs from Rs. 1 lakh will help restore some calm.

**Co-operative federalism** - The decision of the 15th finance commission to keep the net proceeds of the Union Government’s tax pool unchanged at 42% to the States bodes well with the Government’s agenda of cooperative federalism.

The changes made in personal income tax space may reduce tax burden of a large section of the taxpayers. However, the options need to be weighed against each other to understand the new scheme’s attractiveness.

Overall, having taken cognisance of the challenges in the economy, the Government has laid out its focus areas and policy direction which could help in navigating through these challenging times. However, as with any policy, execution is the true measure of success.