

iFAST Research Expectations from Budget 2020

In a tepid macro-economic environment, all eyes are on India's upcoming budget on February 1, 2020. The iFAST Financial India Research Desk (iFAST Research) believes that the following aspects will assume importance:

Banking

The possibility of recapitalising public banks is bleak since there is very little room for fresh capital infusion. There may be some clarity on provisions pertaining to recovery of dues by way of the National Company Law Tribunal (NCLT). Bringing liquidity back in the system, credit cycle normalisation and transmission of interest rate cuts will have to be taken care of as well.

Infrastructure Push

Projects to the tune of Rs 102 lakh crore have already been announced by the government in December 2019. A road map on the execution of this ambitious plan is expected to be laid out. Impetus is likely to be on sectors such as power, railways, urban facilities, education, health, rural electrification, affordable housing and real estate.

Divestment in Public Sector Enterprises

The government is taking several initiatives to revive the economy. However, due to reasons such as corporate tax cuts, low GST collections and numerous other relief packages for different sectors, fiscal slippage seems imminent this time around. By our estimation, the markets seem to be factoring in a fiscal deficit-to-GDP ratio 3.7-3.8 percent. To address the revenue shortfall, divestment/reduction of stake in government-controlled companies will be a priority area. Privatisation of such enterprises is another option under consideration.

Consumption

India is predominantly an agrarian country. Untimely rains in late 2019, low prices for output and liquidity challenges had a negative impact on rural incomes. Announcements in connection with minimum support prices (MSPs) and incentives/subsidies will be pivotal in bringing rural demand back on track. Reduction/revision of personal income tax slabs would also be on the agenda in a bid to increase disposable incomes.

Capital Market Reforms

To make the stock markets efficient, several initiatives have been undertaken by various shareholders. For instance, Bharat Bond ETFs have been introduced and EPFO proceeds are being invested in index funds. In due course, more structured products may be launched to promote participation. Possibly, some measures may be taken to tackle taxation on fronts such as FPI flows and share buybacks, among others.



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Foreign Direct Investment

FDI flows in India have been growing in recent years. To continue attracting foreign capital, steps may be taken to ensure ease of doing business. Moreover, existing FDI rules could be tweaked and investments may be allowed in new areas.