

BUCKS FOR THE BANKS:

The maiden budget of Nirmala Sitharaman has many interesting features, but it does not have a defining central theme. There were expectations of a big growth push through either tax cuts or large expenditure programmes even if it meant a rise in the fiscal deficit. But the Finance Minister has chosen to be fiscally conservative, opting to play the long-term game, though it could lead to pain in the short term. The only indulgence she has permitted herself is a big ₹ 70,000 crore capital infusion in banks that will, it is hoped, spur lending to growth sectors in the economy. Also, quite notably, the budget has sought to address the problems that have plagued the non-banking finance companies space over the last few months and the consequent credit freeze and loss of confidence in the market. Ms. Sitharaman has comprehensively addressed the important issues of liquidity, solvency and poor governance in the NBFC sector. She has made available a liquidity window of ₹ 1 lakh crore to public sector banks through the Reserve Bank of India to buy pooled assets of NBFCs and offered a one-time credit guarantee for first loss of up to 10%. To enable better supervision of the sector, housing finance companies, which have been the main villains of the piece, will come under the RBI's regulatory ambit. A long-standing demand of NBFCs for equitable treatment with banks in the matter of taxing interest receivable on bad loans has been conceded. They will not need to maintain a Debenture Redemption Reserve on public placements that was leading to locking-up of funds, which is their raw material for business. These are important reform measures for NBFCs. More interesting is the move towards reviving development financial institutions. The big problem faced by NBFC financing infrastructure is the lack of long term funding sources to match their lending tenure. This pushed them into borrowing short term funds to lend to long-term projects, leading to asset-liability mismatches. The proposal to set up a committee to study the issue, including the experience with development finance institutions, is welcome. There are several reform measures that have been announced, but the most interesting is the reiteration of the government's commitment to strategic disinvestment and the declaration that it is willing to allow its stake to fall below 51% in non-financial PSUs. Start-ups can heave a sigh of relief as the angel tax is practically off the table. The government seems to be moving towards a single identity card for citizens in the form of Aadhaar, which will now be interchangeable with the PAN card. Taxpayers who do not have a PAN card can file returns quoting their Aadhaar number, which effectively can be a substitute for PAN in all transactions. Another reform measure is the introduction of faceless e-assessment of tax returns taken up for scrutiny. This will eliminate the scope for rent-seeking by officers as there will be no interface between assessee and official. In fact, the assessee will not even know the identity of the officer scrutinising the return. This is an absolutely welcome measure but needs to be closely watched for implementation. The corporate sector has got a minor sop with the turnover limit for the 25% tax bracket being raised to ₹ 400 crore per annum from ₹ 250 crore. The expectation was that this would be extended to all companies irrespective of size. It appears that the government wants to wait for the finalisation of the Direct Taxes Code, which is being examined by a committee. Real estate companies may have reason to cheer as the generous tax concession for affordable housing may create demand, especially in the smaller metros. The 'nudge theory' of economist Richard Thaler, mentioned extensively in the Economic Survey 2018-19 presented in Parliament on Thursday, has been put to use by the Finance Minister to push forward two of this government's pet themes — increasing digitalisation of money and promoting electric mobility. On the first, there will now be a 2% tax deducted at source when withdrawals from bank accounts exceed ₹ 1 crore a year. This is a commendable measure, but it could lead to genuine problems for businesses such as construction and real estate that are forced to deal in cash for wage payments. Of course, the TDS can be set off against their overall tax liability. The second, and more interesting 'nudge', is towards electric vehicles where those taking loans to buy one will get a tax deduction of up to ₹ 1.5 lakh on the interest paid by them. But the fact is that there are not too many electric vehicles in the market now. And even for those that are there, the waiting period to deliver one is long. Besides, there is no ecosystem, such as charging points, even in the major cities. The government's hope seems to be that this incentive will create a market for e-vehicles that will then lead to the development of the ecosystem. The budget documents show that the government

has stuck to the glide path for fiscal deficit, which will be at 3.3% this fiscal. This is, however, based on exaggerated growth projections in tax revenues. The estimated total revenue receipts this fiscal is ₹ 19.62 lakh crore, which implies a 25.56% growth compared to the actual receipts of ₹ 15.63 lakh crore (as presented in the Economic Survey) in 2018-19. This is an extremely ambitious projection, especially given the ongoing slowdown in the economy. Of course, the Finance Minister would get a comfortable buffer if the Bimal Jalan committee that is going into the sharing of RBI's reserves with the government comes up with favourable recommendations. The government also appears to be sliding into a protectionist mode, going by the increase in customs duty on everything from cashew kernels to PVC, newsprint and even auto parts. While some of it may be well intentioned to promote domestic manufacturing, this sends out a retrograde signal on the reforms front.

<u>Words</u>	<u>Kind</u>	<u>Meaning</u>
Spur		boost, enhance, increase, uplift, encourage
Re-vitalise		reinvigorate, re-energize, boost, revivify
Maiden budget		first budget
Fiscal		budgetary, financial, economic
Conservative		traditional, orthodox, conventional
Indulgence		satisfaction, gratification, fulfilment
Infusion		filling, suffusion
Plague		afflict, bedevil, torment, trouble
Consequent		resulting, resultant, ensuing, following
Comprehensively		inclusively, completely, thoroughly
Liquidity		anything exchanged for cash
Solvency		financially sound, in the black
Ambit		range, extent, area, sphere
Equitable		fair, just, impartial, judicial
Taxing(adj)		demanding , difficult, exacting, challenging
Concede		admit, acknowledge, accept, allow
Redemption		exchange, cashing in conversion
Revive		get over, come round, resuscitate, reestablish
Reiterate		repeat, iterate, recapitulate
Strategic		planned, calculated, tactical, political, judicious
Substitute		surrogate, replacement, proxy
Reform		improve, ameliorate, refine, alter
Scrutiny		examination, inspection, perusal, investigation
Eliminate		remove, get rid of, put an end to
Assessee		one who deserves to pay taxes.
absolutely		completely, out right
Nudge		prod, push, encourage
Mobility		ability to move, movability, eloguence
Commendable		admirable, praiseworthy , creditable, laudable
Genuine		authentic, perfect, too good to be true.
Liability		accountability, responsibility, culpability.
Incentive		encouragement, persuasion, prodding
Glide		slide, slip, float
Exaggerated		overwritten, over ornate, ornate
Projections		prediction, prognosis, expectation
Come up with		produce a new idea
Retrograde		for the worse, regressive, negative, downhill.

Blue-sky Visions:

The ambitions of the Economic survey depend on the implementation of its ideas

The Economic Survey for 2018-19 reflects the views of its principal author, Chief Economic Adviser (CEA) Krishnamurthy Subramanian. And the CEA has made bold to use the new government's first economic assessment-cum-agenda setting exercise to posit a range of ideas that he attributes to "blue sky thinking". From an embrace of a "world that is in constant disequilibrium", and the need therefore to adapt to it, to the stress on drawing upon Richard Thaler's work in the behavioural economics of 'nudge' for addressing issues including gender equality, savings and tax compliance, the survey attempts to reset multiple paradigms. The broad goal is to help drive economic strategy to achieve sustained real GDP growth of 8% so as to enable fulfilment of the government's grand vision of making India a \$5 trillion economy by 2025. For that, the first task is to take stock of the economy's current state. The CEA is cautiously confident that the slump in investment, which he rightly identifies as the key driver of growth, jobs and demand, has bottomed out. Setting the huge electoral mandate for the government as an enabler that would "push the animal spirits of the economy", the survey projects real GDP growth to rebound to 7% in 2019-20. But the CEA doesn't shy away from flagging 'consumption' as being crucial in determining the growth trajectory in the current fiscal year, and in pointing out its vulnerability to the health of the monsoon dependent rural economy. With rainfall as on July 3 about 28% less than average and large parts of southern and western India in the grip of a crippling drought, clearly the circumspection appears well warranted. On the fiscal front, the survey is even less optimistic. It lists several challenges to achieving the fiscal deficit target of 3% of GDP by March 2021: the "apprehensions of slowing of growth" and the implications for revenue collections; the shortfall in GST collections and the imperative that it places on revenue buoyancy this year; the hunt for resources to fund the expanded PM-KISAN scheme, Ayushman Bharat and other government initiatives; and the impact on oil purchase prices due to the U.S. sanctions on import of crude from Iran. It is, however, on the policy prescriptions front that the CEA comes into his own. Central to the recommendations is the focus on triggering a self-sustaining "virtuous cycle" of savings, investment and exports. To achieve which, he suggests, presenting data as a 'public good', ensuring policy consistency and reducing the cost of capital. Micro, small and medium enterprises must be nourished, especially firms that are most likely to boost both job creation and productivity, and labour laws made flexible. Ultimately, it is the implementation that may well decide how "blue sky" these ideas are.

<u>Words</u>	<u>Kind</u>	<u>Meaning</u>
Ambition		determination, enterprise, initiative
Implementation		execution, application, put into practice
Assessment		evaluation, judgement, rating, appraisal
Agenda		list of item, schedule, programme
Attribute		ascribe, assign, accredit, associate with
Blue sky thinking		open minded thinking
Embrace (n)		hug, cuddle, gather/welcome
Nudge (n)		prod, encouragement, push
Compliance		agreement, assent, consent, complaisance
Paradigms		model, pattern, example
Sustained		continuous, ongoing, steady, perpetual
Cautiously		carefully, alert, watchfully

Slump	fall, drop, godown, sink, collapse
Bottom out	to reach a lowest/worst point
Mandate	order, command, decree, injunction
Spirits	mood, energy, verve
Rebound	bounce, spring back, ricochet, boomerang
Flag	weaken, tire, droup, ebb, wane, fade
Consumption	utilization, use, expanding, depletion
Trajectory	course, curved, path
Fiscal	financial
Vulnerability	weakness, endangered
Grip	grasp, cloth, hold, clasp
Crippling	disabled, paralysed, incapacitated
Circumspection	wisdom, cognition
Optimistic	positive, confident, hopeful, sanguine
Apprehension	worries, anxiety, concerns
Imperative	vitaly important, vital, crucial
Buoyancy	lightness, resilience of spirit, cheerfulness
Sanctions	punishment, restriction, hindrance
Presscriptions	precipitate, provoke, stir up
Virtuous	righteous, good, moral, ethical, upright
Boost	enhance, uplift, spur, encourage
Nourish	feed, provide for, sustain, maintain
Consumption	use, utilization, expending
Posit	postulate, advance, put forward