

Comment on Budget 2020 by Mr. Abheek Barua, Chief Economist, HDFC Bank

Mumbai, Feb 1, 2020: The Budget provides credible numbers in terms of the fiscal math, recognising the revenue shortfall faced this year. It uses up the 50bps point leeway that the FRBM act provides for both this and the next year which is a welcome step.

The budget commits to increasing the expenditure by 13% in 2020-21 with increased allocations for education, health and certain schemes in the agricultural sector. That said, this expenditure increase, coupled with the income tax cuts, does not seem to suggest a large fiscal stimulus that the current slowdown perhaps warranted. Of course, the fiscal space to do that was limited to begin with. The Fiscal Responsibility and Budgetary Management Act restrains the FM from deviating by more than 0.5 per cent of GDP from a glide path for the deficit of 3.3 per cent for 2019-20 and 3 per cent for the next.

Those who are disappointed with the absence of more overtures to the financial sector either in the form of more recapitalization resources for stressed public sector banks or a fiscal commitment to buy out the pile of toxic assets that continue to impede fund flow might draw some comfort from a measure that government will offer support by guaranteeing securities floated. While need to await the fine-print on how this will work and how quickly this will be implemented, this move might be helping in easing the logjam in the financial to some degree. Government guarantees could help cash-strapped NBFC borrow at lower rates. It could also enable the central bank to offer cash in exchange for these securities if it were to plump for some out of the box measures to attenuate risk aversion in the markets.

On a different note, the tax breaks offered to foreign investors and specifically those like sovereign wealth funds who are willing to place a long term bet on the economy acknowledge the fact that there is a fundamental mismatch between the supply of domestic savings and capital needs for accelerated growth. This along with the abolishment of DTT tax is likely to help attract foreign fund flows.

For the bond market, the borrowing numbers seem to be broadly in line with market expectations and are unlikely to put significant pressure on yields in the short-term.



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HDFC Bank Ltd.
HDFC Bank House,
Senapati Bapat Marg,
Lower Parel,
Mumbai - 400 013.
CIN: L65920MH1994PLC080618

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For media queries please contact:

Ravindran Subramanian

Vice President, Corporate Communication

HDFC Bank Ltd., Mumbai.

Tel: +91-22-6652 7128

Mobile: 9223306610

Ravindran.Subramanian@hdfcbank.com