

## Tax Alert | Delivering clarity

28 September 2019

### Sparkling Diwali: Government holds meetings with key stakeholders of public to boost economy

Finance Minister meets heads of private sector banks, financial institutions, Secretaries and financial advisors of key ministries

#### Background

To address the growth challenge, the government has been holding wide ranging stakeholder consultations and has taken several steps to provide boost to the economy.

The Finance Minister held a meeting with private sector banks and financial institutions in New Delhi on 26 September 2019, and with Secretaries and financial advisors of key selected ministries a day later, to review total capital expenditure (capex) by the ministries in Financial year (FY) 2019-20 and plan for future capex in current FY.

The key takeaways from the two meetings are as under:

#### Meeting with Private Sector Banks and Financial Institutions

The Finance Minister met with market intermediaries to hear their views on the economy.

#### Festive outreach program

- To take advantage of the festive season, a public outreach program is being organised, where all banks along with Microfinance Institutions (MFIs), Non-Banking Finance Companies (NBFCs) and Housing Finance Companies (HFCs) will participate. This will result in leveraging the last mile connectivity of MFIs, NBFCs and HFCs with banks' liquidity advantage.
- The first of such outreach camps was carried out for three days from 3 to 7 September 2019 across India.
- List of the districts having the outreach program camps will be put up on the Ministry of Finance website.
- The second phase will extend in periods till Diwali i.e. in October 2019.
- Private banks have been invited to join the banking outreach program.

#### Refinancing issues

- The Ministry has noted the issues raised by some of the MFIs and HFCs on the rate of refinancing, use of external benchmarking by SIDBI and NABARD while doing refinancing, etc., which would be looked into by the Ministry.

#### Liquidity

- The participating banks, NBFCs, mutual funds have conveyed that there is no liquidity problem. However, they have raised concerns that due to Reserve Bank of India (RBI) restrictions on co-origination, despite demand, the non-banking financial institutions face constraints while extending credit facilities.
- Most MFIs work in deep interiors of the country and in densely populated rural areas. There is unanimity that there is positive growth in that sector for the MFIs.

- In the past one year, it seems that small finance banks have been going on a smooth path; they have not had any friction or blip in the last one year.

### **Affordable Housing**

- There is a request that the limit for affordable housing may be increased from Rs.45 lakhs to Rs.50 lakhs.

### **Automobile sector**

- Private bankers and NBFCs have indicated that reduction in demand for commercial vehicles is seen as a cyclical problem and has happened before and should get over in next one or two quarters.
- Similarly passenger vehicle demand is largely driven by sentiments and probably the demand will resume in near future.
- The liquidity issue exists in wholesale financing and not in retail financing.

### **Use of TReDS**

- Many SMEs and MSMEs have registered on the TReDS (the electronic bill factoring Exchange) which has increased facilitation of financing of this sector.

### **Service sector**

- The service sector which contributes more than 50 percent to the GDP, is showing high appetite for credit.
- Simpler measures such as using salaries earned as a measure for credit assessment, understanding that they have more liquid assets as compared to immovable assets, etc. should lead to further offtake of credit by the service sector.

The press conference ended with the Finance Minister expressing anticipation of increased consumer demand during the festive season resulting in a growth in the economy.

### **Meeting with Secretaries and Financial Advisors of key selected Ministries**

The Finance Minister reviewed the position of capital expenditure with Secretaries and financial advisors of all major ministries having large outlays. The purpose of the meeting was to review capex and ensure that the government's capex is on track.

The Finance Minister asked ministries and PSUs to clear all non-litigation dues at the earliest to keep investment and consumption cycles active.

The key takeaways of the meetings are as under:

- Total budgeted expenditure of the central government for FY 2019-20 is Rs.27.86 lakh crore which is divided into capex of Rs.3.38 lakh crore (12.2%) and Revenue Expenditure (revex) of Rs. 24.27 lakh crore (87.8 percent).
- The ministries must make regular payments and clear dues before festive season to prompt the investment cycle.
- Some ministries have been granted additional grant-in-aid (GIA) of Rs. 2.07 lakh crore, thereby totalling capex to Rs.5.45 Lakh crore. Total capex till August under capital head has been reported at Rs.1.36 lakh crore (40.28 percent) and that under GIA has been reported at Rs.0.82 lakh crore (39.7 percent) totalling Rs.2.18 lakh crore (40 percent).
- Apart from Gross Budgetary Support (GBS), ministries have been sanctioned Rs. 0.57 lakh crore Extra Budgetary Resources (EBR), out of which Rs.0.46 lakh crore has been approved. EBR expenditure also adds to the overall capital expenditure of the government.

- The FM also directed Secretaries and financial advisors to closely monitor execution of capital works and ensure that payments are released on time. The target capex of Rs.5.45 lakh crore should be monitored on a monthly basis to ensure no slippages.
- For purchases made by the central government departments, total payment of Rs.6,533.61 crore has been released, while state governments have released payments of Rs.4,851 crore. Ministries/ Departments were advised to expeditiously clear payments since large number of vendors on government e-marketplace are MSMEs.
- Shri G C Murmu, Secretary (Expenditure) informed that Central Public Sector Enterprises (CPSEs) had released payment of Rs.20,157 crore in the last three months. He stated that the Department of Expenditure would constantly monitor the progress of large infrastructure projects for the ministries as well as for the CPSEs, and that further follow-up meetings would be held. He also informed that meetings with Ministries/Departments to assess RE for 2019-20 and the BE for 2020- 21 would be initiated from the middle of October 2019. Ministries/Departments were asked to make accurate assessment of resource requirements and make projections.

## **Comments**

- The Finance Minister has been conducting meeting with stakeholders from across sectors and understanding issues faced by them. This helps close co-ordination to reach resolution on the issues faced by the Indian economy which has been slow in recent quarters.
- In case the Ministry of Finance makes amendments to affordable housing norms, commensurate amendments will be required in the provisions of the Income-tax Act, 1961 which provide tax relief to:
  - individuals in terms of deduction for interest on loan taken for residential housing property in the category of affordable housing;
  - developers on account of deduction of income from affordable housing projects.
- Increase in money supply into the economy by increased spend by the government should accelerate public demand.

# Deloitte.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) for a more detailed description of DTTL and its member firms.

This material and the information contained herein prepared by Deloitte Touche Tohmatsu India LLP (DTTI LLP) is intended to provide general information on a particular subject or subjects and is not an exhaustive treatment of such subject(s). This material contains information sourced from third party sites (external sites).

DTTI LLP is not responsible for any loss whatsoever caused due to reliance placed on information sourced from such external sites. None of DTTI LLP, Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte Network") is, by means of this material, rendering professional advice or services. This information is not intended to be relied upon as the sole basis for any decision which may affect you or your business. Before making any decision or taking any action that might affect your personal finances or business, you should consult a qualified professional adviser.

No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this material.

©2019 Deloitte Touche Tohmatsu India LLP. Member of Deloitte Touche Tohmatsu Limited