Important Vocab For the Editorial

1. **spur** (verb) – stimulate, prompt, encourage/motivate.
2. **revitalise** (verb) – re-energize, strengthen, revive.
3. **defining** (adjective) – determining, deciding.
4. fiscal deficit (noun) – the difference between total expenditure and total income of the government.
5. **push through** (phrasal verb) – succeed in passing a law accepted by the people who oppose it.
6. fiscal conservative (noun) – one who favors a balanced budget, preferring spending cuts or tax increases to borrowing, and wants to decrease government size, and promote a free market.
7. **indulgence** (noun) – extravagance, luxury/comfort, extra.
8. capital **infusion** (noun) – introduction of additional funding from successful divisions of a business to the weak division which is is not doing well.
9. **plague** (verb) – afflict, torment, trouble.
10. credit freeze (noun) – a situation in which actions by a government force banks to stop lending money.
11. **comprehensively** (adverb) – completely, thoroughly, fully.
12. **liquidity** (noun) – a measure of activity (i.e. the ability to buy or sell easily) in a market.
13. **solvency** (noun) – a condition in which the financial difficulties of an individual or organisation are such it is able to pay its debts. (possession of excess assets than liabilities).
14. **window** (noun) – opportunity, chance, opening.
15. pooled assets (noun) – it is the grouping together of resources (assets, equipment, personnel, effort, etc.) for the purposes of maximizing advantage or minimizing risk.
16. **of a piece** (phrase) – similar, alike, the same.
17. **come under** (phrasal verb) – be subjected to.
18. **ambit** (noun) – scope, range, bounds.
19. **equitable** (adjective) – fair, reasonable, sensible.
20. sour/bad loans (noun) – non-performing assets (NPAs), stressed assets/loans; an account where principal and/or interest remains overdue for a period of time.
21. **concede** (verb) – admit, acknowledge, accept.
22. **debenture** (noun) – a long-term debt instrument (savings bond) issued by a company to borrow money that is paid back over a long period of time and at a fixed rate of interest.
23. **tenure** (noun) – term, period, time.
24. **mismatch** (noun) – discrepancy, inconsistency, contradiction
25. **reiteration** (noun) – the process of repeating something (some action) for clarity/emphasis.
26. **disinvestment** (noun) – the process of reducing capital investments.
27. **stake** (noun) – share.
28. angel tax (noun) – a tax that is levied on the funding received by startups from an external investor. The 30% tax is levied when startups receive angel funding at a valuation higher than its 'fair market value'.
29. off the table (phrase) – to be withdrawn and no longer available for consideration.
30. **faceless** (adjective) – anonymous, impersonal.
31. **rent-seeking** (noun) – a behavior which does not create economic gains for society, instead it helps a company/organisation/individual using their resources to get economic gain.

32. assessee (noun) – a person by whom any tax or any other sum of money is payable under the Income Tax Act (of India).
33. **scrutinise** (verb) – examine carefully, inspect; investigate.
34. **sop** (noun) – compromise, adjustment, modification.
35. nudge theory (noun) – a flexible and modern change-management concept for understanding of how people think, make decisions, and behave; it is a concept in behavioral science, political theory and behavioral economics which proposes positive reinforcement and indirect suggestions as ways to influence the behavior and decision making of groups or individuals.
36. put to use (phrase) – to use; to utilize; to apply.
37. **mobility** (noun) – adaptability, flexibility, adjustability.
38. **commendable** (adjective) – admirable, praiseworthy, laudable.
39. **set off** (phrasal verb) – cause, lead to, start/trigger.
40. **nudge** (noun) – encouragement, prompt, stimulus.
41. **ecosystem** (noun) – a set of interconnected products and services.
42. **incentive** (noun) – stimulus, impetus, boost.
43. **stick to** (phrasal verb) – abide by, adhere to, fulfil.
44. **glide path** (noun) – trajectory, approach; a series of actions taken to get the expected result.
45. **exaggerated** (adjective) – enlarged, overblown, magnified/overstated/inflated.
46. **imply** (verb) – say indirectly, suggest, hint.
47. **ambitious** (adjective) – difficult, exacting, formidable/challenging.
48. **slowdown** (noun) – economic decline, recession, slump/depression.
49. **buffer** (noun) – shield, screen, barrier/guard.
50. **come up with** (phrasal verb) – propose, put forward, suggest.
51. **slide** (verb) – fall, drop, decline.
52. **protectionist** (adjective) – relating to the use of tariff and non-tariff restrictions on imports to protect domestic producers from foreign competition.
53. **kernel** (noun) – seed, grain.
54. **send out** (phrasal verb) – produce, create, give out.
55. **retrograde** (adjective) – unprogressive, negative, reverse/regressive.

Union Budget 2019-20: Bucks for the banks

The Union Budget is hoping to spur the economy by revitalising the financial sector

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 in 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 could 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.