

India's budget: Aiming for a V-shaped recovery?

The Indian annual budget seems to be pursuing a v-shaped recovery but the mixed market reactions – a sell-off in the government bond market, depreciation of the Indian rupee, and a huge equity rally suggest investors aren't entirely convinced. And neither are we



Mumbai skyline

An exemplary show of policy support for the economy

Indian prime minister Narendra Modi's budget for the fiscal year 2021-22 is aiming for a strong v-shaped economic rebound next year to 11% GDP growth from a record -7.7% contraction in the current fiscal year – both the projections are a part of the government's annual Economic Survey for FY20-21.

Indeed, growth outweighs fiscal austerity. Though the measures would have gone some way in reviving investor confidence in the government's economic management after a spending surge and revenue shortfall widened the budget deficit and the public debt in the current fiscal year.

The budget contained significant surprises, especially on the fiscal deficit side. The finance minister

announced that the deficit as a proportion of GDP in the current fiscal year is estimated to swell to a record 9.5%, which was substantially more than our forecasts and also the broader consensus view of over 7.0% deficit.

In some display of fiscal tightening, the government is aiming to narrow the deficit down to 6.8% of GDP.

The mixed market reactions to the budget announcement – a sell-off in the government bond market, depreciation of the Indian rupee, and a huge equity rally suggests investors aren't quite convinced either

That said, the INR 34.8 trillion spending budget for the next fiscal year is little changed from this year.

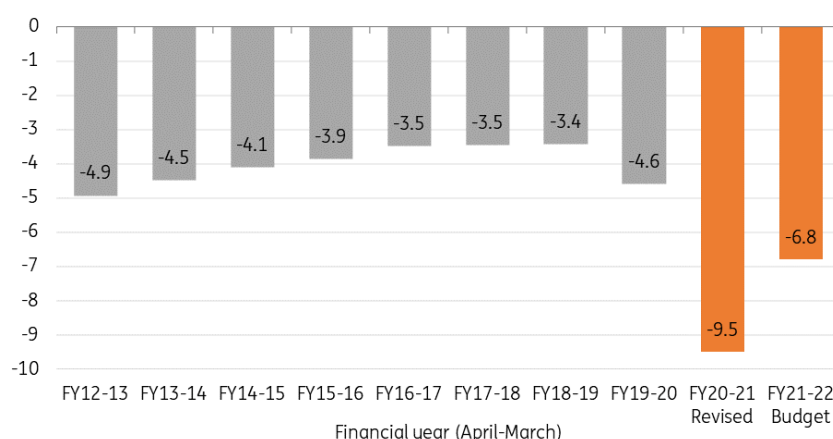
This suggests all the hopes of trimming the deficit below 7% of GDP rest on recouping revenue losses suffered in the current year and more, which in turn depends on the economy achieving double-digit growth. We are sceptical of this and we're not alone. The mixed market reactions to the budget announcement – a sell-off in the government bond market, depreciation of the Indian rupee, and a huge equity rally suggests investors aren't quite convinced either.

The current revenue receipts are projected to grow by 15% in the next fiscal year. This is slightly faster than 13.9% of nominal GDP growth underlined by the official budget projections, which appears to be a bold assumption.

Moreover, the economy isn't out of the woods yet. The pandemic may be under control currently with the authorities launching a massive vaccination driver, but the risk of the virus resurfacing remains. In the event, GDP growth falls short of the official target, so would the revenue. Leaving alone the retrograding effects of new revenue generations measures.

As such, extremely weak public finances will continue to be a key overhang on markets well into 2022, probably even beyond.

Fiscal deficit as proportion of GDP (%)



Source: CEIC, Indian Ministry of Finance, ING Bank

India's fiscal year runs from 1 April to 31 March.

Key budget assumptions

With a little-changed spending programme, it will take higher revenue to trim down the fiscal deficit.

- FY20-21 budget deficit of 9.5% of GDP - the highest since 1987 (consensus 7.3%).
- FY21-22 deficit programmed at 6.8% (consensus 5.5%).
- FY21-22 total expenditure at INR 34.8 trillion - little changed from the current fiscal year.
- FY21-22 development spending of INR 5.54 trillion, up 26% from revised estimate for FY20-21. This with little-changed total spending implies a significant cut to current spending ahead.
- FY21-22 divestment revenue of INR 1.75 trillion. These targets have hardly been met in the past.
- Additional market borrowing of INR 800 billion in FY20-21 (in the remaining two months of the financial year), on top of INR 12 trillion earlier plan.
- Borrowing planned at INR 12 trillion for FY21-22

➔ Spending-side measures

Infrastructure continues to dominate the spending side measures.

- INR 641 billion for boosting healthcare infrastructure for over six years.
- INR 350 billion for Covid-19 vaccination programme.
- INR 1.1 trillion for 'future-ready' railway infrastructure.
- INR 3 trillion for revamping the power distribution sector over five years. Carrying on with 8,500 km of roads and highway projects announced in the past budgets.
- INR 1.97 trillion support for the production-linked incentive scheme for key sectors for five years.
- INR 1.41 trillion allocations for clean cities initiatives (13.50)
- INR 2.87 trillion for clean water programme for five years.
- INR 200 billion capital base for the proposed Development Financial Institution for infrastructure project financing.
- INR 200 billion for the recapitalisation of Public Sector Banks. Setting up an asset

management company to manage bad loans.

- INR 157 billion support for SMEs.

➔ Revenue-side measures

Aside from revamping the customs duty structure, the real thrust of revenue generation seems to be largely missing in the new budget.

- Tax filing exemption to senior citizens above 75 years with only pension income.
- Extension of tax relief for home buyers and affordable housing projects with loans for one more year, up to 31 March 2022.
- Extension of tax holiday for start-ups by one year.
- Tax holiday for airlines and aircraft leasing companies.
- Revamping customs duty structure -- rationalisation of duties on precious metals of gold and silver; hike in duty on solar inverters; mobile phones and auto parts; withdrawing duty exemption of products supporting domestic infrastructure.
- The monetisation of assets: including rails roads, airports, sports facilities, and fuel transmission systems, warehouses, etc.
- Sale of government's ownership of two state-run banks and insurance companies.

➔ Other measures

- Easing tax administration, reducing compliance costs.
- Voluntary vehicle scrapping policy - phasing out old vehicles (not applicable for commercial vehicles).
- Increase in foreign investment limit for the insurance sector to 74% from 49% currently.
- Developing a digital payments system.
- Review the Companies Act with a view of easing regulations for SMEs.
- Ensuring credit flows to agriculture and enhancing marketing infrastructure for this sector.
- Protecting depositors in troubled banks.
- The liberalisation of the electricity market.
- Setting up seven textile parks over three years.

FY21-22 Budget at Glance

Financial year (April to March) INR bn	FY18-19 Actual	FY19-20 Actual	FY20-21 Budget	FY20-21 Revised	FY21-22 Budget
1. Revenue receipts	15530	16841	20209	15552	17884
(% YoY)	8.6	8.4	20.0	-7.7	15.0
2. Tax revenue (Net to Centre)	13172	13569	16359	13445	15454
3. Non-tax revenue	2358	3272	3850	2107	2430
4. Capital receipts a/	7621	10023	10213	18952	16948
5. Recovery of loans	180	183	150	145	130
6. Other Receipts	947	503	2100	320	1750
7. Borrowing and other liabilities b/	6494	9337	7963	18487	15068
8. Total Receipts (1+4)	23151	26863	30422	34503	34832
9. Total expenditure (10+13)	23151	26863	30422	34503	34832
(% YoY)	8.1	16.0	13.2	28.4	1.0
10. On revenue account; of which	20080	23506	26301	30111	29290
11. Interest payments	5826	6121	7082	6929	8097
12. Grants in aid for creation of capital assets	1918	1856	2065	2304	2191
13. On capital account	3071	3357	4121	4392	5542
14. Revenue deficit (1-10)	-4550	-6665	-6092	-14560	-11406
% of GDP	-2.4	-3.3	-2.7	-7.5	-5.1
15. Effective revenue deficit (14-12)	-2632	-4809	-4027	-12256	-9215
% of GDP	-1.4	-2.4	-1.8	-6.3	-4.2
16. Fiscal deficit [9-(1+5+6)]	-6494	-9337	-7963	-18487	-15068
% of GDP	-3.4	-4.6	-3.5	-9.5	-6.8
17. Primary deficit (16-11)	-668	-3216	-881	-11558	-6971
% of GDP	-0.4	-1.6	-0.4	-5.9	-3.1
a/ Excluding receipts under Market Stabilisation Scheme					
b/ Includes drawdown of Cash Balance					

Source: CEIC, Indian Ministry of Finance

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801
martin.van.vliet@ing.com

Karol Pogorzelski
Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas
Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroeder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com