

## India's FY2020 budget targets lower deficit, really

Finance minister Nirmala Sitharaman may have scored some points for fiscal consolidation with a lower deficit target of 3.3% of GDP. Whether her maiden budget revives the economy to 7% of GDP growth in the current financial year remains to be seen



Source: Shutterstock

# 3.3% FY2020 fiscal deficit target

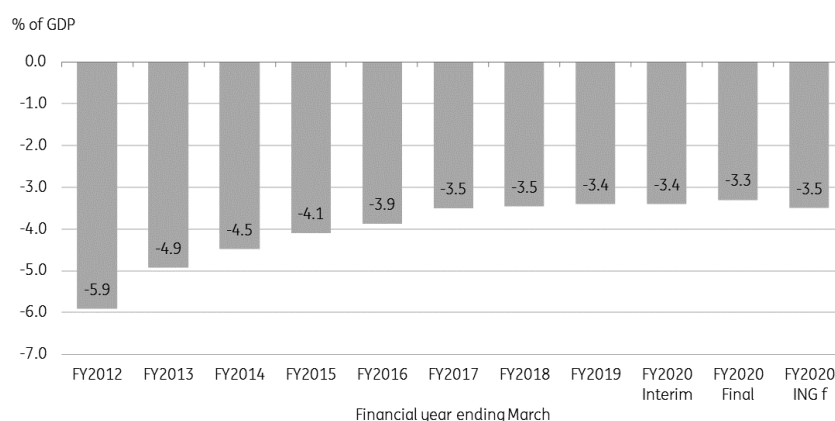
Lower than expected

## The final Budget for FY2020

To the surprise of many, new Finance Minister Nirmala Sitharaman’s maiden budget for FY2020 (ending on 31 March 2020) aims for a lower fiscal deficit equivalent to 3.3% of GDP from 3.4% in the interim budget. With persistent downside growth risk likely depressing government revenue and an infrastructure investment drive entailing more spending, the risk to the deficit target will be tilted on the upside.

We continue to expect another overshoot; we forecast the fiscal deficit at 3.5% of GDP in the current financial year, which rests on our view of much slower, 6.6% GDP growth than the government’s 7% projection.

## Derailed fiscal consolidation



Source: Govt. of India, ING forecast

## A \$5 trillion economy in five years

Besides its prevailing “Make in India” theme, the government is aiming to make India a \$5 trillion economy by 2024, a near-doubling from \$2.7 trillion currently. This seems to be a feasible goal on the assumption of steady GDP growth of about 7% and inflation of 4% annually.

However, the long-term potential of 7-8% growth hinges on rapid infrastructure development. On the face of it, the budget appears to be heavy on words and light on concrete action on this front, while the long-term nature of infrastructure projects also makes them prone to frequent alterations, cost overruns, and uncertainty. Moreover, boosting infrastructure investment spending in the future could be a difficult proposition if countered by the drive to improve public finances and cut down the deficit, which will be an ongoing necessity to build global investor confidence, as the government eyes the international debt market for deficit financing (see below).

Among other things, the measures to attract more foreign investment (both direct and portfolio),

public-private partnership (PPP) in infrastructure projects, and reduction of corporate taxes are some of the better initiatives.

## Tapping international market for funds

In an initiative aimed at broadening the debt market, the government plans to turn to the international market to meet its funding needs. Given the low level of external debt, running around 20% of GDP, the move to broaden deficit financing to overseas debt markets may not be an issue.

The success, however, depends on the kind of investor response the government receives on this front. Considering the significant growth potential of the Indian economy ahead, this could be positive, once the cyclical slowdown currently underway has passed. Moreover, investors will also be looking at the government's record of fiscal management. Weak growth feeding into the risk of sustained deficit overruns won't go down positively in the international market as this also adds to the risk of a sovereign rating downgrade - a risk that hasn't even been discounted currently with a persistent twin-deficit (fiscal and current account deficit).

For now though, this move should ease some of the supply overhangs on the domestic bond market, and thus reduce upward pressure on yields. Meanwhile, the government has maintained its INR 7.1 trillion local borrowing target for this year.

## Budget in figures

Financial year ending March 31 INR bn	FY2016 Actual	FY2017 Actual	FY2018 Actual	FY2019 Actual	FY2020 Interim	FY2020 Final
<b>1. Revenue receipts</b>	<b>11950.3</b>	<b>13759.6</b>	<b>14304.0</b>	<b>15631.7</b>	<b>19776.9</b>	<b>19627.6</b>
(% YoY)	<b>8.5</b>	<b>15.1</b>	<b>4.0</b>	<b>9.3</b>	<b>26.5</b>	<b>25.6</b>
2. Tax revenue (Net to Centre)	9437.7	11013.7	12424.9	13169.5	17050.5	16495.8
3. Non-tax revenue	2512.6	2745.8	1879.2	2462.2	2726.5	3131.8
<b>4. Capital receipts a/</b>	<b>5957.6</b>	<b>6033.1</b>	<b>7114.2</b>	<b>7482.5</b>	<b>8065.1</b>	<b>8235.9</b>
5. Recovery of loans	208.4	177.7	203.1	178.4	125.1	148.3
6. Other Receipts	421.3	477.4	1000.5	850.5	900.0	1050.0
7. Borrowing and other liabilities b/	5327.8	5378.0	5910.6	6453.7	7040.0	7037.6
<b>8. Total Receipts (1+4)</b>	<b>17907.8</b>	<b>19792.7</b>	<b>21418.2</b>	<b>23114.2</b>	<b>27842.0</b>	<b>27863.5</b>
<b>9. Total expenditure (10+13)</b>	<b>17907.8</b>	<b>19792.7</b>	<b>21418.2</b>	<b>23114.2</b>	<b>27842.0</b>	<b>27863.5</b>
(% YoY)	<b>7.6</b>	<b>10.5</b>	<b>8.2</b>	<b>7.9</b>	<b>20.5</b>	<b>20.5</b>
10. On revenue account; of which	15377.6	16929.9	18793.5	20084.6	24479.1	24477.8
11. Interest payments	4416.6	4807.1	5289.5	5826.8	6650.6	6604.7
12. Grants in aid for creation of capital assets	1317.5	1657.3	1953.5	<b>2003.0</b>	2007.4	2073.3
13. On capital account	2530.2	2862.8	2624.8	3029.6	3362.9	3385.7
<b>14. Revenue deficit (1-10)</b>	<b>-3427.4</b>	<b>-3170.3</b>	<b>-4489.4</b>	<b>-4452.9</b>	<b>-4702.1</b>	<b>-4850.2</b>
% of GDP	-2.5	-2.1	-2.6	-2.3	-2.3	-2.3
<b>15. Effective revenue deficit (14-12)</b>	<b>-2109.8</b>	<b>-1513.0</b>	<b>-2535.9</b>	<b>-2449.9</b>	<b>-2694.7</b>	<b>-2776.9</b>
% of GDP						
<b>16. Fiscal deficit [9-(1+5+6)]</b>	<b>-5327.8</b>	<b>-5378.0</b>	<b>-5910.6</b>	<b>-6453.7</b>	<b>-7040.0</b>	<b>-7037.6</b>
% of GDP	<b>-3.9</b>	<b>-3.5</b>	<b>-3.5</b>	<b>-3.4</b>	<b>-3.4</b>	<b>-3.3</b>
<b>17. Primary deficit (16-11)</b>	<b>-911.2</b>	<b>-570.8</b>	<b>-621.1</b>	<b>-626.9</b>	<b>-389.4</b>	<b>-432.9</b>
% of GDP	-0.7	-0.4	-0.4	-0.3	-0.2	-0.2

a/ Excluding receipts under Market Stabilisation Scheme

b/ Includes drawdown of Cash Balance

Source: Government Budget

Source: Govt. of India

## Some of the budget initiatives

- Virtuous investment cycle with heavy infrastructure investment in national and state highways and inland waterways to facilitate the growth of internal trade. Boosting investment in suburban railroads with PPP initiatives.

- Boosting rural infrastructure with easier availability of electricity and water to farmers. Zero-budget farming (no credit, no chemical fertilizer) farming to double farmers' income.
- More support to MSMEs (micro, small, and medium enterprises) with easier credit availability. Pension plans for small businesses.
- Measures to attract foreign direct investment (FDI). Opening of aviation, insurance and media sectors to foreign investors. Labour market reforms enabling easier access for foreigners.
- Simplifying KYC (know your customer) guidelines for foreign portfolio investors (FPI) and allowing 'AA' rated bonds as investment collateral.
- INR 700 billion recapitalisation for state-owned banks. More powers to the Reserve Bank of India to regulate the non-bank financial sector, including housing finance companies.
- Increase in public stockholding limit for companies up to 35% from 25%. Rise in the target of public sector asset sales by 17% to INR 1.05 trillion in FY2020 from the interim budget. Proposed reduction in government shareholding in state-owned companies below 51%.
- Reduction of the corporate tax rate for turnover of up to INR 4 billion to 25% from 30%. Electronics assessment of personal income tax and surcharges of up to 7% for high-income earners.
- Hike in customs duty on gold and precious items and excise duty on petrol and diesel. Discouragement of cash economy with 2% tax deduction at source on over INR 10 million cash withdrawal per year.
- Tapping international market for sovereign borrowing. No change to the INR 7.1 trillion gross (4.73 trillion net) domestic borrowing target for FY2020.

## India: Key economic indicators and ING forecasts

India (FY ending March)	FY2016	FY2017	FY2018	FY2019	FY2020 f	FY2021 f
Real GDP (% YoY)	8.0	8.2	7.2	6.8	6.6	7.0
CPI (% YoY)	4.9	4.5	3.6	3.4	4.5	5.0
Fiscal balance (% of GDP)	-3.9	-3.5	-3.5	-3.4	-3.5	-3.5
Public debt (% of GDP)	69.9	69.0	69.8	72.5	73.0	71.0
Current account (% of GDP)	-1.1	-0.6	-1.8	-2.1	-2.5	-2.4
FX reserves (mth of imports)	10.2	10.6	10.2	8.7	7.8	7.2
External debt (% of GDP)	182.1	168.2	171.3	165.3	174.2	178.0
RBI repo rate (% eop)	6.75	6.25	6.00	6.25	5.75	5.75
3M T-bill rate (% eop)	7.27	5.82	6.09	6.14	6.20	6.50
10Y govt. bond yield (% eop)	7.47	6.68	7.40	7.35	7.40	7.65
INR per USD (eop)	66.33	64.84	65.18	69.16	69.80	68.80

Sources: Bloomberg, CEIC, ING forecasts

Source: Bloomberg, CEIC, ING

### Author

**Alissa Lefebvre**

Economist

[alissa.lefebvre@ing.com](mailto:alissa.lefebvre@ing.com)

**Deepali Bhargava**

Regional Head of Research, Asia-Pacific

[Deepali.Bhargava@ing.com](mailto:Deepali.Bhargava@ing.com)

**Ruben Dewitte**

Economist

+32495364780

[ruben.dewitte@ing.com](mailto:ruben.dewitte@ing.com)

**Kinga Havasi**

Economic research trainee

[kinga.havasi@ing.com](mailto:kinga.havasi@ing.com)

**Marten van Garderen**

Consumer Economist, Netherlands

[marten.van.garderen@ing.com](mailto:marten.van.garderen@ing.com)

**David Havrlant**

Chief Economist, Czech Republic

420 770 321 486

[david.havrlant@ing.com](mailto:david.havrlant@ing.com)

**Sander Burgers**

Senior Economist, Dutch Housing

[sander.burgers@ing.com](mailto:sander.burgers@ing.com)

**Lynn Song**

Chief Economist, Greater China

[lynn.song@asia.ing.com](mailto:lynn.song@asia.ing.com)

**Michiel Tukker**

Senior European Rates Strategist

[michiel.tukker@ing.com](mailto:michiel.tukker@ing.com)

**Michal Rubaszek**

Senior Economist, Poland

[michal.rubaszek@ing.pl](mailto:michal.rubaszek@ing.pl)

**This is a test author**

**Stefan Posea**

Economist, Romania

[tiberiu-stefan.posea@ing.com](mailto:tiberiu-stefan.posea@ing.com)

**Marine Leleux**

Sector Strategist, Financials

[marine.leleux2@ing.com](mailto:marine.leleux2@ing.com)

**Jesse Norcross**

Senior Sector Strategist, Real Estate

[jesse.norcross@ing.com](mailto:jesse.norcross@ing.com)

**Teise Stellema**

Research Assistant, Energy Transition

[teise.stellema@ing.com](mailto:teise.stellema@ing.com)

**Diederik Stadig**

Sector Economist, TMT & Healthcare

[diederik.stadig@ing.com](mailto:diederik.stadig@ing.com)

**Diogo Gouveia**

Sector Economist

[diogo.duarte.vieira.de.gouveia@ing.com](mailto:diogo.duarte.vieira.de.gouveia@ing.com)

**Marine Leleux**

Sector Strategist, Financials

[marine.leleux2@ing.com](mailto:marine.leleux2@ing.com)

**Ewa Manthey**

Commodities Strategist

[ewa.manthey@ing.com](mailto:ewa.manthey@ing.com)

**ING Analysts**

**James Wilson**

EM Sovereign Strategist

[James.wilson@ing.com](mailto:James.wilson@ing.com)

**Sophie Smith**

Digital Editor

[sophie.smith@ing.com](mailto:sophie.smith@ing.com)

**Frantisek Taborsky**

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

**Adam Antoniak**

Senior Economist, Poland

[adam.antoniak@ing.pl](mailto:adam.antoniak@ing.pl)

**Min Joo Kang**

Senior Economist, South Korea and Japan

[min.joo.kang@asia.ing.com](mailto:min.joo.kang@asia.ing.com)

**Coco Zhang**

ESG Research

[coco.zhang@ing.com](mailto:coco.zhang@ing.com)

**Jan Frederik Slijkerman**

Senior Sector Strategist, TMT  
[jan.frederik.slijkerman@ing.com](mailto:jan.frederik.slijkerman@ing.com)

**Katinka Jongkind**  
Senior Economist, Services and Leisure  
[Katinka.Jongkind@ing.com](mailto:Katinka.Jongkind@ing.com)

**Marina Le Blanc**  
Sector Strategist, Financials  
[Marina.Le.Blanc@ing.com](mailto:Marina.Le.Blanc@ing.com)

**Samuel Abettan**  
Junior Economist  
[samuel.abettan@ing.com](mailto:samuel.abettan@ing.com)

**Franziska Biehl**  
Senior Economist, Germany  
[Franziska.Marie.Biehl@ing.de](mailto:Franziska.Marie.Biehl@ing.de)

**Rebecca Byrne**  
Senior Editor and Supervisory Analyst  
[rebecca.byrne@ing.com](mailto:rebecca.byrne@ing.com)

**Mirjam Bani**  
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)  
[mirjam.bani@ing.com](mailto:mirjam.bani@ing.com)

**Timothy Rahill**  
Credit Strategist  
[timothy.rahill@ing.com](mailto:timothy.rahill@ing.com)

**Leszek Kasek**  
Senior Economist, Poland  
[leszek.kasek@ing.pl](mailto:leszek.kasek@ing.pl)

**Oleksiy Soroka, CFA**  
Senior High Yield Credit Strategist  
[oleksiy.soroka@ing.com](mailto:oleksiy.soroka@ing.com)

**Antoine Bouvet**  
Head of European Rates Strategy  
[antoine.bouvet@ing.com](mailto:antoine.bouvet@ing.com)

**Jeroen van den Broek**  
Global Head of Sector Research  
[jeroen.van.den.broek@ing.com](mailto:jeroen.van.den.broek@ing.com)

**Edse Dantuma**



Senior Sector Economist, Industry and Healthcare  
[edse.dantuma@ing.com](mailto:edse.dantuma@ing.com)

**Francesco Pesole**  
FX Strategist  
[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

**Rico Luman**  
Senior Sector Economist, Transport and Logistics  
[Rico.Luman@ing.com](mailto:Rico.Luman@ing.com)

**Jurjen Witteveen**  
Sector Economist  
[jurjen.witteveen@ing.com](mailto:jurjen.witteveen@ing.com)

**Dmitry Dolgin**  
Chief Economist, CIS  
[dmitry.dolgin@ing.de](mailto:dmitry.dolgin@ing.de)

**Nicholas Mapa**  
Senior Economist, Philippines  
[nicholas.antonio.mapa@asia.ing.com](mailto:nicholas.antonio.mapa@asia.ing.com)

**Egor Fedorov**  
Senior Credit Analyst  
[egor.fedorov@ing.com](mailto:egor.fedorov@ing.com)

**Sebastian Franke**  
Consumer Economist  
[sebastian.franke@ing.de](mailto:sebastian.franke@ing.de)

**Gerben Hieminga**  
Senior Sector Economist, Energy  
[gerben.hieminga@ing.com](mailto:gerben.hieminga@ing.com)

**Nadège Tillier**  
Head of Corporates Sector Strategy  
[nadege.tillier@ing.com](mailto:nadege.tillier@ing.com)

**Charlotte de Montpellier**  
Senior Economist, France and Switzerland  
[charlotte.de.montpellier@ing.com](mailto:charlotte.de.montpellier@ing.com)

**Laura Straeter**  
Behavioural Scientist  
+31(0)611172684  
[laura.Straeter@ing.com](mailto:laura.Straeter@ing.com)



**Valentin Tataru**

Chief Economist, Romania

[valentin.tataru@ing.com](mailto:valentin.tataru@ing.com)

**James Smith**

Developed Markets Economist, UK

[james.smith@ing.com](mailto:james.smith@ing.com)

**Suvi Platerink Kosonen**

Senior Sector Strategist, Financials

[suvi.platerink-kosonen@ing.com](mailto:suvi.platerink-kosonen@ing.com)

**Thijs Geijer**

Senior Sector Economist, Food & Agri

[thijs.geijer@ing.com](mailto:thijs.geijer@ing.com)

**Maurice van Sante**

Senior Economist Construction & Team Lead Sectors

[maurice.van.sante@ing.com](mailto:maurice.van.sante@ing.com)

**Marcel Klok**

Senior Economist, Netherlands

[marcel.klok@ing.com](mailto:marcel.klok@ing.com)

**Piotr Poplawski**

Senior Economist, Poland

[piotr.poplawski@ing.pl](mailto:piotr.poplawski@ing.pl)

**Paolo Pizzoli**

Senior Economist, Italy, Greece

[paolo.pizzoli@ing.com](mailto:paolo.pizzoli@ing.com)

**Marieke Blom**

Chief Economist and Global Head of Research

[marieke.blom@ing.com](mailto:marieke.blom@ing.com)

**Raoul Leering**

Senior Macro Economist

[raoul.leering@ing.com](mailto:raoul.leering@ing.com)

**Maarten Leen**

Head of Global IFRS9 ME Scenarios

[maarten.leen@ing.com](mailto:maarten.leen@ing.com)

**Maureen Schuller**

Head of Financials Sector Strategy

[Maureen.Schuller@ing.com](mailto:Maureen.Schuller@ing.com)

**Warren Patterson**

Head of Commodities Strategy

[Warren.Patterson@asia.ing.com](mailto:Warren.Patterson@asia.ing.com)

**Rafal Benecki**

Chief Economist, Poland

[rafal.benecki@ing.pl](mailto:rafal.benecki@ing.pl)

**Philippe Ledent**

Senior Economist, Belgium, Luxembourg

[philippe.ledent@ing.com](mailto:philippe.ledent@ing.com)

**Peter Virovacz**

Senior Economist, Hungary

[peter.virovacz@ing.com](mailto:peter.virovacz@ing.com)

**Inga Fechner**

Senior Economist, Germany, Global Trade

[inga.fechner@ing.de](mailto:inga.fechner@ing.de)

**Dimitry Fleming**

Senior Data Analyst, Netherlands

[Dimitry.Fleming@ing.com](mailto:Dimitry.Fleming@ing.com)

**Ciprian Dascalu**

Chief Economist, Romania

+40 31 406 8990

[ciprian.dascalu@ing.com](mailto:ciprian.dascalu@ing.com)

**Muhammet Mercan**

Chief Economist, Turkey

[muhammet.mercan@ingbank.com.tr](mailto:muhammet.mercan@ingbank.com.tr)

**Iris Pang**

Chief Economist, Greater China

[iris.pang@asia.ing.com](mailto:iris.pang@asia.ing.com)

**Sophie Freeman**

Writer, Group Research

+44 20 7767 6209

[Sophie.Freeman@uk.ing.com](mailto:Sophie.Freeman@uk.ing.com)

**Padhraic Garvey, CFA**

Regional Head of Research, Americas

[padhraic.garvey@ing.com](mailto:padhraic.garvey@ing.com)

**James Knightley**

Chief International Economist, US

[james.knightley@ing.com](mailto: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](mailto:martin.van.vliet@ing.com)

**Karol Pogorzelski**

Senior Economist, Poland  
[Karol.Pogorzelski@ing.pl](mailto:Karol.Pogorzelski@ing.pl)

**Carsten Brzeski**

Global Head of Macro  
[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

**Viraj Patel**

Foreign Exchange Strategist  
+44 20 7767 6405  
[viraj.patel@ing.com](mailto:viraj.patel@ing.com)

**Owen Thomas**

Global Head of Editorial Content  
+44 (0) 207 767 5331  
[owen.thomas@ing.com](mailto:owen.thomas@ing.com)

**Bert Colijn**

Chief Economist, Netherlands  
[bert.colijn@ing.com](mailto:bert.colijn@ing.com)

**Peter Vanden Houte**

Chief Economist, Belgium, Luxembourg, Eurozone  
[peter.vandenhoute@ing.com](mailto:peter.vandenhoute@ing.com)

**Benjamin Schroeder**

Senior Rates Strategist  
[benjamin.schroeder@ing.com](mailto:benjamin.schroeder@ing.com)

**Chris Turner**

Global Head of Markets and Regional Head of Research for UK & CEE  
[chris.turner@ing.com](mailto:chris.turner@ing.com)

**Gustavo Rangel**

Chief Economist, LATAM  
+1 646 424 6464

[gustavo.rangel@ing.com](mailto:gustavo.rangel@ing.com)

**Carlo Cocuzzo**

Economist, Digital Finance

+44 20 7767 5306

[carlo.cocuzzo@ing.com](mailto:carlo.cocuzzo@ing.com)