ISAS Brief
No. 740 – 3 February 2020

India's Annual Budget 2020-21: Will it Revive the Growth of the Economy?

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Summary

There was much expectation in India on the Budget for 2020-21. Speculation was rife that the government would press the pause button on the fiscal deficit targets and provide substantially enhanced public expenditure to kickstart the economy. However, worries bordering on expenditure profligacy were also being expressed. The Budget, as presented, seems to have addressed all areas of concern but the jury will be out as to the extent that it can address and reform the structural factors causing the downswing in the economy.

Traditionally, budgets in India evoke a lot of attention. In an age where all public discourse is conducted through the electronic media, the interest becomes much more widespread. Considering the sluggishness in the Indian economy, the attention to the presentation of the Budget for 2020-21 had reached a crescendo. People, economists included, had begun to speculate as if loads of funds would be poured in to boost expenditure to generate demand and thereby begin a virtuous cycle. People do not realise that the Budget is merely a document presenting the annual financial statement of the government and it has very little flexibility in terms of releasing humongous amounts as public spending to 'kickstart the economic revival'. It was thus under such heightened public glare that Finance Minister Nirmala Sitharaman presented the budget on 1 February 2020.

The Indian government's budget for 2020-21 was obviously presented under difficult constraints, given the need to generate a net positive fiscal impulse, in view of weaker economic growth, and yet balancing it with fiscal discipline against an adverse revenue scenario. Towards this objective, the government seems to have done a fine balancing act. The fiscal deficit numbers for the current and next year are in line with market expectations at 3.8 per cent and 3.5 per cent of gross domestic product, respectively. There is also an attempt to provide transparency in the numbers. It is hoped that there is no bureaucratic jugglery in the provision to the Food Corporation of India (FCI). This fear is due to the provision being halved in the current year and that too in the backdrop of the fact that the present unpaid bills of the FCI are about ₹2 trillion (S$40 billion).

Successive governments have believed public sector entities to be some kind of 'family jewels'. The attempts in the past to divest or even reduce government stake holding in these entities has drawn the ire of opposition parties. In such a backdrop, the decision to sell part of government stake in the Life Insurance Corporation of India (LIC) and list shares on stock exchanges is certainly a new reform direction. The added benefit in this is that the investors of this 10 percent stake will be able to induce transparency in the operation of the LIC. As of now, it is only a handful of bureaucrats and employees of the entity that take all the decisions for the company. The government has also revived its decision to sell government stake in the Industrial Development Bank of India, which is again a positive move.

A very heartening announcement is the tax exemption for sovereign wealth funds which are wholly owned by the government of a foreign country and regulated under the law of such foreign country. India requires investments of the order of about U$1 trillion (S$1.36 trillion) over the next four years and this announcement is expected to provide a boost to infra investments in India. Besides the exemption, the abolition of the dividend distribution tax at the corporate level (dividend to be taxed only at the hands of the recipients at applicable rates) will provide benefits to the global yield-seeking infrastructure investors in India.

As a step towards reforms in the financial sector, especially the corporate bond market which has been shallow, the government has hiked the participating limit for foreign portfolio investors from nine per cent of outstanding, to 15 per cent. Further, certain specified categories of government securities would be opened fully to domestic and non-resident investors.

The announcement to create a single-window clearance for infrastructure projects can do wonders to revive economic activity and investor interest. However, there is no clarity on how such a window will operate, as having state governments and environment regulators on the same page as the central government, is a rather onerous task. Its success will depend entirely upon how the single window mechanism will be made to work.

As mentioned earlier, that the finance minister has attempted to touch all critical sectors, albeit in inadequate proportions. A prioritisation of the structural factors that need to be targeted in the immediate future does not stand out from the Budget pronouncement. In fact, the government does not seem to be acknowledging the existence of structural factors stifling growth. It has only acknowledged a cyclical downturn. This issue needs to be analysed in the light of the fact that providing disposal income in the hands of the masses to alleviate the demand constraint has been recognised as the ailment that the Indian economy suffers from. Such masses are living in the rural areas and are dependent on agriculture as their source of livelihood. The Budget addresses agriculture as a priority sector and delineates 16 measures to energise growth. However, how these measures will be deployed to double the farmers' incomes by 2022 or contribute to a US$5 trillion (S$6.8 trillion) economy needs many arrows in the quiver of the government. These arrows must also hit the target with immediate effect. It is hoped that these measures will also not fade away in the multitude of announcements made by successive governments with little accountability to ensure implementation.

So, in an overall assessment of whether the government has dealt with issues that can be addressed through an annual budget with all its constraints, the answer will have to be in the affirmative. However, the Budget cannot be hailed as one which has constituted reforms to address India's structural inadequacies.

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