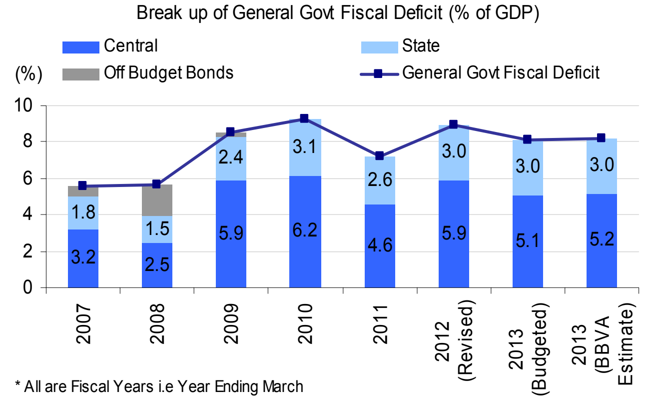
India Flash

New government budget trims deficit, but refrains from bold measures to stimulate growth

India's Union Budget for FY13 (fiscal year ending March 31) was announced today as scheduled. The budget is a step in the right direction of fiscal prudence, although it falls short of measures to stimulate slowing growth. The central government deficit target for FY13 is pegged to lower the deficit to a realistic goal of 5.1% of GDP, in line with expectations, from an upwardly revised 5.9% outturn in FY12 , exceeding the original budget target of 4.6%.

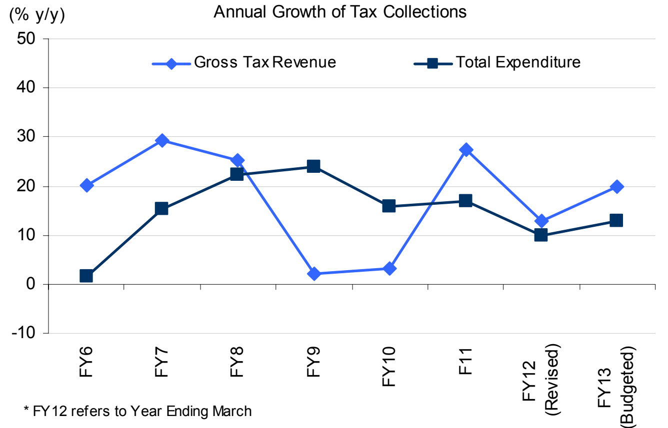
- **The lower deficit target would be driven by actions to boost revenues**, particularly through tax measures and a check on non-investment related expenditure. Measures aimed at addressing India's increasing need to attract foreign capital and boost infrastructure funding were positives. These include allowing external commercial borrowing for key sectors such as power, aviation and housing, a doubling of tax free infrastructure bond issuance and removal of coal supply bottlenecks. That said, the budget refrained from taking bold steps, particularly those on FDI in retail and aviation sector and a move towards greater deregulation of fuel subsidies. Perhaps the biggest plus is that the budget is not based on overtly optimistic assumptions and lays down a credible path for fiscal consolidation going ahead.

Chart 1
India's sets a credible fiscal target



* All are Fiscal Years i.e Year Ending March

Chart 2
Focus on higher tax revenues and check on consumption expenditure



* FY12 refers to Year Ending March

Sumedh Deorukhkar
sumedh.deorukhkar@grupobbva.com
+91 2226598581

Stephen Schwartz
stephen.schwartz@bbva.com.hk
+852 2582 3218