Source : www.economictimes.indiatimes.com Date : 2019-07-06

# VIEW: OPENING THE GATES FOR A FOREIGN-FUNDED INDIA GROWTH

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**By Abheek Barua, Chief Economist, HDFC Bank**

Modi government 2.0's first budget recognises a critical fact — domestic savings are inadequate to fund the 8%-plus real annual growth in GDP needed to take the economy to the $5 trillion target over the next five years. A lot more foreign savings need to be brought in more aggressively. The most important step in this direction is the decision to finally break the taboo against the sovereign government seeking funds abroad. This could be the clichéd gamechanger for Indian borrowers abroad. While GoI may actually borrow a small amount in line with its conservative external debt management practices there could be significant 'externalities'.

A sovereign bond issue would help set a clear benchmark for other external bond issuances and is likely to bring borrowing costs down across the board for Indian companies as well as increase the appetite for Indian debt paper. Efforts like the possibility of upping the investment limits in media and aviation, easing local sourcing norms for single-brand retailers, and the merger of the NRI-portfolio investment and the foreign portfolio investment route, all seem to be a part of a cohesive strategy to get foreigners to fund India's growth. There is also a clear effort to improve capital market mechanisms to ensure that the sluices are unclogged.

There is some effort to address some of the immediate growth bottlenecks. The Rs 70,000 crore bank recapitalisation for PSBs is certainly more than what most analysts expected. This, coupled with the credit guarantee scheme, could ease some of the credit constraints that both consumers and businesses are facing and revive demand.

What are the problems with the budget? For one, there is need for clarity on a number of things. Dividends and profits from PSUs and GoI undertakings are forecasted to be a whopping Rs 1,63,000 crore. The bulk of this comes from RBI that is expected to pay Rs 90,000 crore this fiscal year against the Rs 68,000 crore paid last year. One wonders if this contains the transfer of RBI's surplus reserves on its balance sheet.

The funding of the large banking recapitalisation programme needs to be explained better. While GoI is issuing recapitalisation bonds, the question is whether these bonds will make their way into the markets at all and potentially impact interest rates. Or will it merely be a balance sheet exercise in which bonds are swapped for equity on bank's balance sheet without seeping into the financial markets at all?

Very broadly, the numbers do add up to yield a fiscal deficit target of 3.3% of GDP. The disinvestment estimates are a tad higher than in February's interim budget. But a renewed emphasis on strategic sales, a tax-break on retail investments in exchange traded funds of PSUs and, perhaps, a little help at the last minute from the business of cross-holdings, the targets should be met. Solid growth in 'non-tax' receipts like disinvestments and dividends compensate for the rather sedate growth in tax collections of around 11% the budget assumes for 2019-20.

Gross market borrowing target for GoI is Rs 7,10,000 crore that will go into the funding the fiscal

gap. While it is high in absolute terms, it hasn't exceeded the amount projected in the interim budget. Besides, that GoI seems to remain committed to fiscal consolidation, and is also seeking new (external) avenues to fund its deficit has triggered a rally in the bond markets. If external fund flows do jump on the bank of some of the new initiatives to invite foreign capital, domestic borrowing costs should remain low.

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