<u>The Road Ahead</u>

<u>Governance for Growth</u>

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The FY 2024-25 Interim Budget presented by Finance Minister Nirmala Sitharaman is very unusual in democratic politics just a few weeks before general election to the Lok Sabha. For decades we have been accustomed to a flurry of short-term individual welfare measures and tax concessions being introduced on the election eve to appease voters. Uncharacteristically, the budget proposals for next year contain no populist measures to maximize short-term gain of voters. Fiscal deficit, which indicates fresh borrowings, for FY 2023-24 (5.8%) is going to be even less than the stiff target proposed (5.9%), and it is further estimated to come down to 5.1% next year in FY 2024-25. In fact the borrowings this year are reduced by ₹ 52000 crore compared to last year, and next year they will be further reduced by ₹ 49,000 corers. In a growing economy reducing borrowings in absolute terms and as a share of GDP during election period is quite unusual, and perhaps was never witnessed for decades in India. Capital expenditure in the current year has grown by 28.9% over last year, and is estimated to rise by another 16.9% in the next year. In FY 2024-25 a record amount of ₹ 11,11,111 crores has been allocated for the Union's capex alone. A significant boost is given to housing for the poor and R & D support to private sector. Exercising fiscal discipline, continuing the fiscal consolidation road map, not indulging in additional short-term welfare measures and boosting growth-promoting capital investments in an election year budget are remarkable feats in a democracy.

Maintenance of healthy balance between welfare and growth is admirable in a complex, fractious democracy, particularly weeks before going back to the people for vote. There is always a trade off between the long-term growth you pursue and the short-term political price you pay. The greatest challenge in a poor country is to reconcile between the short-term welfare and long-term public good. On this score, the 2024-25 Budget is very successful. This budget demonstrates three things: first, the Union government's quiet confidence that the people will recognize and value their achievements over the decade; second, the government's commitment to practise fiscal prudence and boost investment; and third, a recognition that financial stability is vital for investment and long-term growth.

At the height of the pandemic, the fiscal deficit of the Union reached a peak of 9.2% (of GDP) in FY 2021. In FY 2025, it is estimated to be 5.1%, and in FY 2026, it should fall well below 4.5**%** if the current path of fiscal consolidation and prudent management of public money continue. One of the popular misconceptions is that the Union is flush with funds, and can transfer vast amounts of money to states whenever needed. The truth is public finances are stretched at both Union and state levels. In FY 2024-25, the Union's gross tax and non-tax revenues total ₹ 42.33 trillion. Of this, the transfers to states alone (finance Commission devolution, other grants, centrally sponsored schemes etc) amount to ₹ 22.75 trillion, or about 53.7% of total revenues! If you include interest payments and establishment cost, the expenditure exceeds total gross revenues, even without taking into account the Union subsidies. We therefore need to continue on the path of fiscal consolidation if we are to sustain high growth.

States have multifarious governance responsibilities, and are therefore under fiscal stress too. However, there is wide variation between states in terms of fiscal management. Even in some relatively rich states, short-term welfare measures have gone out of control, and sometimes vast amounts are spent on unproductive schemes even under capital investment. This fiscal profligacy is leading to growing revenue deficits (current expenditure exceeding revenues, and therefore you have to borrow to meet day-to-day expenses!). But some states with lower per capita income are keeping costs under control, generating healthy revenue surpluses and boosting investment and growth. Uttar Pradesh (revenue surplus of ₹ 74,000 crore in FY 2024-25;) and Odisha (revenue surplus of ₹ 23000 crore in FY 2023-24) are examples of healthy public finances and prudent management even as they are able to retain public support. Clearly, good economic management need not be a political liability.

Our public discourse needs to shift from polarising issues and primordial loyalties of caste, religion and region to real issues of economic growth, employment generation and elimination of poverty. All politics needs to be focused on governance, and all governance should aim at rapid economic growth and prosperity. Prudent fiscal management is the vital starting point for growth and prosperity. We need to do a lot more – enhancing capacity, productivity and opportunity through quality education, skills and healthcare, and ensuring fairness, balanced growth and healthy competition through small town development, in situ urbanization, speedy, fair and effective dispute resolution, and curbing ubiquitous corruption and harassment which are acting as disincentives to wealth creation.

In short, we need all governance focused on balanced growth, opportunities, employment and real wealth creation. Let us hope the remarkable Union budget of FY 2024-25 will start a positive trend.

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