

# Will the Budget be populist or fiscally responsible?



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**T**he Union Budget set to be presented in Parliament in February will be the last full-year Budget of the Narendra Modi government before the Lok Sabha elections are held next year. Given the electoral timetable, there is an expectation that the Budget could be populist in nature; but with high inflation, there are questions about the government's ability to spend freely at the moment. In a conversation moderated by **Prashanth Perumal J.**, Lekha Chakraborty and Madan Sabnavis discuss the fiscal situation. Edited excerpts:

**Do you think the Central government can afford to present a populist Budget, given the current fiscal situation and high inflation?**

**Madan Sabnavis:** The concept of a populist Budget is much misplaced because all governments try to do their best given the constraints in terms of raising revenue, and the ability to borrow. As of now, the government will not really take on things beyond what has been done so far. What I mean here is that most of the programmes which are running will probably continue to run. Will there be any new programmes that transfer income? I think that's not something on the radar because the government, as a rule, has been very prudent when it comes to fiscal management.

What we interpret as being a freebie or being populist is probably one interpretation rather than something which could be defined as being a kind of a trend. That said, I would say that even though we have an election coming up next year, the government is cognizant of the fact that the fiscal deficit ratio has to be reduced. So, to give a straight answer to the question of whether it will be a populist Budget, the answer is: probably not.

**Lekha Chakraborty:** My hunch is that the government is going to be very prudent rather than populist. In retrospect, I think people vote for a government that is responsible. So, I don't think there are going to be any major schemes or populist measures announced in this Budget. Rather, fiscal consolidation will be given importance, because by 2024-25, we need to reach the fiscal deficit target of 4.5% of GDP.

So, I think the tone of the Budget will be fiscal consolidation. Regarding populist measures, I think the government is going to emphasise on its food security measures in this Budget.

Other than that, I don't think that there is



Finance Minister Nirmala Sitharaman during the 7th pre-Budget 2023 consultation meet held in November last year in New Delhi. PTI

high fiscal deficit.

**Why is the chance of having a populist Budget low? Is it the fear of a backlash from markets or is it due to checks and balances within the fiscal architecture?**

**MS:** The conditions today are quite different from what they were in 2019, or probably even in 2014. Before the 2019 elections, there was definitely more fiscal space available to the government. That's why we saw schemes such as PM Kisan, which was probably the first cash transfer scheme the government had brought about. Today we are in a different kind of situation, where there is overwhelming pressure to maintain fiscal prudence given the fact that our fiscal deficit is very high. We're talking about a fiscal deficit of 6.5% for the Central government, and another 3.5% to 4% for the States. So, while there could be a lot of measures announced in terms of policy, in terms of absolute Budget numbers, there is not too much space to spend.

**LC:** Prior to the elections, I don't expect a huge pumping of money into the economy in terms of cash transfers. We are too late to do that. We have not done that since 2020, and I don't think that there is going to be any announcement related to huge cash transfers to the hands of the people. But there could be targeted cash transfers. Another thing is that inflation is mounting, and the Reserve Bank of India is raising interest rates to tackle inflation. Inflation hurts the poor, so in the upcoming Budget, there will [likely] be social security measures to tackle that to prevent any electoral backlash.

**Inflation is high, but it's on a downward trajectory. Do you think the government**



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**given that it takes some time before higher government spending leads to higher inflation?**

**LC:** Fiscal policy needs to be accommodative. My belief is that the Union Budget will be accommodative because monetary policy is constrained in facilitating the growth recovery process as interest rates are mounting. If fiscal policy is not accommodative, it will affect economic growth in the long term. So, to support economic growth, fiscal policy needs to be accommodative, not in the sense of fiscally profligate policies, but a prudent fiscal policy focused on capital infrastructure.

**MS:** I have a slightly different view, because when I look at a Budget, I look at it more as an income and expenditure statement of the government. There is a certain amount of revenue which we are collecting, there's a certain amount of borrowing which can be calculated based on whatever are the fiscal prudence priorities of the government. Now, when you look at the total amount of expenditure in the Budget, a lot of it seems to be committed. There are lots of things that have to be paid. For example, I pay a subsidy because there are certain problems faced by the weaker sections of society; I have something called the interest payments that keep increasing; I have to keep spending on defence, particularly with border tensions rising. So, what really gets left over, which we call discretionary expenditure, is the capital expenditure.

Now, if we look at the overall capital expenditure numbers of the government, while the Central government has been fairly aggressive in terms of increasing these outlays, if you see the proportion of capital expenditure to the total amount of investment, capex spending by the government is minimal. This means that the ability of the government to really push forward economic growth would be very much restricted, especially if you're not doing anything on the taxation front. So, if you're talking in terms of growth, it has to come from the private sector. The government can probably contribute to it, and the States put together

growth is going to accelerate because of the Budget, I think that could be misplaced.

**As we head into elections next year, do you see the prospect of any structural reforms being announced during the Budget? And how do you see the track record of the Centre since 2014 when it comes to enacting structural reforms?**

**MS:** In terms of structural reforms, I think the government has been very positive. But I don't look at the Budget as being the platform where these policies are launched. Even during the COVID-19 crisis, we had policies announced, most of which were structural reforms. We need to adopt a longer time frame while we look at various sectors. You should also remember that India has a federal structure, which means we have States and municipalities. So, the Centre can only do certain reforms. We need reforms, in terms of doing business easier, which has to come at the State and municipal levels.

**LC:** Structural reforms are crucial because we need to look into the structural bottlenecks. Cyclical policies will not solve the issue of growth recovery. If we are focusing just on the cyclical, we will not get to the growth story because many issues are structural in nature. One of the important structural reforms is power sector reform to clean the mess that power distribution companies are in. That policy is linked to the issue of fiscal consolidation as well because the extra borrowing space that we are giving to the State governments is based on the power sector reforms they enact. So that kind of linking of fiscal help with structural reforms is crucial.

In our cooperative federal model, it is not only policies at the State level, but the policies that the Central government has for transfers to the States that are also important. So, an accommodative policy when it comes to capital spending transfers to State governments, in the form of interest-free loans for instance, should be there in the upcoming Budget to support capital investment at the State level. Focusing on structural reforms is very crucial, particularly because the drop in economic growth that we are experiencing is not cyclical. We need to focus on the structural reforms, because the growth drop is a permanent scar.



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