Budget has stayed away from populist measures, focused on sustaining capex

Fiscal consolidation formed the overarching theme

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The interim Union budget for 2024-25 was announced amidst challenging global conditions. Global GDP growth remains muted on account of tight monetary policy conditions, debt remains at elevated levels, and productivity growth is slow (IMF World Economic Outlook January 2024). Continuing geopolitical conflict, especially the escalating tensions in the Middle East, raises risks of commodity price shocks, further endangering growth. Even then, India remains the fastest-growing large economy in the world – the country's real GDP growth is expected to stay strong at around 7 per cent in 2024-25.

Despite the upcoming national elections, the budget eschewed major populist measures (such as direct cash transfers and handouts) and targeted schemes. Instead, fiscal consolidation was the overarching theme. The government has also sustained its capital expenditure thrust, along with focusing on longer-term policy priorities.

The budget has pegged the fiscal deficit at 5.1 per cent of GDP for 2024-25, down from 5.8 per cent in 2023-24 (revised estimates). The government has also committed to decreasing the deficit to 4.5 per cent of GDP by next year. This was in line with the commitment made by the finance minister in her 2021-22 budget speech. At that time, this was seen as ambitious because public finances were stretched due to slowing growth and increased expenditure caused by the pandemic. The continued commitment towards fiscal consolidation assumes extra importance in light of India's elevated public debt levels. While not necessarily concerning from a debt sustainability perspective, high debt levels imply significant outlays in interest payments in servicing existing borrowings. These payments can impose a significant burden on the public exchequer, especially during a period of elevated interest rates. Debt payments continue to constitute the single largest component of the central government's expenditure profile. The government's commitment to fiscal discipline bodes well for debt reduction.

The government has increased its outlay for capital expenditure. While the budgeted growth is less than this year, it is nevertheless a notable increase given the overarching theme of fiscal adjustment and consolidation.

Moreover, the government has also continued its scheme of providing 50-year interest-free loans to states for capex. Long-term, interest-free loans will be given to states to develop tourist centres, contingent on quality ratings and benchmarks. Both these announcements indicate that the Centre is continuing to involve state governments in its focus on capital expenditure.

In addition to the thrust on fiscal consolidation, the government has also prioritised longer-term policy initiatives. A notable example was the setting up of a Rs 1 lakh crore corpus for research and innovation in "sunrise" domains. Private sector entities will be able to obtain low-cost, long-term funding for Research and Development efforts. Given that India significantly lags global peers in overall R&D expenditure, this move could galvanise private sector investment in new and emerging technologies, especially where immediate financial returns might not be on the horizon.

Further, a number of initiatives have been announced under the government's push towards a "net-zero" economy by 2070. These included, *inter-alia*, (i) funding for off-shore wind energy, and mandatory blending of biogas with CNG (Compressed Natural Gas) and PNG (Piped Natural Gas). Even the announcement of a rooftop solarisation scheme (enabling households to obtain free electricity), is in line with the government's continued thrust towards increasing solar power's share of India's energy mix, and therefore, the 2070 net-zero target.

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